



MEMORANDUM

EUGENE WATER & ELECTRIC BOARD
GENERAL MANAGERS DIVISION

Rely on us.

TO: Commissioners Farmer, Brown, Cassidy, Cunningham, and Ernst
FROM: Randy Berggren
DATE: January 12, 2009
SUBJECT: 2009 GM Goals- 4th Quarter Status Report

The 4th 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.

4th Quarter Results – Goal 1

- (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 is substantially complete and is being reviewed among the parties and associated legal support teams.
- (c) Springfield Utility Board (SUB) is completing an update to their Water Master Plan. The plan recognizes the option for SUB to consider developing system capacity and redundancy using a partnership with EWEB and evaluates water sourcing options using regional supply as one of the ranking criteria. Additional planning work by the utilities will need to be pursued to determine the viability of this option.

EWEB has completed a draft conceptual design of 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 began in the fourth quarter of 2009.

- (d) Work continues 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 – 4th Quarter Results:

We started the 4th quarter with a Design Charrette on October 3 at which over 60 people participated. Eight separate design tables spent the day laying out the EWEB Riverfront site with new roads, open space and buildings. It was interesting to note that all eight tables presented an urban design, concentrating open space mostly along the river frontage. None of the designs called for a large park dominating the site or for significant amounts of riparian restoration. The theme was reinforced on November 10 at the second

public event. At this event, the over 220 people participating were shown three design concepts and they were asked for their reactions to them. There were numerous calls for treating the riparian edge with sensitivity and for the redevelopment of the site to embrace sound ecological development standards, the overwhelming majority in the room wanted an “urban” experience on this riverfront.

Based on input from the 2 public events, the design charrette, input from the Community Advisory Team, and individual interviews, focus groups and group interviews, the design team is now working on a single design concept. This will be presented to the Board in the next quarter, February 2, 2010. We are still on track to present the Draft Master Plan document to the Board for approval in May/June 2010. Before submitting the master plan to the City, we will complete the land use applications so the land use applications and the master plan can be submitted as a package. We think this strategy is best because the land use applications and master plan are interdependent.

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 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 – 4th 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.

- (c) There was no Board discussion on this goal during the 4th quarter. Staff agreed in limited discussion that “basic requirements” remodel plan (minimum remodel work plan, cost, schedule) needed to be prepared for Board review and approval by 1st quarter 2010 to ensure that remaining staff could be efficiently accommodated in HQ building once the Roosevelt move was completed.

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 – 4th Quarter Results:

Building Site Assessments Delivered: The first two reports (Hult Center and Parkview Building) were delivered in December. 13 reports were pending in December and were not yet ready for review (5 additional draft reports were delivered on January 6, 2010, with 8 pending). Four conversion projects are in the process of moving into the next phases of conversion, with three seeking financing and one in the construction phase for a portion of the building.

Energy Efficiency & Conservation Block Grant Proposal Developed: EWEB's Steam Transition project served as the "anchor project" in a collaborative effort with the City of Eugene to compete for the latest round of federal stimulus funds through the competitive round of the fed's EECBG. The city previously committed \$515,000 in allocated EECBG funds to their four steam buildings. This competitive round seeks a total of \$4m for steam conversion projects, including \$1.2m for loans and \$2.8m for grants. The award will be announced in March, 2010. Eugene's submittal is embedded within the City of Portland who is the lead applicant in the state of Oregon. Eugene was chosen as the sole sub-applicant in the state, largely due to the fit of our steam project proposal for the grant criteria and the efforts of City of Eugene staff.

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 (1st 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 1st 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 – 4th Quarter Results

- (a) The economic downturn persisted throughout the year which resulted in lower retail loads, reduced energy prices, and wholesale electric revenues. This was partially offset by generation volume in excess of the budgeted 85% level. The net result is that the 2009 contribution margin surplus was \$3.7 million (not counting a \$2.1 million reduction in revenue for the customer care rebates). The 2009 budget contained an expected contribution margin surplus of \$4.5 million. After accounting for the effect of the customer care rebates, the actual contribution margin surplus indicates a \$1.6 million increase to the power operating reserve.
- (b) Preliminary estimates* indicate an actual favorable variance in electric O&M expense in excess of \$4 million with actual water O&M expense at budgeted amounts. Favorable capital budget variances for electric and water are \$17 million and \$1 million respectively; primarily attributed to the timing of capital project activities. The highest priority work was accomplished (eg. Roosevelt, Steam Transition, Customer Care, NERC Compliance) with concerns noted about the ability to sustain this level of effort at existing staffing levels.
- (c) Electric utility budget and financial projections indicate a modest budget surplus in 2010 followed by four years of rate adjustments of 3%-7% annually that even still results in deficits totaling \$24 million. From a cash standpoint, sufficient reserves have been set aside to buy these deficits down to zero. However implementing this strategy carries some risks for debt service coverage and bond ratings which were discussed with the Board on November 17. This topic was also discussed with the Standard & Poors credit rating agency prior to their confirmation of the bond ratings in December. Upcoming staff proposals regarding revenue deferral, cost management, reserve levels and rate adjustments will further address this issue.
- (d) Capital plans covering both utilities 2010-14 were presented and approved. As noted above, the significant favorable variances (most notably the Roosevelt construction variance) will be addressed in the April 2010 update to the plans.

*Because the books are not yet closed (as of January 4) Year-end financial results are estimated based on unaudited November financial statements and estimates of December activity. These numbers are expected to change by amounts that are not material.