

EUGENE WATER & ELECTRIC BOARD
WORK SESSION
EWEB BOARD ROOM
AUGUST 15, 2006
5:30 P.M.

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

Others Present: Randy Berggren, Debra Smith, Dick Helgeson, Patti Boyle, Marty Douglass, Roseanna McArthur, Jim Origliosso, Dick Varner, Cathy Bloom, Dave Koski, Brenda Sirois, Mike Logan, and Krista Hince of the EWEB staff; Ruth Atcherson, City of Eugene minutes recorder.

Vice President Menegat convened the work session of the Eugene Water & Electric Board (EWEB).

SECOND QUARTER 2006 BUDGET AND FINANCIAL PERFORMANCE

Assistant Treasurer Cathy Bloom reviewed the changes in how financial reporting was conducted and provided a power point presentation on the *Second Quarter 2006 Budget and Financial Performance*.

Commissioner Farmer asked what the target for the total reserves was. Treasurer Jim Origliosso replied that it was approximately \$49.5 million. He noted that staff had recently put that into a resolution.

Ms. Bloom said the net operating revenue, at \$34 million as of June, was \$9.2 million higher than it was at this time last year. She stated that net income through June was \$25.3 million, an increase of \$9.4 million from one year ago.

Regarding the capital budget, Ms. Bloom reported that as of the end of June it was at 37 percent of budget, which was low. The operating budget was at 53 percent of budgeted cost, which she attributed to the conservation activity. She added that it related to an accounting change that had been spurred on by feedback from the auditors. She stated that it was not an over-budget situation, rather it was a reclassification to be in compliance with how this type of activity should be recorded.

Ms. Bloom reported that the water utility had a low cash balance of \$155,000 after beginning the year at \$1.4 million. She thought it positive that the cash balance was still on the plus side, given the cyclical nature of the water utility. She said the net operating loss for the first six months \$102,197, compared to the loss from a year earlier of \$512,000. This was an improvement, but the utility was still in a loss position, which was not unusual for the month of June. Through July, she noted, the water utility was on its budget. She thought it possible that the water utility would end with “a couple hundred thousand dollars” on the plus side.

Commissioner Farmer ascertained from Ms. Bloom that what was being reported was that the water utility would meet its budget but the budget was not enough to sustain the water operations.

Additionally, Ms. Bloom highlighted the Other Post-Employment Benefits (OPEB), which included post-retirement medical benefits and how this was put on the books. She said the actuary was still “crunching the numbers” and in October staff would have more information on how it would impact the income statement and how a trust could be set up to maintain those benefits. She noted that the new requirements for those benefits did not go into effect until 2007.

Ms. Bloom also touched on the Federal Accounting Standards Board (FASB) Statement No. 71, which determined how deferral of conservation costs was recorded. She said there would be a budget amendment in September that would serve to “clean things up” and then the budget actuals would compare more cleanly.

Ms. Bloom reported that EWEB had priced its bonds on August 9 and the total amount was \$12,850,000 and the rate was 4.12 percent, which was good. UBS was the actual party that received the bid.

Commissioner Farmer asked if there was a cash impact to these changes. Ms. Bloom replied that there would be an impact, particularly from the third OPEB item: the Government Accounting Standards Board (GASB) Statement 45. She hoped it would not be so, but EWEB would no longer be able to pay post-employment benefits in an ongoing way. She hoped that EWEB would deposit its “pay-as-you-go” retirement benefits into the reserves and that it would be the same amount as the expense. She clarified that in order to “expense” the fund and put it all on the books, EWEB would have to put that money into a trust account off the books.

In response to a follow-up question from Commissioner Farmer, Ms. Bloom affirmed that the accounting for FASB 71 would be a non-cash item.

In response to a question from Commissioner Simpson, Ms. Bloom explained that the three columns on the graph represented that ratio through June 30, 2006, the ratio through June 30, 2005, and the ratio as of the end of the year.

Commissioner Simpson asked if the utility could create benchmarks. Mr. Origliosso replied that it could. Commissioner Farmer added that a benchmark was a number that they were comfortable with if the utility was running properly.

Mr. Origliosso noted that staff looked at targets and did not really consider benchmarks to be targets.

Commissioner Simpson indicated a preference for creating benchmarks. Mr. Origliosso commented that they had occasionally done so in the past.

Commissioner Farmer commended staff for the good financial information the Board had received. He called it a “quantum leap” from how it had been reported a couple of years earlier.

Mr. Origliosso predicted that EWEB would be at its goal in 2009.

Ms. Bloom noted, in response to a question from Commissioner Farmer, that recommendations for the water utility would be presented at the Board Retreat scheduled for August 17.

In response to a question from Commissioner Farmer, Ms. Bloom explained that Systems Development Charges (SDCs) had formerly been included in other revenue but based on some governmental pronouncements, it was now required to be placed under contributed capital.

