

EUGENE WATER & ELECTRIC BOARD
WORK SESSION
EWEB BOARD ROOM
AUGUST 5, 2008
6:30 P.M.

Commissioners present: John Simpson, Ron Farmer, Vice President; John Brown, Mel Menegat, Bob Cassidy, Commissioners.

Others Present: Randy Berggren, Dick Helgeson, Sheila Crawford, Tom Buckhouse, Terry Bequette, Mike Freeman, Patti Boyle, Debra Smith, Mike Logan, Wally McCullough, Cathy Bloom, Marty Douglass, Susan Eicher, Jay Bozievich, Jim Wiley, Dean Ahlsten, and Krista Hince of the EWEB staff; Rich Cunningham, Joann Ernst, Commissioner-elect; Ruth Atcherson, City of Eugene minutes recorder.

President Simpson convened the work session of the Eugene Water & Electric Board (EWEB) at 6:40 p.m.

ELECTRIC FIVE-YEAR CAPITAL IMPROVEMENT PLAN

Systems Engineering & Substation Reliability Manager Dean Ahlsten highlighted the update to the Electric Division Five-Year Capital Improvement Plan (CIP) included in the memorandum entitled *2009-2013 Electric Capital Improvement Plan* dated July 28, 2008. He recalled the budget amendments that had been passed on April 1, listed in *Attachment A*. He said staff looked at emergent priorities that arose over the course of the year and updated the estimates as part of the process. He related that staff had engaged in a 30 percent design review of the 2009 work and found that costs had increased. He noted they also had applied a uniform cost escalator for future projects. He stated that they also found approximately \$64 million in new capital needs that had emerged. He said the Board had directed staff to account for “runaway cost escalation” in electric utility material costs and to manage around a target reserve level with a \$10 million floor.

Mr. Ahlsten pointed out that \$11 million had been added to the Automatic Meter Reading (AMR)/Advanced Meter Infrastructure (AMI) project. He also noted that the Harvest Wind project was slated to cost \$18 million per year for two years. He said Mr. Beeson had indicated a discrepancy in the Roosevelt Boulevard building project; it had increased from \$66.4 million to \$69.5 million.

Mr. Ahlsten reviewed *Attachment B – Proposed 2009-2013 Electric Capital Plan*. He said if the “big ticket items” such as the Carmen-Smith relicensing project, Harvest Wind, and the Roosevelt Boulevard project were removed it was apparent that approximately one-third of the EWEB capital expenditures were for replacement of old facilities. He stated that the number would go up a lot if the portions of the Carmen-Smith project that consisted of the replacement of old infrastructure were split out from the rest of the cost.

Continuing, Mr. Ahlsten highlighted the emergent capital priorities, which included bridge replacements, the boat landing, and the improvements to the fish return structure at Walterville.

President Simpson asked if any of the bridges that needed to be replaced critical to the Carmen-Smith project. Mr. Wiley affirmed that one of the bridges was the access to the diversion tunnel at the Carmen-Smith Reservoir and was scheduled to be replaced in 2010. Mr. Ahlsten added that the other bridge was on Johnson Creek above Beaver.

Mr. Ahlsten stated that load increases at the University of Oregon were requiring EWEB to build a new substation along with a transmission loop to it. He noted that it would be reimbursable, but would be an initial expense to EWEB.

Mr. Ahlsten reported that the Energy Trading Risk Management (ETRM) software upgrade had increased by approximately \$1.7 million.

Vice President Farmer observed that it seemed like software always cost more money later and he never felt like he had a real picture of what the true costs were. He said he would like to have a better feel for it. Mr. Berggren responded that this was a frequent conversation among staff and staff shared his desire for a more accurate view of such costs. Mr. Ahlsten agreed that it was too common of an occurrence.

Mr. Ahlsten conveyed staff's recommendation that they transfer \$4.8 million from the excess contribution margin into the CIP. He said it was targeted for two areas: \$1.7 million in new and emergent work EWEB had to do on the headquarters facility and to fund the ETRM upgrade for EWEB's power trading business.

President Simpson asked when the transfer was recommended to take place. Mr. Berggren replied that it was supposed to take place at the end of the year. He underscored that this presentation was the opening conversation on the CIP. He related that he had some discomfort at \$5 million being allocated to the headquarters, with \$2.7 million in work planned for 2009. He understood there were some emergency requirements in the Uninterruptible Power Supply (UPS) system and the data center. Nonetheless, he thought a more appropriate application of the contribution margin would be to offset the cost increases on the ETRM software as it was directly related to how EWEB managed its power and the contribution margin was anticipated to include approximately \$3 million of the Tieton benefits. He said at this point there was \$500,000 in the 2009 budget to hire some consultants to go through the building and assess the potential needs.

Mr. Ahlsten clarified that the \$3 to \$4 million for improvements to the headquarters was not currently reflected in the CIP. He said some of the areas of perceived risk included gaps in funding to address aging infrastructure. He underscored that less units of work were being completed because of the cost of electric inventory.

Commissioner Brown asked when the University would reimburse EWEB for the substation work. Mr. Ahlsten replied that it would be paid in 2009 and 2010. In response to a follow-up question from Commissioner Brown, Mr. Ahlsten explained that there were provisions in the draft contract for payment that assumed 30-day/net as expenditures were made. He said the University's legal counsel was reviewing the contract.

