

EUGENE WATER & ELECTRIC BOARD  
BUDGET WORK SESSION  
EWEB BOARD ROOM  
OCTOBER 21, 2008  
6:10 P.M.

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

Others present: Randy Berggren, Jim Wiley, Debra Smith, John Yanov, Dick Varner, Garilyn Johnston, Jim Origliosso, Dick Helgeson, Cathy Bloom, Mark Freeman, Krista Hince of the EWEB staff; Rich Cunningham and Joann Ernst, members of the public, and Ruth Atcherson, City of Eugene minutes recorder.

President Simpson convened the Special Meeting of the Eugene Water & Electric Board (EWEB) at 6:10 p.m.

**2009 ELECTRIC LONG-TERM FINANCIAL PLAN**

Fiscal Services Supervisor Patty Boyle stated that there had been an error in the model regarding rate increases in the out years. She explained that they had not factored in the correct amount of wholesale sales, causing the rate increase to be higher than it should have been.

Ms. Boyle reviewed the *2009 Electric Budget Preliminary Review* with power points, hard copies of which were provided to all who were present. She noted that the budget for 2008 was built with the assumption of a rate increase of two percent, which had been negated by the Board in response to the residential exchange money passed down from the Bonneville Power Administration (BPA), which was equal to the increase.

Ms. Boyle compared the 2008 budget to the proposed 2009 budget. She noted that the decrease in *Contribution Margin Expense* was due to the expectation that power costs would be lower. She said the contribution to the reserve funds was projected to be \$2 million for 2009 as a result of this.

Commissioner Brown observed that the operating reserve had \$15 million in it and there was some question as to how much was enough. He asked what level the operating reserves had fallen to during the energy crisis. Mr. Berggren responded that EWEB had approximately \$40 million in the fund and it fell to a deficit of \$30 million. Mr. Origliosso underscored that it had been a \$70 million swing.

In response to a follow-up question from Commissioner Brown, Mr. Origliosso explained that \$15 million was the level that was anticipated to be needed in the event the utility experienced one year of poor hydro performance.

President Simpson asked when EWEB had taken the 40 percent rate action in response to the crisis. Mr. Berggren replied that it had been enacted almost immediately at the time. Treasurer Jim Origliosso said the BPA had increased EWEB's rates by 32 percent.

Ms. Boyle said, in response to a question from President Simpson, that typically at the end of the year the excess contribution margin was placed in the power operating reserves and then the Board in April would have a conversation about adjusting either targets or the disposition of those reserves as the Board deemed appropriate.

Ms. Boyle highlighted the *July 2009 Forecast Compared to the 2009 Budget*. She explained that the change in the anticipated wholesale power revenues had been due to using forward prices that were no longer valid assumptions.

Ms. Boyle explained that the *Residential Exchange* would provide \$500,000 per month for seven years and this was not reflected in the budget at this point. She said if the Board so directed, they would eliminate the four percent increase.

Vice President Farmer ascertained from Ms. Boyle that this equalization of the rate increase could only accurately be applied to 2009, given that future BPA increases were as yet unknown. She asked the Board to consider whether EWEB should push back the entire \$6 million in the annual residential exchange to make for a small rate decrease or should it be included as part of the reserve building strategies. She noted that there were some financial issues in the years ahead.

Commissioner Brown ascertained that if EWEB took the credit it would reduce its Contributions in Lieu of Tax (CILT) to the city.

Commissioner Brown asked which would be a better savings for EWEB: to pay down the debt and save in interest costs or to save money in the CILT. Mr. Origliosso replied that the bonds had a ten-year call and if they wanted to call the bonds back prior to that ten-year period EWEB would have to pay a premium.

Commissioner-elect Rich Cunningham asked when the revenue bonds for the Roosevelt Boulevard project and the Carmen-Smith relicensing project had to be repaid. Mr. Origliosso responded that the first bond issued for the Roosevelt project was for 22 years and the bond for Carmen would be for 30 years when it was issued in 2010 to 2011.

Vice President Farmer encouraged staff to consider what they would recommend for long-term strategic planning for the budget out years and to make suggestions in that regard.

Mr. Berggren concurred. He added that they should also model the potential loss of BPA power levels in the out years.

Vice President Farmer felt it was attractive to consider holding the line with rates because of the \$6 million annual windfall from the BPA.

Mr. Origliosso said staff could bring resolutions before the Board to defer revenue out of the present year until the “troublesome years” and then recognize the revenue in those years. He acknowledged that staff had been asked by the Board in a previous discussion on this to determine how the rate agencies would look at such a deferral and indicated that they intended to do so.

Mr. Helgeson underscored that it was within the Board’s discretion to consider how to apply the money they were receiving from the BPA. He reiterated that the money was a result of a court case that had been found against the BPA with respect to amounts they had collected in their rates over six or seven years that had been determined to be unlawful. He said the residential exchange money was a result of the remand in which the BPA acknowledged almost \$700 million in overpayments by publicly owned utilities. He explained that the money would be applied as a direct credit against the power costs.

