

EUGENE WATER & ELECTRIC BOARD  
WORK SESSION  
EWEB BOARD ROOM  
500 EAST 4<sup>TH</sup> AVENUE  
DECEMBER 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, Debra Smith, Sheila Crawford, Lance Robertson, Jim Wiley, Jim Origliosso, Cathy Bloom, Bill Welch, Clay Norris, Patty Boyle, Garilyn Johnston, Felicity Fahy, Steve Newcomb, Leslie Kidd, Jill Hoyenga, Todd Simmons, Jennifer Joule, Edward Yan, Eric Hiaasen, Karl Morgenstern, Catherine Gray, and Judy Chase of the EWEB staff; Julie Desimone, Moss Adams LLP, Ruth Atcherson, City of Eugene minutes recorder.

President Farmer convened the work session of the Eugene Water & Electric Board (EWEB). He noted that the notice in the *Register-Guard* had indicated that the Board would be receiving testimony in regard to a rate increase at its regular meeting and clarified that the intent of the public hearing was to receive testimony on the 2010 Electric and Water Budget. He also noted for the record that Vice President Brown would arrive late due to business obligations.

### **2009 Auditor's Pre-Meet**

Cathy Bloom, General Accounting Supervisor, introduced Julie Desimone, a partner with Moss Adams LLP.

Ms. Desimone stated that she had spent over ten years working with public utilities and municipal utilities, specializing in water and power. She underscored the importance of communication in the audit process. She noted that they would select one board member for an interview, scheduled for the final field work in February. The final report would be provided on April 6, 2010.

In response to Commissioner Ernst, Ms. Desimone cited preliminary survey and investigation costs as a part of deferred credits. She said conservation loans would be another, as would some of the derivative instruments from market to market.

Commissioner Ernst asked what kind of credits might be considered. Ms. Desimone replied that it would consist primarily of the other side of the derivatives at fair value. She stated that other things that could be considered deferred credits would be certain loan or deposit instruments, basically any deferral of revenue.

Ms. Desimone said there were no significant changes in the current year-to-year reporting. She explained that the auditors had experienced a "whirlwind" of standards that had affected the accounting world. She added that there were some significant standards coming out for the next year, however.

Commissioner Ernst asked who wrote the standards. Ms. Desimone replied that they were written by the Financial Accounting Standards Board (FASB) or the Governmental Accounting Standards Board (GASB).

Commissioner Cunningham asked if the lop-sided margins in power trading would be something they would more closely scrutinize. Ms. Desimone responded that the auditors would not analyze margins from a management standpoint. She said they would review the EWEB risk assessment policies to ascertain that they were standard within the industry and that they had been changing through the years accordingly. She explained that once they had completed that portion of the review, they would select individual transactions to test back according to the risk assessment policies.

In response to a follow-up question from Commissioner Cunningham, Ms. Desimone confirmed that they had some “surprise procedures” to use on more random samples for testing purposes. She said they would hold back certain disbursements to ensure that no one was going through them ahead of time. She stated that they also used ACL, a data extraction tool that would allow the auditors to gain a “gigantic” amount of electronic information. She explained that they received a copy of EWEB’s entire ledger for the year and they would review it to see if there was anything there that they would not expect.

Commissioner Cassidy thought it was not an audit of accounting so much as it was an audit of risk. Ms. Desimone responded that in the accounting numbers there were inherent risks. She said they wanted to know things like whether anyone could open a work order in order to add time or costs into it and that when completed, the work order was closed and the construction was completed and added to the plan assets.

Commissioner Cassidy commented that an area that was not reviewed by the audit was the delivering of service to the customers. He felt it was not really an area of risk and was more likely the responsibility of the Board. Ms. Desimone confirmed that this was outside the scope of a financial audit.

President Farmer related that he had asked staff to ask the auditors to identify issues that had risen to their attention that had needed correction according to past audits. He asked what else the auditors would be reviewing. Ms. Desimone replied that they planned to review the job costing and closing of work orders and the power trading. Regarding the latter, she said the auditors knew it was undergoing a conversion and they had actually visited throughout the year. She had brought an information technology specialist along with her to look into the new system.

President Farmer asked his colleagues to review the comments on the issues the auditors had raised in the previous year. He also asked the auditors for an idea of the changes that were coming for the next year. Ms. Desimone explained the functions of FASB and GASB. She said GASB had started its own derivative standard, to be implemented in the next year. She stated that it would change some disclosures and would involve some training. She noted that EWEB had implemented a similar standard brought into play by FASB and was ahead of the curve. Ms. Bloom anticipated that they would have the standard in place by the end of the first quarter of the next year.

