

UGENE WATER & ELECTRIC BOARD
REGULAR BOARD MEETING
EWEB BOARD ROOM
FEBRUARY 20, 2007
7:30 P.M.

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

Others present: Randy Berggren, Dick Varner, Tom Buckhouse, Debra Smith, Jim Origliosso, Lance Robertson, Ken Beeson, Patty Boyle, Katie Sproles, Jim Wiley, Roseanna McArthur, Jay L'Estrange, and Krista Hince of the EWEB staff; Ruth Atcherson, City of Eugene minutes recorder; and members of the public.

President Menegat convened the Regular Meeting of the Eugene Water & Electric Board (EWEB) at 7:37 p.m.

AGENDA CHECK

General Manager Randy Berggren noted that Consent Calendar Item 3 (Lindholm Research LLC) had been pulled and will be brought back to the Board and the next Regular Board Meeting.

President Menegat determined that there were no other changes to the agenda.

PUBLIC INPUT

Art Farley, 1667 Fairmount Boulevard, urged EWEB to enter into a joint master planning process for its riverfront property as soon as possible. He underscored that EWEB would not be in a position to market the property until master planning was completed. He acknowledged that the land belonged to EWEB but the public and the City of Eugene would ultimately make the land use decisions that would affect the property.

Kathy Ging, 2878 Harris Street, asserted that she lived in the Eugene area because of its publicly owned utility. She related that she had attended an Energy Forum and had given a speech lauding EWEB for its many attributes. She believed, however, that the utility was facing an imminent crisis in the utility grid. She averred that the environmental consequences of the past energy uses and the financing of public expenses were big issues. She hoped the Board and staff would read about the weaknesses of solar power set forth by Steve Still at the Solar Roundtable.

APPROVAL OF CONSENT CALENDAR

Minutes

1. October 17, 2006 Budget Work Session, October 3, 2006 Regular Board Meeting, November 7, 2006 Work Session and Regular Board Meeting, and the December 5, 2006 Work Session and Regular Board Meeting.

Business Service Agreements

2. Lawson Engineering, Inc. – Environmental Engineering Services for Willamette Substation Oil Containment – Engineering – Electric Division.
3. Lindholm Research LLC – Surveys and Research – Public Affairs Department – General Manager’s Division. *[Pulled.]*
4. Northwest Energy Educations Institute (NEEI) – EMS Training & Hosting Services – Energy Management Services – Power Resources Division.
5. R2 Resources Consultant, Inc. – Leaburg Fish Screen Biological Evaluation – Compliance Management – Electric Division.
6. Wesco Distribution, Inc. – Willamette Substation – Electric Division.
Easement And Resolution
7. Resolution No. 0709 – The City is requesting a street easement over a portion of EWEB property located north of 8th Avenue and west of Hilyard Street.

Commissioner Lanning, seconded by Vice President Simpson, moved to adopt the Consent Calendar with the exception of Item 3, which had been pulled by staff. The motion passed unanimously, 5:0.

ITEMS FROM BOARD MEMBERS

Commissioner Lanning encouraged EWEB’s Legislative Lobbyist Jason Heuser to coordinate an “EWEB Day” at the Capitol. He opined that it made sense to have an opportunity for the Commissioners to have a presence in Salem. Assistant Secretary to the Board Krista Hince responded that staff was looking into scheduling a day at the Capitol for either March 13 or 14 or March 20 or 21.

Commissioner Brown reported that a resident had contacted him regarding the canal, referred to him by County Commissioner Faye Stewart. He thanked staff for the prompt response he had received, as he had been able to get back to the person the next day with the information that was being sought.

President Menegat announced that General Manager performance review documents were to be returned to Jean Meyers by February 25.

Commissioner Brown indicated his preference to be exempt from that process given his brief tenure as a Commissioner. Vice President Simpson noted that he had filled out the performance review documents when he was new to the Board but he had requested that his ratings not be included in the aggregate numbers.

CORRESPONDENCE

Mr. Berggren reported that Mr. Heuser had informed him that the Governor's renewable energy legislation, Senate Bill (SB) 373, was due to hit the State Legislature floor. The language in the bill was as yet unknown but the first public hearing was scheduled for March 1, which provided no time to garner feedback from the Board. He stated that staff would provide backgrounders to the Board that indicated how closely the bill conformed to staff's projections.

BOARD AGENDAS

Mr. Berggren reviewed the *Eugene Water & Electric Board Agenda Report* dated *February 20, 2007*. He noted that the Board Retreat was scheduled for March 13.

Commissioner Lanning related that a community member had asked why the Commissioners were allowed more than three minutes to respond to public comment, which was limited to three minutes.

