

EUGENE WATER & ELECTRIC BOARD
WORK SESSION
EWEB BOARD ROOM
OCTOBER 4, 2007
NOON

Commissioners present: Ron Farmer. Commissioners Patrick Lanning and John Brown participated by telephone. President Mel Menegat and Vice President John Simpson were excused.

Others present: Randy Berggren, Tom Buckhouse, Marty Douglass, Dick Varner, Patty Boyle, Ken Beeson, Mike Logan, and Krista Hince of the EWEB staff; Ruth Atcherson, City of Eugene minutes recorder.

Commissioner Farmer convened the Work Session of the Eugene Water & Electric Board (EWEB) at noon. He noted that President Menegat and Vice President Simpson were excused.

STEAM RATES

Fiscal Services Supervisor Dick Varner provided a power point presentation on *Steam Rates*. He explained that he wanted to give a preliminary presentation on the steam rates for 2009 in order to provide the Board with the opportunity to get questions answered. He said there would be a steam rate proposal at the next regular meeting.

Mr. Varner said the steam system had \$1.1 million in remaining principal on a capital loan it had taken from the Electric Division in the 1990s. He stated that the original loan had been for over \$2 million and it was anticipated to be paid off in seven years. He reported that in the last three-plus years the steam utility had taken out approximately \$700,000 in operating loans from the electric utility to pay its share of obligations on the operations side. He attributed the operating deficit to sales not coming in at the level they had been budgeted at. He related that for the present year the sales projection had been slashed from over 190 million pounds to approximately 170 million pounds in order to arrive at a more realistic projection.

Mr. Varner related that another issue contributing to a potential steam rate action had arisen from what had been set for rates in relation to what the utility had actually wound up with for fuel hedges. Additionally, he said, the post-retirement liabilities had not been built into the rates the way management had thought they would be. Regarding fuel costs, he stated that EWEB had hedges in place through October 2008. He said given the hedge position staff projected that fuel costs for 2008 would be approximately \$2.1 million. He noted that he had received information from the power trading staff that indicated that the current fuel costs for 2009 were 18 percent above the hedges for 2008.

Mr. Varner reviewed some of the other costs, which included \$630,000 for production of steam—attributed mostly to labor, approximately \$200,000 in distribution expense, some administrative costs, and \$144,000 in the Contribution in Lieu of Taxes (CILT) to the City. He said the utility had also paid \$188,000 in debt service to pay down the long-term debt. He remarked that if one considered only the revenues less the fuel and other expenses that had to be paid, the utility was \$288,000 in the black. However there were other costs that were affecting the steam utility. He explained that those costs included \$30,000 that the steam utility should pay to the electric utility for

the interest on the operating loans. He said the steam utility should be planning for a substantial pay-down of the operating loans and suggested that approximately half of it should be paid off in 2008 at a cost of \$345,000. He related that the steam utility would also have its share of the Unfunded Actuarial Liabilities (UALs) that were not built into its labor rates. He estimated this cost to be \$50,000. He stated that this pushed the steam division from “\$288,000 to the good to \$138,000 in the hole.” He stated that if EWEB wanted the steam utility to pay all of these costs there would have to be a \$1.50 per 1,000 pounds increase in the commodity charge.

Mr. Varner attributed his eagerness to getting the loans paid off to two large issues on the horizon: the rising fuel costs and the coming loss of Sacred Heart Hospital, one of EWEB’s largest steam customers. Regarding the latter, he reported that the hospital would be largely off the system by the beginning of 2009. He stated that a \$1.50 increase amounted to a 5 to 6 percent increase in customer bills.

Commissioner Lanning asked if staff had been discussing the potential increase with the utility’s other customers. Mr. Buckhouse replied that they had only discussed it with the larger customers.

Commissioner Brown acknowledged that the scenario assumed that PeaceHealth medical would not to be a steam customer in 2008/2009. He asked what would happen if all of the properties were taken off line.

Mr. Buckhouse responded that projections were based on the latest information from Sacred Heart Hospital. He said it indicated that there would still be some load in 2009 but it would be diminishing rapidly in the first half of the year.

Commissioner Brown asked if staff could hazard a guess as to what would happen to customers if the development project on Broadway moved forward as planned. Mr. Buckhouse replied that he could not do so at this time.

In response to a question from Commissioner Farmer, Mr. Varner affirmed that the current rate proposal did not address the potential reduction in Sacred Heart Hospital’s load.

Commissioner Farmer said he would like to know what the impact would be if the hospital discontinued its steam usage today. He wanted to know how much more rates would have to be increased. Mr. Buckhouse said he would provide those figures to the Board at the next meeting.

In response to a follow-up question from Commissioner Farmer, Mr. Varner stated that the steam utility had \$1.1 million in long-term debt and half of the loans taken out in the 1990s had been paid. He said they were being paid down with \$150,000 toward the principal and \$30,000 toward the interest each year.

Commissioner Farmer commented that he was not certain what the long-term solution would

be. He stated for the record that EWEB needed to ramp up its contingency planning. He thought they should consider carefully the situation “very soon.” He asked what EWEB would have to do procedurally or legally if it “got out of the steam business.” He wanted to know what would happen to the long-term debt and who would assume it. He felt EWEB should have a contingency plan in case it could not “lay the issue on somebody else.”

Commissioner Brown averred that at some point the existing facility would be razed or renovated. He pointed out that there was a huge liability associated with asbestos removal. He asked staff to provide consideration of how that would be handled and who would pay for it.

Mr. Berggren said staff would look into it. He sensed that the original liability would fall to the electric utility. Mr. Varner affirmed this.

In response to a question from Commissioner Farmer, Mr. Buckhouse stated that there were approximately 95 steam customers and they were all commercial or multi-family residential. Commissioner Farmer wanted to know how many specifically were multi-family residential customers and Water & Steam Division Director Tom Buckhouse estimated that there were no more than a dozen.

Mr. Varner stated that staff would provide more background information prior to the next meeting and there would be an action item regarding the recommended rate change.

Commissioner Farmer adjourned the meeting at 12:22 p.m.

Assistant Secretary

President