EUGENE WATER & ELECTRIC BOARD
WORK SESSION
EWEB BOARD ROOM
500 EAST 4TH AVENUE
SEPTEMBER 1, 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, Cathy Bloom, Joe Harwood, Tom Buckhouse, Terry Bequette, Garilyn Johnston, Dick Helgeson, Jennifer Joule, Gene Austin, Ken Beeson, Mark Freeman, John Yanov, Susan Goddard, Kevin McCarthy, Dan Bedbury, Bill Welch, Jeannine Parisi, Dawne Howard, Wendi Schultz-Kerns, Nick Holmes, Mark Oberle, and Judy Chase of the EWEB staff; Hilde Cherry, Eric Gunderson, PIVOT Architecture; Ruth Atcherson, City of Eugene minutes recorder.

Vice President Brown convened the work session of the Eugene Water & Electric Board (EWEB). President Farmer had not yet arrived.

NERC Compliance Update

Gene Austin, Compliance Auditor, reported on the North American Electric Reliability Corporation (NERC) ***Reliability Operations and Compliance Update***, as outlined in the memorandum dated *August 25, 2009*, with power points. He explained that EWEB's Compliance Registry was comprised of eight registrations, the eighth of which was the application to add the Transmission Operator function to it. He reviewed a timeline chart that delineated the ***EWEB NERC Compliance 2009-2010 Project Plan***.

In response to a question from Commissioner Cunningham, Mr. Austin clarified that compliance was mandatory and not voluntary.

Dean Ahlsten, Systems Engineering & Substation Reliability Manager, stated that EWEB was spending a lot of resources, both engineering and operations resources in addition to some external consultants. He explained that registration as a Transmission Operator was akin to being a baseball team that was moved "from the minors to the majors." He said it brought with it a lot of other requirements, including reliability coordination and transmission operations. He related that in response to the new registry, staff had looked at its existing operations and compared it with the new 28 standards and 173 requirements specific to that function, which resulted in the identification of 11 violations. He said the mitigation plans were on file with the Western Electricity Coordinating Council (WECC) and a schedule to complete the work by June, 2010, had been established.

Commissioner Cassidy asked how EWEB had fallen into the bracket that it was now in. Mr. Ahlsten replied that it was based on what type of facilities EWEB owned and operated.

Mr. Ahlsten reported that staff had identified a critical asset in EWEB's system that brought the utility under the standard that required that EWEB provide physical and "cyber" protection of them. He said EWEB had hired a consultant because this was a complex issue. He related that they were obligated by the calendar set forth by the WECC to have these in place by the end of the year.

In response to a question from Commissioner Ernst, Mr. Ahlsten said for about ten years there had been a process for looking at reliability services and functions and how they were performed. He explained that it had always been a given that some of the smaller entities performed some of these services, serving loads and providing distribution systems, and NERC had taken all of these services and specifically defined them and identified what entities provided them.

Mr. Austin discussed the 2009 Compliance Audit, scheduled for October, 2009, off site in Salt Lake City, Utah. He pointed out that six violations were self-reported. He reiterated that mitigations for them were scheduled to be completed by the end of the year.

Commissioner Cunningham was impressed by the low incidence of violations.

Vice President Brown recalled that EWEB had essentially "turned [itself] in" because the rules had been changed. He asked if all six violations were in the same category. Mr. Ahlsten responded that one had arisen from a clarification in what NERC was looking for in a testing and maintenance program, four were related to a misunderstanding regarding planning studies, and the last one was a discovery that a control component on a generator at the Carmen-Smith facility was not operating properly.

In response to a question from Commissioner Ernst, Mr. Ahlsten explained that it had been EWEB's former understanding that the Bonneville Power Administration (BPA) would take on the responsibility for serving as a transmission operator, but this had changed and EWEB had been designated as such.

Mr. Austin said it was true that EWEB was being held accountable for compliance that there had been uncertainty about. He added that if there were sanctions and penalties associated with it, until a mitigation plan was complete the utility could be potentially liable. He stated that serving as a Transmission Operator included 11 mitigation plans and WECC had indicated that it would hold the payments for these sanctions until EWEB had demonstrated that those plans were completed.

Vice President Brown remarked that this was analogous to changing the speed limit and not posting the change and then ticketing violators. He appreciated the work that staff was doing to address the violations.

