



# MEMORANDUM

EUGENE WATER & ELECTRIC BOARD  
Your division here

*Rely on us.*

TO: Commissioners Farmer, Brown, Cassidy, Cunningham, and Ernst  
FROM: Randy Berggren  
DATE: July 28, 2009  
SUBJECT: 2009 GM Goals- 2nd Quarter Status Report

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The 2<sup>nd</sup> Quarter status of work on the Board adopted goals for the General Manager in 2009 are as follows:

**Goal 1:** Develop and refine adaptive water supply strategies to continue delivering safe, clean, and pleasant tasting water in an efficient, reliable manner for the next 100 years by pursuing viable options to (1) secure existing water rights and (2) develop an emergency supply capability from a separate water source.

- (a) Provide the Board a recommendation on whether and how to proceed with a McKenzie River Permit Extension application given the conditions set by Oregon Department of Water Resources September 1, 2009.
- (b) Negotiate renewals of existing wholesale water supply contracts with River Road Water District, Santa Clara Water District, and Willamette Water Company by December 31, 2009.
- (c) Provide the Board with a recommendation on proceeding with additional development priorities in partnership with Springfield Utility Board (SUB) on a potential Middle Fork Willamette River treatment plant above the confluence of the coast Fork by December 31, 2009.
- (d) Provide a status to the Board on the results of the Federal Storage Grant Project and provide strategy recommendations for proceeding with further assessment of key policy and technical issues from the grant study related to accessing water in Federal Storage Projects for development of a second source emergency supply capability on the Willamette River by April 1, 2009.
- (e) Provide the Board recommended policy areas for use in establishing a standard wholesale water supply contract for use in future regional wholesale water supply arrangements by July 1, 2009.

## **Goal 1 - 2nd Quarter Results:**

- (a) EWEB staff has obtained draft permit conditions from State agencies relative to our water right permit extension application. The conditions applied to our permit are consistent with other water provider's conditions relative to the extension review process. The next step is to update the remaining aspects of the application prior to the next public comment period. The budget to complete these updates will be developed with the 2010 operations budget.
- (b) Monthly contract discussions with Santa Clara Water District (SCWD) and River Road Water District (RRWD) are ongoing. The existing contract and draft language for a revised contract are being reviewed and discussed between the parties and associated legal support teams.
- (c) Springfield Utility Board (SUB) is on schedule with work developing an update to their Water Master Plan. Within this planning process the consultant is looking at the collaborative options for SUB in developing system capacity and redundancy using a partnership with EWEB as one of the defined options in the study. Revised system data from SUB planning process is being evaluated relative to opportunities for collaboration.
- (d) Staff has continued regional awareness work around municipal access to Federal Storage water. Federal and State partners have committed to developing a small scale reallocation study to help answer some of the complicated policy issues associated with municipal entities gaining access to this source of water in the future. This study is moving forward largely due to the grant funded work that was completed in 2008 by EWEB led team.
- (e) An update on the policy discussion regarding the development of a template wholesale contract for existing and future wholesale contracts has been drafted and will be provided to the Board for discussion in written form.

**Goal 2:** Continue the Headquarters Master Plan process consistent with the approved Memorandum of Understanding (MOU) between EWEB and the City of Eugene. The following success measures will be used to evaluate progress on this goal:

- (a) Provide the Board a recommendation for approval to hire a consultant in support of the CAT and staff in developing a public involvement process and finalizing recommendations for a master plan proposal by April 1, 2009.
- (b) Develop and recommend to the Board for approval a public involvement process in support of developing a HQ master plan proposal by July 1, 2009.
- (c) Provide the Board a set of draft Master Plan concept elements for review and refinement by September 1, 2009.
- (d) Submit to the Board for approval a Riverfront Master Plan and a Metro Plan Amendment and Land Use Application for review by November 1, 2009.
- (e) Submit a Metro Plan Amendment and Land Use Application for Board approval by December 31, 2009.

