

EUGENE WATER & ELECTRIC BOARD  
REGULAR BOARD MEETING  
EWEB BOARD ROOM  
SEPTEMBER 2, 2008  
7:30 P.M.

Commissioners present: John Simpson, Ron Farmer, John Brown, Mel Menegat, and Bob Cassidy.

Others present: Randy Berggren, Dick Helgeson, Sheila Crawford, Tom Buckhouse, Terry Bequette, Mike Freeman, Patty Boyle, Debra Smith, Mike Logan, Cathy Bloom, Marty Douglass, Jim Wiley, Steve Mangan, Tom Williams, Will Bondioli, Dick Varner, Jim Origliosso, Dean Ahlsten, Jeannine Parisi, Megan Capper, Ed Case, Steve Newcomb, and Krista Hince of the EWEB staff; Ruth Atcherson, City of Eugene minutes recorder; and Rich Cunningham and Joann Ernst.

President Simpson convened the Regular Meeting of the Eugene Water & Electric Board (EWEB) at 7:48 p.m.

#### **AGENDA CHECK**

There were no changes to the agenda.

#### **PUBLIC INPUT**

**Paul Duchin**, 2575 Highland Oaks Drive, provided his testimony in writing along with pictures. He related that he had experienced water seeping into the lower level of his house which had proved to be very costly to him. He said initially EWEB had determined that it bore no responsibility for the leaking, but ultimately EWEB had fixed a leaking main pipe and the problem had gone away. He averred that EWEB should reimburse him for the work that had been done to fix his house, but thus far EWEB had denied the claim.

President Simpson appreciated that Mr. Duchin had brought this item to the Board's attention. He indicated he would refer the issue to EWEB staff to follow up with Mr. Duchin.

Mr. Berggren said he would put together a summary of staff's perspective on the item.

#### **APPROVAL OF CONSENT CALENDAR**

##### **1. Minutes**

- a. May 6, 2008, Work Session
- b. May 6, 2008, Regular Board Meeting
- c. May 20, 2008, Work Session
- d. May 20, 2008, Regular Board Meeting
- e. June 17, 2008, Work Session

##### **Contracts**

2. Kearns & West, Inc. – Carmen-Smith Relicensing Settlement Negotiations Facilitations Services – Electric Division - \$200,000

3. OBEC Consulting Engineers – Headquarters West Gate Rehabilitation – Facilities – Corporate Services Division - \$26,836
4. Second Growth, Inc. – Quail Run Transmission Line Corridor Restoration Project – Environmental Management – Employee, Community & Customer Services Division - \$53,600
5. SelecTemp – Temporary Services in Building Maintenance Support – Facilities – Corporate Services - \$10,000
6. SelecTemp – Temporary Services in Information Services Section – Corporate Services - \$106,580
7. Structure Consulting Group, LLC – Energy Trading Risk Management (ETRM) Project – Process Documentation – Power Trading – Power Resources Division - \$40,000
8. Tyndale Company Inc. & Program Management International (PMI) – Fire Retardant Apparel – Electric Division - \$160,000

Commissioner Cassidy pulled Items 2 (Kearns & West, Inc.) and 6 (SelecTemp/IS).

Vice President Farmer pulled Item 4 (Second Growth, Inc.).

Commissioner Menegat, seconded by Vice President Farmer, moved to approve the Consent Calendar with the exception of Items 2, 4, and 6. The motion passed unanimously, 5:0.

#### **ITEMS REMOVED FROM THE CONSENT CALENDAR**

Commissioner Cassidy stated that he had pulled the contract with Kearns & West, Inc. in order to obtain more information. He could not understand why it cost so much money and why EWEB staff was not completing the negotiations.

Electric Division Director Jim Wiley explained that there was still work to be done. He said the people that EWEB was negotiating with were also providing facilitation. He stated that there would still be some things to be finalized through December.

