

EUGENE WATER & ELECTRIC BOARD
WORK SESSION
EWEB BOARD ROOM
OCTOBER 16, 2007
5:30 P.M.

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

Others present: Randy Berggren, Tom Buckhouse, Marty Douglass, Dick Varner, Patty Boyle, Will Bondioli, Jim Origliosso, Jim Wiley, Deborah Brewer, Cathy Bloom, Dick Helgeson, Debra Smith, Richard Jeffreys, 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). He noted that Vice President Simpson was excused.

STEAM SYSTEM ALTERNATIVES

Water & Steam Division Director Tom Buckhouse introduced the topic. Steam Supervisor Will Bondioli provided a power point presentation on *Steam Plant Alternatives*, hard copies of which were distributed to those present. He explained that hogged fuel had been phased out and replaced by two natural gas fired boilers, a larger boiler for winter heating and a smaller boiler for the rest of the time. He noted that the smaller boiler was 35 years old and the larger one had been built in the mid-1990s. He stated that there was approximately six miles of steam line and it had been energized for all of the years EWEB had run it, which meant it was in good shape.

Commissioner Farmer asked why EWEB had moved away from hogged fuel. Mr. Bondioli replied that it had to do with availability and cost. He said the price had been very unstable. General Manager Randy Berggren added that hogged fuel had also presented particulate issues.

Commissioner Brown asked if there was asbestos in the lines. Mr. Bondioli responded that almost all of the lines had some asbestos in them. He stated that it would have to be dealt with according to regulations governing hazardous materials.

Commissioner Brown asked if the right of way was exclusive to steam or if it was co-located with other utilities. Mr. Buckhouse replied that where it was located in the public right of way there was no specific easement, but on private property there was a deeded right of way. Mr. Bondioli added that he was unclear as to whether the legal entitlement to the right of way remained for EWEB if it was no longer used for the steam line.

Mr. Buckhouse referred to a study on the steam system that had been conducted in 1992, which had resulted in four different scenarios from a phase out to a load increase. He said at the time Scenario C – Load Retention and Generation was the preferred scenario.

Commissioner Farmer asked what Scenario B, the scenario in which the system would be downsized, would entail. Mr. Buckhouse replied that it would mean paring down some of the outlying customers so that the system would become more confined and efficiency and economy would be increased.

Mr. Buckhouse reviewed the options that had been formed for the steam operation in 1994, which had been a result of the changes in hogged fuel prices and from the environmental implications of using hogged fuel. Mr. Berggren related that EWEB had been able to purchase a natural gas-fired boiler from Trojan at a reduced price.

Mr. Buckhouse discussed the types of customers the steam operation currently served.

In response to a question from Commissioner Farmer, Mr. Buckhouse stated that the residential customers consisted of multi-unit buildings. He underscored that the largest steam customer was Sacred Heart Hospital. He said the governmental customers would become the largest customer class when EWEB lost Sacred Heart as a customer. He noted that the governmental customers included the University of Oregon, which also included some living units.

Commissioner Lanning arrived at 6:50 p.m.

Regarding cost implications, Commissioner Farmer asked how long it would be before the operating loan would be paid off. Mr. Buckhouse estimated that it would take three years, depending on circumstances.

Commissioner Farmer asked if staff knew of Sacred Heart Hospital's plans. Mr. Bondioli responded that the hospital had indicated that it would be moving to its Riverbend facility in a year, which would vacate facilities at the Hilyard Street campus. He said by December 31, 2008, EWEB's contract with Sacred Heart Hospital would be finished. Mr. Buckhouse added that at that point the hospital would become a commercial customer on a general service contract.

In response to a follow-up question from Commissioner Farmer, Mr. Bondioli clarified that the hospital would not be abandoning its campus but it would vacate and raze some of the buildings. He said the new buildings that would be constructed would not include steam facilities; they would use electricity and/or natural gas.

Mr. Buckhouse stated that staff projected that approximately 25 percent of the existing sales to Sacred Heart would be at the general service rate that will occur during the 2009 timeframe.

Commissioner Brown commented that the existing City Hall was slated to be replaced and would no longer be a steam customer, as would also be the case for the buildings that were proposed to be replaced along Broadway. Mr. Bondioli noted that EWEB had minimal steam service to buildings on Broadway.