President Simpson supported making the transfer from the contribution margin. He averred that EWEB needed to continue to "stay ahead of the curve." He did not want the system to fall into disrepair. He noted that he was pleased with the Public Utility Commission (PUC) work. He acknowledged that a lot of the upgrades to the headquarters had been deferred through the years.

Vice President Farmer commented that he was not certain he would not prefer to build a new office building at the Roosevelt Boulevard site in lieu of investing more into the older building. He requested a one-page backgrounder from staff that would prioritize the best returns that could be gained from applying the contribution margin revenue. Mr. Berggren agreed to provide this. He noted his continued concern on whether or not EWEB would actually realize the contribution margin it projected at the year's end.

Commissioner Brown thought the Board should at least discuss whether it was prudent to "dump \$7 million" into the headquarters facility. He did not think it was fair to the employees to have to work in the present environment; it needed to be upgraded.

President Simpson ascertained that there was general Board support for the fund transfer.

2. Water Five-Year Capital Improvement Plan

Mr. McCullough presented the *Draft Water Division 10-Year Capital Improvement Plan 2009-2018* with power points, hard copies of which were provided to everyone present.

President Simpson asked why the annual replacement of meters would decrease. Mr. McCullough replied that the replacement costs of the meters were linked to the AMI/AMR system. He said the utility still planned maintenance activities but it would not be to the level they provided it at previously; there were still funds in there but the funds had not been increased to the former level.

Mr. McCullough discussed the *Changes to CIP* and noted that the Shasta 1150 Reservoir was slated to be rebuilt next.

Vice President Farmer noted that the backgrounder indicated that the projected cost was doubling. Mr. Bozievich responded that his had to do with the utility's experience with the Laurel Hill Reservoir and the budget amendments they had to bring before the Board for the project. He explained that if EWEB had to do significant technological work on the pipeline to get to the reservoir to avoid disturbing the natural features it could significantly increase the costs. Mr. Berggren pointed out that the project went through a sensitive area near the Ridgeline Trail.

President Simpson noted that he had attended the first public outreach meeting at which one member of the public showed up. He asked if the second public outreach meeting had better attendance. Mr. Bozievich replied that 21 people had come including 5 city of Eugene staff members.

Commissioner Brown asked how the Systems Development Charges (SDCs) for the reservoir would work. He wondered if EWEB had provisions for recapturing that. Mr. Bozievich responded that if the meter for a home was set after 1997, after the SDCs came into effect, it was possible to regain some of the charges. He clarified that the SDC methodology took all of the development costs and distributed it to all of the infrastructure systems.

Commissioner Brown asked how much it was costing EWEB to provide service to 200 homes. Mr. Bozievich replied that it was a significant amount. He stated that the reservoir structure would be a 100-year facility and would serve future growth.

President Simpson asked what a one percent replacement rate for water mains meant. Mr. McCullough explained that it was one percent of the entire system replaced annually. He noted that the utility was projected to be at that rate by 2018.

In response to a question from Vice President Farmer, Mr. McCullough explained that the CIP had increased by approximately \$60 million in the latter five years and the increases in the next two years were largely attributable to the Shasta Reservoir.

In response to a question from Commissioner Brown, Mr. McCullough stated that one of the highest cost risk items of the CIP were the main replacements because EWEB tried to coordinate them with the city's work on the streets and what streets the city would work on in the out years were not known.

Commissioner Brown asked if anyone had been in discussion regarding water for the new state hospital proposed for Junction City. Mr. Berggren related that he had spoken to a utility representative from that area and was not able to get any information.

Mr. Bozievich noted that the utility had \$1 million in the next year's budget for the Crest Drive project.

Mr. McCullough stated that EWEB had set its CIP prior to the closure of the Hynix plant. He said staff would review it and return in September with how to address the situation.

In response to a question from President Simpson, Mr. McCullough said the operational impact of the Hynix closure would be minimal; it was mostly a base load/revenue impact.

Vice President Farmer noted that there was approximately a \$6 million increase from the last iteration of the CIP and wondered where the money was coming from. Mr. Buckhouse replied that it was important to keep in mind that the Hynix capital contributions were only related to those parts of the system that fed Hynix. He said the evaluation they would do on the CIP would seek to determine what was in the plan that was related to Hynix.

Vice President Farmer reiterated his question. Ms. Boyle responded that as part of the work before the next presentation of the CIP to the Board, staff would work on options for funding. She said they would make sure the CIP would line up with a long-term financial plan that would include the cessation of operation of Hynix. She thought the proposal would include adjustments to rates, reserve level targets, and a possible bond opportunity.

Vice President Farmer thought the utility would end up raising the rates another five to ten percent. He noted that the Board had approved a 17 percent increase in the water rates and now staff was considering another increase. He said while he agreed that the work needed to be done, a 22 to 27 percent increase would be hard for the public to swallow.

President Simpson congratulated the water utility staff on the completion of the Laurel Hill facility. Mr. McCullough responded that the final coat of paint was being applied that day.

President Simpson adjourned the meeting at 7:40 p.m.

Assistant Secretary

President