General Manager Randy Berggren added that the facilitation kept the trust at the table and this was why the facilitator had been hired from an outside agency. He averred that it was difficult to appreciate all of the work that went into the facilitated negotiations. He stressed the importance of remembering the value of the completed negotiations, which would be somewhere between \$150 and \$180 million over the next four years.

Commissioner Brown was bothered by the comparison of the estimate with what the real expenses the work had cost. Mr. Berggren offered to provide a background memorandum.

In response to a question from Vice President Farmer, Mr. Wiley confirmed that EWEB was paying an hourly rate for different levels of their staff, which was billed. He added that they had started with \$150,000 but staff had known it would ultimately cost more.

Commissioner Menegat, seconded by Commissioner Brown, moved to approve Consent Calendar Item 2, a contract with Kearns & West, Inc. The motion passed unanimously, 5:0.

Commissioner Cassidy was puzzled, regarding Item 6, as to why EWEB would have to contract with SelecTemp for a retired employee. He wondered why EWEB had not hired a replacement for the employee. Mr. Berggren noted that the strategic staffing plan would be brought before the Board at its next meeting. Treasurer Jim Origliosso explained that they had known the individual in question had reached retirement age and had planned to hire him back through the SelecTemp contract while the new individuals who had been hired to take his place were able to “get up to speed.” He underscored that this was a transition strategy, to have a former employee mentor a new employee.

Mr. Berggren said he would provide a backgrounder on the temporary services that EWEB contracted for.

Commissioner Brown asked why SelecTemp was exempt from the bid process. Risk/Purchasing Manager Ed Case explained that EWEB had piggybacked on the city’s bidding process, which had resulted in contracting with SelecTemp. He noted that EWEB used temporary accounting employees from Barrett Systems, because they specialized in that type of work.

Vice President Farmer pointed out that the issue had been vetted by the Board in agenda items in previous meetings and recommended that Commissioner Cassidy request copies of the minutes from them.

Commissioner Cassidy asked how the cost of the three-year contract would compare with maintaining the individual as a permanent employee. Mr. Origliosso responded that it would be comparable.

Commissioner Cassidy, seconded by Commissioner Menegat, moved to approve Consent Calendar Item 6, a contract with SelecTemp for Information Services personnel. The motion passed unanimously, 5:0.

Vice President Farmer said he had visually inspected the property that Item 4 (Second Growth) referred to. He said it looked like it did before the wind incident, though without the cottonwood trees. He asked what would happen to the property in three years, when the contract would be

completed. He observed that for three or four miles in either direction the power corridor property was filled with blackberries. He related that the adjacent property was Alton Baker Park and the city brought in road crews from the Lane County Jail on an ongoing basis to try to control the blackberries and other non-native plants. He asked if EWEB planned to maintain the property into perpetuity.

Employee, Community & Customer Services Division Director Debra Smith stated that the theory was that by using native plant species and maintaining the property for three years they would be able to maintain it after that using staff and volunteers.

Vice President Farmer wondered why EWEB had taken a swath of land that was not much bigger than the EWEB meeting room and made it different from the surrounding ten miles of vegetation. Ms. Smith replied that it had to do with the designation of the land as a Goal 5 resource area, which required EWEB to go in and make the plantings. She said taking down the trees had triggered it.

Commissioner Brown thanked Mr. Case for being proactive about the prevailing wage issue. He wondered what the basis was for doubling the amount that had been listed for the project. Ms. Smith responded that it had to do with the overall initial design. She said the Board had the discretion to do the contract for the lesser amount.

Vice President Farmer, seconded by Commissioner Cassidy, moved to approve Item 4, a contract with Second Growth, Inc.

Commissioner Brown moved to amend the motion to revert the amount to the original bid of \$41,490, instead of the requested \$53,600.

Mr. Newcomb pointed out that part of the idea of putting more plants in the area was to increase the success of the plantings.

Vice President Farmer provided the second. The amendment passed, 3:2; Commissioner Menegat and President Simpson voting in opposition.

