

EUGENE WATER & ELECTRIC BOARD  
WORK SESSION  
EWEB BOARD ROOM  
NOVEMBER 4, 2008  
5:30 P.M.

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

Others present: Randy Berggren, Dick Helgeson, Patti Boyle, Debra Smith, Jim Origliosso, Jim Wiley, Dick Varner, Lance Robertson, Garilyn Johnston, Cathy Bloom, Terry Bequette, Christina Bennett, Bill Welch, Sheila Crawford, and Krista Hince of the EWEB staff; Joann Ernst, member of the public; and Ruth Atcherson, City of Eugene minutes recorder.

President Simpson convened the Work Session of the Eugene Water & Electric Board (EWEB) at 5:25 p.m.

**2009 BUDGET – BUDGET DETAIL DISCUSSION**

Fiscal Services Supervisor Patty Boyle presented the *2009 Electric Budget Preliminary Review* with power points, hard copies of which were available to everyone present. She noted that Senior Financial Analyst Garilyn Johnston would present the budget review for the water utility and Human Resources Manager Christina Bennett would briefly discuss strategic staffing. She began the discussion by reviewing the changes in the *Net Contribution Margin*.

Ms. Boyle discussed the *2009 Budget Compared to 2008 Budget by Major Expense Category*. She noted that the Energy Trading and Risk Management (ETRM) costs were largely attributable to additional software maintenance and documentation for the trading processes. She said general cost increases for all items related to production had been assumed to be three percent for materials and supplies and the labor costs overall were increasing by five percent.

In regard to transmission and distribution associated costs, Treasurer Jim Origliosso explained that there had been a decrease in the capital side of the budget based on reduced economic activity and reduced new construction in the community. He said this had been shifted to the operations and maintenance side of the budget and EWEB had ratcheted down its reliance on contracted services.

In response to a question from Commissioner Brown, Electric Division Director Jim Wiley stated that the budget for tree trimming had been increased by \$2.9 million but they had not been able to ramp up the trimming services to the level at which that amount of money would have been spent. He said \$2.5 million had been spent on tree trimming the previous year and now they were looking at the coming budget to see how best to ramp it up.

Commissioner Brown asked if the carryover of \$500,000 was because EWEB could not find the providers of the service or whether it was due to logistics. Mr. Wiley replied that it was a combination of both. He said they had to find a better way of contracting the services out.

In response to a follow-up question from President Simpson, Mr. Wiley said EWEB was slightly behind in tree trimming, but was still within the guidelines of the Oregon Public Utilities Commission (PUC).

President Simpson asked where unused tree trimming money would go. Mr. Origliosso responded that it would be placed into reserve funds.

Vice President Farmer recalled that the PUC had issued citations revolving around where lines were located in proximity of other lines. He asked if EWEB was on track so that it would not receive any more citations. Mr. Wiley responded that EWEB was on target in doing the required work and had been checking in with the PUC every six months. He said they were satisfied with EWEB's efforts. He noted that EWEB had received a time extension on installing 186 miles of system neutral, one of the requirements from the PUC. He explained that staff would be able to do so more efficiently as they were doing the clearance work and putting the neutral in. General Manager Randy Berggren added that EWEB had formulated a ten-year program to complete the work.

Ms. Boyle resumed her presentation, discussing the budget categories associated with *Customer Accounting* and *Conservation – Conservation Programs*.

Commissioner Brown asked what the \$175,000 for additional promotion of the Energy Management Systems (EMS) included. Power Resources Division Director Dick Helgeson explained that this was a 30 to 35 percent increase in overall outlays for marketing related expense for conservation. He said some of it was direct advertising, such as display ads in the newspaper, and other expenses included further extension of the licensing costs for the software used on the base server that had analysis tools customers could use.

Regarding the *Administrative and General* category, Ms. Boyle noted that one of the drivers, the \$400,000 in retiree lawsuit settlement costs, would become an annual ongoing expense. Mr. Origliosso added that they would be bringing a budget amendment before the Board to address the present year's increment of the settlement.

Mr. Berggren stated that the headquarters study was intended to get a usable estimate on what it would cost to improve the headquarters site. Commissioner Brown surmised that it would not only provide estimates for the current site but would also provide a cost analysis of moving or not moving.

Mr. Origliosso clarified that it would not include what it would cost to be at the Roosevelt Boulevard site. Mr. Berggren added that staff was working with PIVOT to get the estimates for the upgrade costs. He said Roosevelt Project Manager Ken Beeson was prepared to take those numbers into a broader analysis of what it would cost to move versus what it would cost to renovate.

In response to a follow-up question from Commissioner Brown, Mr. Berggren explained that the work product would be an estimate of investment costs required at the headquarters site to make the facility last another 20 years.

