



## MEMORANDUM

EUGENE WATER & ELECTRIC BOARD  
GENERAL MANAGERS DIVISION

*Rely on us.*

TO: Commissioners Farmer, Brown, Cassidy, Cunningham, and Ernst  
FROM: Randy Berggren  
DATE: November 9, 2009  
SUBJECT: 2009 GM Goals- 3rd Quarter Status Report

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The 3rd 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 - 3rd 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 has been developed within the 2010 operations budget.
- (b) Monthly contract discussions with Santa Clara Water District (SCWD) and River Road Water District (RRWD) are ongoing. A new draft agreement has been completed and is being reviewed and discussed between the parties and associated legal support teams.
- (c) Springfield Utility Board (SUB) has completing an update to their Water Master Plan. A collaborative option for SUB is to consider developing system capacity and redundancy using a partnership with EWEB. SUB staff will consider this option and determine the appropriate timeline to consider such an option.

EWEB has completed a draft conceptual design of a Willamette River Water Treatment Plant utilizing water under our historical Willamette River water claim and/or access to Federally stored water. This conceptual design represents the only currently feasible alternative to compare to the option of a partnership with SUB to obtain a second source of water supply for the utility. Legal evaluation of the historical Willamette Claim will begin in fourth quarter 2009.

- (d) Work begun by Federal and State partners in 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.
- (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.

**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 – 3rd Quarter Results:**

The Riverfront Master Plan Project had much activity in third quarter 2009. On September 30, 122 people and team members attended the project's first public event. On October 3<sup>rd</sup> the project co-hosted a design charrette with the Southwest Oregon Chapter of the American Institute of Architects with over 60 people in attendance. The design team incorporated input from these events and began illustrating concepts for the Community Advisory Team's review. Multiple concepts were shown on five different drawings, and based on the CAT's and staff's input, the design team will share the final three concept options with the public on November 10. The project remains on schedule and on budget.

**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 - 3rd 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) Concept level estimates were completed in July for two alternatives: 1) remodel existing HQ, and 2) construct new HQ at Roosevelt. (Cost to date for work is approximately \$30,000.) A net present value estimate was prepared for each alternative showing comparative long term (30 year) costs for initial capital costs, debt service, facility maintenance, on-going capital improvements, and operating costs. The final result of the analysis was reviewed with the Board on September 1 and showed that the 30 year present value for each alternative are essentially equal. Staff advised the Board:
1. There did not appear to be any compelling economic reason to make an immediate decision on the "remodel/new building" question;
  2. These preliminary costs from the analysis could be reviewed in the 10-year financial plan in context with other approved or potential utility business initiatives;
  3. The new building alternative could be delayed and then reconsidered after several years once the utility has completed the Roosevelt move and has some experience operating with separate (downtown and Roosevelt) facilities.

Most of the Board discussion and comment focused on the construction cost estimates for remodel and the new building.

**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 it, staff will provide an alternative recommendation to insure cost effective transition in production costs.
- (d) Secure a formal commitment from the ODOE SELP 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 - 3rd Quarter Results:**

- (a) Building Site Assessments Started: Field visits for building site assessments began in September, following the Board's contract award to McKinstry on August 4. Draft reports are scheduled to be delivered beginning mid-November on the initial group of 15 buildings. Final reports will be delivered to all of these steam buildings before the end of December.
  - (1) ODOE Pre-Certification Received: On September 4, EWEB's project application to fund a portion of the McKinstry contract was approved by ODOE in the form of a Business Energy Tax Credit "pass through" certificate. The funds will be payable upon completion of a final report on all of the building site assessment activity, at the earliest in Q4 2010 or early 2011. The maximum EWEB could expect to receive is approximately \$60,000 toward the \$247,000 McKinstry contract cost.
- (b) Continued to monitor and service Sacred Heart/University District contract.
- (c) U of O decided not to pursue inter-tie. The planned construction of Oregon Research Institute building would require steam inter-tie to be relocated at a prohibitive cost.
- (d) ODOE Small Scale Energy Loan Program Eligibility: ODOE acknowledged EWEB's Steam Transition project as a technically qualified project meeting the overall intent of the SELP program, pending individual customer loan qualifications. They indicated their concurrence with EWEB's overall transition approach. This includes working with EWEB on the technical review of the smaller buildings that otherwise may not qualify without considering overall system losses.
- (e) Next Round of Federal Stimulus Funding: In meeting with ODOE on gaining SELP approval on November 3, ODOE has encouraged EWEB to submit a proposal under the next round of federal stimulus funding offered under the Energy Efficiency & Conservation Block Grant Funding. The due date for letter of interest is November 19 followed by the proposal submittal on December 14 and we are engaged in discussions with ODOE and the City of Eugene to coordinate our efforts to develop a proposal.

**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 (1<sup>st</sup> quarter revision)** - 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 – 3rd Quarter Results**

- (a) No change in status from Q2 report. Economic downturn impacts persisted during Q3 09 with continued lower retail loads and lower power prices. The community continued to experience the effects of the depressed economy with unemployment rates in excess of 12%.
- (b) No change in status from Q2 report. Resources continued to be redeployed in the described manner with the expectation of significant favorable spending variances at year end. Contribution margin is expected to be near break-even at year-end.
- (c) The 10-year financial plans were updated with the results of the 2010 budget process. Expected 2010 non-labor spending was constrained to allow for planned increases in labor and benefits costs. The 2009 and 2010 budgets also contain extension and enhancement of community care programs to provide bill payment assistance to those most in need.

A proposal to “pass through” the effect of BPA cost increases was brought to the Board and an overall average 5% rate adjustment was approved effective November 1, 2009.

- (d) The long-term capital plans of both utilities were updated for the 2010-14 timeframe. The long-term financial plans of both utilities were also updated. The 2010 budget has been drafted and is scheduled for Board consideration Q4-09. During the process some longer-term financial policy issues became apparent and these are calendared for Board consideration in November 2009.