Commissioner Farmer commented that if one focused on net operating revenue, it appeared that EWEB was \$400,000 ahead, but when looking at the rest of it, EWEB seemed to be \$150,000 “worse than last year.” Ms. Bloom responded that it did appear that way because of the inequity of the contributed capital. She said contributed capital was supposed to be an equity contribution. She felt what confused the issue was that it caused \$900,000 to go “down below the line.”

In response to a follow-up question from Commissioner Farmer, Ms. Bloom stated that it was money received from developers and it skewed the activities of the water utility.

Mr. Origliosso clarified that the \$10 million in SDCs could only be spent on certain items.

SECOND QUARTER GENERAL MANAGER’S GOALS STATUS

General Manager Randy Berggren reported that the Operational Performance Measures (OPMs) were trending well with the exception of the System Average Interruption Duration Index (SAIDI). He said staff was increasing efforts to do preventative maintenance and was finding more than expected in terms of outages. He indicated that staff was continuing to monitor and analyze the SAIDI.

Mr. Berggren said staff had attempted to have candidates ready for hiring for the call taking positions in order maintain a continuity of service and reduce lost calls. The numbers had improved.

Continuing, Mr. Berggren reported that the goals provided to the General Manager by the Board were on schedule, though many projects had been delayed. He added that those projects were important and EWEB was continuing to staff and resource them. He noted that water supply planning had been impacted as Mr. Taylor had been diverted to other projects for the time being.

Mr. Berggren stated that the Roosevelt Building Project work was making progress and could potentially be ahead of schedule.

Mr. Berggren commented that EWEB was realizing the impact of strike and pre-strike work on the organization.

Commissioner Simpson said he wished to see the steam system reliability target changed to one incident in order for that system to have the opportunity to track better than target.

Regarding *Initiative 2.1*, as delineated in the document entitled ***Goal and Initiative Update Status as of June 30, 2006***, Commissioner Simpson asked how the work was going on development of a workplace that was culturally competent and diverse. He noted that the document indicated there was ongoing energy regarding this initiative. Mr. Berggren responded that the initiative had a “good head of steam.” He cited a training that had been beneficial. He said some of this work had now been delayed and there had been some problems with the training so he was not sure to what degree the progress would continue or in what vein. Commissioner Simpson called the initiative “important” as a diverse workforce was a more stable work force. Mr. Berggren stated that EWEB had lost its human resources staff person in charge of this subject and had not found a replacement to date.

Commissioner Simpson asked which initiative addressed Automatic Meter Reading (AMR). Mr. Berggren responded that AMR was under heavy study and there was a lot of advocacy for the concept within the organization. He said as the technology was advancing the costs were declining and it had just begun to come into a “cost-effective zone.” He added that at this point it was a matter of how to figure out how it would fit in with what EWEB was already doing.

Commissioner Simpson suggested partnering with Northwest Natural Gas as one avenue to gain ground with AMR technology. Mr. Berggren agreed that it might be one option.

Commissioner Farmer asked if the master plan process for the Riverfront Site, referred to on page three of the attachment entitled ***Eugene Water & Electric Board 2006 General Manager's Goals Update Quarter 2 – June 30, 2006***, would be “farmed out.” Public Affairs Manager Marty Douglass replied that EWEB staff was basically undertaking the planning, but would have a third party review it prior to completion.

Regarding *Initiative 3.3*, regarding securing water rights, Commissioner Farmer asked for clarification of the implications of House Bill (HB) 3038. Mr. Berggren explained that it made changes that seemed positive as EWEB could possibly gain five more years on its water rights. He said some people were not happy with this and were lobbying to change the legislation.

In response to a question from Commissioner Farmer, Mr. Berggren affirmed that the initiative regarding financial uncertainties had arisen from changes in the Public Employee Retirement System (PERS).

At Commissioner Farmer's request, Mr. Berggren clarified, in regard to *Initiative 4.3*, that EWEB had taken a rate action of just under 10 percent and had originally assumed that 4 to 5 percent of it would be dedicated to capital expenditures. Mr. Varner added that EWEB had lowered its sales assumption and most of the rate action had been moved to make up for the lower assumption.

2007 STRATEGIC PLAN

Assistant to the General Manager Debra Smith stated that the strategic planning had been impacted by the strike. She reviewed a graph that delineated the *Objective/Goal*, the *Existing Initiatives/GM Goals*, and the *Performance Measures* from the *Customer, Financial, Internal Process*, and *Learning and Growth* perspectives in order of importance.

Commissioner Farmer recommended that the Board review the legacy statement annually. He wanted to ensure that its objectives were being met.

Commissioner Simpson felt it was important to have improving power quality as a continuous goal and as a statement of cooperation between EWEB and other providers. He thought it might be beneficial to the Board to receive an annual report on what was being done to “improve the quality of our electric product.”