## **Goal 2 – 2<sup>nd</sup> Quarter Results:**

- (a) The Board approved the Master Plan Consultant Contract on May 19, 2009. After securing contracts with the sub-consultants, the primary consultant began collecting and review existing land planning and geotechnical reports and studies relating to the EWEB site. They also have begun interviewing key opinion leaders in regards to the site. This work will continue as we prepare for the first public event planned for early October 2009.
- (b) Mark Oberle and some of the consultant team presented a project schedule and discussed key elements of the Public Engagement Plan in an update to the Board on July 21, 2009. The Board had several helpful comments and a few concerns that will be incorporated and/or addressed as we move the project forward.
- (c) **Date Change.** The date changes in “c”, “d”, & “e” below are consistent with the project schedule update presented to the Board. The draft project concepts (parameters) will be presented to the Board at their September 15, 2009 meeting.
- (d) **Date Change.** Due to a late start, we do not anticipate have the complete Master Plan ready for Board Approval until June of 2010.
- (e) **Date Change.** The Metro Plan Amendment and other land use application won't be completed for approximately one year after the Board approval of the Master Plan.

**Goal 3:** Conduct a comprehensive assessment of the cost to reconfigure the existing HQ building once in a split operation is in place and the alternative cost to relocate HQ functions to the new Roosevelt facility. Provide the board recommendations about the whether to remodel the existing HQ building or relocate remaining HQ functions to the Roosevelt site. Measures of success for this work in 2009 would be as follows:

- (a) Provide the board initial estimates of costs to remodel the existing HQ building considering both short term and long term upgrade requirements to maintain functionality and value as well as estimates of cost to maintain a split operation using the existing HQ site. Additionally, initial cost estimates will be provided for constructing a new HQ facility at the Roosevelt site. These initial views will be available by May 1, 2009.
- (b) Refine preliminary estimates of costs for both the stay and relocate alternatives of the HQ facility incorporating board review and direction. Provide the Board final estimates of alternative costs and a staff recommendation on whether to relocate all facilities to the Roosevelt facility and if so, when to make the relocation by July 1, 2009.
- (c) Board action on a specific motion directing staff as to whether to provide for relocation of the HQ facility and if so, when to implement such a relocation by September 1, 2009.

### **Goal 3 - 2nd Quarter Results:**

- (a) In January of 2009 the Board agreed to a staff proposal to complete a concept-level analysis comparing two alternatives: 1) Remodel the existing HQ and 2) Build a new HQ at the Roosevelt operations Center. The analysis is expected to cost \$ 80,000 and will provides concept level estimate and analysis of costs associated with these two alternatives. Work developing the parameters of the analysis and assumptions (remodel and new building) that could support preliminary cost estimates was completed in February and March 2009. This work included architectural, engineering, and construction consultants engaged for the work; various EWEB staff; and some Board member input. Preliminary work was completed in March. Additional discussion with President Farmer and Vice Chair Brown resulted in scheduling additional board discussion on Aug 4, 2009. Additional study assessment was completed in June 2009 and those results are waiting for board schedule availability to discuss.
- (b) - Pending
- (c) – Pending

**Goal 4:** Initiate the implementation of the approved Steam Transition Plan. This would be the first year of a planned three to five year managed shut down of the Steam Utility and proposed measures of success for 2009 would be as follows:

- (a) Complete a study of the remaining 78 customer facilities on the steam system along with estimated cost to convert to alternate fuels. This work will include an RFP for engineering consultant support to complete the technical analysis and support on-going work with the ODOE to develop an implementation plan for construction and funding in 2010 to 2013. This item will be completed by December 31, 2009.
- (b) Finalize and receive Board approval of a minimum three-year service contract for steam service to the Sacred Heart/University District Facility by April 1, 2009.
- (c) Provide the Board a recommendation for replacing the steam system inter-tie between the U of O and EWEB that needs to be removed due to a development conflict within the Riverfront Research Park by July 1, 2009. Absent a recommendation to replace staff it will provide an alternative recommendation to insure cost effective transition in production costs.
- (d) Secure a formal commitment from the ODOE SSELF funding to retire the EWEB District Heating System (includes individual customer funding for fuel conversion) by December 31, 2009,
- (e) Provide the Board recommendations on other funding options at the federal and state level as available for the 2010 to 2012 time frame by September 1, 2009.

#### Goal 4 - 2nd Quarter Results:

- (a) Since the Board adopted Resolution No 0845, staff has been coordinating with Northwest Natural and City of Eugene staff in anticipation of steam customer facilities where natural gas is the appropriate fuel medium. Two large buildings we've been working with since late last year have now completed the conversion process on their own. While fuel conversion discussions are slowly emerging as we work with more customers, significant activity continues to be at the core of the system. Optimally, we desire to work from the perimeter to the core to maximize system operational efficiency as loads continue to erode.

