

EUGENE WATER & ELECTRIC BOARD
BOARD GOVERNANCE WORKSHOP MEETING
VISTAS ROOM – EUGENE HILTON HOTEL – 66 EAST 6TH AVENUE
EUGENE, OREGON
JANUARY 23, 2009
8:30 A.M.

Commissioners present: Ron Farmer, John Brown, Bob Cassidy, Rich Cunningham, and Joann Ernst.

Others present: Randy Berggren, Jim Wiley, Debra Smith, Jim Origliosso, Sheila Crawford, Tom Buckhouse, and Krista Hince of the EWEB staff; Wade Hicks, City of Eugene minutes recorder; John Carver, guest speaker.

President Farmer convened the Board Governance workshop meeting of the Eugene Water & Electric Board (EWEB) and welcomed guest speaker and presenter John Carver.

President Farmer confirmed that the Commissioners had received Mr. Carver's information materials and looked forward to hearing his presentation. He provided a brief historical perspective on the EWEB Board and hoped that the information being presented at the workshop would memorialize the Board's governance process in a manner that would benefit both EWEB and its customers.

Mr. Carver provided a brief overview of the creation and guiding principles behind The Policy Governance Model (PGM) and noted that the model was designed to make the governing processes of corporate and non-profit boards of directors more efficient and productive. He hoped that the PGM might help correct the prevailing misconception that governance was the "stepchild of management" and further noted that one of the primary principles of the model was that the board's role was not to assist or advise its staff but rather to command it.

Mr. Carver briefly described the relationship between the citizens of the City of Eugene (Owners), the EWEB Board of Directors (Board) and the EWEB Chief Executive Officer and EWEB staff (Operations) and how that relationship might be addressed in terms of the PGM.

Mr. Cassidy expressed that while the EWEB Board's relationship to staff would most likely correspond with Mr. Carver's interpretations, the current relationship between the Board and staff might not be as structurally efficient as the PGM might dictate.

Mr. Carver responded to Mr. Cassidy's statement and noted that a Board's failure to adopt precise standards of interaction with its staff, as might be prescribed through the PGM, would not result in mayhem but rather a sustained series of smaller problems that would eventually weaken the structure of the organization as a whole. He encouraged the EWEB Board members to consider themselves as "students of governance."

Mr. Cassidy hoped that an examination of the PGM might reveal ways the EWEB Board might address crisis situations or the difficulties that were inherent when Board members were unavailable or replaced.

Mr. Carver, responding to a question from Vice President Brown, expressed that the PGM would not necessarily need to be mandated upon a new EWEB CEO if it were implemented effectively among the board. He indicated that while the governance strategies of the PGM were designed only to be considered by the Board and not by the CEO's or staff's of corporate or non-profit organizations, the PGM strategies did not preclude a Board from effectively drawing on the experience and expertise of those individuals working under them.

General Manager Randy Berggren maintained that, with respect to the relationship between Boards and their organizations, around 90% of the general managers of public utilities did not fully know their role within their own organizations which often led to those general managers assuming a great deal of the leadership responsibilities of the Board, which in turn led to a great deal of tension throughout the organization.

Mr. Carver responded to Mr. Berggren's comments and noted that many boards attempted to work from agendas generated by management, when in actuality the ideal situation would be for management to work from agendas generated by a board of directors.

President Farmer noted that one of the biggest challenges the EWEB Board habitually faced was when a single Commissioner or a similar minority would disrupt or otherwise strongly challenge the majority decisions of the Board. Mr. Carver responded that the PGM did not necessarily serve to eliminate minority dissent among Boards but could rather help facilitate dissenting minority positions in a manner that did not adversely affect the management operations of an organization.

Vice President Brown noted a recent instance of a dissenting vote on a matter before the Board and asked Mr. Carver how it would be possible to effectively communicate to EWEB's staff and its customers how a dissenting vote or opinion might have been addressed.

Mr. Carver continued to describe various aspects of the relationship between boards and operations groups and noted that the PGM contained a specific examination of an organization's broader reasons for existing in the first place. He noted that such examinations were part of the PGM's "Ends & Means" strategies whereby a Board could determine those leadership issues that were most strongly related to the overall goals of the organization itself. He further noted that the PGM's Ends & Means strategies could help answer the fundamental question, "Why do we exist?" of an organization such as EWEB.

Mr. Carver proceeded to describe for the EWEB Commissioners the various principles of the PGM's Ends & Means concepts. He stated that ends generally described what an organization "would make come to pass in the world," while means generally described, "How we get there." He further stated that, with respect to a Board's commands to the CEO and staff of an organization, the ends and means was ideally guided by boundaries of ethics and prudence that were the strict purview of the Board itself.