Commissioner Farmer did not believe this item warranted scheduling a discussion on the agenda. He suggested that the Board merely limit itself to three minutes in response. There was general agreement among the Commissioners to do so.

2007 SPRING WATER RATE PROPOSAL

Senior Financial/Rate Analyst Patty Boyle reviewed the *2007 Spring Water Rate Proposal* with power points. She conveyed staff's recommendation to institute a rate increase of 9.2 percent in order to cure a deficit of approximately \$1.5 million associated with current rates and the current assumption on consumption for 2007. She noted that the latter projection was very weather dependent. She stated that the Government Accounting Standards Board (GASB) Statement 45, e.g. the post-retirement benefit costs, was now fully reflected in all of the finances.

Commissioner Farmer asked if the GASB 45 would require the post-retirement benefit costs to be shown as a liability on the balance sheet. Fiscal Services Supervisor Dick Varner replied that the balance sheet showed the cash flow and would set aside both the "pay-as-you-go" benefits and the actuarial calculation for what EWEB needed to put aside to meet the unfunded liability. He affirmed that it was not a "non-cash item."

In response to a question from Commissioner Farmer, Ms. Boyle explained that the increase in labor and non-labor operations and management (O&M) costs included general salary increases and general increases in those items that were non-personnel costs.

Ms. Boyle reviewed the *Rate Increases by Customer Class*. She explained that the 12.3 percent general service inside the City was higher than the overall rates because it reflected the second year of an issue flagged in the previous year that was a peaking issue. She said the actual peaking was recorded as higher than the cost of service. She noted that the rate change for the water districts was also consumption related in that the districts had taken a “larger hit” in 2006 but had lower consumption in 2007.

In response to a question from Vice President Simpson, Water & Steam Division Director Tom Buckhouse affirmed that the lower-elevation area around the airport would be assessed base level charges.

Ms. Boyle showed a graph of the *Comparator Cities*.

Vice President Simpson asked if the comparators were also shifting. Ms. Boyle replied that staff had not seen them change position.

Commissioner Brown wondered why Cottage Grove and Creswell were not included in the graph. He had heard water rates were high there. Ms. Boyle responded that the list of comparator cities had been compiled years earlier. She said she would look into why it did not include those two towns.

Commissioner Lanning supported the idea of reviewing the comparators and the benchmarks. He felt that providing customers with this data was helpful because it put EWEB’s water charges in perspective.

Commissioner Farmer concurred, adding that the chart should be included in the newspaper’s article on the potential rate increase.

In response to a question from Commissioner Farmer, Ms. Boyle indicated that the rate increase would bring EWEB into compliance with its goals for reserves.

Commissioner Farmer asked how the operating reserve was doing. Ms. Boyle replied that at present there was nothing in it but it was projected to reach \$100,000 by the end of the year. Mr. Buckhouse reiterated that this figure was based on the assumption that there would be average water flow.

Commissioner Lanning thanked Ms. Boyle and staff for the Work Session on the long-term water needs of the utility.

Vice President Simpson commented that the water rate proposal looked very good.

FIRST PUBLIC HEARING ON SPRING WATER RATE PROPOSAL

President Menegat opened the public hearing.

Debra Killian, 2763 West 29th Avenue, said she did not care whether other cities were paying more for water. She commented that EWEB's environmental policy encouraged people to conserve water and energy and as a result the ratepayers were conserving more. She attributed the rate increase to customer conservation practices and declared that customers were being penalized for conserving. She felt this presented a flawed message to people.

President Menegat closed the public hearing.

ROOSEVELT BUILDING PROJECT

Energy Resource Project Manager Ken Beeson provided an overview of the *Roosevelt Building Project* with power points. He conveyed the Building Advisory Team's (BAT) recommendation to delay the construction at the Roosevelt Boulevard site until summer, 2008. He said they would use the time to review the project in order to look into reducing the costs to an acceptable level. He asked the Board to specify the level the project should be reduced to.

Mr. Beeson proposed to spend the first three months of the review going over current program assumptions and the design. He said the BAT would look at estimates of the number of employees that would be moved to the Roosevelt site versus how many would stay at the headquarters site. He stressed that the team was not starting over; rather this further review would be based on existing design work. Regarding the potential for alternate structures, he stated that the team would consider eliminating the second floor of the building, as concrete and steel were very expensive. He reviewed the *Roosevelt Building Project – Proposed Schedule Revision*. He predicted that the end design would still house over 300 people. He underscored that those employees were taking care of a system that served 140,000 people.