The main motion, as amended, passed, 4:1; Commissioner Menegat voting in opposition.

#### **ITEMS FROM BOARD MEMBERS**

Commissioner Brown related that he had toured a \$30 million building at 3<sup>rd</sup> Avenue and Mill Street that had almost achieved the Leadership in Energy and Environmental Design (LEED) platinum standard. He encouraged everyone to take a tour. He called it an incredible demonstration of private sector LEED certification. He said they captured rain water for washing, among other things.

President Simpson reported that he had worked with staff and the General Manager to initiate a study at a customer's home in the McKenzie River Valley to determine whether a claim of high pitched electronic noise was related to EWEB.

President Simpson said he had talked with Mr. Mangan regarding the closure of the Hynix plant. He thanked Mr. Mangan for taking the time.

## **CORRESPONDENCE**

Mr. Berggren reported the following items of correspondence:

- Board packets included a letter from Water & Steam Division Director Tom Buckhouse regarding the adjustment to the ph in the water from 7.5 to 7.9 to a range between 7.7 and 8.1. He said staff was monitoring this and would revise the Operational Performance Measurements (OPMs) to reflect it.
- EWEB had received its extension from the Federal Energy Regulation Commission (FERC) in the Carmen-Smith negotiations due in part to great support from the delegation. President Simpson would be signing letters of appreciation for the members of the delegation for their continuing support and trust in EWEB.
  - The Public Works Director indicated his support for the Leaburg Boat Landing.
  - Board packets included a memorandum regarding a potential meeting with the Eugene City Council.

President Simpson noted that he had spoken with Mayor Kitty Piercy on the previous day and she seemed enthused about the possibility.

- Board packets included a memorandum from Information Services Manger Terry Bequette regarding Information Technology (IT) projects.
- A memorandum was included from Power Management & Planning Manager Dick Varner regarding the Seneca biomass generation project that EWEB could potentially participate in as a cogeneration project. EWEB was moving into discussions regarding pricing structures.

Commissioner Cassidy averred that EWEB should decide what kind of requirements the utility would seek on the cogen project. He suggested that this be a topic of discussion for a work session. He felt that Seneca should come and tell EWEB how particle free the project would be. He thought the Board should consult with the Lane Regional Air Protection Agency (LRAPA) as well.

President Simpson agreed. He indicated that he would prefer to say that EWEB was not interested and he supported the idea of a work session.

Vice President Farmer remarked that he would hate to see the hundreds of hours of meetings that went into the creation of the Integrated Energy Resource Portfolio (IERP) process thrown out based on the whim of one or two commissioners.

Commissioner Cassidy asked what the IERP policy was. Vice President Farmer strongly recommended that he go on line and read it as it was fairly comprehensive.

Commissioner Brown said before EWEB went to the next step they should attain more information.

Mr. Berggren related that under the IERP biomass was considered a renewable resource. He agreed that it was important that the Board explore the issue. He did not think LRAPA necessarily needed to come to a work session, given that EWEB staff had a great deal of expertise.

President Simpson underscored his opposition to burning biomass, though he was willing to use biomass to generate power.

Vice President Farmer pointed out that EWEB owned the same kind of facility at a location five miles from the EWEB headquarters.

Commissioner Cassidy asked if EWEB was going to participate in burning should it not find out how much should be tolerated? He thought that kind of information should come from LRAPA.

Mr. Helgeson explained that the way to get in the door with a developer was to offer some indicative pricing of what the power value might be to EWEB. He stressed that this was not a commitment to purchase it. He said this also served as a way to get the developer to “divulge” information about the technology of the facility. He stated that they would use that sort of information prior to bringing such a project before the Board to do a full-on assessment.

Commissioner Menegat remarked that a biomass facility would give energy when the sun did not shine and the wind did not blow. He averred that they needed to look hard at this cogen possibility.

Mr. Berggren thought it would benefit the discussion to provide a backgrounder discussing what the IERP said, how it had been translated into EWEB’s actions, and what the resource acquisition process was in a generic sense.

