

EUGENE WATER & ELECTRIC BOARD
REGULAR BOARD MEETING
EWEB BOARD ROOM
APRIL 17, 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, Jim Wiley, Jay Bozievich, Dick Helgeson, Mel Damewood, Marty Douglass, 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) 7:40 p.m.

AGENDA CHECK

President Menegat exchanged Item 8 for Item 9 on the agenda. There were no objections to the change.

PUBLIC INPUT

There were no members of the public who wished to speak at this time.

APPROVAL OF CONSENT CALENDAR

Minutes

1. a. February 20, 2007, Work Session.
- b. February 20, 2007, Regular Board Meeting.

Business Service Agreements

2. Beacon Electric – Residential DSM Resources Program – Energy Management Services – Power Resources Division - \$710,000
3. Brattain International Trucks, Inc. – International Two-Axle Tool Truck – Shop Facilities – Corporate Services- \$173,927
4. Transformer Technologies – Demolition of Willamette Substation – Electric Division - \$69,560

Operational Performance Measures

5. Approval of 2007 Operational Performance Measure targets as detailed on the attached memorandum entitled *2007 Draft Operational Performance Measures*.

President Menegat noted that there had been a request to remove Item 5 from the Consent Calendar.

Vice President Simpson, seconded by Commissioner Lanning, moved to approve the Consent Calendar with the exception of Item 5, Draft Operational Performance Measures. The motion passed unanimously, 5:0.

ITEMS REMOVED FROM THE CONSENT CALENDAR

Commissioner Farmer asked what the increase in the System Average Interruption Duration Index (SAIDI) could be attributed to. He understood that the average outages due to routine planned outages added a 15-minute component to the data, but he was concerned about the three-year average. He asked if the increase to 95 minutes in 2006 was due to the storm-related outages. He thought if the storm-related data exceeded 10 percent of the index it was not added into the total. General Manager Randy Berggren responded that the two storms did not increase the outages by more than 10 percent and affirmed that the outages had not been taken out of the equation.

Commissioner Farmer asked what the numbers were for 2005 and 2004. Electric Division Director Jim Wiley replied that he did not have the exact figures with him but would provide them for Commissioner Farmer. He recalled that there were no major events in 2005.

Commissioner Farmer wondered if EWEB would be better off looking at a longer average as a good year or a bad year could greatly affect the three-year average. Mr. Berggren replied that it was important to keep it to a shorter period to some degree as it helped to figure into the mix how the tree trimming and other maintenance helped as preventative measures.

Commissioner Farmer asked if it would be possible to find out how the Springfield Utility Board (SUB) fared with the SAIDI. Mr. Berggren thought that the Public Utility Commission (PUC) might have those numbers. Mr. Wiley said the PUC had those reports for the three Investor-Owned Utilities (IOUs) and he could obtain them for the Board.

Commissioner Farmer noted that if one subtracted out the percentage contributed by Weyerhaeuser Company and Hynix Semiconductor, Inc. it reduced the performance level of the conservation efforts by 8.2 percent. Mr. Berggren replied that there was an assumption that EWEB would get that 8.2 percent back.

Commissioner Farmer surmised that EWEB was planning on doing less and questioned why this was so. Power Resources Division Director Dick Helgeson explained that EWEB was not planning to do less, in fact it was seeking to achieve the same level of savings that it had seen in the last several years. He said the difference lay in the contracts with the two large customers and how they had changed. He related that instead of charging the five percent the expectation was that the two would undertake the conservation measures on their own. He stated that the focus was solely on the internal operations.

Commissioner Farmer observed that the call center availability rate had changed from

94 percent to 92 percent. Mr. Berggren explained that this was attributable to a major upgrade in the call center, which caused a reduction in service.

Treasurer Jim Origliosso reported that the division had attempted to hire 12 new service representatives. He stated that the division loses personnel to attrition. He noted that the current year-to-date rate of call availability was 89 percent, which was below the average. He said the division was trying to catch up. He explained that it took eight weeks to hire a representative and then there was an eight week training period. He averred that staff was doing everything possible to increase the availability rate in the present year.

Commissioner Farmer asked what the industry average for the waiting period for getting a call answered. Mr. Origliosso replied that he had not seen such a number. He added that EWEB based its number on a customer survey. He said EWEB believed that the average could be two and a half minutes. Mr. Berggren noted that a 94 percent average was one-half minute to 45 seconds.

Commissioner Farmer observed that the employee safety data indicated that almost 290 days had been lost in 2006 and the target in 2007 was 260. He asked why the target was so much lower. Mr. Origliosso replied that it was based on a rolling average of three years.