In response to a question from Commissioner Cassidy, Mr. Berggren clarified that the safety manual staff planned to develop was primarily intended for EWEB's work force but it would also provide rules and guidelines for contractors that worked on the site.

Vice President Farmer asked that anything that would be significant in the actual 2008 costs as compared to the 2008 budget be included in the presentation. Mr. Origliosso said this comparison of 2008 projections would be part of the budget proposal to be presented on November 18.

Vice President Farmer also requested that the budget be expressed in percentages as well as dollars for the next year. He said it would benefit his understanding to have a trend analysis as well. He observed that EWEB did a good job of analyzing trends going forward, but lacked a clear understanding of the trends looking backward.

Ms. Johnston provided an overview of the *2009 Water Budget Preliminary Review* with power points, copies of which were included in the Board packets. Mr. Berggren recapped the closure of Hynix, its impact on the water utility, and the current rate proposal, which represented an increase from the previous rate proposal in order to counteract the impact the loss of this load, presented.

Vice President Farmer asked if there was a target date for the reserve funds. Mr. Berggren responded that staff had provided a ten-year financial view and he did not think there was a specific target date. He said there was approximately a \$75 million placeholder for a second water source in 2017. Mr. Origliosso added that the suggested amount in the past for an appropriate reserve level for the water utility was \$13 to \$15 million.

Commissioner Brown noted that the water utility owned two-thirds of the headquarters site. He asked where the money would go when the riverfront property was sold. Mr. Origliosso related that the current plan was to use the proceeds from the sale to reduce the amount of money EWEB would otherwise borrow for the Roosevelt Boulevard site. He explained that EWEB had taken one tranche of \$55 million in the present year and they had scheduled a second tranche of \$30 million. He said they would borrow that money on a short-term basis because they were looking to the headquarters to pay for it. He added that the current plan was to reflect that in the rental agreement between the two utilities and the water utility would be given full credit for its ownership share.

Commissioner Brown advocated for giving the water utility an equity position in the new site. Mr. Origliosso responded that staff was neutral on whether at the end of the lease the water utility would have an ownership position. Commissioner Brown expressed an interest in having a work session discussion on this.

Vice President Farmer did not think EWEB had a mechanism that would trigger a commensurate decrease in rates once a target had been reached through an increase in rates. Mr. Origliosso responded that every year staff brought the prior year's financial results in January and then in April, based on that information and the audit, the Board and staff set targets for the coming year. He said to the extent there was excess contribution margin they would have a conversation in April as to what the disposition of it would be.

Mr. Berggren stated that once the reserve targets were met the Board could have a discussion about what a 2010 rate action would be. He said the Board could decide to reduce rates or redirect revenues.

Vice President Farmer reiterated his feeling that if EWEB had a specific rate action based on a specific need, there should be an automatic trigger to discuss the issue if the need became refocused. Mr. Origliosso replied that he thought the mechanism lay within the budget discussion.

Ms. Johnston continued her overview of the water utility budget. She recapped the planned increases, noting that rates had been increased by 17 percent in the previous year and would be increased by 20 percent in the coming year. She noted that there was some question of whether Hynix would keep anything up and running and thought it might continue to contribute some revenue.

Ms. Johnston shared a graph delineating the *Average Monthly Residential Bill* related to EWEB's comparators, which showed that EWEB was toward the bottom in relation to costs. Mr. Berggren noted that the other water utilities were faced with the same cost increases and would likely be enacting rate changes as well.

President Simpson surmised that a typical customer with 9 kilogallons would have a \$3 increase on his or her bill.

Ms. Johnson discussed *Operating Expenditures*. Vice President Farmer requested to see the data in terms of percentage increases as well as in dollar amounts.

Commissioner Brown said EWEB was still negotiating wage and benefit increases and asked how the labor cost increases had been determined. Ms. Boyle replied that they needed to include an assumption for the budget and in this case the assumption for wages was four percent.

Commissioner Brown asked if contracts with government entities, such as the proposed University of Oregon arena, were required to pay Systems Development Charges (SDCs). Ms. Boyle confirmed that they were.

President Simpson asked if EWEB would sell more or less water in 2009. Ms. Boyle responded that it would sell less because of the closure of Hynix.

Vice President Farmer asked if water consumption had dropped during the last recession in the 1980s. Ms. Boyle replied that she was not certain. Mr. Origliosso said they kept those statistics and he could look it up. He underscored that water sales were dependent on irrigation levels during the summertime.

Commissioner Brown asked who paid to maintain fire hydrants in Eugene. Mr. Berggren replied that EWEB had done so until 1991 or 1992. He said the city had paid EWEB \$300,000 to do so and then reallocated the funding for other things. He related that now the hydrants needed to be maintained and the city wanted EWEB to do it, but they did not want to pay anything. He called it a pending issue.