Vice President Farmer pointed out that bringing in LRAPA before the engineering reports had even been undertaken would be premature.

Commissioner Cassidy felt that this area was prone to air quality issues.

Mr. Varner stated that if he did not submit pricing by September 5 the utility would not be in the mix and Seneca would get pricing from other entities and make a choice. He pointed out that whether EWEB chose to purchase this power or not would likely not have a bearing on whether the project was built or not. He doubted that EWEB's decision would have any influence in the project.

President Simpson ascertained from the Board that there would be general support for submitting the price and directing staff to provide more background information at a later work session.

## **BOARD AGENDAS**

Mr. Berggren highlighted the *Eugene Water & Electric Board Agenda Report* dated *September 2, 2008*.

## **ELECTRIC FIVE-YEAR CAPITAL IMPROVEMENT PLAN**

Systems Engineering & Substation Reliability Manager Dean Ahlsten briefly reviewed the amended Capital Improvement Plan (CIP) and asked for the Board's approval.

Vice President Farmer, seconded by Commissioner Menegat, moved to approve the Five-Year Capital Improvement Plan for the Electric Division, as amended. The motion passed unanimously, 5:0.

## **REVIEW OF UNIVERSITY OF OREGON SUBSTATION PUBLIC CONTRACTING EXEMPTIONS**

Vice President Farmer asked if the proposed University of Oregon arena was driving this. Mr. Ahlsten replied that it was unrelated to that project. He explained that it had to do with the chiller plant and the primary increases in usage over the next 18 months.

President Simpson asked how it would change the timeframe if this were put out to bid. Mr. Ahlsten responded that it would be difficult to be specific but he estimated six months to one year of additional time. Mr. Berggren added that the implication in this would be that EWEB would have to tell the University that it would have to wait to meet this additional load.

Vice President Farmer explained that he had wanted to determine whether the project was connected to the arena project because if it had been he felt that he may have had a conflict of interest. He disclosed that he was a member of the alumni association, which planned to move into the arena complex, and served as an *ex officio* trustee for the University of Oregon Foundation.

Mr. Berggren stated that the doubling of the load was the first phase of the project. Mr. Ahlsten added that it was a 20-year plan. Mr. Berggren underscored that staff would not ordinarily bring a contract exemption to the Board if they did not feel an obligation to make every effort to meet the customers' required service load.

Mr. Ahlsten explained that one of the primary constraints and justifications for the project was that it needed to be on line by July 1, 2010. He said a secondary consideration was that EWEB was constrained by space; the new facility would be located just north of the physical plant. He noted that the University was trying to reduce the footprint to approximately 80 feet by 100 feet, considerably smaller than a conventional substation. He related that another reason staff was inclined to exempt this contract from the bidding process had to do with recent experiences EWEB had in terms of delivery, customer service, and elements of contracts that were not met.

Mr. Ahlsten reviewed the major elements of the project, which included the following:

- 115 kilovolt switchgear – at a value of approximately \$1.5 million;
- Three transformer units were associated with the substation – two large distribution transformers and a third optional generator step-up unit assuming the University moved forward with its cogen project;
- A fourth transformer for the Bethel substation was proposed to be packaged with the procurement of the other three transformers – the value of the contract for four transformers was approximately \$3.5 million;
- Transmission lines – projected to be \$3 to \$3.5 million;
- Site work – projected to be in the range of \$800,000 and \$1 million;
- Some outside engineering services would need to be procured.

Risk/Purchasing Manager Ed Case reviewed the legal requirements for the exemption, which included publishing a notice of a public hearing and holding that hearing. He said the Board could opt to reject the exemption request and to direct staff to put all of the project out to bid, it could opt to approve a complete exemption, or it could opt to have a stipulated approval which would direct staff to utilize alternative procurement processes. He explained that the latter was an informal process rather than a formal process, such as selecting a company because it was known the company could provide a quality transformer and meet EWEB's timelines. He remarked that the difficulty lay in that very few companies could adhere to the timeline that needed to be met. He conveyed staff's preference for a complete exemption from the bid process.

