

EUGENE WATER & ELECTRIC BOARD
REGULAR BOARD MEETING
EWEB BOARD ROOM
MARCH 6, 2007
7:30 P.M.

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

Others present: Randy Berggren, Dick Varner, Tom Buckhouse, Debra Smith, Jim Origliosso, Lance Robertson, Patti Boyle, Cathy Bloom, Roseanna McArthur, Terry Bequette, Rick Lehigh, John Yanov, Dave Koski, Dick Helgeson, and Judy Chase of the EWEB staff; Lew Orsi, Julie Desimone, Moss Adams LLP, Independent Auditors; 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 7:32 p.m.

AGENDA CHECK

President Menegat noted for the record that Agenda Items 4, 5, and 6 had been discussed during the course of the work session held immediately prior to the regular meeting.

PUBLIC INPUT

Peg Renkert, 589 Covey Lane, felt the issue of the safety of power pole LC 2-3 was still unresolved. She averred that the people who “lived in the shadow” of the tower went to bed every night “wondering if they will have a home the next morning or whether they will even be alive the next morning to know the difference.” She said even though intellectually it was understandable that the trees had compromised the structural integrity of the power pole, because one had fallen the residents had lost the sense of comfort and safety around the poles. She questioned the wisdom of spending \$10,000 on a consultant and then not listening to the report.

Renée Gottsman, 473 Covey Lane, member of the Quail Run Homeowners Association, supported replacing the existing poles with steel poles. She agreed with the engineer’s assessment that guy wires were needed for the tower that was leaning. However, she did not believe the engineer’s report was complete. She asserted that information was not made available to the engineering firm. She expressed some concern that the engineers were not experienced with utility poles.

Clement Bosch, 469 Covey Lane, stated that replacement of the poles with steel structures was the preferred solution for the Quail Run Homeowners Association. He agreed that trees needed to be trimmed as well. He said the EWEB arborist was in the process of removing and trimming trees in the Quail Run area and did not seem to be having any problems with the City. He felt that had the trees been taken out when they should have been removed the problem would have been prevented. He also believed that steel poles would not have experienced the failure that the pole that fell during the storm event had. He averred that engineers had indicated the pole in question should

at least be augmented with guy wires and the neighbors were in general agreement with that.

Commissioner Farmer requested that the neighbors send him any questions they did not feel had been answered. He asked the representatives of the homeowners association to find out how residents would feel about guy wires if they limited parking or caused other inconveniences.

Vice President Simpson stressed that members of the public were welcome to contact Commissioners.

APPROVAL OF CONSENT CALENDAR

Minutes

1. January 2, 2007, Special Board Meeting, January 2, 2007, Work Session and Regular Board Meeting.

Business Service Agreements

2. General Pacific, Inc. – Deadfront Padmounted Switchgear – Electric Division - \$442,276
3. JP Morgan Securities, Inc. – Financial Advisor – Customer & Financial Services Division – 350,000
4. Lindholm Research LLC – Surveys and Research – Public Affairs, General Manager’s Division - \$62,000
5. Systems West Engineering – Independent Commissioning Authority – General Manager’s Division - \$210,708

Commissioner Farmer, seconded by Vice President Simpson, moved to adopt the Consent Calendar.

Vice President Simpson pulled the minutes from the Regular Meeting held on January 2, 2007.

Commissioner Brown pulled Item 5 (Systems West Engineering).

The motion to pass the Consent Calendar with the exceptions of the minutes from the January 2 Regular Board Meeting and Item 5 (Systems West Engineering) passed unanimously, 4:0.

ITEMS FROM BOARD MEMBERS

This item was covered in the Work Session.

CORRESPONDENCE

This item was covered in the Work Session.

BOARD AGENDAS

General Manager Randy Berggren reviewed Board Agendas during the Work Session.

ANNUAL AUDIT AND MANAGEMENT LETTER

Assistant Treasurer Cathy Bloom introduced Lew Orsi and Julie Desimone, auditors for Moss Adams LLC.

Ms. Desimone stated that the audit had gone smoothly. She complimented EWEB's "talented" staff and said they had been very helpful.

