

EUGENE WATER & ELECTRIC BOARD
WORK SESSION
EWEB BOARD ROOM
JUNE 6, 2006
5:30 P.M.

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

Others present: Randy Berggren, Jim Wiley, Debra Smith, Jim Origliosso, Dick Helgeson, Dick Varner, Patti Boyle, Lance Robertson, Ken Beeson, Tom Buckhouse, and Krista Hince of the EWEB staff; Harriet Cherry, Eric Gunderson, Larry Banks, PIVOT Architecture (formerly WBGS Architecture & Planning); Ruth Atcherson, City of Eugene Minutes Recorder.

President Bishop convened the Work Session of the Eugene Water & Electric Board (EWEB) at 5:36 p.m.

FIRST QUARTER 2006 GENERAL MANAGER'S GOALS

General Manager Randy Berggren characterized the progress of the first quarter as being "pretty much on target." He noted some slight variations in the fuel performance measures (PMs); one in the Systems Average Interruption Duration Index (SAIDI) and one in demand side management (DSM). He welcomed questions regarding the update.

Commissioner Lanning thought the written update provided the right amount of depth.

FIRST QUARTER 2006 FINANCIAL RESULTS

Treasurer Jim Origliosso provided a power point presentation of the *First Quarter Financial Statements*. He noted that Assistant Treasurer Cathy Bloom was absent due to illness. He stated that the electric utility was doing very well as it came out of the first quarter. He reviewed the figures contained in the report. He attributed it to the higher than budgeted water available for generation both from EWEB's system and the Bonneville Power Administration (BPA) Slice product.

Commissioner Farmer arrived.

Mr. Origliosso reviewed the water utility financial statements, noting that the utility had performed slightly better than had been projected.

Mr. Origliosso outlined two emerging issues: the Government Accounting Standards Board (GASB) ruling on post-employment benefits that would require the utility to start putting a charge to the current period in the financial statements for retirement benefits that had been earned but not yet paid out; and the Financial Accounting Standards (FAS) new requirements that conservation assets be amortized through rate increases. He commented that the latter was not as important at this time because EWEB was adding to and taking from conservation assets in about the same amount.

Continuing, Mr. Origliosso said the water utility was facing a cash issue, though it was about

on target for what had been expected. He stated that the third quarter would be the indicator of whether the utility was successful or not. He reported that the strategy for keeping the water utility financially balanced was to borrow funds from the Capital Improvement Reserve in the short term. He said a good third quarter would make it less of an issue.

Mr. Origliosso pointed to the change in format for the backgrounder so that pertinent information was laid out with bullet points. He said the long sheets attempted to break the budget into quarters and to give projections of revenues and expenses by the quarter. He indicated that the far right column, the net operating revenue, was projected to be \$19.2 million and the total net income was projected to be \$22 million, both better than budget.

Regarding capital activity, Mr. Origliosso reported that staff was projecting it to be right on budget by the end of the year.

Mr. Origliosso noted that the financial statements included a section on bond activity to show that EWEB planned to have a bond issue for \$4.6 million. He said they were projecting, for the third quarter, to increase the scope of the bond sale to include cashing out the Western Generating Agency (WGA), slated to add \$12.5 million.

Mr. Origliosso said the biggest change in the financial statement had happened to the purchased power reserves, which was projected to be \$46.4 million by the end of the year. He reported that the total reserves had been expected to be \$54.4 million but was now anticipated to reach \$78.2 million.

Mr. Origliosso related that he, Commissioner Farmer, and Ms. Bloom were working on improvements and changes to the format. He said they would bring those as they were worked out.

Commissioner Farmer called the format for the financial statements a huge improvement.

Commissioner Simpson found the format very helpful.

Commissioner Farmer noted that the second bullet point had indicated that market prices for power were down substantially from projections but volumes had offset this and EWEB had hedged the prices. He asked where the value of the hedges would start falling off. Mr. Origliosso responded that prices had been volatile. He said typically a hedge from EWEB was a put, which puts the power at the price of the sales. He related that in the early part of the year, prices were high, but as of March and April the electric prices were low because of a "fish flush," which was a release of water to benefit fish that created excess electricity. He stated that EWEB had some puts that were being executed in the \$40 to \$45 range, so when market prices dropped to \$15 to \$20 EWEB bought the market power at that price and then sold it at the put price.

In response to a question from Commissioner Farmer, Mr. Origliosso said EWEB put hedges in two years in advance and so at present staff was working on 2008. He explained that if there was a substantial movement in price, such as an increase to \$100 or more, the risk management committee might authorize a second layer to be put in, a put in the \$90 range.

Mr. Varner added that the bulk of the volume that EWEB hedged was in the first three quarters of the year. He said the fourth quarter did not have as much in the way of options because the utility did not have a lot of secondary volume.