## **2009 STRATEGIC STAFFING**

Mr. Berggren introduced Human Resources Manager Christina Bennett. He said she intended to break down what was in the 2009 budget from a strategic staffing perspective. He noted that they hoped to resolve Vice President Farmer's concern regarding the use of overlapping positions as a strategy.

Ms. Bennett provided a power point presentation entitled *Strategic Staffing Update*, hard copies of which were provided to everyone present. She stressed that the strategic staffing initiative was new and was a living document. She said retirements could be capricious; they were not a fixed activity. She noted that the changing economy could also affect strategic staffing.

Ms. Bennett reviewed the positions that would be overlapped in the electric and water utilities and the succession planning that was underway in power management.

President Simpson ascertained that the Commissioners were amenable to extending the meeting to 7:15 p.m.

Ms. Bennett explained that *New and Emerging Work* requested from the staffing reserve included a project manager for the Automatic Metering Infrastructure (AMI) project and a purchasing analyst to handle all of the purchasing on the Carmen-Smith relicensing, the Roosevelt, and the AMI projects. She said there were two positions listed in Energy Management. She explained that the focus in conservation would shift from residential to commercial and some people would be retiring in the residential side in 2010. She stated that the goal was to hire people in the commercial side in 2009 and then when the retirees left the other side in 2010 they would not be replaced.

Vice President Farmer ascertained from Ms. Bennett that the salaries listed for the positions that were part of succession planning were based on current salary levels and included benefits. Mr. Berggren added that traditionally there had been a single supervisor over the power resource planning and the trading floor and it had become too much work for one person. He said there had been major changes in the environment; resource planning had to be active to meet load growth obligations under the post-2011 contract, as did mandatory resource portfolios. He related that trading floors also had to comply with North American Electrical Reliability Corporation (NERC) relative to day-to-day operations. These two elements required two different sets of expertise, both foundational to strategic succession planning for the current senior management.

President Simpson asked a member of the public Joann Ernst if she had any questions. She asked if EWEB had a mandatory retirement age. Ms. Bennett replied that it did not.

Ms. Ernst then asked if there had been any discussion of working with private consultants instead of trying to bring in a full time person. Ms. Bennett replied that they had not looked at consultants for these specific jobs. She noted that EWEB had utilized consultants for power management, but generally it was more expensive than hiring staff and they did not have the continuity or knowledge of EWEB's facilities.

Mr. Berggren stated that they "routinely" had a conversation about whether a consultant could do the work and it made sense to staff positions internally on a prolonged basis to accomplish the work. He stressed the importance of institutional knowledge.

Vice President Farmer asked how the cost would change over the next few years. Mr. Berggren responded that in the next year the strategic staffing costs were projected to peak at \$1.8 million and the cost would begin to ramp down in subsequent years.

Employee, Customer & Community Services Director Debra Smith underscored that this was new work. She said the first part was to focus on the most critical skill areas, which was why it appeared there was an over-reliance on overlap in the electric trades, the area where the drop in staffing was being felt most acutely. She stated that now they were focusing on areas where overlap was not an effective strategy.

Ms. Bennett stated that cost for strategic staffing in 2009 would be \$1.5 million, in 2010 it would be \$1.8 million, and in 2011 it would be \$1.3 to \$1.4 million.

Vice President Farmer asked if the cost would ever "go back to zero." Mr. Berggren reiterated that the cost of strategic staffing in the current context would likely be over a period of five to seven years. He did not think the issue of strategic staffing should go away, but at this particular time EWEB was addressing the "baby boomer" population bubble as it reached retirement age.

Vice President Farmer remarked that EWEB seemed to be always fighting to hire and keep line technicians. He felt this reflected a deeper problem than a population bubble. He was concerned that EWEB might spend \$1.5 million annually on strategic staffing for the “next 50 years.”

Mr. Berggren stated that EWEB was increasing its outreach and holding career fairs. Smith added that EWEB would always have apprentices and there would always be people going through the pipeline.

In response to a question from President Simpson, Ms. Bennett explained that 360-degree feedback was feedback from supervisors, subordinates, and clients. She felt it had been a useful tool for EWEB.

Commissioner Menegat asked if staff was looking for any specific direction. Mr. Berggren responded that based on what he had heard staff would continue forward with the recommendations they had. He stressed his desire to continue to be available and accessible to the Board’s concerns. He said to the degree the Board had ideas they needed to continue to integrate them and to continually refresh this plan. He stated that the plan would be subject to a lot of testing, changing, and development.

Ms. Smith said they were “certainly not expecting” the Board to approve the plan for 2010 and 2011. She likened the strategic staffing plan to the budget in that it would be reviewed and revised annually.

President Simpson adjourned the meeting at 7:17 p.m.

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Assistant Secretary

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President