

EUGENE WATER & ELECTRIC BOARD
WORK SESSION
EWEB BOARD ROOM
JANUARY 2, 2008
6 P.M.

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

Others present: Randy Berggren, Tom Buckhouse, Debra Smith, Jim Wiley, Terry Bequette, Lance Robertson, Jim Origliosso, Dick Helgeson, Patty Boyle, 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).

WATER RATE STRUCTURE

Fiscal Services Supervisor Patty Boyle stated that the intent of the Work Session was to determine if there were things the Board would like staff to look into in regard to the water rate structure. She reviewed the current rate charges, and underscored that approximately 60 percent of the consumption revenue was from the months of June, July, and August. She noted that there was a differential between charges for inside city residents and residents outside the city and commercial accounts. She said it transferred costs that were attributed to the inside residents and assigned them to the outside residents. She related that it represented the shift that happened when “many years ago” EWEB had taken over water districts that had customers both inside and outside of their districts and EWEB recognized the benefits of being within the city. She stated that this was not a large rate class. She cited as examples of things that could be changed for 2008 the base charges versus the tiered rates. She explained that this was part of rate design and could be handled in the 2008 rate case. She said the rate classes would not be able to be changed until 2009.

Commissioner Brown thanked Ms. Boyle for answering his questions. He noted that the differential between residential and commercial was “just to keep the account open.” Ms. Boyle affirmed this. He asked how much revenue EWEB would bring in if it changed the differential. Ms. Boyle replied that the utility would not generate additional revenue, it would shift who paid what.

Commissioner Farmer noted, from the memorandum entitled *Water Rate Structure* dated *December 21, 2007*, that the differential between residential service and general service was nearly double in Vancouver, Washington. He asked why, if EWEB doubled its general service rate, would it not generate more revenue. Mr. Berggren responded that EWEB would generate more revenue but absent a need for more it would be credited against another rate source.

Ms. Boyle said if the Board chose to apply a service charge it would take EWEB back from the Cost of Service Analysis (COSA) methodology.

Commissioner Brown asked how a differential for the cost of basic service in the electric

division was rationalized. Mr. Berggren replied that in the “classic view” of rate cost of service there were always policy and political matters that had some import in relation to it. He doubted EWEB was close to recovering on a true cost of service basis the basic charge for the residential customer. He said the costs then was allocated somewhere else. He related that staff wanted to understand what the Board’s priority was, what it was trying to fund, what policy-level determinations did it have relative to how to fund this, and then to gain some policy direction from the Board regarding revenue requirement in order to find ways to create a technical cost of service solution that gets as close as practical.

Commissioner Farmer observed that the EWEB basic charge was the same for residential and general service customers but the basic charge for general service customers in Corvallis was nearly double the residential charge. He asked if this was a political issue or whether Corvallis believed it cost more for general service. Treasurer Jim Origliosso responded that the current costs at this point were sufficient to support the doubling of the base rate across the Board. He said one of the policy modifications in the past had been to reduce the basic charge because it did not seem palatable.

In response to a follow-up question from Commissioner Farmer, Mr. Berggren explained that the basic charge was for the overhead involved in meter reading and water chlorination among other things.

Vice President Simpson commented that they were talking about a product that was “right there at the front door and ready ... on demand.” He acknowledged the complaints that some people made about the basic charge but felt they were not taking those aspects into consideration.

Mr. Origliosso related that prior Boards had suggested doing away with the basic charge. He said the reason the rate structure was being brought up was that EWEB had a different Board and there was uncertainty in the supply and demand regarding water. He stated that one of the priorities EWEB had lately when it was in a highly variable and sometimes declining consumption was to attempt to protect the uncertainty in the given rate structure by having a larger component of that in the basic charge.

Commissioner Brown surmised that it was fair to say that the ratepayers were subsidizing the basic charge, that the volume offset it. He thought if the Board took an accurate look at costs the basic charge could easily be doubled.

Commissioner Farmer remarked that he would not champion getting into any change just for the sake of change, but there were issues concerning aging infrastructure and the issues that were arising as a result of potential and existing water rights. He recalled the work the Board had done on tiered rates for electricity and that at the time there had been no empirical evidence that tiered rates made a difference in customer behavior. He said they thought tiered rates perhaps made a difference but did not know for certain. He assumed that there was no empirical evidence that tiered rates would affect water usage.

Ms. Boyle affirmed that there would not likely be a practical effect of tiered rates on water consumption. General Manager Randy Berggren added that water was so undervalued that he did not believe that elasticity played into peoples' thinking.

Commissioner Farmer thought EWEB was "just irritating people" with tiered rates. He asked staff to provide an idea of what a single rate for water usage would look like. He also did not think it made sense to have tiered rates for residential users but not for general service. Ms. Boyle responded that when the change had been made the general service class formerly had a declining block rate, in which the more they used the less they paid for it. She explained that to "flip that" would have been too large of a step to take. She said a tiered rate for general service would also consistently put the largest customers in the third tier based on usage.