Mr. Beeson stated that the estimate had increased substantially, increases driven predominantly by increases in the cost of construction materials. He said the facility, as proposed, did not contain substantial "extras" over and above what was needed to support the people who would work there and the functions it would serve. He believed the cost estimates were generally consistent with comparable public facilities in the area. He averred that the BAT would find reductions by reviewing space requirements, structure types and compositions, and possibly by proposing a smaller single-story building. He cautioned the Board that when the BAT did so it would reduce the quality of the building, its life cycle, and efficiency features. He did not believe those reductions would result in large reductions to the cost estimate. He underscored that a substantial amount of concrete, rock, wood, steel, and glass would still be needed for the facility as, given the work that EWEB operations did, it would still need to be a rather large "and sophisticated" facility.

President Menegat suggested that the Board first discuss the option of a delay in the construction.

Commissioner Brown asked what the options were if he did not wish to delay the project. Mr. Berggren replied that if the Board did not delay the site development scheduled for 2007 he would develop the same site plan. He could not, in good faith, feel comfortable spending money to commit to the site plan and the current plans for wetlands mitigation given that there may be a need to move the building site.

Commissioner Lanning, seconded by Commissioner Farmer, moved to delay construction to the summer of 2008.

Commissioner Brown noted that the proposed motion in the recommendation was not just to delay the construction.

Commissioner Lanning withdrew his motion in order to further discuss the item. Commissioner Farmer withdrew his second.

Commissioner Farmer asked if any employees were currently not working at the headquarters site. Mr. Beeson affirmed that some worked elsewhere.

Commissioner Farmer averred that the number of employees the assumption was based on might not be the right number. He felt it was worth reexamining.

Commissioner Farmer said part of the issue was cost escalation. He asked how often Mr. Beeson envisioned updating the costs for the Board. Mr. Beeson replied that once the BAT started on this work they would begin to build the cost estimates. He indicated that the first update would be available within a couple of months and then he would provide them on a regular basis. Commissioner Farmer underscored the importance of monitoring the costs. Mr. Beeson assured him he would do so.

Commissioner Farmer asked if the reason the electric utility would own the structure at the site had to do with bonding capacity. Mr. Varner responded that after talking with the bond council about how to structure the financing, it had become clear that EWEB would have to undertake a fairly complicated split arrangement if it were to split the cost between the water and electric utilities. He explained that if the electric utility defaulted on its debt an agreement would have to be constructed that indicated that the water utility would have to pay the debt service on the whole amount. He said a simpler structure would entail having the electric utility own the whole thing and to have the water utility lease the space.

Commissioner Farmer asked how much additional design costs there would be above what had already been spent. Mr. Beeson estimated it to cost approximately \$900,000. He said he would

likely bring a budget amendment before the Board in March.

Commissioner Farmer remarked that he had gone into this process arguing against former-Commissioner Sandra Bishop's position that the project should be revenue neutral. He could support a two-percent rate increase for the building project. He cautioned the Board and the BAT against latching onto the numbers for the Roosevelt project without considering the other cost burdens that EWEB was facing, such as the Carmen-Smith relicensing process.

Commissioner Brown said he had not been present for the discussion on sustainability. He emphasized that he was a strong believer in the cost-per-year of public facilities. He had researched some other public building projects which included a public works building in Klamath County that cost \$111 per square foot and had been Leadership in Environmental and Energy Design (LEED) certified, the maintenance shop for the Springfield Armory which cost \$187 per square foot, and the Glory Bee Foods building which had been constructed for \$110 per square foot and had attained a LEED Silver certification. He remained convinced that EWEB could build the building it needed for less than the current cost projection. He did not want to balance the project on the backs of workers who would need increases in wages and benefits. He supported setting a budget and then "living with it." He suggested starting with a budget of \$70 million.

President Menegat asked if the proceeds that would come from the sale of the riverfront property had been figured into the estimates. Mr. Varner replied that it had not been included in figures at this point.

President Menegat stated that he had reviewed all of the information. He said he had toured the Midstate Electric Cooperative building and had concluded that it worked well for that utility. He stressed, however, that the Eugene area was very different from the area Midstate served. Regarding operational efficiency, he declared that the team had looked "long and hard" at those and had meshed them with the environmental aspects of the plans. He indicated that he was comfortable with the initial proposal. He had been unable to justify backing off from the original designs, as he wanted to come up with something that the utility and ratepayers deserved. He could not support reductions in the numbers until he saw something that would justify that change.

Vice President Simpson said he could support establishment of an \$80 million budget. He averred that the only "wobble room" he saw was the potential change from a two-story building to a one-story building. He wanted to know what the price would be without any other program changes other than the size of the building.