Ms. Desimone stated that another standard that would be implemented was in regard to intangibles, such as water rights. She said EWEB had been booking intangible assets all along and the change would not impact the utility.

In response to a question from Commissioner Ernst, Ms. Desimone stated that the auditors would look at the previous year's cash flow deriving from the trading floor. She noted that EWEB was unique in that it marked those to market. She said EWEB used FAS statement 71, which allowed the utility to put the costs on the balance sheet instead of the income statement. She added that this made sense because EWEB's rate structure was based on cash flow and not the market value of the derivative.

Commissioner Ernst asked if any board policies had ever come out of the audits. President Farmer replied that some had. He said they were more likely to have directed a change because of a problem, rather than to change a policy because of one.

### **Global Reporting Initiative Results**

Debra Smith, Employee, Customer and Community Services Director, explained that EWEB's environmental group had been in operation for approximately 17 years. She related that two years earlier she had spoken with Steve Newcomb, Manager for the Environmental Management Department, about what direction they should take after the Carmen-Smith relicensing process was complete. She said with this completion they would be able to position the department to "position" EWEB. She noted that currently ten employees worked in the department, including Felicity Fahy, Sustainability Coordinator, and Karl Morgenstern, the Water Source Protection Coordinator, biologists, an employee in charge of vegetation management, and some employees working in the more technical aspects of the field.

Mr. Newcomb stated that they would present sustainability reporting for an electric and water utility. He recalled that the data collection, which served as the framework for the report, had been approved by the Board in October, 2008. They intended to present context on what sustainability was and the Global Reporting Initiative (GRI). He introduced Ms. Fahy.

Ms. Fahy provided a power point presentation called the *Introduction to Sustainability Reporting*. She explained that sustainability related to environmental health, social equity, and economic prosperity. She said EWEB was one of the first community-owned utilities to undertake this work. She stated that the GRI framework was the "coordinating place" between the environmental, social, and economic aspects.

Ms. Fahy stated that the raw data had been gathered broadly throughout the organization with individual reports for each of 150 indicators. Ms. Smith added that they were looking into a way of making the reports available to the Board on line.

President Farmer asked what the 150 indicators consisted of. Ms. Fahy responded that they were all of the indicators that were part of the GRI, but not all of them were relevant to EWEB. She said they had honed them down and had come up with a list of 30 or 40 indicators they would primarily focus on in the reporting relevant to EWEB.

President Farmer asked who decided that the 150 indicators were the right ones to focus on. Mr. Newcomb replied that the GRI was a consortium of global corporations that put their heads together and arrived at the list of indicators to measure sustainability. He had provided a list of them in the board packet.

Vice President Brown arrived.

President Farmer said he was more concerned with what was important to the local community as opposed to what was important to the largest corporations. Mr. Newcomb assured him that they had whittled the indicators down in order to find the ones that best related to the community

Mr. Newcomb reviewed an example of an economic indicator, one that was related to demand side management and that included tables of data regarding how much energy EWEB had saved and categories related to trends, goals, and benchmarks and one for opportunities and concerns. He reviewed an example of an environmental indicator, about significant biodiversity impacts. He said this one evaluated the impact of projects on the environment. He also reviewed an example of a social indicator, which was in regard to emergency planning and disaster response.

Mr. Newcomb discussed the completeness of EWEB's reporting. He noted that the omitted reporting were things that were not of material interest to EWEB. He reviewed the sustainability themes that related to EWEB which included climate change, succession planning, energy efficiency, water supply planning, ecology, affordability and risk, facilities and operations, community, and staff diversity and wellness. He showed an example of a theme related to succession and skill in the changing workforce and the related indicators.

President Farmer asked if there was distinguishing factor that indicated that one thing was the most important priority and another was of less importance. Mr. Newcomb responded that part of the process for him involved elevating the themes and providing some base level information so the Board could understand where EWEB stood in relation to other utilities and could identify areas of opportunity.

Ms. Smith said almost any model related to strategic planning included an environmental scan. She viewed this as information that would be part of that scan so that the Board could determine which to address and which were priorities. She observed that climate change would be an area that they would focus on a lot in relation to sustainability. She thought they would have fundamental questions about how to evaluate the carbon impact of EWEB's portfolio because they were a trading facility, for instance.