Commissioner Farmer averred that EWEB had some responsibility to drive conservation particularly in the face of some of the water rights challenges. He did not believe it made sense to tell a general service customer that it could use all the water it needed and pay half as much as a residential customer would pay. He also did not think EWEB could take an average cost for rates as there was too much disparity between levels of usage. Additionally, he recognized that EWEB had a valuable asset. He thought there might be some logic to leveraging the asset to deal with aging infrastructure, such as promoting more water usage during the high consumption months.

Commissioner Brown asked what it would take to offset interest costs for the money borrowed for the capital improvement program (CIP). He wondered if it would be possible to offset interest costs with a change in the service charge. Ms. Boyle recalled that the Board had discussed a similar scenario in the spring. She ascertained from Commissioner Brown that he was asking staff to develop a scenario that would raise all of the revenue via rates in order to accomplish the CIP and not just the interest rates. Commissioner Brown clarified that he would like to see what it would take to offset the interest costs.

In response to a question from Commissioner Brown, Ms. Boyle stated that EWEB had 5000 to 6000 general service customers.

Commissioner Menegat asked how many of the general service customers had a 5/8 inch meter. Ms. Boyle replied that approximately 2000 had 5/8 inch, 1500 had 1 inch, 1000 had 1½ inch, and another 500 or so had 2 inch service.

Commissioner Menegat remarked that the electric side used an 85 percent hydro assumption. He questioned whether the water rate structure discussion was premature given that the water rate action had only recently been made. He said they were looking at a 20 percent increase for the next year to cover the CIP and further increases into the years beyond. He felt they had made the rate decisions based on the information and said he was looking for staff to come and say the utility needed to build reserves or needed to do something if they were going to revisit the structure.

Mr. Berggren underscored that he did not want the Board to think the revenue projections

were not accurate. He thought the strategy for replacing the aging infrastructure was practical, realistic, and paced. He said the intent was not to come before the Board and say this was not enough. He had wanted to “tweak or test” the boundaries of the structure to see if there was interest on the part of the Board to pursue a change.

Vice President Simpson agreed with Commissioner Farmer – change should not be made just to make a change. He thought the discussion had been “excellent,” however. He shared his main concerns that included the volatility of the revenue stream brought about by weather. He wanted a rate structure and charges that fully funded the capital and operations and maintenance reserves. He said they should establish smart targets for the reserves and then fund them. He lauded the electric utility as “top notch” and averred it was the Board’s charge to ensure the water utility was “top notch,” as well. He did not believe it was in poor shape at this time but the Board had been alerted that if nothing was done the water utility would deteriorate. He underscored the importance of ensuring the rate structure covered those values and plans.

Vice President Simpson averred that EWEB must demonstrate conservation to preserve its water rights in the future. He did not want this to be looked at as mandated by someone else; it was already a Board core value. He felt EWEB demonstrated conservation naturally and it was part of the way EWEB did business and the citizens of Eugene supported this.

Regarding a change in rate structure, Vice President Simpson cautioned the Board against penalizing low use customers. He was a strong supporter of elevation charges, however. He also agreed with Commissioner Farmer that the general service should not be subjected to tiered rates. He noted that the current price for EWEB water was very reasonable given what people paid for bottled water.

Commissioner Farmer asked what the difference was between a wet year and a dry year. Ms. Boyle replied that the last time EWEB experienced a wet year it had cost EWEB \$1 million.

Commissioner Farmer thought EWEB should either set up a reserve that gave the water utility stability or EWEB should budget for the extremes. He said he was willing to make changes, but unless he had a proposal that was solving the budget problem inherent in a weather risk he would not choose to make the change.

Ms. Boyle said the only other way to mitigate the revenue issues would be to institute a summer rate.

Commissioner Farmer indicated he would support a rate increase to build reserves but not the institution of a more complex rate structure.

Ms. Boyle stated that the current strategy was to build reserves. Commissioner Farmer remarked that maybe ten years was longer than EWEB should take to build the reserves.

President Menegat asked what raising the base rate by \$1 would do. Ms. Boyle replied that it would not do much. She said EWEB had 60,000 accounts.

Mr. Berggren remarked that raising the rate by a dollar would provide a solid reserve funding mechanism.

Commissioner Farmer said EWEB should be thinking about charging a different amount to people who live outside the system. He clarified that he was not thinking about the present as much as he was thinking into the future when EWEB could be a regional provider.

Commissioner Farmer asked if water districts marked up the water purchased from EWEB. Ms. Boyle explained that the water districts were not for profit; the water districts only added a cost of service adjustment and the different districts included other sundry charges to cover their costs.

President Menegat adjourned the meeting at 7 p.m.

Assistant Secretary

President