

EUGENE WATER & ELECTRIC BOARD
WORK SESSION
EWEB BOARD ROOM
500 EAST 4TH AVENUE
NOVEMBER 17, 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, Debra Smith, Sheila Crawford, Lance Robertson, Jim Wiley, Jim Origliosso, Cathy Bloom, Tom Buckhouse, Mark Freeman, Dick Varner, Bill Welch, Clay Norris, Susan Eicher, Patty Boyle, Garilyn Johnston, Terry Bequette, Dave Churchman, and Judy Chase of the EWEB staff; Ruth Atcherson, City of Eugene minutes recorder.

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

3rd Quarter 2009 Budget/Financials

Susan Eicher, Senior Accountant, reviewed the *Third Quarter Financial Statements* with PowerPoints, hard copies of which were provided to everyone present. She stated that the power reserve fund was up \$8.2 million from the previous year and the capital reserve fund was down by \$3.9 million.

In response to a question from President Farmer, Ms. Eicher explained that the change in the Carmen-Smith reserve fund was due to interest earnings.

Ms. Eicher attributed the \$18 million decrease in net operating revenue from the previous year to a reduction in retail sales, mostly due to the closure of Hynix, Inc., and to expenses brought about by the Roosevelt Boulevard project. She added that Hynix represented 60 percent of the 9.5 percent decrease in sales. She stated that EWEB had experienced good wholesale revenue due to strong hedging.

In response to a question from Commissioner Ernst, General Manager Randy Berggren stated that the official target for the power reserve fund was \$24.5 million and the reserve target for all funds together was \$70 million. Ms. Eicher noted that the power reserve fund was the largest reserve.

In response to a question from Vice President Brown regarding positive variances in capital projects, Ms. Eicher stated that the Harvest Wind, Roosevelt Boulevard, and Carmen-Smith relicensing projects would wind up costing almost \$5 million less than projected.

Commissioner Ernst asked what the cost of the Roosevelt Boulevard property had been. General Manager Randy Berggren replied that it was not in the original budget. He said it had cost \$1.1 million or approximately \$2 per square foot.

Commissioner Cunningham asked if costs were going down accordingly in the face of reduced revenue. Ms. Eicher affirmed this. She said some budget reductions had been implemented in the second quarter and above and beyond those reductions there had been some positive variances in operating expenses.

Commissioner Cunningham expressed concern regarding the unfunded pension liability. He asked if it was time for EWEB to consider adding to the money they were setting aside to cover the unfunded actuarial liability (UAL). General Manager Randy Berggren said it would be worth discussing.

President Farmer encouraged the Board to look at what it had done in the past. He stated that they had added a significant amount of funding to the UAL in the time that he had sat on the Board.

Vice President Brown said he was the liaison to the benefits group. He believed there was a need to have some capital contribution; there was an obligation to put more money there.

Ms. Eicher stated that one reason EWEB reserves were in good shape was that the utility had a good credit rating and was able to engage in short-term borrowing, as it had for the Harvest Wind project.

Ms. Eicher reviewed the 3rd quarter financial statements for the water utility.

Commissioner Cunningham asked what the normal amount of money had been for the operating reserves. Ms. Eicher replied that it had been less. She explained that one reason it was up was that the water utility had borrowed money and was in a better cash position because of the borrowing and some project delays.

Commissioner Cunningham questioned whether the utility should lower the amount of the rate increase given that the operating reserve was at a healthier level. President Farmer responded that if they really wanted to examine the question of how they established those levels, they needed to determine how conservative they wanted to be on the budget assumptions. He observed that they had been wrong about the water forecast more often than they had been right.

Commissioner Ernst asked if the water utility realized a savings when the pumping volume was down. General Manager Randy Berggren replied that the utility would have a reduced operations cost but the labor costs were fixed and represented 75 percent of cost.

Ms. Eicher continued her presentation. She stated that the increase in operating revenue was attributable to the rate increases.

Vice President Brown observed that the Columbia Street project had been important enough to be placed in the capital budget but now was not going to be implemented. Tom Buckhouse, Director of the Steam and Water Division, replied that they tried to make the best judgments regarding which main replacements they needed to take on next, but as they went

through the year they had to make some changes to the plan because of other projects that were in more imminent need and because of financial constraints.

Commissioner Cunningham understood that they were currently funding the water system upgrade according to their strategic plan and asked if they would have to start all over again once the plan was completed. Mr. Buckhouse replied that given that the system contained 800 miles of pipe and the pipe did not last forever, the upgrades and replacements would be an ongoing process.

In response to a follow-up question from Commissioner Cunningham, Mr. Buckhouse stated that they replaced approximately 30,000 feet of six-inch equivalent pipe. General Manager Randy Berggren added that they had probably doubled or tripled the investment in main replacement in the past couple of years.