Mr. Berggren remarked that a good year or a bad year for employee accidents could skew the average.

Commissioner Brown, seconded by Vice President Simpson, moved to adopt the 2007 Operational Performance Measure targets. The motion passed, 4:1; Commissioner Farmer voting in opposition.

ITEMS FROM BOARD MEMBERS

Commissioner Brown reported that Lane Community College (LCC) was sponsoring an event to foster partnerships with businesses and the community. He pointed out that EWEB had a need for people trained in particular skills. He thought this presented an opportunity to work with LCC to form a program for line workers.

Commissioner Brown noted that the Santiam Fish and Game Association was dissolving and would no longer oversee the Clear Lake Resort. He had some concern that the resort would just “go away.” He averred that it presented EWEB with an opportunity to seek it out.

Vice President Simpson responded that he thought the association had approximately five bids on the resort.

Vice President Simpson related that he had an appointment to meet with City Councilor Chris Pryor and another potential appointment with Councilor Bonny Bettman. He wanted to get a sense

of their view of the City's relationship with EWEB and their vision for the riverfront property.

Commissioner Farmer stated that he would be absent for the June 19 meeting.

Commissioner Farmer noted that the Board packets contained a backgrounder on tree trimming and the cost increases in that area. He said he had discussed the possibility of recovering some of the costs of tree trimming from private tree owners with Mr. Berggren.

CORRESPONDENCE

Mr. Berggren reported the following correspondence:

- Saturday April 21 would feature Earth Day activities on the EWEB plaza.
- A presentation on what was known thus far about the Roosevelt Building Project was scheduled from 6 p.m. to 8 p.m. on April 19 at the Peterson Barn Community Center.
- Information was included in Board packets about the third annual Safety Break celebration (three Commissioners had volunteered to participate).
- A memorandum had been sent to the Board regarding a request for a donation to help construct a Nobel Peace Laureate monument in Alton Baker Park. Staff had talked to the people representing the project but had not been able to establish a link between the monument and EWEB.
- A progress report on the Willamette Substation Reconstruction dated April 10 was included in Board packets.
- Senior Financial/Rate Analyst Patty Boyle had included a memorandum on *Water Rates in Coburg, Junction City, and Veneta* in the Board packets.
- Board packets included a report written by Customer Relations Manager Chuck Dalton on the 2006 Low-Income Energy Assistance Program.
- Commissioners received a copy of the response letter to State Senator Vicki Walker acknowledging her interest in the issue of metal theft on EWEB's behalf.
- Bill Bradbury was scheduled to provide a presentation of *An Inconvenient Truth* from 1:30 to 3:30 p.m. on April 24, immediately following the Board's Executive Session.

BOARD AGENDAS

Mr. Berggren reviewed the *Eugene Water & Electric Board Agenda Report* dated April 17, 2007. He reminded the Board that the next meeting scheduled for May 1 would be convened in the Vida Community Center.

Commissioner Farmer asked if an effort had been made to bring in a "reasonable turnout" for the meeting in Vida. Public Affairs Manager Marty Douglass stated that the meeting had been publicized in the *Register-Guard* and that there would be a story run in the *McKenzie Reflections* paper. He averred that there was a silent expectation that EWEB would meet upriver on occasion.

He suspected that the Commissioners would hear about it if the upriver meetings were discontinued. He opined that it was good when not a lot of people showed up for the meetings upriver because it meant that area residents were not unhappy with EWEB.

ROOSEVELT PROJECT

President Menegat recapped the discussion from the Work Session.

Commissioner Farmer said he had heard consensus on not splitting the engineering division from operations.

President Menegat ascertained from the Board that Commissioners were comfortable having him communicate the Board consensus on not splitting the operations from engineering to the Building Advisory Team. He summarized the Board position which was that EWEB should not proceed with design work until a determination had been made regarding the class of construction and the cost of that construction. He said there was also Board support for having an independent third party review.

Commissioner Farmer averred that it was important for the Board to achieve consensus; a split Board decision would not be a good way to begin the Roosevelt Building Project. He reiterated his contention that a third party review that validated the design would be a good tool to take to the City Council to support a request for authorization for a Uniform Revenue Bond Act (URBA) bond.

Roosevelt Building Project Manager Ken Beeson proposed that staff work to get at some way of communicating what class of building and affordability meant. He believed that staff could help the Commissioners think this through. He also thought that with some time staff could come up with an appropriate third party review process that the Board would approve of.

Commissioner Brown commented that everyone had different levels of expertise about different areas of building.