Mr. Newcomb related that the protocol for how they would start the process began at the staff level in collecting the information. He said they had brought cross-departmental staff to talk about what they perceived the issues to be and they had interviewed management staff to find out their strategies that applied to the issues. He stated that the themes combined this input. He added that they had some "high energy" focus groups among the staff.

Mr. Newcomb stated that the report was intended to be a disclosure process that would help to inform strategic planning development measures. He thanked staff and management for what he considered to be a “huge effort.”

Commissioner Cassidy thought this would bring the Board a “tremendous amount” of information. He suggested that the Board be provided somewhat constant updates. Ms. Smith responded that they planned to provide a report in two weeks that would be “more manageable.” She noted that staff was looking into a tool called ‘See It.’ She related that the City of Albuquerque, New Mexico, utilized this tool and suggested that the Commissioners check it out.

President Farmer reiterated that he wanted the Board to be a policy board and not a board to oversee operations. He thought a lot of the information that would come out of the GRI should inform the Executive Management Team (EMT). He wanted to be careful to avoid inundating the Board with information that was related to operational aspects of the utility.

Mr. Newcomb said they had “slimmed” the report down. He said the aspect the Board would ultimately concern itself with was whether the work was moving toward the goals of the Board or away from them.

Commissioner Cunningham suggested that the Board be provided a quarterly report and that they should update the web site with information concerning sustainability regularly.

General Manager Randy Berggren agreed that the Board should not become an operational board, but his experience had taught him that until the Board became grounded in the operational aspects of the utility it was hard to have the confidence to set policy. He believed the reporting mechanism represented a standardized view for thinking about sustainability and provided a more global frame of reference. He underscored that the utility was still an independent local political jurisdiction that could decide which measurements were relevant and which were important. He considered the information to be very holistic in nature and, at this point, still in its early stages. He thought there would be value in providing the Board with a quarterly update on the work related to sustainability.

In response to a question from Commissioner Cassidy, Ms. Smith said the impact on staff would be less now that the groundwork had been laid.

Commissioner Ernst asked if the Integrated Energy Resource Plan (IERP) work would be a part of the sustainability work. Ms. Smith replied that they were at the beginning stages of considering what the IERP process would look like in this context. She said they planned discuss it when they came back to the Board on January 15.

President Farmer observed that the GRI was a reporting tool. It seemed to him that whatever they did in terms of resource planning would not depend on the reporting mechanism. Ms. Smith clarified that because they were in the unique position of being long, they had time to have some higher level policy discussions instead of a discussion on portfolio trade-offs that were more traditional parts of resource planning. She underscored that the work would still inform the resource planning.

General Manager Randy Berggren thought they would get a measurement out of the data, particularly related to carbon footprint, energy, climate change, and others. He believed that this “status snapshot” on these issues would lead the Board to certain conclusions about things that should come out of a resource strategy. He said this was different from the past process, which had entailed bringing together a group of citizens and “trying to make energy planners out of them.”

Commissioner Ernst wanted to ensure that they did not lose track of the necessity of a documented IERP.

Vice President Brown asked if other utilities had undertaken the GRI work. Mr. Newcomb responded that the best corollary to EWEB was located in Fort Collins, Colorado, because it had a similar demographic to Eugene. He said Seattle City Light was in the process of doing the work, as was Duke Energy, American Electric Power, and some of the larger private utilities.

In response to a question from President Farmer, Ms. Fahy explained that the focus on non-renewable resources involved cutting down on the amount of fossil fuels they used, such as a reduction in the amount of fuel used to power EWEB’s fleet.

President Farmer said while he would not say this was not important, it was not as important as protecting the watershed, for instance. Regarding the slide that listed themes, he remarked that sustainability seemed to be the most overused word in the language currently. He agreed that it was important, but he worried about communicating with the general public when so many terms were thrown under the heading of sustainability. He said what they were really talking about were areas that were important for running a utility. He felt many customers would think of something other than what was listed.

Ms. Fahy stressed that sustainability was about more than recycling; it related to the interconnectedness between the people, the community, and the world. She said it was a way to help people to see and understand it and how it was a part of building a healthy community.

President Farmer observed that the most important thing to the ratepayers was whether the lights came on and whether they could afford for them to come on.

Ms. Smith said all of the indicators would relate to those things, too.

Commissioner Ernst considered it to be an educational tool.

President Farmer adjourned the work session at 7:23 p.m.

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Assistant Secretary

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President