Commissioner Cunningham asked what the lifetime of the water pipes and mains was projected to be. Mr. Buckhouse replied that depending on the composition and the soil condition a pipe could last between 50 to 250 years. He noted that this area featured all types and conditions of soils.

3rd Quarter 2009 General Manager Goals

General Manager Randy Berggren highlighted the *2009 GM Goals – 3rd Quarter Status Report*. He stated that, in line with Goal 1, the City of Veneta had been expressing a strong interest in becoming a wholesale customer of EWEB's water, driven by some of the federal dollars available for rural water district programs. He reported that Veneta was pursuing an opportunity for some federal funding that would pay for 45 to 50 percent of the cost to construct a line, with a potential connection date in 2011. He said this opportunity began to develop approximately six months ago and appeared to be much more serious as of the previous month; the federal agency was now working directly with the City of Veneta.

Commissioner Cassidy asked if EWEB had received any inquiries from Junction City. General Manager Randy Berggren replied that Junction City was not interested in seeking a connection with EWEB at this time.

General Manager Randy Berggren said it would be important for the Board and him to make some progress in the decision on whether to maintain split operations or to build a new headquarters building at the Roosevelt site, per Goal 3. He recommended at least having a placeholder in years five through ten in the ten-year financial plan. He did not foresee being able to move the headquarters in the next five years. He said they needed to decide what other elements beside economics should drive the interest in a move, what the estimated cost would be, and when they would like to consider either moving to a new facility or remodeling the old one.

Commissioner Ernst asked if the preliminary analysis had cost \$80,000. General Manager Randy Berggren explained that EWEB had hired some people to help Ken Beeson develop the estimates but he did not believe that it had cost \$80,000.

General Manager Randy Berggren related that they had received good news regarding the Steam Transition Plan, per Goal 4. He said the engineers had completed their analysis on the first 15 buildings, out of the 55 that would be transitioning, and those analyses would be delivered to the Oregon Department of Energy (ODOE) in December. They would then determine who would qualify for the Small-scale Energy Loan Program (SELP). He said they had been encouraged to join in a grant application involving ODOE and the City of Portland, the deadline for which was on November 20. He stated that EWEB was using every resource it could find and was working cooperatively with the City of Eugene to do so. He explained that the utility had to partner with Eugene because the grant could not go to a municipality. He related that EWEB had not been successful in getting any federal infusion money over the course of the last 12 to 14 months, but the grant they were pursuing looked promising and could provide as much as \$5 million for loans and grants.

Commissioner Cassidy asked what type of presentation the Riverfront Master Plan Community Advisory Team (CAT) would bring to the Board. General Manager Randy Berggren replied that it was his understanding that the presentation would consist of a “single scenario.”

Vice President Brown observed that the Bureau of Land Management (BLM) had successfully blocked an effort by ODOT to widen West 11th Avenue. He said if that road could not be widened, it could prevent the placement of a water line. General Manager Randy Berggren responded that this could present an issue but there was a possibility that a line could be placed south of Fern Ridge Lake.

Governance/Financial Policies

Jim Origliosso, Corporate Services Division Director, stated that the Board and staff had thought it would be good to apply a policy to a real issue in the Board’s effort to review its policies. He said the first policy they would review was the rate sufficiency policy, which was derivative of compliance requirements. He said the Contribution in Lieu of Tax (CILT) was intended not to be an operating cost, but a surplus cost.

President Farmer asked if EWEB did not sometimes pay the CILT even when it did not have a surplus. Mr. Origliosso affirmed that this had been done in the past.

Mr. Origliosso presented a chart that delineated what the debt service had been on a historical and projected basis. He explained that if EWEB dropped below the 1.25 times debt coverage ratio, it would be “in the red zone” and would not be in compliance. He said the Board had wanted EWEB to be above the minimum compliance zone. He stated that the 2.5 times debt coverage level was an above average level of financial soundness.

President Farmer said the Board used the 2 times debt coverage mark as a benchmark. He had asked Standard & Poor’s what their perspective would be on EWEB if it dropped below the 2 times debt coverage mark. He related that despite the fact that EWEB had been below that mark at the time, the rating agency was still “pretty comfortable.”

In response to a question from Vice President Brown, Mr. Origliosso stated that EWEB had borrowed \$55 million thus far for the Roosevelt Boulevard project and planned to borrow another \$12 to \$13 million for it.

Vice President Brown asked what the industry standard was for utilities' debt coverage. Mr. Origliosso responded that for generating utilities the average was 2.5 times debt coverage. Vice President Brown surmised that EWEB would fall below this average. Mr. Origliosso said what typically would happen was that things would turn out better than had been projected. He explained that they were projecting the coverage to be 2.4 for 2009, but with the budget reductions they had made the ratio was now projected to be 2.5 times.