Mr. Carver, responding to a question from President Farmer, noted that the Board's discussion on ends should strike a balance between the maintenance of status quo operating principles beneficial to the organization and more concerted efforts to improve the operating principles of the organization beyond what had historically been established. He noted that such questions were a good focus of further board debate.

Mr. Carver proceeded to demonstrate for the EWEB Board the manner in which the PGM's Ends & Means strategies might be applied to the policy approval duties given to CEO's of organizations by boards. He noted that traditional means of assigning such duties had proven ineffective.

Mr. Brown asked how the Mr. Carver's PGM Ends & Means strategies might be applied to such tools as the annual performance evaluation of EWEB's General Manager. In response, the Commissioners briefly discussed with Mr. Carver how the PGM might be used to strengthen and clarify the relationship between the Board and the General Manager.

Commissioner Ernst briefly suggested that application of the PGM's Ends & Means strategies by the Commissioners might be a way to address diversity issues at EWEB's management levels. Mr. Carver responded that such applications might serve the means of increased staff diversity but should not come at the expense of the broader ends of EWEB's commitment to provide power and water to the public.

Mr. Carver, responding to comments made by Commissioner Cassidy, noted that the manner in which EWEB provided power and water to the public, particularly with respect to the levels of customer service that EWEB endeavored to provide, was affected by ethics and values that EWEB governed itself by.

Mr. Berggren briefly commented upon how the Ends & Means principles of the PMG might be applied to the Commissioners' relationship with EWEB's customers and staff.

Mr. Carver briefly described the manner in which ethical means considerations dictated by Boards could become progressively more focused and defined under the PGM, a concept which he referred to as the "mixing bowl principle." In responding to comments from President Farmer and Commissioner Cassidy, Mr. Carver noted that proper application of that concept would not necessarily preclude a Board's accountability, but rather prevent the inefficient micromanagement of operational structures by Boards.

Mr. Carver called for a break at 10:07 a.m. and reconvened the meeting at 10:25 a.m.

Mr. Carver explained that the PGM did not focus on specific processes or case-study methods of Board leadership but rather constituted a comprehensive decision making system for Boards to effectively command the operations structures of their organizations. He further noted that the PGM was primarily concerned with addressing the "ends" decisions that reflected the ultimate goals of the organization in question and also described the manner in which "ends" decisions might be delineated from "means" decisions related to Board management delegation and the governance process.

Employee, Customer & Community Services Division Director Debra Smith noted for the benefit of the newer EWEB Commissioners that the processes of Board/Staff linkage were the one facet of the PGM that EWEB had already fully adopted.

Mr. Carver proceeded to describe the nature of the relationships between Boards of directors and the CEO's or general managers of their organizations, and noted that under the PGM CEO's should, within rational concepts of ethics and prudence, be empowered to make any decisions necessary to realize the "ends" decision goals set by the Board.

President Farmer responded to Mr. Carver's statements and noted that the current relationships between the EWEB Commissioners and staff meant that the Board was often discussing issues outside of their leadership role and that they were often called upon to validate policies or strategies ultimately unrelated to the broader goals of the organization. Mr. Carver summarized that it was often not necessary or prudent for Boards to answer every little question asked of them by their operations structures.

Mr. Carver briefly discussed the various rationales and philosophical processes that would enable thoughtful implementation of the PGM at an organization such as EWEB.

Mr. Berggren commented that with any substantive changes to the leadership strategies of the EWEB Board it would be important to agree on a common reference point for how things might be changed that would effectively draw on the skills and experience of the different Commissioners.

Mr. Carver briefly discussed the nature or the ideal relationship between a Board of Directors (and the President of a Board of Directors whom Mr. Carver also referred to as the "chief governance officer." He further described the manner in which a chief governance officer might interact with the chief executive officer of a large organization.

Mr. Carver maintained that the frequency with which a chief governance officer would communicate the commands of the Board to the operational structures would be subject to whatever reasonable interpretations the chief governance officer applied to the interactions between the Board and the operational structures.

President Farmer commented that the current By-laws of the EWEB Commissioners did not provide for a position comparable to the chief governance officer as described by Mr. Carver due to the fact that the Board did not follow any set governance system. He further commented on recent changes in the Board membership that had resulted in significant changes to the EWEB Board's By-laws.

Mr. Carver suggested that the recent changes in the EWEB Board's By-laws might have come as a result of the various personalities involved and maintained that one benefit of the chief governance officer as prescribed by the PGM was that they facilitated Board agendas as part of a governance-generated document.

Mr. Carver maintained that one of the primary flaws of prevailing board leadership strategies such as SARBAINES OXLEY was that they allowed boards to operate under the incorrect assumption that their staff's should be more aware of the governance process than the boards themselves.

