

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

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

Others present: Randy Berggren, Debra Smith, Dick Helgeson, Patty Boyle, Dick Varner, Mel Damewood, Tom Buckhouse, Jim Wiley, John Yanov, Jean Meyers, Lance Robertson, Terry Bequette, 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). (President Bishop had yet to reach the dais.)

WATER FIVE-YEAR CAPITAL IMPROVEMENT PLAN

Water Engineering Manager Mel Damewood provided a power point presentation entitled *Water Division; 5-Year Capital Improvement Plan Calendar Years 2007-2011*.

Commissioner Lanning arrived at 5:42 p.m.

In response to a question from Commissioner Farmer, Senior Rate/Financial Analyst Patty Boyle explained that the slide that indicated the impacts of *5 & 10 Year CIP Project Areas and Initiatives* intended to provide the magnitude of projects in 2006 dollars. She felt delineating the total estimated impact per residential customer per month was the best way to give a high level look at those programs.

Mr. Damewood stated that there were four major capital areas that would impact the bills: water source additions, water reservoir additions, water main replacements, and general plant maintenance and improvement.

Commissioner Farmer asked if it made a difference to look at it from a five-year or a ten-year perspective. Mr. Damewood replied that staff had looked at it from a ten-year point of view.

Mr. Damewood reviewed the projects planned for water source additions. He noted that the slide regarding *Development of Additional (Second) Source of Supply* was a placeholder in the out years. He explained that staff had not done enough study at this point to find out where an additional 8 to 12 million gallons per day (MGD) would come from.

Mr. Berggren asked what the overall goal was for water supply. Mr. Damewood replied that the goal was to be able to provide 15 to 20 MGD.

Commissioner Farmer asked if the modifications to the existing McKenzie River intake and the new intake work would create additional revenue. Mr. Damewood responded that the current

intake capacity was 90 to 95 MGD if there were no regulations. He said EWEB would have to stick to the three or four feet per second screen velocity criterion and would have to reduce its intake to 45 MGD. He stated that a new 52 MGD intake would be installed in order to bring EWEB up to its capacity level. He added that it would not bring in more income and that there was no Systems Development Charge (SDC) eligibility for the project.

Mr. Berggren commented that it was only a matter of time before the fish agencies required the velocity to be slowed. At the same time, he said if EWEB did not perform this work it would not be in a position to be a regional supplier.

Mr. Damewood discussed the planned water reservoir additions. Regarding repairs to the wire wound reservoirs; he noted that the cost assessment was estimated on the reservoir that was in the worst condition.

Commissioner Simpson asked if there had been engineering reports on reservoirs other than the College Hill Reservoir. Mr. Damewood responded that the Hawkins Hill Reservoir had not been assessed.

Mr. Damewood reviewed water main replacements, relocations and improvements. He noted that he had added \$2 million to the escalated costs for the out years because the original number had not seemed to be enough.

In response to a question from President Bishop, Mr. Damewood stated that pipe replacements were generally limited to a "stick or two" of pipe when needed or when a road project was being undertaken.

Commissioner Simpson asked if there was a way, when relocating a water pipe, to install it so that it could weather more than one road replacement. Mr. Damewood replied that staff put the pipe below the City's sub-grade so that the pipe would not be affected by future roadwork.

President Bishop remarked that the estimate for the intake modifications seemed low. Mr. Damewood responded that staff still awaited an environmental assessment and would have a better idea of cost after receiving it.

In response to a question from Commissioner Farmer, Mr. Buckhouse affirmed that the new intake at the Hayden Bridge facility would not supply the regional need. Mr. Damewood added that EWEB's ability to take water out of the river was greater than the current amount of water drawn from the river.

President Bishop agreed that EWEB needed an additional water source. Mr. Damewood said it should be away from the McKenzie River.

Mr. Damewood outlined the *2007 Capital Budget*. He noted that the bulk of the money for water production additions would come from SDCs. Under water reservoir additions he explained that EWEB had finally worked through the property issues and would begin building the Laurel Hill Reservoir.

In response to a question from Commissioner Farmer, Mr. Damewood affirmed that ‘rate-funded’ meant taking rates and paying for things as they transpired.

Commissioner Farmer asked how much of the funding would be allocated to hard assets that would stay with the utility and how much would pay for operating expenses such as salaries. He believed that the latter expenses should be financed with current rates and not debt service. Mr. Damewood underscored that the cost to maintain facilities fell under operating expenses and was paid for in an ongoing way but costs connected with building and designing facilities could be wrapped into a project paid for with debt service.

Commissioner Farmer asked when it would be paid for with the 10 percent increase. Ms. Boyle replied that the 10 percent increase had been a direction staff had received from the Board on August 17 to build a budget from. She said this covered a portion of the new and additional capital costs as well as increased operations and maintenance costs for non-capital items. She clarified that the base assumption for the budget was that operations and maintenance would cost 3.5 percent for non-labor budget increases with some notable higher items, such as more use of asphalt. She said capital expenses would be in the 6 to 7 percent range.

Commissioner Farmer wanted to know how long EWEB was financing this for. He wondered if this way would take longer than going out for a bonding issue. Mr. Damewood replied that with existing rates they had done a \$3 million capital improvement portion on an annual basis. He said they were looking to raise the annual capital plan to the \$6 or \$7 million range. He stated that it would take a 25 percent rate increase to cover the current gap in the plan.

Mr. Berggren said another way to ask that question was if the rates were increased by 25 percent would EWEB need to borrow additional funds.

Commissioner Farmer wondered if EWEB would ever pay for this. Mr. Damewood replied that EWEB would not at this rate. He said this was part of a longer-term strategy.