Commissioner Cassidy asked if the number would improve after 2014. Mr. Origliosso replied that after the "trough" that would happen due to the Carmen-Smith hydro facility being under construction and also because of the decrement from the Bonneville Power Administration (BPA), which would go into effect with the new contract in 2011.

General Manager Randy Berggren stated that implicit in the projection was a power cost assumption going into the markets that was driven by the current low market. He said EWEB had high uncertainty in its future power costs. He predicted that they would see more power revenues, rather than less, in the forecast. He underscored that they had conservative assumptions for both the hydro year and the Carmen-Smith construction period. He felt that the time period for the outage at the Carmen-Smith facility was a bigger issue. He thought it possible to complete the work in less than the three-year assumption.

Vice President Brown asked if there were any pre-payment penalties for the bonds. Mr. Origliosso responded that they had a ten-year call provision, which included a penalty for pre-payment in less than ten years.

Mr. Origliosso discussed the alternatives suggested in the background memorandum entitled *Financial Policy Review* dated *November 10, 2009*. He said that proposals would come forward that reflected combinations of the five alternatives, listed here as follows:

- Constrain operations and maintenance expenses.
- Defer surplus revenues into periods of lower projected debt service coverage as opportunities arise.
- Obtain greater certainty on Carmen-Smith impacts (costs and schedule).
- Review aging infrastructure requirements and determine if additional rate revenues for ongoing capital needs would be warranted.
- Constrain new debt and restructure existing debt to improve debt service coverage.

Noting the bullet point regarding a need for more certainty on the Carmen-Smith impacts, Vice President Brown asked if that was determined by wildlife habitat and fish spawning cycles. General Manager Randy Berggren replied that they were always working around those elements. He felt there was some opportunity there to be more aggressive with the timeline for construction.

Mr. Origliosso continued his review of the alternatives. He said EWEB was spending between \$80 million to \$100 million in a year on its capital plan and \$15 million came from rates, with the rest coming from borrowed money, reserves, or customer contribution. He stated that EWEB was relying a great deal on borrowing to fund the capital plan and they might want to consider increasing the ratepayers' portion.

Vice President Brown asked if pursuing a second water resource was included in the projection. Mr. Origliosso replied that they were looking at the electric utility alone. He noted that the debt service coverage for the water utility was currently at a ratio of 3 to 4 times coverage, but if they added the work on the second source it would make that number "go south."

Commissioner Cassidy said he was not interested in looking at the first bullet point at all because he considered it to be solely concerning operations. He thought completing the work at Carmen-Smith in two years would be "fantastic" and would be worth spending a little more to accomplish.

General Manager Randy Berggren commented that they hoped to complete the work in 10 to 12 months.

Regarding the first bullet point, Commissioner Cassidy did not want to cut hours or wages to employees, preferring instead to increase rates should it come to that.

Vice President Brown echoed that. He averred that the fact that EWEB had a high retention of employees spoke to the fact that they were getting what they paid for. He believed there were other things they could cut back on, if necessary.

Commissioner Cassidy thought that EWEB could cut back on the Community Care program if the economy started to improve.

Commissioner Ernst did not support raising rates to pay salaries, though she would consider raising rates to maintain current operations.

Commissioner Cunningham felt they should reserve judgment until they hired a new General Manager. He would not want to limit the Board's capability to constrain operations and maintenance expenses. He also predicted that they would not be able to reduce funding for the Community Care program for the next year. He thought the needs of the misfortunate needed to be addressed over the needs of the ratepayers.

President Farmer disagreed. He pointed out that EWEB had more than quadrupled the program in response to a specific economic downturn. He said if the economy improved, the Board would need to change the program accordingly.

President Farmer thought that the Board, from a governance standpoint, needed to govern "more by the numbers" than it currently did. He felt that a lot of what the Board engaged in was reactive and based in emotion and lacked a number analysis. He said any time they considered a major project, they should look at what it did to the numbers and the Board should know them by

heart. He averred that if they had a policy that specified a debt service coverage ratio of 2.5, every single commissioner on the Board should know this. He stated that every time a project was brought before the Board, they should be asking what the project would do to that number; they should not look at a budget without knowing how it affected the ratio.

Vice President Brown believed the policy set as a goal that the utility would have a 2.5 debt service coverage ratio. Mr. Origliosso confirmed that it was a goal and they were not in violation of the policy. He said the main issue was how they would want to position themselves for the out years. He felt they had done a good job of laying the foundation in the first five years.

General Manager Randy Berggren underscored that the numbers were very prospective. He believed they would likely be better than they had projected, but a conservative financial context was prudent.

President Farmer adjourned the work session at 7:01 p.m.

Assistant Secretary

President