Mr. Carver noted that under the principles of the PGM the governance of both the chief executive officer and the chief governance officer was a process that began with the Board.

Mr. Carver proceeded to describe the manner in which the governance processes prescribed by the PGM affected Board-generated documents such as budgets and personnel procedures and compared them to the manner in which Boards had traditionally generated such documents. He further noted that budgets approved by boards acting in accordance with the governance principles of the PGM took into account those goals that the organization did not want to achieve and that boards would ideally create an overall budget policy that would be executed by the chief executive officer.

Mr. Cassidy commented that as a public utility EWEB was in a unique position since it could simply raise service rates to address budget gaps. Mr. Carver responded that it was important to consider that it would be the board raising service rates in such situations and not the chief executive officer or EWEB as a whole.

Mr. Carver, responding to questions from Ms. Ernst, stated that the PGM contained specific guidelines for the manner in which chief executive officers would report to their board any organizational emergencies or failures of board policy assumptions. Mr. Berggren commented on how the principles being described by Mr. Carver might have affected EWEB's responses to incidents related to its aging infrastructure and also to the recent closure of Hynix.

The Commissioners and EWEB staff briefly discussed the nature of the various EWEB budget processes and how such processes might be changed to incorporate elements of the PGM.

President Farmer recognized that the board's comments seemed to indicate a desire to get away from a piecemeal approach to the budget processes that had been used in the past and instead focus on more comprehensive goal-oriented budget strategies.

Mr. Berggren commented that past EWEB board budget strategies had been far too detailed and had seriously hampered the board's effectiveness.

Mr. Carver, responding to a question from Ms. Ernst, briefly described the relationship between the ends decisions generated by boards working under the PGM and the approved budget figures generated by those boards. He stated that boards ideally needed to consider future fiscal events and determine their budget value priorities in a manner that would correspond to their ends decisions.

Mr. Carver, responding to comments from Mr. Cunningham noted that the fiduciary responsibility of board members was directly related to the ends decisions of the board itself. He noted that the only ultimate question for boards to consider when determining their fiduciary responsibilities was, "Are we producing for people that which are worth what we are burning up

in consuming their resources?”

Mr. Carver commented that the EWEB Board's budget approval responsibilities often placed them in a position where they were asked to micromanage the operational structures of the organization. Mr. Berggren further commented that the Board's authority in that respect was further complicated by the fact that the Board was considered to be a contract board under the state of Oregon's purchasing rules.

Mr. Carver suggested that, with respect to a board's responsibilities under state, federal and local laws, boards might institute required approval agenda periods where the board would instruct their operational structures to bring to them for action any items “that we [the board] said you [the operational structures] could make the decisions about that the law says you can't.”

Vice President Brown wanted it expressly recognized by the Board, staff and Mr. Carver that none of the meeting participants were in any way advocating circumventing any element of local, state or federal laws in their discussion of how the PGM might be applied to the EWEB Board's governance processes.

Mr. Berggren cited recent Board examples of the EWEB governance policies that had been employed with respect to the hiring of janitorial services for EWEB. Mr. Carver noted that Mr. Berggren's example regarding janitorial services was not something that should have even been brought to the Board in the first place and noted that proper governance processes as proscribed by the PGM would ideally prevent such issues from being brought to the attention of the Board.

Mr. Carver, responding to comments from President Farmer as well as the earlier concerns of Vice President Brown, noted that the governance processes proscribed by the PGM allowed the Board to govern their organizations better than the law allowed.

President Farmer commented that the items that were often placed on the consent calendar portion of the Board Agendas and which would probably not be included under the principles of the PGM were often brought to the attention of the Board by the board members themselves rather than by anyone associated with the operational structures within EWEB.

Mr. Carver commented that, with respect to the EWEB board's policies regarding consent calendar items, “delegation without criteria is abdication.”

Mr. Carver, in further elaborating upon elements of the PGM as they might be applied to the EWEB board governance strategies, described elements of what he referred to as a “solar budgeting plan” whereby the board could determine a set of overall budget guidelines to be communicated to the chief executive officer as well as to the rest of the organizational structures. He further noted that proper board governance strategies would enable the organization to efficiently deal with any re-budgeting issues or independent variables that might present them without meddling in the managerial efforts of the operational structures.

Mr. Carver, responding to a question from President Farmer, noted that it was possible to apply the Board Governance Principles of the PGM in a fiscally responsible manner in that the

PGM described methods for the board to issue specific financial commands to the chief executive officer that would benefit the entire organization.

Mr. Carver maintained that for the Board to fully embrace the concepts of proper board governance it must leave behind any belief that “governance is just management one step removed.”

Mr. Carver concluded the morning session of the board governance workshop and called for a lunch break at 12:08 p.m.

Assistant Secretary

President