Customer Care Program Proposal

Director of Employee, Customer, & Community Services, Debra Smith, provided a

PowerPoint presentation on the ***Customer Care & Community Care Q4 2009 and 2010***, hard copies of which were provided to everyone present. She stated that if the Board chose to fund all of the components as presented in the summary, the 2010 budget would total $3.4 million. She noted that the total funding for those programs in 2009, excluding the rebate, had been $3.2 million.

President Farmer arrived at 5:55 p.m.

Commissioner Cassidy did not think staff had the flexibility to adjust to changing times. He felt they were trying to project what problems lay ahead.

Mark Freeman surmised that Commissioner Cassidy would prefer to be updated in case some of the money needed to be shifted from one program to another based upon community need.

Commissioner Cunningham asked if the figures had changed on the numbers of people who were receiving door hangers and actual shut-offs. Mr. Freeman replied that it seemed to be trending more slowly, though they were seeing spikes. Ms. Smith added that she would guess that they would see the trend continue. She said people tended to become behind in the winter months and write-offs tended to be heavy in the spring. She noted that it would only take one or two commercial accounts to create a spike.

Commissioner Cunningham agreed with the suggestion to provide staff with a pool of money and the ability to "plug it in" where it was needed.

Mr. Freeman reviewed the proposed *Customer Care Credit Increase*.

Vice President Brown asked if the money credited back was exempt from the Contribution in Lieu of Tax (CILT). Mr. Freeman replied that it was not exempt. Ms. Smith explained that the money came from excess contribution margin, which the utility had earned and paid 6 percent to the city from.

In response to a question from President Farmer, Mr. Freeman explained that the program provided only one rebate in a program year, but a person could receive aid in the 12th month of one year and the 1st month in the next.

Vice President Brown asked if EWEB also helped pay the city's fees for stormwater. Mr. Freeman responded that because the funding came from electrics, the majority of programs that were funded provided electric-only credits. He underscored that they made it clear to customers receiving credit that they would still be required to pay for water use and storm and wastewater fees. Ms. Smith added that the city did participate in the base $1.7 million program and had worked cooperatively with EWEB for three years. She said staff had not been successful in its attempts to garner similar cooperation from the Metropolitan Wastewater Management Commission (MWMC). She related that they usually used donated funds to fill in the gap.

Vice President Brown surmised that part of the reason people were donating to the Energy Share Program was to help offset MWMC charges for low-income people.

Vice President Brown asked if the Board could have a discussion with the people of MWMC in this regard. Ms. Smith assured him that staff had engaged in many discussions with them.

In response to a question from President Farmer, Mr. Freeman clarified that someone who had their electric bill paid but was in arrears for water usage would have water turned off only.

Ms. Smith related that Mr. Buckhouse had indicated that the water utility would participate in increased funding for the Customer Care Program. She acknowledged that this would not solve the stormwater/wastewater fees, but it would help the water issue.

Mr. Freeman added that the Federal Low-Income Energy Assistance Program (LIEAP) funds also only applied to the electric charges.

President Farmer observed that the city had been pushing to have EWEB collect other fees. He advised his colleagues and staff to think about what policy they should have in place in the event that this was put into effect.

Commissioner Ernst concurred with Commissioner Cassidy. She wanted staff to have the flexibility to use the funding where it was needed.

President Farmer commented that before the economic downfall he had felt $1.7 million was an appropriate amount. He had agreed to the additional funding because of the downturn and had hoped that the economic recovery would be underway, but it was not happening at the pace that had been anticipated. He said in general he was comfortable with continuing the program. He did not want to micro-manage staff.

President Farmer had some discomfort with setting the income eligibility at 80 percent of the Oregon median income; he felt the existing threshold of 60 percent was adequate. He acknowledged that there would always be someone that was just over a line for qualifying. He said he would feel better looking a ratepayer "in the eye" and explaining that ratepayers were subsidizing the 60 percent threshold than the 80 percent threshold.

Commissioner Cunningham could support increasing the threshold to 80 percent given the current economic times. He did not believe the average homeowner could currently afford to engage in a lot of conservation efforts. He indicated that he favored endorsing the program.