The "Request for Proposal" (RFP) solicitation process we complete resulted in the selections of a proposed vendor to conduct building site assessment for steam customers, with the contract award approval request included on the August 4, 2009 Board Consent Calendar.

EWEB's Research, Design and Development (RD&D) project application remains in a pending status at ODOE as the flurry of federal economic stimulus priorities dominating ODOE's available internal resources. However, we were encouraged by ODOE's most recent contact on July 17 indicating we still were in a pending status. In May, we submitted supplementary information to our application at ODOE's request for their Policy Review Committee. As of preparation of this report, there is still no final decision on funding.

- (b) During the 2<sup>nd</sup> quarter, staff continued to service the three-year PeaceHealth steam service contract, executed in January.
- (c) With the Oregon Research Institute's new building located on top of the existing U of O / EWEB steam line, the discussions on disposition of the existing steam line in the Riverfront Research Park are nearing closure to allow for the construction to move forward while finding a mutually agreeable approach to addressing the portions of the abandoned steam line that impede construction.
- (d) One of the most significant aspects of our RD&D application with ODOE is to obtain a "single project" designation for our entire steam system under SELP, thereby qualifying for maximum available funding on behalf of our steam customers (up to \$15 - \$20 million) and favorable loan terms (e.g. amortized over 20 years, making loan payments budget neutral for most steam customers). We remain hopeful of a favorable outcome with ODOE. The scope for our RFP was designed to develop applications for customer fuel conversion for funding directly from ODOE's Small Scale Energy Loan and Business Energy Tax Credit programs. This is our ultimate fall back funding strategy if we are not successful in all other possible funding avenues to assist customers with financing their fuel conversion projects.

As we await ODOE approval, we intend to begin fuel conversion process on targeted buildings located on critical sections of the steam system utilizing the limited funds available within the 2009 budget (~\$400,000). We are seeking to make initial loan offers before the start of the heating season.

- (e) In terms of federal and state funding options, some good news and bad news. The good news is that the City of Eugene has informed us they intend to direct \$515,000 of their Energy Efficiency & Conservation Block Grant funding allocation to convert four of their steam heated buildings. In addition, the City and Lane County also have obtained bond authorization for what we understand is up to \$10 million for public buildings under the federal stimulus program. The bad news is that the \$5.14 million stimulus proposal we had hoped would be approved to fund the public buildings portion of our steam transition work (including the EWEB Headquarters building) did not make it to the second round.

**GM Goal 5: Cost Reduction Opportunities - Note** – This goal was originally identified as a continuing effort to find cost saving efforts utilizing employees when possible and tying work to a sustainable operation over time. However, in early first quarter, continuing reductions in the moisture content for hydro operations, significant retail load loss resulting from the economy and substantial downward movement of the energy spot market began to create both short-term and longer-term concerns about revenue expectations and funding capability of various initiatives into the future. During the March 2009 Board strategic Planning Retreat, staff briefed the Board on the developing issues and committed to returning in the July Board retreat on 2010 Budget and financial planning. In response to these developing issues I am proposing a modification of these goals as reflected below to allow a very specific focus on budget management in 2009 and through 2010 and 2011.

**Revised Goal 5** - Identify and develop necessary 2009 budget revisions to allow EWEB electric utility to be able to address various issues of lost revenue related to the weather and the economy. Review and propose revised long term financial planning assumptions given the current economic conditions and provide the board recommendations on long term financial plans and priorities so as to effectively stabilize EWEB work and funding capability over to bridge the current economic recession.

