

EUGENE WATER & ELECTRIC BOARD
WORK SESSION
EWEB BOARD ROOM
SEPTEMBER 18, 2007
5:30 P.M.

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

Others present: Randy Berggren, Jim Wiley, Tom Buckhouse, Marty Douglass, Dick Helgeson, Dick Varner, Debra Smith, Jim Origliosso, Terry Bequette, Patty Boyle, Tom Williams, and Krista Hince of the EWEB staff; Ruth Atcherson, City of Eugene minutes recorder.

President Menegat convened the work session of the Eugene Water & Electric Board (EWEB) at 5:30 p.m. He noted that Commissioners Lanning and Farmer were excused.

2008 BUDGET ISSUES

Fiscal Services Supervisor Dick Varner related that several issues had risen to the surface in the final budget preparations. He explained that before the budget would be presented to the Board staff planned on “loading it up” in the Cost of Service Analysis (COSA) model in order to determine how rate impacts of water increases would impact by customer class. He predicted, given the magnitude of the changes in the budget, that it could impact some rate classes up to 30 percent while others might see a 10 percent increase.

In response to a question from Commissioner Brown, Mr. Varner said when looking at a rate increase staff would ask how large of an average rate increase would be needed in order to address the revenue requirements. He stated that this was the planning effort that was normally undertaken at this point. He explained that with a seven percent increase the spread might be such that one class experienced a rate increase of five percent while another might have an increase of nine percent and with a larger increase the same deviation can “look a lot larger.”

General Manager Randy Berggren noted that a COSA looked into a rate increase in detail by customer class, allocation of cost by load characteristic and customer class and by averages within the customer classes. He said it was a relatively time consuming process.

Commissioner Brown asked what the options would be. He was uncertain why the utility would undertake it if there was no potential for change. Mr. Varner responded that the Board had always reserved the right to do something different from the COSA. He said the Board could choose to phase in the customer class impacts over a period of time.

Mr. Berggren said the Board could estimate a budget, conduct the COSA, and then return to the budget. He noted that this would take a lot of time.

Vice President Simpson asked if the argument could be made that if there was a 20 percent increase distributed evenly over the customer classes, one customer might assert that it was

subsidizing another. Mr. Varner affirmed that they could. He added that it could be a non-issue when “all was said and done.” He still had concerns that results could come in by customer class that deviated significantly from the average.

Mr. Varner provided a power point presentation entitled ***2008 Budget Preliminary Review – Issues of Note So Far***. He explained that if everything went forward with the Roosevelt Boulevard project, the net cost after current available bond proceeds would be circa \$70 million. He said because there was some uncertainty EWEB would not likely issue all of the bonds initially. He stated that they would issue a bond for the first two years of cost and then returns later in the project when the last of the bids were in and a final cost was known. He related that they would also look into existing bonds to see if there were debt service savings that could be realized through refinancing.

Mr. Varner reported that the water division had authorization for \$14.5 million in a bond. He said it appeared that all of that would be needed in the first three years, so it was planned to be issued in the first part of 2008. He noted that the Board would be presented with some resolutions to facilitate repayment from bond proceeds for the inter-fund loan the electric utility had given the water utility.

Mr. Varner reviewed the costs associated with the Carmen-Smith relicensing process. He explained that cost had exceeded the *pro forma* and had resulted in a reduction in the planned surplus, though it was still a substantial surplus for the electric utility. He said staff was hoping the settlement process would yield the result that would benefit the project in the long-term and prevent having to undergo a legal battle.

In response to a question from Vice President Simpson, Mr. Varner stated that the electric division surplus had been projected to be circa \$12.5 million and would now be \$11 million.

Mr. Varner discussed the numbers as they related to staffing. He noted that the *pro forma* had included an additional 4 to 5 full time equivalent (FTE) employees. He reviewed the additional FTE employees that the workload indicated. He underscored that a number of people were projected to retire in 2009 and 2010 and that it was important to bring people on to replace them prior to their respective retirements for training reasons. Mr. Berggren noted that EWEB had over 80 employees who were likely to retire.

Mr. Varner stated that the current plan to add FTE employees would reduce the surplus by an additional \$1 million. He said staff had also discussed taking another \$1 million from the planned surplus and placing it in the operating reserve, then coming with a budget amendment in 2008 for strategic staffing to overlap with potential retirees.

Continuing, Mr. Varner reported that the Government Accounting Standards Board (GASB) Statement 45 had caused staff to rethink how post-retirement costs were accounted for. He reviewed the implications of GASB 45, which included placing approximately \$7 million in a post-retirement

medical benefit trust. He noted that the Unfunded Actuarial Liability (UAL) would still be at “\$20-plus million.” He recalled that the Board had passed a motion to fund the UALs over a reasonable period of time.