Vice President Brown appreciated the desire for flexibility, but he did not think they had to look for places to spend money. He preferred the program to focus on senior citizens. He felt that many senior citizens had a lot of pride and would cut other necessities before they would ask for help.

Ms. Smith agreed that senior citizens were a hard population to reach. She recalled one year senior citizens who previously had received credits had automatically received another one.

Vice President Brown passed the gavel to President Farmer.

Headquarters Analysis

Ken Beeson, Roosevelt Project Manager, provided the ***EWEB Headquarters Analysis*** with PowerPoint slides. He explained that it compared the two alternatives: remaining in the downtown area or moving the headquarters to the Roosevelt Boulevard site. He said staff had done a 30-year net present value analysis on the costs and had discounted the costs in the out years. He underscored that the cost estimates staff provided were not intended to be a recommendation of what they would actually be. He stated that if EWEB did decide to go forward with one alternative, it would initiate a more indepth design process that would involve the Board, staff, and design professionals.

Mr. Beeson stated that construction of a new headquarters building was estimated at $31.7 million, based on the debt service on bonds over a 30-year period. He said they projected the building cost at $49 million, with $3.5 million for communication alterations and improvements having to do with the change in location. He noted that it had been assumed that operations and maintenance costs for a new building would be less going forward than current costs.

Mr. Beeson concluded that there did not appear to be an economic case for the Board to make a near-term decision to build or remodel. He averred that the comparison should provide an opportunity to look at options in the context of the 10-year economic plan. He noted that the operations arm would be moving to the new facility in one year. He believed there would be an opportunity to look at how the site functioned for a few years and then determine how to proceed.

In response to a question from Commissioner Cassidy, General Manager Randy Berggren said what was currently being done to maintain the existing headquarters building was not part of the analysis.

In response to a question from Commissioner Ernst, Mr. Beeson estimated that a new building would cost between two and a half to three times what a remodel would cost. He believed the numbers they employed for the analysis had been conservative. He added that if construction costs began to escalate again, it would change the numbers.

Commissioner Ernst asked to see more information about what the cost difference would be between waiting two to three years, going forward with a new headquarters building, or the cost for upgrades on the present building.

In response to a question from Vice President Brown, Mr. Beeson said found it hard to say precisely what it would cost to remodel the existing building to last another 30 years because it was already a 25-year-old building.

Vice President Brown related that he had read an article in the Register Guard about the utilization of the Construction Manager/General Contractor (CMGC) process that indicated that the fire station project had saved $1.5 million by not using that type of process. He hoped

EWEB would take a lesson in this for its next building. He was still having trouble with the costs. He noted that the Clatskanie People's Utility District (PUD) had built an administration building that was not Leading in Energy and Environmental Design (LEED) certified that was substantially lower in cost than the building EWEB was constructing. He wanted to ensure that what EWEB built was competitive in the marketplace in relation to what EWEB did; they needed to be as efficient as possible. Mr. Beeson concurred with Vice President Brown's sentiments.

Commissioner Cunningham said he had been happy to see that a majority of the work on the Roosevelt facility was being done by local contractors. He indicated that he would favor going to the next step in design work in order to see what a new building would cost and then, perhaps, send a bond measure to the voters.

President Farmer recalled that when they had debated the Roosevelt project and whether or not the headquarters should move there, he had understood Mr. Beeson to indicate that when building a public building it should be built with a 50-year life span and not the 30-year life span of a private building. He observed that Mr. Beeson was now suggesting it in terms of a 30-year life span and asked why this was. Mr. Beeson responded that a 50-year span would be the best. He had picked 30 years based on the term of the bonds. He did not want to imply that they should build for a 30-year life span.

President Farmer said he would want a higher level of detail in the information if he was still serving on the Board when it was time to consider this decision. He asked Mr. Beeson how much it would increase costs if the building was constructed to essential facilities standards. Mr. Beeson estimated that costs would increase by 20 to 25 percent.

President Farmer asked Mr. Beeson to elaborate on the fiber changes he had mentioned. Mr. Beeson responded that EWEB had a little more than 70 miles of fiber that went around the system and connected the substations together, all of which was centralized and brought together on the 4th floor of the EWEB building. He said if they moved to the Roosevelt site they would have a redundant fiber tie there, but the utility would not have links to all of the rest of the system without reconfiguring it. He explained that currently EWEB had a series of five or six rings and substations divided up across those rings and they would have to redesign it so all of the rings would end up either at the Roosevelt site or at a different operating facility, assuming the utility had left the administration building.