Mr. Bondioli said the Northwest Christian College would probably cease to be a steam

customer in coordination with Sacred Heart for distribution reasons.

Mr. Buckhouse stated that fuel costs were predicted to increase by 25 cents per kilopound up to as much as \$2.50 per kilopound.

Mr. Buckhouse discussed the future scenarios. He noted that the option of continuing present operations in the same way was not possible. He said EWEB was exploring the option of establishing a cogeneration operation with the University of Oregon.

Commissioner Farmer observed that the University had built approximately \$500,000,000 in buildings in the last few years and wondered if they had all been built with natural gas or electric heating facilities. Mr. Bondioli replied that most of the new facilities and planned new facilities were planned to use central steam facilities. He said they had lobbied heavily to get steam facilities put into the Knight Law Library.

Mr. Buckhouse commented that one attractive blending of the University load and the EWEB load was that the University realized that EWEB's steam load was falling while its demand for steam was increasing. He felt this supported cogeneration as a feasible alternative.

Mr. Buckhouse continued reviewing the future scenarios which included downsizing, selling the system, or phasing it out altogether. Regarding actions EWEB would take moving forward, he noted that the first item, which was to continue working with the University, had been left off the list. He said EWEB needed to talk to the rest of the steam customers. He noted that the natural gas system in place did not cover the entire downtown area. He related that they had initiated discussions with the engineering staff regarding how natural gas facilities could be brought in for steam customers.

Commissioner Farmer asked what pricing heat source substitution alternatives meant. Mr. Buckhouse explained that this referred to what it would take internally in one of the customers' buildings to convert the facility to a different heat source.

Commissioner Farmer remarked that it was critical information to know which energy alternative was most expensive to convert to. He did not want to push someone to switch to one if the other was less expensive.

Mr. Bondioli pointed out that some buildings would be looking into heat pumps so that it would include air conditioning.

Commissioner Farmer said he would be interested in knowing what the University was doing and why using steam there seemed to be working for them. Mr. Bondioli responded that the campus had tunnels underneath it and steam pipes could be easily maintained.

Commissioner Farmer remarked that another piece of the equation was the operating aspect of

it. Mr. Buckhouse pointed out that the University had a fixed customer base. Mr. Bondioli added that from what he had seen it was costing the University more to produce a kilopound of steam.

Commissioner Farmer asked how much of the facility space along the river was related to steam use. Mr. Buckhouse replied that approximately 7 to 8 percent of the land was used for the steam facility.

Commissioner Farmer asked if there would be retrofitting costs. Mr. Bondioli affirmed that there would be some. Commissioner Farmer said he would like a sense of how much those costs would be.

Commissioner Farmer said if EWEB worked toward a conversion plan the utility had a responsibility to help customers convert where EWEB could do so. He suggested that one option would be to make a low interest loan to the company, one a bank would not make.

Commissioner Brown commented that to him it was obvious EWEB would be out of the steam business in the next decade. He believed there would be substantial costs associated with decommissioning steam facilities. He wondered who would be responsible for paying for the costs of asbestos removal.

Mr. Bondioli stated that when utility facilities were abandoned they became abandoned utility structures on the map. He said the question would arise then, when redeveloping a property, of who would incur the cost of removing the abandoned utilities.

Mr. Berggren averred that EWEB would ultimately assume the cost. He said the bottom line was that such costs were normally part of the electric utility.

Commissioner Brown felt EWEB had a responsibility to the community to remove asbestos as it became exposed. He also wondered if the University of Oregon had enough water to build an expanded facility. Mr. Bondioli replied that the University bought water from EWEB.

Commissioner Lanning asked if the steam customer survey would cover all categories of customers. Mr. Buckhouse affirmed that it would.

Mr. Buckhouse related that the 1990s study indicated that the trigger for phase out of the steam system would be the loss of two major customers. He pointed out that EWEB had lost Agripac and was going to lose Sacred Heart Hospital.

President Menegat asked what the most recently added account to the steam utility had been. Mr. Bondioli replied that the Hult Center for the Performing Arts had been added to the system in the early 1980s.

President Menegat asked if there was a timeline being considered for the phase out. Mr. Buckhouse said it had not been determined at this point. Mr. Bondioli added that staff would

talk to customers prior to making a determination.