Vice President Simpson related that he had been part of the team that originally worked with the architects. He did not see the reduction “penciling out.” He believed that the project, when delayed and rethought, would be very near the original estimate.

Commissioner Farmer asked what information or documentation was being used to qualify \$100 million “worth of efficiencies.” President Menegat responded that the team had spent months discussing the space needs of staff and deciding who should move to the new facility and who should not. He did not know that changing the amount to \$70 million would relate to a 70 percent reduction in the building. He averred that the building, as designed, was a functional structure. He noted that at present EWEB did not have sufficient workspace. He applauded the design for the efficiencies in workspace that it provided. He pointed out that the loading docks were planned so that projects could be put together and then moved out and loaded onto trucks, as an example.

Commissioner Farmer asked if spending three times the money the building constructed by the Midstate Electric Cooperative had cost made the building in LaPine three times less efficient. President Menegat replied that the LaPine utility had 18,000 customers, 30 to 50 employees, and covered approximately half of the State of Oregon. He stressed that Midstate Electric Cooperative operated very differently than EWEB.

Commissioner Farmer asked what EWEB was getting for three times the money per square foot. President Menegat responded that EWEB would be building a shop for more than just a few mechanics and that it would have room for the trucks to get in for servicing. He stressed that there was no extra space built into the plans. He reiterated that he did not wish to cut the budget to \$70 million.

Commissioner Farmer said he was trying to figure out what EWEB was getting that Midstate did not have. President Menegat replied that EWEB was getting a facility that was functional for EWEB. Vice President Simpson added that EWEB would have a “green roof” and efficient toilets, among other things.

Vice President Simpson stated that the layout was being designed to accommodate a second building. He foresaw the headquarters moving out to the Roosevelt site in perhaps as little as 15 years. He discussed some of the efficiencies included in the building design and underscored that life cycle amenities would provide the “triple bottom line” payback. He averred that the design, as currently estimated at \$98 million, struck the best balance. He believed it represented the lowest point in that bottom line.

Commissioner Brown averred that certain components of a building could be analyzed. He noted that one of the examples he cited was \$111 per square foot and the EWEB building, as currently planned, and was slated to cost \$224 per square foot. He felt there was a number but there was nothing to compare it with. He had consulted a contractor for large scale structures and the contractor had suggested that the building could be built for \$175 per square foot.

Vice President Simpson asked why the high costs of materials were burdening EWEB and not burdening this particular contractor. Commissioner Brown replied that he believed it possible that the numbers that were on the table were wrong. He stressed the importance of speaking in terms of dollars as opposed to percentages of rates as the percentages would go down as rates went up. He believed they needed to consider the plans in the face of other financial demands the utility was facing. He underscored that EWEB did not have unlimited resources and he did not feel he had seen a strong effort to control the costs.

Vice President Simpson said if the Board established \$70 million as the budgeted amount he could not imagine what the program changes would be nor could he imagine supporting them. Additionally, he questioned how a one-year delay would affect the project in terms of accelerating costs.

Commissioner Brown disagreed with calling it a delay. He felt it was a “non-acceleration” of the project as it stood. He reiterated that the Board had seen the project at \$100 million and now it would serve the Board well to know what \$70 million would build.

Commissioner Farmer observed that building the project for \$111 per square foot would bring the cost of the building to \$50 million.

Mr. Beeson acknowledged that the project was currently slated to cost \$323 per square foot, though the site comprised \$50 of that amount. He underscored that the EWEB project was substantially larger than the Midstate project. He cautioned the Board that even though some of the life-cycle features or quality assumptions were reduced, the building would still require a substantial amount of material. He pointed out that even with a pre-engineered building EWEB would have to put in concrete and steel for loading docks.

Commissioner Farmer averred that if the Board and staff did not make the effort to look at building for a lower cost then EWEB would default to the highest price. Mr. Beeson responded that staff had suggested the steps it would take to do so and how it would keep the Board informed as to the progress of the effort. He said the BAT was prepared to take whatever budget parameter Board direction would provide and make its best effort to stay within that parameter.

Mr. Berggren asserted that there were “lots of places” to go for cost savings. He asked the Board for a target number to base the budget on.

Commissioner Lanning commented that the difficulty lay in all of the factors that were listed for the building and the shock at the steep climb to the \$98 million price tag. He found it difficult to explain it to his constituents. While he did not think it behooved EWEB to build a 25-year building when it could build something that would last 50 years, it always came back to the issue of cost for him. He did not think the sale of the riverfront property would be cost neutral. He said the issue was to balance the quality of the potential buildings against what would be an acceptable cost estimate. He saw value in exploring what could be built with a \$70 million budget. He asked how soon staff could come back with this information. Mr. Beeson replied that he anticipated coming back before the Board in three months or possibly sooner.