Mr. Berggren stated that the assumption was that the post-retirement benefits were being funded going forward. Mr. Varner affirmed this, adding that EWEB was funding what the actuary had indicated should be set aside.

In response to a question from Vice President Simpson, Mr. Varner clarified that the payroll load was what was being charged for current service and the administrative and general (A&G) costs was comprised of the general overhead of the organization. He said they were proposing to add the UAL to that overhead.

In response to a follow-up question from Vice President Simpson, Mr. Varner confirmed that \$2 million would go onto the balance sheet as per GASB 45 requirements. He noted that in the past it would have gone into the reserve.

Mr. Origliosso explained that EWEB had the funding and the rates would capture the costs. He said it was a matter of what the clearest way would be to display financial statements.

Mr. Varner said the Board would see a resolution prior to the beginning of the year to implement the change in the A&G load.

Mr. Varner reported that there were a couple of errors. He explained that it had been discovered that when the Public Employees Retirement System (PERS) bond had been secured in 2001 a liability for the principal had been set up for the utilities but the water utility’s share of the interest had been somehow overlooked and was paid by the electric utility. He said when that had come to the attention of staff they prepared an amortization schedule for the interest costs so that the water utility will pay its appropriate share, approximately \$300,000.

Mr. Varner stated that another error had occurred in the *pro forma* in that it had been presented with debt service starting in 2009 instead of in 2008 for the water bonds. He explained that there will be money going into the debt service reserve accounts to be paid to bond holders and EWEB would have to record approximately \$400,000 to \$500,000 in deposits to those accounts as funding needs for the water utility in 2008. He said instead of having \$2.6 million in planned deposits to reserve funds to use in future years there would be only about \$2 million deposited to reserves in the water utility in 2008. He underscored that this did not change the rate increase.

Commissioner Brown asked how the \$300,000 obligation was being carried. Mr. Varner replied that it would be carried over the 25 years that remained on the bond. He clarified that the total was correct but the allocation between the two utilities was wrong.

COMPARATIVE RATE STUDY RESULTS

Senior Rates/Financial Analyst Patty Boyle related that she had used information from nine utilities along the Interstate 5 corridor that matched usage characteristics with EWEB. She stated that they had reviewed five separate customer profiles for each.

Vice President Simpson asked if the calculated average dipped into the Tier 2 range. Ms. Boyle replied that it did in both the water and electric utilities.

In response to a follow-up question from Vice President Simpson, Ms. Boyle explained that staff had taken a sample of homes served by each utility with the same characteristics and applied a trend line by month of how much water or electricity they used.

Mr. Berggren likened the comparison to a score card that would indicate how EWEB stacked up compared with other communities. He expressed some concern in regard to how comparable EWEB could be in the larger context given the specific characteristics of the community.

Commissioner Brown observed that EWEB was going through two “monumental” events that only occurred once in a half century, expenses associated with the Carmen-Smith relicensing and operations. He also pointed out that the City of Eugene had the highest housing costs in the nation because the median family income was low. He asked if median family income could be a characteristic included in the survey of the other utilities.

Mr. Berggren remarked that staff had some difficulty determining what indices to utilize in comparing the utilities.

Vice President Simpson said he would be interested to see the cost of housing for a typical apartment or home in the comparators that had been selected for the study. He added that he believed the study was good work. He was pleased with the prototype customers that were chosen. He indicated that he would like to see what a rate action translated to in actual dollars for the examples.

Ms. Boyle said once the methodology was established it was “relatively simple” to update it to the current rates. She anticipated reviewing them when working on the budget or when considering rate actions. She suggested that the Board could look at them even as they reviewed the quarterly updates.

President Menegat appreciated the information. He expressed some concern about using the study as a reference point as he already felt that EWEB was “number 1” because they did the job right and not because of lower rates. He related that he had been thinking on how this information would influence the decisions he would make. He felt that different utilities do different things and was difficult to compare. He did not know if he was “on board” for referring to a comparative rate study on a regular basis when considering decisions such as a rate action.

Mr. Berggren remarked that the study did not have to affect decisions. He noted that there was a natural tendency, particularly in the media, to look at the lowest rates as the best rates. He averred that programmatically this was not so. He underscored that each value in each area would have a different “political play out” for each of the entities and that the study was not intended to say that one utility’s practice was good or bad.

Ms. Boyle stated that she would gather information regarding affordability and bring it back before the Board in October.

President Menegat adjourned the meeting at 6:35 p.m.

Assistant Secretary

President