Mr. Beeson indicated that he would work to bring more detail to the Board, including a range of structures.

Vice President Simpson said the validation process was more important to him.

Mr. Berggren thought the utility might have a timing issue as well as a cost issue.

Commissioner Lanning commented that the proposal put forward provided the option to move forward with a consensus model.

Commissioner Lanning moved to direct General Manager Berggren to work with staff to review the class of construction and to develop an independent third party review process.

Mr. Beeson thought it would be possible to bring something back on a preliminary basis within two months.

Commissioner Brown provided a second to the motion. The motion passed unanimously, 5:0.

Commissioner Farmer asked if there was any reason the Board could not be presented with “all-in costs” on the comparables for the project. Mr. Beeson said he would see what he could do.

Commissioner Lanning thought moving forward to get the information in order to make the best decision was the best decision, but after that the Board needed to firmly decide what direction to pursue. He stressed that the Board needed to lead in this.

2008 FIVE-YEAR WATER CAPITAL IMPROVEMENT PLAN (CIP)/PLANNING CRITERIA/RISKS

Water Engineering Manager Mel Damewood provided the first portion of a power point presentation on the *Water Division 2008-2012 Capital Improvement Plan*, hard copies of which were provided to the Board.

Regarding the Water Production Additions and Improvements, Mr. Damewood attributed the largest increase in costs to the potential addition of two more filters on the water treatment facility. In response to a follow-up question from Commissioner Lanning, he clarified that the filters were to add capacity.

In response to a question from Commissioner Farmer, Mr. Damewood stated that the current water capacity was 72 million gallons per day at the Hayden Bridge Filtration Plant.

Commissioner Farmer asked how much capacity the capital improvements to the filtration system would add. Mr. Damewood replied that it entailed installation of four more filters that would filter an additional 24 million gallons per day. He explained that the filters would increase capacity by 30 percent.

Commissioner Farmer observed that the increase in capacity was slated to cost \$55 million. He asserted that EWEB was adding 30 percent capacity for a projection of sales growth at one percent per year.

Senior Water Engineer Jay Bozievich explained that it revolved around the criteria that EWEB

had to meet, specifically that the water supply had to meet maximum peak demand for three days. He said it was based on modeling of historical temperature data and historical demand data along with the growth projected under the Metro Plan for the EWEB service area. He stated that based on this EWEB would need these increments of production.

Commissioner Farmer asked if this \$55 million investment would give EWEB the ability to increase revenue by more than one percent per year. Mr. Damewood surmised that it would. Mr. Buckhouse added, in response to a follow-up question from Commissioner Farmer, that he could not accurately predict by how much it would increase but the growth was mostly projected to happen in the last five years of the Capital Improvement Plan (CIP).

Commissioner Farmer said his overriding concern was that EWEB was faced with escalating costs but only projected an annual increase in sales of one percent.

Mr. Damewood noted that the Automated Meter Reading (AMR) was not included in the CIP at this time, except as a placeholder.

Ms. Boyle reviewed the *10 Year Financial Planning*. She explained that the water utility was projected to add 11 FTE employees over the ten-year timeframe. She stated that there would be new debt service to fund capital projects, to be issued in three separate pieces. She added that the moving costs to the Roosevelt site had been included. She said staff would bring back an all rates option and a variety of bonding strategies for the Board to consider.

In response to a question from Vice President Simpson, Ms. Boyle clarified that AMR was not in the capital plan but it was in the financial plan because it was very early in the planning process.

Commissioner Brown asked if the water utility would begin making payments on the Roosevelt project in the present year. Ms. Boyle replied that some payments had been included to help pay the water utility's share of the design work to date. She stated that it was built into the operating budget.

Commissioner Brown asked when the surplus property was assumed to be sold. Ms. Boyle responded that the utility would issue bonds that were interest only for the first five years and the proceeds from the sale would be used to offset the rates at that point.

In response to a follow-up question from Commissioner Brown, Ms. Boyle stated that the utility anticipated that the property would bring \$13.5 million.

Fiscal Services Supervisor Dick Varner clarified that the water utility owned over 50 percent of some of the property and 30 percent of some of the other pieces of property. He noted that the Midgley Building was solely owned by the electric utility.

Commissioner Brown called the estimated sale price for the property conservative.

Ms. Boyle discussed capital financing. She said the utility hoped to ramp up capital projects over the ten-year timeframe so that it was not in a perpetual cycle of issuing bonds. Mr. Buckhouse added that the utility wanted the opportunity to bond only the larger items in the plan as opposed to the ongoing work. He stated that the utility wanted to have enough in the rate base to undertake that work.