Commissioner Lanning acknowledged that the site EWEB had chosen was costing the utility a large amount of money and that the utility in LaPine had not been faced with such high land costs.

Mr. Beeson said if the BAT recognized that the new lower amount was causing problems he would come back before the Board to make the Commissioners aware of them.

Commissioner Farmer felt it had been problematic to never set a budget in the first place. He reiterated his feeling that it was important to find out what could be produced with a lower budget.

Vice President Simpson asked what would happen if it was found that \$70 million did not work for this project. He asked if it would take another three months for the BAT to explore what could be built for \$85 million should the Board direct it to do so.

Mr. Berggren said he would look for incremental opportunities to find a balance. He hoped to find out the attributes of the cost reductions.

Commissioner Brown commented that buildings do not wear out so much as they become functionally obsolete or they become inadequate for the intended function. He said one of the structural elements of the LaPine facility was that the shell building was built so that the end walls were not load bearing and the building could be adapted or expanded or contracted without major renovations to the basic structure. He did not know what the cost efficiencies were of the different construction materials but he did note that EWEB had wooden building in the yard that was 60 years old.

Mr. Beeson remarked that there was operating cost implications related to the quality of the structure.

In response to a question from Vice President Simpson, Mr. Beeson explained that the cost had been estimated at \$72 million the previous summer after the building size had been increased by 12,000 square feet.

Vice President Simpson, seconded by Commissioner Lanning, moved to direct staff to delay construction on the Roosevelt Project for one year to complete a thorough review of the Project

design and program assumptions in order to reduce the Project cost estimate to a budget level set at \$72 million. The Board further directs staff to return with a schematic design and cost estimate within that budget amount. The motion passed, 4:1; President Menegat voting in opposition.

BSA CONTRACT

Mr. L'Estrange explained the contract renewal that was before the Board for approval.

Commissioner Farmer asked why EWEB employees cost more than the employees who worked at the Smith Falls Hydroelectric Project. Mr. L'Estrange replied that EWEB paid more than Dominion Power Services, Inc. (DPSI).

Vice President Simpson asked if DPSI had set the price or if the contract had been negotiated. Mr. L'Estrange responded that it was simply a continuation of the existing contract.

Vice President Simpson indicated that he would approve the contract, however he felt he had been "backed into a corner." He did not agree with the notion that a contract with a different entity would cause the project to lose institutional memory. He recommended that the procedures and nuances of the project's systems be well documented. He opined that if EWEB was going to spend the money it should get a good operating manual out of it.

Mr. L'Estrange stated that the new operation and maintenance agreement would require such a manual to be compiled.

Commissioner Brown asked how much net revenue the project produced. Mr. Varner replied that in an average year it produced between 70 and 80 million KWH. He said at 58 million KWH, the lowest production seen at the facility, it broke even with the Bonneville Power Administration (BPA). He stated that the extra 20,000 to 25,000 megawatt hours (MWH) at \$50 per MWH brought in \$1 to \$1.5 million better than a similar contract with the BPA would bring in after all costs were accounted for.

In response to a follow-up question from Commissioner Brown, Mr. L'Estrange explained that \$400,000 was allocated for operations and maintenance only. Mr. Varner added that approximately \$200,000 was paid to the State of Idaho for taxes and approximately \$1.5 to \$1.6 million was paid in debt service. He noted that EWEB had also put in \$100,000 to \$200,000 in capital improvements.

In response to a question from Vice President Simpson, Mr. Varner explained that originally EWEB had bought the output of the project for \$48 per MWH and the third operating year the facility had gone into default. He said EWEB went into the facility, cured the default, and bought the facility from the company that owned it as well as all of the property that sits between the facility and the forest service land.

Vice President Simpson asked when the facility would be required to be relicensed. Mr. Varner replied that he thought the license came due around 2030.

In response to a question from Commissioner Farmer, Mr. L'Estrange attributed the cheaper labor there to the unique geographic attributes of the area, given its remote location. He said trying to find qualified people to operate and maintain the facilities was becoming more difficult. He expected that at the end of the term of the next contract EWEB would likely have to find a new contractor or utilize EWEB employees.

Commissioner Lanning, seconded by Vice President Simpson, moved to approve a new five-year contract with Dominion Power Services, Inc. for the operations and maintenance of the Smith Falls Hydroelectric Project. The motion passed unanimously, 5:0.

ITEMS REMOVED FROM THE CONSENT CALENDAR

There were no items removed from the Consent Calendar.

The meeting adjourned at 10:05 p.m.

Assistant Secretary

President