President Simpson ascertained from Mr. Case that certain components could be biddable and others could not.

Commissioner Cassidy commented that he hoped EWEB would get more advanced notice from the University about meeting their needs in the future.

In response to a question from Vice President Farmer, Mr. Ahlsten stated that the chiller was being brought on line to meet current needs. He related that currently the University had buildings that are not cool in the summer. He noted that the chiller upgrades were targeted to be completed by the next summer.

Mr. Williams stated that the University wanted to get its chiller plant up and running because the current system was “woefully inadequate.”

Commissioner Brown observed that there would be a delay in funding and EWEB would be carrying the cost for one to two years. He asked if EWEB would recapture the cost in its rate structure. Mr. Ahlsten affirmed that it would be built into the rate structure going forward.

Commissioner Brown averred that the facility would cost a lot more because it was not being competitively bid. He asked if the full cost would be put into the rates. Mr. Berggren assured him that they would repay the full capital cost.

President Simpson ascertained with a straw poll that there was general Board support for exempting the project from the public bidding process.

## **STRATEGIC DIRECTION POLICY FOR STEAM PLANT TRANSITION**

Key Account Program Manager Mike Logan presented the *draft Steam Utility Transition Plan* with power points, hard copies of which were provided to everyone present.

In response to a question from Vice President Farmer, Key Account Manager Steve Mangan explained that a retrofit meant a boiler replacement.

Commissioner Brown asked if the natural gas company had applied to the Public Utility Commission (PUC) to raise rates by approximately 25 to 35 percent effective November 1. Mr. Logan confirmed this. In response to a follow-up question, Environmental Manager Steve Newcomb stated that the conversion costs were based on current costs and did not include the increase.

Commissioner Brown asked if costs included the potential cost for asbestos abatement. Mr. Mangan responded that those costs were not included.

Vice President Farmer asked what drove the square footage cost. Mr. Mangan replied that it could be driven by several factors such as the condition of existing duct work and to what extent the controls could be replaced.

Commissioner Brown observed that there would be a point at which EWEB would stop producing steam and prior to that some entities would no longer be able to afford it. He asked how EWEB proposed to address this. Mr. Logan responded that the elements in the policy included the intertie with the University and Sacred Heart, which could at least buy some time for steam customers needing it. He remarked that there were a lot of “moving parts” to the transition plan.

Commissioner Brown asked if there was any plan to conduct the asbestos abatement. Mr. Logan responded that they intended to treat that separately. Mr. Mangan elaborated, explaining that it would be unlikely that the lines would be torn up at once. He said it would be addressed in pieces as portions of the road were opened over time.

In response to a question from Vice President Farmer, Mr. Newcomb stated that the environmental danger from an enclosed asbestos line was small. He said the risk of exposure would only arise if someone accidentally opened a line with a backhoe, as an example.

Mr. Berggren estimated that it would cost \$20 million to redo the entire downtown area and rid it of asbestos.

President Simpson observed that EWEB was legally required to provide electric service to its customers and asked if it was legally required to provide steam to its steam customers. Mr. Berggren responded that if customers were given a reasonable time of notification it mitigated the obligation to provide the service. He opined that it was a policy question more than a legal question.

In response to a question from Commissioner Cassidy, Mr. Logan stated that he had “floated” a concept with the project team of providing steam customers with loans to help make the transition.

Mr. Logan reviewed the potential timeline, at Vice President Farmer’s request. He thought two to three years would be a realistic time horizon. He commented that the hospital facility would likely prefer to have steam for another ten years. Mr. Berggren remarked that the optimal timeline would be three to five years, with the work starting at the perimeter of the service area and working toward the core.