Commissioner Farmer noted that figures for the working cash in the water utility indicated there was a chance that it could fall into negative numbers. He asked if it would be borrowed from the capital reserve fund. Mr. Origliosso affirmed this, adding that another option would be to borrow from the electric utility.

He said this would involve more of a formal agreement than borrowing from the reserve.

Commissioner Farmer averred that this put added emphasis on the need for the Board to come up with a strategy to address this situation.

President Bishop expressed concern about the financial position of the water utility. Mr. Varner thought the Board should devote a "fair amount" of time to discussion of financial strategies for the water utility at its August Budget Retreat.

Commissioner Farmer noted that the balance sheet for the electric utility indicated that approximately \$26 million had been listed under construction for the last two years. He said he would have thought it would have come down given that EWEB was finishing its first relicensing project. Mr. Origliosso responded that there were other projects figured into that number. He said construction work in process did not necessarily get ramped down; everything that was in the budget in the previous year was still in it, projects were added to it and as projects were completed they were pulled from the list.

Mr. Varner acknowledged that the bulk of the capital work had been completed at the Leaburg/Waltermville reservoir in 2003 and 2004.

Commissioner Farmer expressed surprise that the amount would remain at \$26 million. Mr. Varner offered to break the number into its projects.

Commissioner Farmer found it strange that EWEB's wholesale power sales had increased from \$10 million to \$19 million, but the Contribution in Lieu of Taxes (CILT) had remained flat. Mr. Origliosso replied that the City had "a different deal." He explained that a percentage of the net on wholesale was given to the City. Mr. Varner clarified that EWEB took the revenue it received and it took what it would have gotten had the power been only sold at index and then paid 17 percent on whatever the difference was.

Commissioner Farmer wondered if staff should think about having an additional ratio or an adjusted ratio that informed the Board just what the working cash position for the utility was. Mr. Origliosso responded that staff could put it in a “quick ratio.”

President Bishop commented that at this point she felt the Board should try this format for the financial statements for a while.

RATES VS. BUDGET TIMING

Fiscal Services Supervisor Dick Varner gave a power point presentation on the topic as described in the backgrounder entitled *Budget and Rates Timing*. He said given the way EWEB had put together the two processes there was a strong interdependency between rates and the budget. He clarified that in order to formulate cost of service rates some kind of revenue requirement was needed as a base and the practice had been to use the budget as the revenue requirement. Therefore when the Board took an action on a budget in December, it was in effect implying that it would recover through rates that budget in the succeeding year. Conversely, he noted, that should the Board determine it needed a 7 percent rate increase and decide to only increase rates by 5 percent it implied that staff would have to come back to the Board with budget amendments to decrease expenditures so that the Board wound up with a balanced position in the budget. He attributed some of the Board’s discomfort with rate actions to the budget process and the sense that rates were founded at times on budget expectations.

Vice President Menegat observed that the Board held two public hearings on rate increases in February though the Board had already made a decision about it. He said when he approved a budget based on assumptions that the Board would raise rates in the spring he was committed to the rate increase at that point. He stated that one thing that had been considered was to make the budget process more open to the public so that more public input was brought in.

Commissioner Simpson agreed. He felt EWEB should send out the message in the fall that the Board was setting rates that would be put into place in the spring of the following year.

Mr. Varner stated that there could be a difference in the fall projection and the spring rate increase as he could only predict a general impact in the fall. He thought it could still be enough information to elicit the kind of input the Board needed in the budget process.

Commissioner Simpson underscored Vice President Menegat’s statement, that it was more of a public perception issue. He thought it would be in the Board’s best interest to send a message out.

President Bishop wondered if it might be prudent to go to an annual rate action schedule in order to eliminate the uncertainty of whether or not the rates were going to increase. Mr. Varner replied that he was unsure of whether this action would make a lot of difference.

President Bishop commented that she was uncomfortable holding a public hearing when a rate action was essentially a “done deal.”

Commissioner Farmer said EWEB needed to continue to make people understand that regardless of the budget, rates were subject to the vagaries of BPA rate actions. He averred that what drove the budget thought process was what had been committed to in terms of projects in the budget and other action items. He agreed that EWEB needed to do as much outreach as possible to make the public aware of such potential actions.

Commissioner Lanning also expressed discomfort with the public hearings that were held after the Board had essentially reached a conclusion about what to do with rates. He asked for staff input on how to improve the situation.

Mr. Varner preferred to work on the publicity for the budget process so that the community might feel more drawn out to give input into the process. He added that the Board needed to retain flexibility so that it could deal with the nuances in the cost allocation process.

President Bishop expressed some concern that an earlier process could affect the quality of the work.

In response to a question from President Bishop, Mr. Varner said the earlier you put the numbers together for the budget the more risk there was of something in the world changing between the time the numbers were put together and the time that the budget would be adopted.