Ms. Boyle recalled that staff had presented two scenarios at the August 17 meeting:

- A 25 percent rate action undertaken in the next year or two to meet capital needs; or
- Multiple years of 10 percent increases with the goal of not having to bond anymore at the end of ten years.

Mr. Buckhouse stressed that either way EWEB would be “getting to where we need to be.”

Commissioner Simpson asked what was driving the decision to keep the rate increase to 10 percent. Mr. Berggren responded that he had recommended it so that the Board would have a year to give it further consideration.

Vice President Menegat reminded staff and the Board that he had initially indicated his support for taking a 25 percent rate action “up front.” He felt the utility needed to get moving and to do it right. He said he appreciated having this year for the Board to gather more information in order to make the necessary decisions. He expressed appreciation for the options that had been presented.

Mr. Damewood conveyed staff’s recommendation for Board approval of the *2007 Water Division 5-Year Capital Improvement Plan*.

Commissioner Farmer asked what the short-term financing consisted of. Mr. Varner explained that the utility could borrow money for a year under the charter and this did not require going through the voters or through the Uniform Revenue Bond Act (URBA) process. He discussed different financing options. He said staff and the Board should look at “what the whole picture looks like” and then issue the long-term debt.

ELECTRIC FIVE-YEAR CAPITAL IMPROVEMENT PLAN

Electric Division Director Jim Wiley provided a power point on the *Electric Utility 2007-2011 Capital Improvement Plan*. Regarding the slide on *Cost Escalation*, he explained that the two primary drivers were the impact from Hurricane Katrina and the advancing third world development as they had placed a huge demand on materials.

Mr. Wiley remarked that \$104 million projected for the Carmen-Smith relicensing project was based on an optimistic schedule over the next five years. He noted that the *Walterville Fish Return Improvements* were part of the Endangered Species Act (ESA) requirements and also to meet part of the Army Corps of Engineers (ACOE) requirements.

Mr. Wiley also noted that the *System Conversion to 12 KV* was a result of an order to update that came from the Public Utilities Commission (PUC).

In response to a question from Commissioner Farmer, Mr. Wiley clarified that service drops were the lines from the transformer to a house.

In response to a question from President Bishop, Mr. Wiley explained that EWEB was required to have qualified tree trimmers with experience working around high voltage wires.

Commissioner Simpson asked if EWEB had been undergoing the system conversion to 12 kilovolts at present. Mr. Wiley replied that the utility had not begun the process. In response to a follow-up question from Commissioner Simpson, he said he was uncertain whether the conversion would be completed at the end of five years.

Mr. Wiley reviewed the *2007-2011 CIP Expenditure & Funding Source Summary*. He reiterated that the large projects, the Carmen-Smith relicensing and the Roosevelt building project, were assumed to be primarily funded by bond proceeds.

Mr. Wiley highlighted the *2007-2011 CIP Work Category Summary*. He noted that distribution reliability entailed renewing infrastructure and repairing the existing facilities. He said the CIP budgeted for 250 to 300 poles in 2007, but this number would be reduced after the next year, until 2010. He stated that underground cable and the poles had to be moved out to outer years because of cost escalation of electric materials.

Commissioner Simpson asked if there was any significant risk in that action. Mr. Wiley replied that there was. He said staff had minimized risk as much as possible for 2007. He underscored that they really needed to get more than one year to fully understand the extent of the material costs escalation. He also wanted to see how the other utilities responded in the face of this cost escalation.

Mr. Wiley listed the *2007 Priority Projects*. Regarding the Willamette Substation, he said they were taking the project “out in March” of 2007. He related that staff had looked at the summer loads and thought the surrounding support systems could offset removal of the substation from the grid while the work was undertaken. He anticipated work would be completed in 2008 and it would be brought back on line prior to the Olympic Trials.

Mr. Wiley said the Smith Falls Turbine replacement was planned to be done before spring runoff to maximize generation in 2007.

Mr. Wiley predicted the Leaburg Lake raise would pay for itself over time with increased generation.

Vice President Menegat asked if the lake raise costs included mitigation. Mr. Wiley replied that the vast majority of the cost was for mitigation activities.

President Bishop asked what the “\$750,000 price” for the Carmen-Smith relicensing was for. Mr. Wiley explained that it paid for the ESA and the National Environmental Policy Act (NEPA) processes, the consultations and prescription. In response to a follow-up question from President Bishop, Mr. Wiley said most of the money paid for EWEB staff and consultants, as they were needed. Mr. Berggren noted that the Carmen-Smith was “eating up” the environmental staff’s time.

President Bishop asked where the cost of the work on the chevrons appeared in the CIP. Mr. Wiley responded that it was associated with the Walterville facility. He added that the chevrons had been modified in the present year and it would be an ongoing expense as maintenance was needed.

Commissioner Farmer asked how much of the projected number for the Carmen-Smith facility was for contingency funds. Mr. Wiley estimated that it was in the range of 20 percent and said he would get back to Commissioner Farmer with the exact number.

Commissioner Farmer asked what the customer contribution was for the 5-year capital plan. Mr. Varner said staff anticipated a 2.5 to 3 percent increase in rates and projected that it would cover cost escalation on the operations and maintenance side and a modest escalation in capital expenses each year.

President Bishop asked what policy governed fleet replacement. She also requested a list of what the fleet consisted of. She wondered if there was any policy regarding sustainability. She opined that EWEB was “constantly under criticism from the public” for the type of vehicles that EWEB employees drove.

Mr. Berggren stated that there was no direct policy regarding the fleet. He said he would provide a revised list as the previous list he had provided the Board was two years old.

President Bishop requested a Board discussion and a Board policy for fleet replacement. President Bishop adjourned the meeting at 7:27 p.m.

Assistant Secretary

President