President Farmer noted that the memorandum talked about $500,000 in additional operating costs if the utility had a split operation. He said this number had not been brought forward in previous discussions and asked why. Mr. Beeson replied that staff had tried to take a careful look at it and now had to consider some additional security requirements and additional building and operation requirements. He stated that they had tried to be conservative in the estimates and had projected it forward on a 30-year basis.

President Farmer understood the value of having a customer service in the downtown area but he questioned why they would need an additional five Full Time Equivalent (FTE) staff to do so. Mr. Beeson reiterated that all of these numbers had been formulated at a high level. He had discussed this with Mr. Freeman and they believed that if EWEB picked up its whole operation and moved it to Roosevelt Boulevard and established a downtown location, the utility should have some "limited duration" employees to staff it. He assured President Farmer that they would do this as cost effectively as possible. President Farmer was challenged to believe that five additional FTE would be needed given that the overall number of customers would not substantially change.

President Farmer asked what the $500,000 per year included in the memorandum for capital expenditures would be used for if the utility decided to remodel the existing building. Mr. Beeson replied that he had tried to use a number that they had seen historically. He said there were accounting requirements that dictated that certain expenditures spent in addition to the plant were considered capital rather than expense or operations and maintenance.

President Farmer observed that money was already included in the estimate for operations and maintenance. He asked what was out there that they might not be doing in the remodel that "year after year" would cost EWEB $500,000. Mr. Beeson responded that EWEB had a "pretty substantial" plant at the site and it would not take too long to spend money in upgrades or replacements of systems. He agreed that if EWEB undertook a substantial remodel, some of those issues would be addressed. He added that he would not argue that the number might be too high.

President Farmer said he wished they would be opening a new office building in the next year. He believed that the reason they had not moved forward with a move five years earlier had not been in response to a strong sentiment by the public to keep EWEB at the site, but rather by a strong sentiment to maintain the same access to the river that the public had.

Commissioner Cassidy said he would like to see a list of other things that should be considered. He ascertained from Mr. Beeson that a remodel was not assumed to be a bond issue.

In response to a question from Vice President Brown, Mr. Beeson explained that the estimated sale price of the existing property was $21.5 million for 2014 and staff had used a discount rate of 8.5 percent per year going backwards to the present to arrive at the current value of $14 million, based on the appraisal.

Commissioner Cunningham opined that a referendum sent to the voters that specified that it would create jobs and improve the city would pass overwhelmingly.

Commissioner Ernst requested information on how the upgrades they needed to continue to make to the headquarters building affected the 2010 budget.

General Manager Randy Berggren noted his initial opposition to a present worth assessment. He averred that it was about the comparative view and not the actual numbers. He wanted an assessment of the approximate or appropriate life view he should have of the headquarters facility so he could decide to what degree EWEB should invest in it. He explained that the time the utility intended to continue to use the building would make a radical difference in the amount of money that should be invested in system upgrades and replacements. He extrapolated from the discussion that they should stay with what was required to keep the building operative and to begin to improve the level of stewardship of the building, which had deteriorated since the energy crisis of 2001.

General Manager Randy Berggren said if the Board was considering reconsolidation they needed to decide where that decision fit into the financial pro forma. He underscored that EWEB looked like it was financially salient beyond the two years, but there was no Automatic Metering Infrastructure (AMI) in the ten-year financial view and there was "certainly" no $40 million to build a new headquarters facility. He pointed out that there was an assumption in the ten-year plan that the utility would spend $120 million for the Carmen-Smith relicensing project. He believed that the financial ratios, while "not bad," were not on target. He encouraged the Board to look at the financial plan and decide when it would make sense to move the headquarters. He also would not advise them to go to the voters in 2010 unless they had a very high level of detail in the design work.

General Manager Randy Berggren said while staff had indicated there was not a driving need to relocate at present, he felt more of a sense of urgency. He believed that some calls would need to be made in the next year regarding what they would do and that the clearer they could be in the next six to eight months, the better able they would be to make the decisions related to the allocation of resources.

President Farmer adjourned the Work Session at 7:28 p.m.

______________________________ Assistant Secretary

______________________________ President