Mr. Berggren remarked that working on a budget too soon in the year could make the numbers “stale” by the time of budget adoption.

Commissioner Farmer felt the pushing the debate over rates into the budget process would increase the quality of the debate.

Commissioner Simpson suggested that the Board consider forming a budget committee with citizen members.

President Bishop thought this would be a good point of discussion for the retreat.

ROOSEVELT BUILDING PROJECT

Energy Resource Projects Manager Ken Beeson introduced Eric Gunderson, Larry Banks, and Harriet Cherry, of PIVOT Architecture. He provided a power point presentation on the ***EWEB Roosevelt Building Project: Construction Manager/General Contractor (CM/GC) Review.***

Commissioner Lanning asked if the CM/GC approach would limit the local pool of construction managers because of the size and scope of the project. Mr. Beeson replied that he was

unsure of the answer because the Roosevelt Building Project was a large project. He related that he had spoken with the CM/GC for the Federal Courthouse building, and employee of J.E. Dunn Construction, a nationwide company. He said this approach and under the traditional approach whereby EWEB would hire a general contractor, EWEB would be looking at the general contractor to hire all of the subcontractors. He felt EWEB would have good reason to expect that many of the subcontractors would be local.

Commissioner Lanning asked if the guaranteed maximum price would be part of the picture in both scenarios. Mr. Beeson replied that the guaranteed maximum would be used under the CM/GC approach but in using the Design/Build approach, EWEB would go out to bid and select the lowest qualified bidder. He expected that the bid would be in the same range, however.

President Bishop asked what would happen if EWEB completed its design phase and hired the CM/GC and the CM/GC indicated that the project could not be completed at the price the design process suggested. Mr. Beeson replied that such a scenario would be problematic. He foresaw the CM/GC as helping determine the price. He added that if the CM/GC and EWEB could not reach agreement on a maximum price the agreement would be terminated.

Commissioner Farmer asked if the CM/GC would then make money if the project came in under the guaranteed maximum. Mr. Beeson responded that he thought the savings should be shared, but it depended on how the agreement was structured. He noted that there were a number of ways to do it.

In response to comments from President Bishop, Mr. Beeson related that he understood that the CM/GC did not usually make money on the design end and there was usually some incentive on the construction side to come in under cost.

Commissioner Farmer said he would lean toward the CM/GC model of construction management, but he thought the Board should remember what had happened in the Whole Foods Grocery process with the Eugene City Council. He pointed out that the public hearing for the no-bid contract had brought the biggest turnout seen at a City Council meeting in the last five years. He averred that should EWEB choose this route of construction management, Board members needed to “have the stomach” to deal with the potential fallout.

President Bishop assumed that one of the reasons this model was being considered was that no one on the EWEB staff could act in the position of the CM/GC. Mr. Berggren responded that EWEB staff had overseen and worked on fairly complex construction projects but not on a project of this magnitude.

Mr. Beeson assured the Board that EWEB would retain a substantial amount of involvement in the process. He said the CM/GC was a delivery mechanism that allowed the general contractor to be in the process much earlier than if EWEB took the more traditional approach of going out to bid.

Ms. Smith interjected that Mr. Beeson was the full-time project manager for the Roosevelt construction site. Mr. Beeson affirmed this, adding that he would be bringing in others from EWEB from purchasing, accounting and other departments as needed. He commented that the project was a complex endeavor to be completed over a couple of years.

President Bishop supported utilizing the CM/GC model.

Mr. Beeson stated that staff would put the findings together regarding this approach. He hoped the Board would continue to support it.

Commissioner Farmer said there were Oregon Revised Statute (ORS) regulations that dictated that a bid process had to be undertaken unless savings could be proved. He thought EWEB could be subject to a legal challenge for utilizing the CM/GC model. Mr. Beeson responded that the findings would support the case to be made for hiring a CM/GC and embarking on the no-bid process. He said he would find this out so the Board could become more clear on the opportunities for savings.

President Bishop asked Mr. Beeson to confirm that he had indicated that the earliest possibility for financing would be in the spring, 2007, but most likely the fall. Mr. Beeson replied that the schedule suggested the financing would occur in the fall of 2007 and the design completed by then. He said when the design was substantially done EWEB would be clear on what the costs were. He thought there would be an opportunity to consider going for financing earlier, whether through the Uniform Revenue Bond Act (URBA) process or through the May ballot. He reiterated that an earlier start would allow EWEB to break ground in 2007 and this would put the process eight or nine months ahead of schedule. He added financing in the fall would defer ground breaking until spring, 2008, and this would likely increase costs by \$3 million to \$4 million.

President Bishop thanked Mr. Beeson for the presentation.

President Bishop adjourned the meeting at 7:19 p.m.

Assistant Secretary

President