Ms. Boyle stated that staff would closely monitor the Systems Development Charge (SDC) fund in order to ensure that the fund aligned with the capital need program.

In response to a question from Commissioner Brown, Mr. Buckhouse explained that state law dictated that the only thing the SDC fund could be used for was to increase capacity.

Commissioner Farmer asked what drove the decision to create a funding model out of a combination of rates and bond financing. Ms. Boyle replied that she had taken the desired level of medium risk capital and had taken the current allocation for rate-funded capital and had ramped that up over time in order to determine the difference between the needed capital and what could be supported by rates. She had sought reasonable breaks and had suggested there be three separate debt issuances in that time.

Commissioner Farmer ascertained that in this scenario that the maximum leverage was 40 percent. He asked what the maximum target was in the benchmarks. Mr. Origliosso responded that 50 to 60 percent was the maximum.

Mr. Bozievich reviewed the nuts and bolts of the CIP. He underscored that though the CIP met the current planning criteria for the second water source it only achieved 30 percent of the goal by 2017.

In response to a question from Commissioner Farmer, Mr. Bozievich affirmed that the capacity of the Hayden Bridge facility would be increased but the secondary water source would not be fully on line.

Mr. Bozievich continued his presentation, highlighting the purification/production aspect of the CIP. He noted that the financing was "heavy" on the SDC fund and would not create a large impact on rates. Regarding the projects associated with transmission, he said there were two unknowns in the CIP and one of them was that the pre-stressed concrete pipes had been shown to have a much shorter lifespan than had been estimated; the investigation of the pipes was incomplete

at this time. He stated that the other unknown was how much capacity would have to be increased in the outlying years.

In response to a question from Vice President Simpson, Mr. Bozievich stated that the water pressure standards were driven by regulation. He explained that 100 pounds per square inch (PSI) was the industry standard. He said if the water pressure dropped below 20 PSI the utility would have to declare that water must be boiled.

Mr. Bozievich explained that the higher SDC component in the portion of the CIP that reflected projects related to the reservoirs was because those projects sought to increase capacity.

Regarding water mains, Mr. Bozievich averred that the utility was falling short of the goals. He said the intention was to replace all facilities before they reached the end of useful life and most water mains had a current lifespan of approximately 75 years. He stated that currently EWEB was replacing approximately 1.3 miles of main; next year's capital plan sought to replace 1.7 miles of main. He pointed out that EWEB had 800 miles of main in its system.

Vice President Simpson asked what the water loss rate was. Mr. Damewood replied that water loss was at seven percent.

Mr. Damewood discussed the risks and criteria. He underscored that the choices presented to the Board were based on the sense of what the Board felt were community values. He said the risk in focusing on those select projects was that the liability of deferring other projects transferred the costs to the operations and maintenance side. He cited as an example that main replacements that were deferred could eventually break or spring leaks and is costly to fix. As an example of a larger issue, he pointed out that the situation would be dire should the Hayden Bridge facility experience some level of failure with no second water source to turn to.

Mr. Berggren asked if there was a way to spend less money on conservation. Mr. Damewood replied that as staff had gone through the 1998 supply plan they had identified the Hayden Bridge project as occurring sooner than 2009. He said Steven West and "his group" had done some aggressive conservation work over the last ten years and it had resulted in a dampening of peak usage. He stated that irrigation was the largest water use.

Water & Steam Divisions Director Tom Buckhouse observed that what had worked effectively had been a combination of things. He related that the South Hills used to nearly run out of water on a hot day and, with education, area residents had come to spread their irrigation load over the course of the day. He said the other educational piece had been to enlighten people about evapotranspiration and irrigation.

In response to a question from Vice President Simpson, Mr. Damewood stated that SDCs could only be used to replace a water transmission line with a larger pipe that would ostensibly

increase capacity.

Commissioner Farmer commented that the water utility presented a dysfunctional issue in that it needed more water sales but it also wanted to encourage conservation of use. He said the utility would either have to incur double digit rate increases or it would have to increase its revenue.

Mr. Damewood remarked that this situation was nationwide and was not unique to the City of Eugene. He averred that every utility and every municipality was having to address the issue of aging infrastructure.

Mr. Bozievich shared some slides from a presentation he had attended at a national conference. He said there was a lot of data indicating that capital spending would have to double because of aging transmission facilities. He reiterated that every city in the nation was “in the same boat.”

Mr. Damewood commented that EWEB was fortunate to be a “young utility.” He said the silver lining to the situation was that a lot of EWEB’s pipes were only 50 to 60 years old while a lot of the pipes in communities that had been developed earlier than Eugene were 100 years old and older. He felt EWEB was anticipating the costs ahead of much of the nation.