Regarding *Objective D* under the heading of *Customer*, Commissioner Simpson asked to add ‘acceptance and usability’ to ‘internet down time.’ He said customers that used the Web site needed to experience something that was highly functional and usable.

Commissioner Farmer said he did not have a measurement for how efficient EWEB was as a utility. He wondered if EWEB was doing more work with less employees or less work with more employees.

Commissioner Farmer asked what was meant by the following regarding the incremental approach for AMR, from page 2 of the memorandum entitled *2007 Strategic Planning Process* dated *August 8, 2006*:

“...At this point, a customer-focused initiative (Goal 1) has been added to the 2007 Draft Strategic Plan as a placeholder.”

Ms. Smith explained that it referred to the *2007 Draft Strategic Plan Initiative 1.2*, and the first stakeholder meeting and review of a report on AMR was scheduled for August 16. She called it a placeholder because at this point not all staff were fully supportive of moving forward on it.

Commissioner Farmer had been struck by the inclusion of ‘how’ things would be accomplished in the strategic plan. He was not sure it should be included as he considered it to be the purview of staff. He did not think the Board should be directing how goals should be achieved.

Regarding *Objective/Goal A* under the heading of *Customer*, Commissioner Farmer was uncertain whether EWEB had the real data as to what customer expectations were. He acknowledged the benchmark survey, conducted annually, but he was not convinced the survey was able to ascertain those expectations.

Ms. Smith felt EWEB had done a lot of more specific surveys in recent years, though not this year. She hoped staff would be able to get back to the Board with more specific information by the end of the year.

Commissioner Farmer said *Objective/Goal D* under the same heading talked about availability, accuracy, and internet downtime but it did not measure how customers felt about the contact they experienced. He wanted to find out if customers felt like the call was handled properly and they received the results they desired.

Commissioner Farmer commented that he would not combine the stabilization of rates and the stabilization of funding, as they were under *Objective/Goal A* in the *Financial* section of the graph. He also thought *Objective/Goal C*, having to do with maintaining a stable, diverse source supply for water and power, needed to be “fleshed out more.” He added that his feeling was that the objectives and goals should be weighted, as some gaps were bigger than others.

Commissioner Simpson averred that all of the goals could be measured against operational efficiency. He said some of the ideas cover the entire set of goals. He thought a SAIDI or a Customer Average Interruption Duration Index (CAIDI) could be “number crunched” to a financial impact and ultimately an efficiency rating.

Vice President Menegat expressed appreciation for the work Ms. Smith had done. He said the layout of the graph was very good, as was the *2007 Draft Strategic Plan*. He averred that *Initiative 2.2* under the second goal, which sought to define and develop areas of strategic alignment with union-represented workers, should be addressed soon and as well as they possibly could.

Vice President Menegat said in looking at objectives and goals, it was good to have a list such as the one before them but he predicted the Board would be looking at something less than that list that identified specific items. He commented that the Board did not talk about some of the things that were happening at present, such as EWEB’s forward-thinking approach to conservation, but the public recognized it. He cited EWEB’s help to the local schools as another example of work that contributed to its image in the eyes of the community.

Ms. Smith reviewed the *2006 Strategic Plan – As Approved*. She then compared it with the *2007 Draft Strategic Plan*.

Regarding *Initiative 3.4* in the *2007 Draft Strategic Plan*, Vice President Menegat stated that EWEB had allocated a portion of the latest rate increase for acquisition of “Lost Opportunities” and had engaged in potential agreements for wind and geo-thermal energy projects. He asked what was left to do in fulfilling the initiative. Ms. Smith replied that the initiative sought to address the rate increment in relation to the potential for the loss of the Slice product or a substantial decrement in the power allocation from the BPA.

In response to a question from Commissioner Farmer, Mr. Berggren averred that if EWEB proceeded to acquire interests in the two projects Vice President Menegat mentioned it would have realized enough power to meet the projected decrement.

Commissioner Farmer asked what was meant by *Initiative 2.4*:

“Explore the need for a stated market position on a total compensation basis.”

Ms. Smith responded that it meant this had come up in a number of different ways over the past year, the most recent of which was whether EWEB should be “putting salary out there” at the beginning of the bargaining process. She added that on the other hand EWEB was struggling to fill some of the other positions in the utility because of its position of holding salaries at 55 percent of market. She asked the Board to consider whether the stated position should only have to do with wages or whether it should include other compensation.

Commissioner Farmer interpreted the goal of being an “employer of choice who supports excellence in the workplace” as meaning EWEB would reward performance. He did not see any initiatives that drove toward rewarding employees for excellent performance.

Mr. Berggren recalled a discussion of the original compensation policy set by the Board in the late 1990s, which included incentives that were carried out “in one or two places.” He added that there was never any “forward dialogue” about how to motivate or reward employees.

Commissioner Lanning commended staff for the work done on the draft plan.

Vice President Menegat adjourned the meeting at 7:15 p.m.

Assistant Secretary

President