Vice President Farmer asked how much it would cost to retrofit the headquarters building. Mr. Logan estimated that it would cost between \$6 and \$7 per square foot to retrofit the 90,000 square foot headquarters site.

Commissioner Cassidy indicated his support for a three to five year timeframe.

In response to a question from Commissioner Brown, Steam Operations Supervisor Will Bondioli explained that in the first five years going forward steam could be an essential part of Sacred Heart’s capital plan at 40 to 50 percent of the 2007 level of consumption. He said this would give them time to develop a strategy for retrofitting the hospital.

Vice President Farmer ascertained that money was not included in the CIP for the headquarters building. He asked if Mr. Ahlsten intended to put \$5.5 to \$6 million in the CIP for it. Mr. Berggren replied that this information would have to be brought back before the Board.

In response to a question from President Simpson, Mr. Bondioli stated that there were 78 steam customers in approximately 62 buildings.

President Simpson asked if it would increase or decrease EWEB's carbon footprint if all of the customers converted to another heat source and EWEB turned its boiler off. Mr. Newcomb responded that it would provide a significant improvement in carbon emissions.

Commissioner Brown asked if EWEB had considered incentivizing the conversion to electricity. Mr. Logan replied that this had not yet been discussed.

Vice President Farmer observed that the situation presented the philosophical question of whether EWEB would take responsibility for cutting someone's steam service off versus paying for improvements to a building that someone else owned.

Mr. Logan stated that he intended to gain a sense of the Board's direction and would bring a final version for consideration in the Consent Calendar on September 16.

Vice President Farmer said the magnitude of the cost would be good to know i.e. where it was projected to fall within the range of \$6 to \$21 million. Mr. Logan responded that staff had been grappling with this. He remarked that each customer was unique in terms of infrastructure.

Vice President Farmer asked if there were any tax credits available. Mr. Logan replied that staff intended to talk to the Oregon Department of Energy about this possibility. He said in looking at the steam system it was not an issue for the department in terms of its fuel switching policy. He thought customers would have to confront the policy issue on an individual basis. Mr. Berggren added that staff also intended to talk to the Oregon Energy Trust, which was smaller.

Commissioner Brown reiterated his concern about asbestos in the lines. He felt that businesses could be forced into addressing it and would face substantial expense. Mr. Bondioli agreed that asbestos abatement could increase costs in an unpredictable way.

President Simpson averred that staff was proceeding in the right direction.

In response to a question from Vice President Farmer, Mr. Berggren explained that the steam utility was part of the electric utility because it had originally been part of the power generation. He said the generation aspect had been shut down in 1989.

Commissioner Menegat indicated a potential perceived conflict of interest in that he was a member of a church that was a steam customer. Mr. Berggren said he would ask legal counsel to look into the situation to ascertain whether this truly represented a conflict of interest. Commissioner Menegat did not believe that this potential conflict would prevent him from participating in the action scheduled for September 16.

President Simpson expressed a preference for an accelerated timeline. He averred that EWEB needed to get out of the steam business.

Vice President Farmer thought it would be good to know how much they would lose in two years, three years and five years. Mr. Bondioli responded that he had tried to project the budgets, but things were very subjective. He said if EWEB announced it was getting out of the steam business it would have repercussions on the capital decisions of the downtown businesses.

Mr. Berggren thought EWEB would lose in the neighborhood of \$700,000 to \$1 million per year. Mr. Bondioli agreed, noting that staff had put about \$700,000 in "red ink" on the books over the last several years. He said he would be back in October with proposed rate increases for the steam utility and a discussion item regarding natural gas costs.

Vice President Farmer asked how often staff was reviewing the steam utility rates. Mr. Bondioli replied that staff was reviewing them annually. Vice President Farmer suggested that if EWEB saw an accelerated deterioration of its customer base because the steam utility was being phased out the reports should be given biannually.

## **ADJOURNMENT**

President Simpson adjourned the Regular Board Meeting at 9:53 p.m.

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Assistant Secretary

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President