Commissioner Farmer said telling him that everyone was “going down” did not make him feel better about it. He reiterated his recommendation to try to find a way to generate more than a one percent increase in revenue per year.

Mr. Buckhouse showed a bottle of water that he had purchased earlier in the day that had cost \$1.39. He said the same amount of money would pay for 1,000 gallons from EWEB. He was certain there were some opportunities to increase revenue “out there” but he was uncertain what they were at this time.

Vice President Simpson asked if staff knew which parts of the water distribution system were still good. Mr. Bozievich replied that EWEB had kept good records. He stated that over 400 miles of the water main was over 35 years old. He said EWEB did not start using cast iron until the 1960s, which was the material the utility could count on getting a 100 year lifespan out of. He noted that they had learned to test for corrosive soils before installing cast iron.

In response to a question from Vice President Simpson, Mr. Damewood indicated that he hesitated to estimate how long it would take to achieve some equilibrium in the main replacements. He hazarded a guess that it would be at least 2050.

Commissioner Farmer asked if EWEB was “shooting [itself] in the foot” by encouraging conservation in the wintertime. Mr. Damewood did not think so given that most homes were equipped with low-flow toilets and other conservation-oriented fixtures that reduced water usage year round.

In response to a question from Vice President Simpson, Ms. Boyle indicated that growth was measured both in gallons and in increases to the infrastructure.

Mr. Bozievich noted that most projections indicated that EWEB could anticipate 1.1 to 1.9 percent annual growth.

Commissioner Brown commented in regard to the *Water Capital Planning Risk Matrix* that he would support the medium risk options described in the CIP and would focus on financing the CIP primarily with rates. He stressed the importance, in that instance, of getting the word out to the public that the water utility was facing large amounts of facility upgrades and replacements and it would be costly but that there was no way to avoid it.

Commissioner Farmer indicated that he was “leaning toward” the medium risk options as well, but he was not certain he wanted to entirely burden the ratepayers with the cost. He pointed out that if the replacement infrastructure were projected to last 50 years it would not be entirely fair to expect today’s ratepayers to shoulder the cost.

Ms. Boyle underscored that it was a tradeoff between increasing rates to recover costs or to bond for some of the work and pay more because of interest.

Mr. Damewood stated that staff would bring back rate options and information on what the areas of opportunity would be on May 15.

Commissioner Farmer requested that staff compound the rate increases according to an average bill.

Mr. Buckhouse pointed out that the impact to the average household water user would be akin to the cost of the bottle of water he had purchased in the first year.

In response to a question from Commissioner Lanning, Mr. Damewood said staff hoped to have the master plan for the Hayden Bridge facility completed by the next summer.

BLACK & VEATCH BUSINESS SERVICE AGREEMENT

Mr. Damewood explained that EWEB had put out a Request for Proposals (RFP) and had interviewed three respondents. He stated that Black & Veatch Corporation had been the most responsive proposal for design and construction management at the Hayden Bridge Filtration Plant. He said this included some of the master planning work for the facility.

In response to a question from Vice President Simpson, Mr. Damewood affirmed that the cost included the pump efficiencies in the back end of the plant and all “filter to waste” improvements, but it did not include the backwash improvement. He noted that the latter would be included in the master plan.

Commissioner Lanning observed that the reason the contract had not been included in the Consent Calendar was because the level of cost had surpassed the threshold for inclusion there. He said all of his questions had been sufficiently addressed in the memorandum from staff entitled *Engineering Consultant Contract Award for Hayden Bridge Expansion* dated April 12, 2007.

Vice President Simpson, seconded by Commissioner Lanning, moved to award the contract for Design and Construction Management Service to Expand the Hayden Bridge Filtration Plant, RFP No. 001-2007, to Black & Veatch Corporation of Portland, Oregon, in the amount of \$1,749,500.

Commissioner Farmer asked if the amount was higher or lower than what had been budgeted for the project. Mr. Damewood replied that it was higher. He explained that EWEB had requested additional engineering services from Black & Veatch Corp. because of the loss of Ron Wilson’s engineering expertise on the project as Mr. Wilson had retired.

Commissioner Farmer asked where that money would come from. Mr. Damewood replied that he had a contingency budgeted into the project in anticipation of Mr. Wilson’s impending retirement.

President Menegat called for the vote. The motion passed unanimously, 5:0.

ADJOURNMENT

President Menegat adjourned the Regular Board Meeting at 10:02 p.m.

Assistant Secretary

President