

EUGENE WATER & ELECTRIC BOARD
WORK SESSION
EWEB BOARD ROOM
500 EAST 4TH AVENUE
JULY 21, 2009
5:30 P.M.

Commissioners present: Ron Farmer, President; John Brown, Vice President; Bob Cassidy, Rich Cunningham, Joann Ernst.

Others Present: General Manager Randy Berggren, Sheila Crawford, Lance Robertson, Jim Wiley, Jim Origliosso, Dean Ahlsten, Debra Smith, Mel Damewood, Cathy Bloom, Joe Harwood, Tom Buckhouse, Terry Bequette, Patty Boyle, Garilyn Johnston, Dick Helgeson, Judy Chase, and Krista Hince of the EWEB staff; Ruth Atcherson, City of Eugene minutes recorder.

President Farmer convened the work session of the Eugene Water & Electric Board (EWEB).

WATER CAPITAL PLANS

Mel Damewood, Water Engineering Manager, reviewed the 2010 Draft Water Division 10-Year Capital Improvement Plan as outlined in the memorandum dated July 14, 2009.

In response to a question from President Farmer, Mr. Damewood said they were looking at several parcels and had identified one parcel that would be a good location for the Willamette reservoir. He said they were conducting tests.

Mr. Damewood stated, in response to a question from Commissioner Ernst, that commercial meters would be the highest priority for replacement with Advanced Meter Infrastructure (AMI)/Automatic Meter Reading (AMR).

Vice President Brown asked how the Beltline Highway water main fit into the Capital Improvement Plan (CIP) given that a portion of it was freestanding and the Oregon Department of Transportation (ODOT) was considering widening the bridge over the river. Mr. Damewood replied that it was not included in the 10-year CIP because they did not have enough information about it at present. He said they had confirmed that approximately 15 to 20 feet of the line was freestanding with a second videotape. He noted that it was located in a very rapid part of the river and he was uncertain what the solution to the issue would be or how much it would cost.

Vice President Brown ascertained from Mr. Damewood that EWEB had the line in that location by permit. He questioned the effect that ODOT's work had on the river flow and wondered if ODOT could potentially pay for a part of this project. Mr. Damewood indicated that he would look into it.

President Farmer asked how many other water lines EWEB had that were similar to the one that went under the river by Beltline Highway. Mr. Damewood responded that EWEB had two others, a 30-inch line that crossed by Valley River Center and a 36-inch line that crossed by the steam plant. He noted that the former was hidden entirely and was very stable but the latter

was an older line that was partly exposed. He said the divers had indicated that the lines were in good condition.

In response to a question from Commissioner Ernst, Mr. Damewood stated that EWEB would continue to replace meters at its current rate. He said all of the new meters were AMI compatible and all that they would need would be for the register to be replaced.

Mr. Damewood stated that the draft plan provided for \$52.2 million in capital improvements in the first five years. He said the previous year's CIP provided for \$65.5 million, the bulk of which was for the Hayden Bridge project which was now out of the plan. He related that \$45 million of the total was for renewal and replacement and the balance was for capacity and Systems Development Charge (SDC) funded projects. He indicated that the outlying five years included \$89 million in projects and \$120 for the second source project.

Mr. Damewood reported that staff was starting to review its SDC methodology. He said the final impacts to the SDC reserve needed to be evaluated and the target date to get the methodology resolved by was 2011/2012.

Commissioner Ernst asked if the methodology for SDCs was moving away from the idea that there would always be continual growth. Mr. Damewood assured her that staff only planned based on where the Urban Growth Boundary (UGB) was indicated by the Metro Plan.

Commissioner Ernst asked what they based the growth rate on. Mr. Damewood replied that they were based upon Lane Council of Governments (LCOG) and Metro Plan projections.

In response to a follow-up question from Commissioner Ernst, Mr. Damewood said the bond that the utility would pursue would be in the amount of \$10 million.

Commissioner Cunningham asked if the bond would go before the voters. Mr. Damewood responded that it would be up to the Board as to whether the bond measure should go before the voters or should be a Uniform Revenue Bond Act (URBA) bond. He opined that an URBA process would be most efficient.

Mr. Damewood clarified for Commissioner Ernst that the bond would be used for renewal and replacement projects and would be paid for by water utility revenue as it came in.

Vice President Brown asked if the assets developed around the wellfield, including chlorination facilities, were part of the CIP. Mr. Damewood replied that they would retain the assets until the second source portfolio was completed. He said EWEB intended to "hang onto" the land and the wells and, for the present, intended to use it for backwash disposal.

Mr. Damewood stated that the first five years of the final CIP would come before the Board on September 15 for approval.

In response to a question from Commissioner Ernst, General Manager Randy Berggren explained that a planned rate increase and a potential bond issue had been a strategy originally developed by the Board as they had looked for the mix of total rate actions and bond issues to

move forward with. Mr. Damewood added that bonds were expensive to pursue and so it made it more worthwhile to borrow a larger amount. He said this was why they had moved some projects out into the second five years.