Commissioner Brown averred that the sooner those customers were brought into the conversation the better the phase out would be. Mr. Buckhouse assured him that staff intended to talk to customers and would be bringing back information to the Board.

President Menegat noted his affiliation with the First Christian Church, which was a steam customer. He did not believe this represented a conflict of interest of any kind.

STRATEGIC INITIATIVES

Employee, Customer & Community Services Director Debra Smith discussed the work staff had done on the strategic initiatives since the Board Retreat held in March. She stated that seven strategic plans had been included in Board packets and asked if they correctly reflected the priorities that the Board wanted to see resourced. She asked the Board whether the draft plans would result in the progress the Board sought for these priorities. She also asked the Board to consider if the operational plans were a valuable tool. She reviewed the **2008 Strategic Plan** with power points, hard copies of which were provided to all those present.

Commissioner Brown said he was happy with how staff had laid out the draft plans. He felt it was a useful document.

Commissioner Farmer asked how targets were defined. Ms. Smith replied that the actual measures were still under development. Commissioner Farmer thought ten strategic initiatives were too broad. He commented that it seemed to him that they fell into a “trap” of mixing up action items with strategic priorities. He cited an item under *Financial & Business Perspective* that he had suggested regarding revenue enhancement as an example. He felt that revenue enhancement was not a strategic priority, rather it was a methodology for achieving financial “ability and stability.” He thought the plan should be more succinct regarding the “really big picture things” that the utility wanted to accomplish. He also thought it was incumbent on the Board to establish how the desired outcomes should be measured.

Ms. Smith read from a list of themes that had come from an email Mr. Berggren had written after a lunch meeting with Commissioner Farmer, as follows:

- Theme 1 – Rates: affordability, comparability, stability;
- Theme 2 – Employees: morale, satisfaction, engagement, safety;
- Theme 3 – Environment: stewardship, operational impact, footprint;
- Theme 4 – Customer/Community: service satisfaction, organizational alignment with community priorities;
- Theme 5 – Financial: reserves, bond rating, financial indicators, overall strength;
- Theme 6 – Reliability/Quality: Various indicators of product availability, continuity, quality, and public safety.

Commissioner Farmer said he would not take issue with adopting five of those themes to focus on.

Commissioner Brown commented that he did not have any problems with the direction. He felt that staff would take the plan and prioritize the actions according to the ability to achieve them within the timeframes given the resources allocated. He added that he did not see anything in the list that was not truly important.

Commissioner Farmer averred that it was also incumbent upon the Board to place a timeline on the work items.

Ms. Smith called attention to the plan that focused on public affairs. She pointed out that the public affairs department would be “turning over” three key positions in 2008 and this would limit how much could be done in that area. She noted that one of the priorities in the operational plan was to make the staffing transition.

Mr. Berggren stressed that the items in the plan were not specifically 12-month items. He said it was important to keep the conversations on the plan “alive.”

President Menegat expressed appreciation for the process to this point. He said in reviewing the draft operational plan he felt he was receiving an accurate picture of what was going on in the utility.

Commissioner Lanning felt the process the Board and staff had been through defined clear roles for the two. He said at some point the Board should have some clarity about what the long-term and short-term goals were. He added that he liked the idea of themes as it made it so initiatives could be established around each theme. He thought the process would evolve in that way.

Ms. Smith stated that some resources would be available to focus in on becoming clearer about the measures to take. She noted that EWEB was adding a planning governance coordinator position to help with this work.

President Menegat asked if they were in a position to take on six themes. Mr. Berggren replied that he would not push it at this level. He felt the Board should continue to refine it and make recommendations.

Ms. Smith suggested that the Executive Management Team (EMT) work the themes in order to develop some specific targets. She added that the EMT had tried to “not jump on this and own it” because she felt that this was the domain of the Board.

President Menegat said he had an understanding of what the targets could be in some areas but there were other areas for which he would like staff input.

Mr. Smith asked the Board to begin to think about the General Manager goals for 2008. She

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reiterated that they would schedule time for the EMT to work on the plan and to decide how they wanted to bring it back to the Board.

President Menegat adjourned the meeting at 7:05 p.m.

Assistant Secretary

President