- (a) Provide the Board an overview of the developing economic downturn and initial strategies to begin addressing revenue and expense constraints in 2009 and beyond in the 1<sup>st</sup> quarter of 2009
  - (b) Provide the Board with a set of recommendations and assumptions for redeployment of resources and work reductions that allow the utility to meet its highest priorities and obligations while maintaining financial/rate stability in the second quarter 2009.
  - (c) Implement necessary budget reductions in 2009 to establish the foundation for revision to 10 year financial plans including critical assumptions and work priorities for 2010 and beyond as soon as reasonable with a goal of eliminating need for EWEB rate increases in 2010 and 2011 except for BPA rate action pass through.
  - (d) Update all long term financial and capital planning studies consistent with the presentation of a 2010 budget proposal that meets established Board direction for managing the electric utility cash flow constraints that have been identified to date.
- GM Goal 5: Cost Reduction Opportunities

## Goal 5 – 2<sup>nd</sup> Quarter Results

Board overview of economic downturn impacts:

- (a) On April 7 the board was briefed on the financial challenges facing the Electric Utility in the coming years. They include:
  - 1. Reduced wholesale sales revenues and contribution margin due to deteriorating economic conditions
  - 2. Reduce retail loads and revenues due to lower level of local economic activity
  - 3. Increases in wholesale power costs due to expected BPA price increases and reduction in amounts to be paid by BPA in the residential exchange settlement
  - 4. Increased cost pressures due to renewable resource commitments, Carmen Smith Relicensing debt service, and debt service for the Roosevelt construction
  - 5. Increased retail write-offs due to deteriorating local economic conditions
- (b) Staff committed to further study of the assumptions and impact of these challenges and propose strategic actions at the July 7 Board retreat. Staff presented two alternatives on July 7.
  - 1. Both alternatives proposed reductions in the projected levels of fixed costs in 2009, 2010, and 2011 to achieve levels no higher than \$104 million, \$104 million, and \$110 million respectively,
  - 2. Both alternatives contain pass-through in rates of BPA wholesale rate actions and recovery of debt service costs for Roosevelt and Harvest Wind projects,
  - 3. Both alternatives maintain reserve levels above current targets in 2010-11 in anticipation of substantial draws on reserves to fund the loss of Carmen Smith power during construction 2013-15.
  - 4. The alternatives differed as to the timing of passing through the BPA increases (either November 2009 or May 2010).
- (c) On July 7 the Board directed Staff to prepare a rate proposal that passed through the impact of BPA and power related costs for implementation in November 2009.

Redeployment of resources during 2009

- (a) Staff reviewed 2009 budgets and expense priorities and developed a plan to reduce operations and maintenance costs by \$ 3.1 million, consisting of the net of:
  - 1. Reduced labor costs by \$1 million through attrition management
  - 2. Reduce non-labor Operations and Maintenance costs by \$3 million by stopping further work on several large projects and reducing discretionary costs in many areas including travel and training
  - 3. Increase budgeted outlays for emerging priorities including:
    - i. \$ 600,000 for increased NERC compliance activities
    - ii. \$ 230,000 for hydro system maintenance requirements
    - iii. \$ 50,000 for Slice Contract modeling
  - 4. Staff implemented this plan in the current budget system without further Board action, so as to under-spend the 2009 budget by no less than \$3.1 million, resulting in fixed costs no greater than \$101 million.

## 2009 budget reductions as foundation for 10-year financial plans

- (a) The above reductions are not sufficiently large or long-term to off-set the long-term increase in power costs being proposed by BPA. Staff remains committed to constraining fixed costs to no greater than \$104 million for 2010 as indicated to the Board on April 7.
- (b) Current projections (as of 7/7/09) indicate that even with pass through of BPA power costs expected in 2009 and 2011, annual increases of 2% are needed 2010-12 and 3%-5% annually thereafter to maintain target reserve levels.
- (c) Above target reserve levels 2010-11 are recommended sufficient to fund \$13.4 million of projected deficits in 2012-14 attributable to lost production from Carmen Smith during construction.
- (d) These planning parameters preserve Board discretion to reconsider target reserve levels and rate increase proposals annually in the context of its rate, affordability, and financial flexibility objectives; which is to say that actual results could vary favorably from these projections.

## Update all long-term financial and capital planning studies for 2010 Budget process

- (a) All long-term financial projections (water and electric) have been updated with the work that was presented to the Board on July 7. These projections will next be revised as part of the 2010 budget review process scheduled for Board work session on October 20, 2009.
- (b) Updated capital plans were presented for informational purposes on July 21. These will be presented for Board approval on September 15, and will be included in the October 20 update of the long-term financial plan.
- (c) Financial policies and related reserve fund targets will be considered as part of the annual review of financial results that is next scheduled for Q1-2010.