In response to a question from Vice President Simpson, Mr. Orsi explained that the reason the auditors asked that EWEB not consult with other independent consultants was because they wanted to deter EWEB from "opinion shopping."

Ms. Desimone said Moss Adams LLC was retained on a year-to-year basis and either party could terminate the agreement, though there was a commitment for three years.

Ms. Desimone conveyed the auditors' recommendation that effective internal controls be established for all divisions of the utility and that these controls be uniform. She stressed the importance of monitoring costs.

Regarding power trading, Ms. Desimone reiterated the previous year's recommendation to maintain documentation of the valuation method. She said EWEB had traders who carried a great deal of institutional knowledge in their heads. She also stressed the importance of keeping a record of trade confirmations.

Commissioner Farmer asked why the ledger balance had not pointed out that confirmations had not happened in an expeditious manner. Ms. Desimone replied that the lack of written confirmations had not impacted the balance in the ledger; the balance was "perfect." She noted that the intern responsible for recording the confirmations had been relieved of her duties and management had reviewed every trade in order to make sure they were all good. She reiterated the importance of confirmations, as they were a good internal control.

In response to a follow-up question from Commissioner Farmer, Ms. Bloom clarified that the intern in question had not thoroughly understood her duties and that this was not due to a lack of training.

Continuing, Ms. Desimone reported that the auditors had discovered when working with a payroll administrator that a dual-rated employee had worked for nine months at a higher rate, but had received personal time off at a lower rate. The administrators had fixed this to be fair to the employee but had not done so in a way that was appropriate. She encouraged training for administrators regarding time cards and how time and wage issues should be tracked and handled.

Mr. Orsi stressed that the administrator had arrived at the correct number for the pay the employee had merited but had gone about it incorrectly.

Regarding industrial contract review, Ms. Desimone underscored the importance of analyzing contracts on a yearly basis. She predicted that after 2011 all industrial contracts would become more complicated.

Ms. Desimone commended management for the good work done documenting key policies, procedures, and best practices. She explained Statement on Auditing Standards (SAS) 112, which increased the significance of reporting. She stated that it no longer mattered if something happened with financial statements but rather if something could have happened.

Regarding SAS 99, Mr. Orsi averred that the number one way of catching fraud was by word of mouth. He stated that no instances of fraud were noted during the audit of EWEB.

Ms. Desimone reviewed the future considerations, which included succession planning. She underscored the importance of getting the “right people now.”

Regarding the water utility’s financials, Ms. Desimone reported that the 10-year plan looked good, but there was still some concern that the utility was in a close position to break even.

Ms. Desimone cited planning for load growth as another future consideration, as well as the importance of continuing to work to obtain a second water source. Another item affecting the utility was the Government Accounting Standards Board (GASB) Statement 49, which required that pollution remediation obligations be booked as a liability.

In response to a question from Commissioner Farmer, Ms. Desimone stated that GASB No. 49 affected everyone, but it was hitting the government and utilities the hardest.

Commissioner Brown asked where pending lawsuits were taken into consideration. Ms. Desimone replied that they were not considered in the financial statements. She explained that a lot of things that had to be disclosed did not necessarily make it to the level of being a financial liability. She said Financial Accounting Standard (FAS) 5 required commitments and contingencies to be included in the audit.

Commissioner Brown asked if EWEB had the ability to recover environmental clean-up costs. Mr. Origliosso replied that EWEB had a 15 percent liability. Ms. Bloom noted that the \$500,000 net cost to EWEB had already been “booked” for the current year.

In response to a question from Commissioner Farmer, Ms. Desimone stated that Moss Adams LLC audited approximately 30 utilities in the northwest.

Commissioner Farmer asked how EWEB measured up in comparison to other utilities from a

balance sheet perspective. Ms. Desimone replied that EWEB would fall in the top ten. She said EWEB had a good ability to borrow. She pointed out that EWEB was close to balancing its water rates against expenditures and its rates in general were set at the right level.