Commissioner Cassidy indicated his preference to build up reserve funds over providing a decrease in the rates. President Simpson concurred.

Commissioner Menegat observed that the residential exchange was different from the BPA rate pass-throughs. He asked whether the residential exchange money was something that would be governed by the Board’s policy. General Manager Randy Berggren responded that it was true that the Board had enacted a policy that required BPA rate actions to be passed through to the ratepayers. He said the Board could choose whether or not to do so with the residential exchange money. He observed that the ratepayers were much more amenable to a rate increase that was passed through from the BPA than to one that had been incurred by increased EWEB expenses.

Vice President Farmer asked if any potential legal challenge was predicted to come forward to the residential exchange settlement. Power Resources Division Director Dick Helgeson replied that it was certain to be challenged. He said since EWEB had been overcharged he did not believe it was likely that a challenge would result in negating the obligation to pay the residential exchange. He thought a challenge could result in a change in the amount, either up or down, as the EWEB ratepayers were the “injured party.” While he fully expected it to be challenged, he placed a low probability that the action would be overturned.

President Simpson asked when the residential exchange money would begin to be paid to EWEB. Mr. Helgeson replied that the first payment had been received at the beginning of October.

Ms. Boyle pointed out that the Board would have another opportunity to address any changes in the budget as a part of the Cost of Services Analysis (COSA).

Mr. Berggren suggested that staff bring back proposals to consider regarding the potential of passing through the residential exchange or modeling it so that the money went into the reserves.

In response to a question from Vice President Farmer, Mr. Origliosso explained that the floor in the power reserve fund was related to the hedges. Mr. Berggren noted that the credit markets had compromised EWEB's ability to hedge. Mr. Origliosso concurred, adding that EWEB was essentially not hedging with banks any longer.

President Simpson called for a five-minute break and reconvened at 7:20 p.m.

## **STRATEGIC STAFFING**

Ms. Boyle cited the memorandum in Board packets entitled *Strategic Staffing – Financial Tracking* dated *October 15, 2008*. She said it focused on those positions that were expected to be hired early for training or apprenticeship purposes in order to provide the Board information on the costs as they were planned for 2008, as they actually happened in 2008, and as they were planned for 2009.

President Simpson observed that the strategic staffing process encompassed a temporary doubling up of staff in a few areas and asked how long those positions would be doubled up. Ms. Boyle responded that it depended on the position; some would be doubled up for as little as a quarter and some would be doubled up for a year or more. Mr. Berggren noted that apprenticeships lasted for three years.

President Simpson asked what controls were in place to prevent this increased need for strategic staffing from happening again. Mr. Berggren replied that the current situation was a direct response to a population bubble and was being experienced in all work forces.

Ms. Smith related that this piece on strategic staffing would be part of a new process that the Board would be seeing every year. She anticipated that they would be maturing the three-year plan into a five-year plan so that the Board could see the "bubble" and track it from one year to the next. She reminded the Board that staff would be bringing a complementary policy change that tied into the strategic staffing plan that would require the its completion on an annual basis.

President Simpson expressed concern that there might be a quality drop as one person transferred their knowledge to the next and then retired. He wanted to know what controls were in place to ensure a complete transfer of information and whether there would be a documentation overlay placed upon the overlap. Mr. Berggren responded that all of this was in place. He said they were creating documentation of all of the work practices and methods.

Mr. Wiley explained, at Mr. Berggren's request, that the maximum ratio of apprentices to journeymen was 1:8. Mr. Berggren noted that there was a great deal of quality control in the apprenticeship program and apprentices were reviewed every six months. He felt the ratio represented a good number of teachers per student.

Mr. Berggren underscored that EWEB would see the number of retirements drop off as the so-called baby boomers eventually phased out and their positions were filled.

In response to a question from President Simpson, Mr. Berggren affirmed the assumption that the number of employees would grow by one or two Full Time Equivalent (FTE) for the water and electric utilities for every year in the current ten-year financial plan.

In response to a question from Vice President Farmer, Ms. Boyle clarified that in the memorandum a .5 FTE could mean one person working full time for half of the year.

Vice President Farmer averred that someone should be able to "perform from day one." He reiterated his position, which was that EWEB needed to plan for this issue and take a more comprehensive approach than doubling positions.

Mr. Berggren clarified that there was a different staffing strategy for the power management division; there were three supervisors positioned to address the potential retirement of the director and some of the senior "lieutenants" in that division. He said every position had a different underlying response strategy and strategic staffing was not entirely an overlap strategy.

Vice President Farmer observed that EWEB planned to pay \$270,000 for one position in the first nine months of the year. Mr. Berggren responded that it was staff's feeling that one position was not competently performing the work in the face of the substantial risks that existed in power management. He underscored that they were not considering this a training position.