Commissioner Ernst asked if staff had an estimate of how much increased SDCs would pay the bond down. Mr. Damewood replied that he did not know. He explained that it depended on the number of people who signed up for water services.

ELECTRIC CAPITAL PLANS

Dean Ahlsten, Systems Engineering & Substation Reliability Manager, provided an update on the proposed 2010-2014 Electric Capital Improvement Program, outlined in the memorandum to the Board dated July 14, 2009. He noted that there was an error in Attachment A – the Roosevelt project was listed at \$30 million less than what it should have been. He also pointed out that the plan assumed that the steam utility would “go away” after 2014. He said the proposed plan adjusted the targets for capital reserve balances from approximately \$10 million to approximately \$7 million.

Commissioner Ernst asked why the Harvest Wind project and the Seneca cogeneration facility were not in the CIP. Fiscal Services Supervisor Patty Boyle responded that Harvest Wind was a 2009 project and the Seneca cogeneration facility was a power purchase agreement and not part of the CIP.

Mr. Ahlsten recounted that as of one year earlier the assumption for customer reimbursements was running at about \$2 million per year. He said staff had made two adjustments since then, reducing it by about two-thirds in 2009 and 2010 and then ramping back up in 2011 and then to the full amount in 2012, which matched the long-term financial plan. He related that the remaining changes had been addressed after May 5. Those included an adjustment to the assumed interest earnings on reserve funds that amounted to approximately a \$500,000 difference in funding and a transmission component that had been added to accommodate the Seneca cogeneration project. He stated that EWEB had experienced a transformer failure and subsequently had incorporated purchases of two new transformers, very costly items. He also recapped other emergent issues such as Hurd Bridge, which had been moved into 2012 or 2013, and the back-up of the control center and communications improvements related to the compliance requirements of North American Electric Reliability Corporation (NERC).

Commissioner Ernst asked if it would be possible to increase the purchase of the transformers from the currently planned purchase of two for EWEB in addition to the two for the University of Oregon as a precautionary measure. Mr. Ahlsten replied that the intent was to wait and see what the need would be. He said EWEB had accommodated its existing issues and staff would take a more thorough look at the utility’s needs in the next year.

Commissioner Ernst asked how much EWEB was saving by deferring AMI, given that EWEB planned to spend \$875,000 on upkeep for existing meters. General Manager Randy Berggren responded that meter replacement was a \$25 to \$27 million project, making it difficult to come up with the initial capital investment.

Commissioner Ernst underscored her support for AMI. General Manager Randy Berggren responded that everyone was “pro-AMI.” President Farmer remarked that the Board had been provided a backgrounder in 2007 or 2008 that amortized the cost and indicated that it would be a 30-year payback. He said a payback period of this length did not make sense in the context of capital acquisitions.

Vice President Brown observed that Attachment A indicated that customer contributions were projected to drop in 2011 and asked what this was attributable to. Mr. Ahlsten replied that the bulk of it had to do with the University project.

Vice President Brown asked for clarification of footnote (5) to Attachment B. Mr. Ahlsten stated that the Operating Reserves referred to in the footnote were related to funding the work on Carmen-Smith.

Mr. Ahlsten recapped the capital funding for the past five years. He said staff was asking to be allowed to focus the reserves at the \$7 million levels. He attributed the over 50 percent of the capital costs to the Carmen-Smith and Roosevelt projects. He related that General Manager Randy Berggren had asked staff to review the fleet to see if it would be possible to reduce the number of vehicles EWEB owned.

Commissioner Cunningham asked if there was a rate increase planned to fund some of these things. General Manager Randy Berggren replied that there was two percent in the financial plan associated with the Roosevelt building project.

President Farmer said it would benefit the Board to hear why they should be comfortable dropping 30 percent from the reserve targets. He was concerned that this would create more risk. General Manager Randy Berggren responded that everyone was aware of the importance of the reserve levels. He stated that the most noticeable example that was “stressing that number” in the five-year plan had been the transformers. He added that the utility had discovered some fairly significant aging issues.

President Farmer felt it was a risk measurement – what would be the risk of not having \$10 million in the reserves versus enacting a rate increase to build it back up versus not building a project. He was not certain what the right number should be. General Manager Randy Berggren said until they could give a good sense of that measurement, he would only echo that he preferred to keep it at \$10 million.

Commissioner Ernst observed that the total expenditures projected for 2011 fell by \$44 million and wondered what that was attributable to. Director of Electric Services, Jim Wiley, responded that the reduction reflected that the Roosevelt building project would have dropped off by that time and then in 2012 spending for Carmen-Smith relicensing would pick up.

In response to a follow-up question from Commissioner Ernst, Mr. Ahlsten said if one looked out over the next five years and stripped out the extraordinary bond-funded projects, EWEB was at a \$15 to \$17 million net for capital. He stated that this was their goal.

General Manager Randy Berggren agreed that the standard infrastructure investments were pretty consistent.

President Farmer adjourned the work session at 6:18 p.m.

Assistant Secretary

President