Mr. Orsi averred that EWEB's reserve strategy was forward thinking. Ms. Desimone concurred, adding that she would not recommend for any utilities to lower their rates at present. She predicted rates would skyrocket in 2011 and the Carmen-Smith relicensing process would add to that expense.

Commissioner Farmer asked if the auditors considered EWEB's reserve targets to be sufficient. Mr. Orsi responded that the Board had a fiduciary duty to protect residents from shocks and the reserve funds served to do so.

Ms. Desimone stressed that in 2011 everyone would have a better sense of the rate situation.

Commissioner Farmer noted the added emphasis on the prevention of fraud in new accounting standards and asked what area of the utility or its operating procedures had the most potential for fraud. Ms. Desimone replied that it was not likely that anyone could commit fraud in the trading arena. She felt the area with the most significant risk, if any, would be the area of personally used assets.

Commissioner Farmer asked if that was likely to be "big money." Ms. Desimone replied that it was more likely not to involve a large amount of money, but those types of fraud looked "bad in the news."

Mr. Orsi stated that when the auditors evaluated risk they followed the money. He said trading worked with a high risk asset but as long as attention was paid to the controls there would be no fraud. He added that auditors were more concerned with internet banking activities because there were generally less controls in place. He reiterated that auditors looked at the areas of risk and then looked at the controls and compared the two. He underscored that controls translated into the daily discipline of how EWEB ran its business.

Commissioner Farmer indicated that he wanted the Executive Management Team (EMT) to think about bringing an interim report, potentially a backgrounder, back to the Board on the controls used at EWEB.

Vice President Simpson expressed appreciation for the expertise and dedication of the auditors. He was pleased that the report showed no major issues. He asked the auditors to speak to any risks that they perceived.

Ms. Desimone stated that Moss Adams LLC brought in information technology consultants to

test and assess disaster recovery plans. She said every organization faces issues with lost data, but EWEB's recovery system was working. Ms. Bloom added that the Information Services division stored information off site so that it would be recoverable. She noted that the plan for recovery had not been tested. She said Information Services staff intended to bring up the financial applications, with the exception of the billing system.

Commissioner Brown noted that Carmen-Smith had been brought up, but no mention of the potential building at the Roosevelt site had been made. He added that the Federal Energy Regulation Commission (FERC) controlled the relicensing process.

Commissioner Farmer asked Ms. Bloom to provide him with information about the credit card issue from the previous year. Ms. Bloom indicated that she would. She related that the credit limit had been changed from \$7,000 to \$2,000 and some had been cancelled, though she did not know how many.

Ms. Desimone said she had been training managers to stress due diligence when issuing company credit cards.

President Menegat appreciated the work of the staffs of both the auditor and EWEB. He said he was comfortable with the report.

ITEMS REMOVED FROM THE CONSENT CALENDAR

Vice President Simpson made the following correction to the minutes from the Regular Board Meeting held on January 2, 2007:

Page 1, paragraph 6: "Mr. Berggren noted that there were four more ~~meters~~ *meters* that would be replaced among the steam customers..."

Commissioner Brown, seconded by Vice President Simpson, moved to approve the minutes from the meeting held on January 2, 2007, as amended. The motion passed unanimously, 4:0.

Commissioner Brown asked how the changes in the timeline and process for the Roosevelt building project had affected the contract with Systems West Engineering, Item 5 on the Consent Calendar. Assistant to the General Manager Debra Smith responded that the scope of work would likely change but the basis for moving forward with Systems West Engineering was to avoid another Request For Proposal (RFP) process. She felt it was prudent to move forward.

Commissioner Brown observed that if the scope of the project was reduced to a great degree it could change the amount and scope of the RFP. Ms. Smith underscored that the contract was a "not to exceed" contract. She stated that Energy Resource Projects Manager Ken Beeson, EWEB's Construction Manager/General Contractor, and EWEB's Purchasing department believed EWEB

could go forward with this contract and not be locked into a specific project.

Vice President Simpson, seconded by Commissioner Farmer, moved to approve the contract with Systems West Engineering, Item 5 on the Consent Calendar. The motion passed unanimously, 4:0.

The meeting adjourned at 9:20 p.m.

Assistant Secretary

President