Vice President Farmer said he wanted to see a more comprehensive approach. He did not feel doubling staff positions was much of a strategy. He related that he looked at other industries and innovative ideas were being used to meet their needs that cost less than overlapped staffing.

Commissioner Brown asked if anyone had asked the other utilities in the area what they were doing to meet their staffing needs. Ms. Smith replied that she believed Ms. Meyer had done outreach in the industry and much of that data had been included in her strategic staffing report. She noted that much of the strategic staffing was focused on the electric division.

Commissioner Brown averred that these were not just jobs; they were careers. He said it was important to have the best and most skilled employees possible. He felt that given that the jobs were careers, the process for training had to be done right.

Vice President Farmer related that he would consider using a signing bonus in his place of work to lure a potentially promising employee to come and work for him. Mr. Berggren pointed out that signing bonuses could become an issue in terms of equity in the union contract.

Vice President Farmer said he was not saying this should be the only mechanism; he just wanted people to bring some “outside the box thinking” into play. He likened the current strategic staffing plan to an “HR 101 approach.”

Commissioner Menegat opined that EWEB was thinking “outside the box” in regard to strategic staffing. He felt they were getting people geared up for reorganization and a number of other things in addition to replacement staffing.

In response to a question from Vice President Farmer, Ms. Smith stated that Christina Bennett, who had previously come before the Board to discuss labor relations, had filled Ms. Meyer’s position.

## **2009 WATER LONG-TERM FINANCIAL PLAN**

Senior Financial/Rates Analyst Garilyn Johnston presented the *2009 Water Budget Preliminary Review* with power points. She noted that the Board had indicated that a 15 percent increase might not meet the Board’s targets and had recommended that staff look at a 20 percent increase. She said the presentation included this budget assumption. She noted that the 2009 budget reflected no revenue from Hynix, but there would still be some income currently estimated to be \$100,000 to \$125,000.

Mr. Origliosso reiterated that the water utility was a fixed cost; the costs remained relatively the same whether the utility sold a lot of water or not.

Ms. Johnston noted that the *Capital Budget* pie chart reflected an increase in the cost of replacement water mains.

Ms. Johnston stated that the *Water Long-Term Financial Plan* included the Roosevelt Boulevard facility lease payment to the electric division, which was 30 percent of the debt service. She said it also included the sale of the riverfront property in 2013, which would reduce the debt service, and the bond issue for capital slated for 2011. She noted that it was staff’s thinking that it might be a little small to have interest in the market, so they were going to offer some options such as increasing rate-funded capital or lowering the capital spending in order to balance it out. She said they also could consider combining some projects.

President Simpson asked if the issue were that a \$5 million bond would not look as “attractive” in the market. Ms. Johnston affirmed this, adding that the interest would probably be higher as well. Ms. Boyle said bonds took the same amount of work regardless of size.

In response to a question from Commissioner Brown, Ms. Boyle confirmed that as currently modeled in the financial plan the water utility could have an equity interest in the Roosevelt Boulevard facility. She stressed that staff would do as the Board directed.

Vice President Farmer asked why the lease payments were higher in 2010 and 2011. Ms. Boyle replied that proceeds from the sale of the riverfront property would reduce the cost after 2011.

In response to a question from President Simpson, Ms. Johnston clarified that the debt service target sought to set a goal at which the revenue minus expenses would leave a balance that would cover the debt service two and a half times or more.

Commissioner Brown asked if the financial plan included any revenue offsets for regional water supply. Ms. Boyle responded that it did not. Commissioner Brown felt this could offset rate increases. Mr. Berggren stated that they had made some projections based on the loads of some of the potential regional customers and it appeared that it could bring in an estimated \$200,000 in revenue, approximately two percent of the budget. He did not think it would offset the rate increases very much to supply water to the outlying communities.

Commissioner Brown asked staff to find out what EWEB's comparator communities' strategic plans were. Mr. Berggren expressed some skepticism that other utilities would freely share such information. Commissioner Brown remarked that EWEB should still ask for the information. Ms. Boyle said she would make the distinction in the materials related to the comparative rates study as to whether other utilities' strategic plans were available.

Vice President Farmer felt a projected income statement was lacking from the financial plan.

In response to a question from President Simpson, Ms. Johnston explained that the 2009-projected budget was based on projections from the previous year that had been changed to reflect a possible 20 percent increase and the closure of Hynix and the actual budget sought to reflect the current financials.

In response to a question from Mr. Cunningham, Mr. Berggren stated that the wholesale accounts would see a proportional share of the rate increases.

In response to another question from Mr. Cunningham, Ms. Boyle explained that the unrestricted reserves were made up of a total of the operating reserve requirements as set by the Board and was a function of the size of the capital plan. She said the current levels reflected a ramp-up of the capital plan.

Special Board Meeting  
October 21, 2008  
Page 8

**ADJOURNMENT**

President Simpson adjourned the Budget Work Session at 8:25 p.m.

---

Assistant Secretary

---

President