

EUGENE WATER & ELECTRIC BOARD
WORK SESSION
EWEB BOARD ROOM
500 EAST 4TH AVENUE
DECEMBER 7, 2010
5:30 P.M.

Commissioners Present: John Brown, President; Rich Cunningham, Vice President; Ron Farmer, Bob Cassidy, Joann Ernst

Others Present: General Manager Roger Gray, Debra Smith, Sheila Crawford, Lance Robertson, Clay Norris, Joe Harwood, Jim Origliosso, Jeannine Parisi, Mike Logan, Jason Heuser, Mark Freeman, Tom Buckhouse, Patty Boyle, Jennifer Joule, Cathy Bloom, Dick Varner, Mel Damewood, and Taryn Johnson of the EWEB staff; Julie Desimone, Scott Johnson, Moss- Adams LLC; Ruth Atcherson, minutes recorder.

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

2010 AUDIT PLANNING

Jim Origliosso, Corporate Services Division Director, explained that this was the annual audit planning session. He introduced Julie Desimone, auditor for Moss-Adams LLC.

Ms. Desimone outlined the audit process with a power point presentation. She said it was important for the Board to see what the audit was going to look at. She indicated that they wanted to select a Commissioner for the interview process.

Vice President Cunningham recommended that Commissioner Cassidy to serve as the interviewee.

Commissioner Cassidy indicated his willingness to do so.

Ms. Desimone stated that Moss-Adams did a lot of performance auditing for clients and a lot of deep internal controls but if they did not feel they were the best person in an area they would find someone who was.

President Brown understood that Moss-Adams had a no-bid contract. He asked if EWEB was mandated to have a full-on audit every year. Mr. Origliosso replied that it was not mandated by ordinance, but it was required by the bonding agencies.

In response to a question from President Brown, Ms. Desimone said there were performance and management audits; Moss-Adams would look at the controls over who hires and who gave the pay grade but not who was hired and how.

Mr. Origliosso suggested that they consider an option to have a performance audit of the procurement process. He said they would have to delve into the Qualified Rehabilitation Facility (QRF) process.

President Brown said every year he read the report and it seemed there was always mention of information technology and security. He wanted them to thoroughly look into the two areas.

Steve Johnson, auditor for Moss-Adams, reviewed the audit process and the timeline.

Ms. Desimone discussed the areas of interest, which involved the "big dollar amounts" in the EWEB system. She said they used a lot of Information Technology (IT) testing to make sure there was proper security and the systems were working as intended. She explained that they looked at power trading at a couple of levels, including risk management and derivatives. She cited the Carmen-Smith relicensing project as an example of deferred debit that would be amortized once the license was in full effect. She said they would be reviewing deferred debits and credits.

Vice President Cunningham wanted to make sure that reserve funds were not encumbered. Cathy Bloom, General Accounting Supervisor, assured him that the audit would confirm that they were not encumbered, with the exception of the Carmen-Smith reserve.

In response to a follow-up question from Vice President Cunningham, Ms. Desimone explained that she had indicated that EWEB would have a clean audit opinion because EWEB staff was very diligent in its financial reporting. She underscored that bonding agencies would look at the audit opinion when considering bond ratings.

Mr. Origliosso said EWEB's target for debt ratio was less than 60 percent. He stated that they kept an eye on debt level in order not to over borrow.

Vice President Cunningham had been bothered when he came on the Board because he felt that previous boards had committed him to raise rates for the ratepayers in order to fund capital programs. He had thought he had come on the Board to do something for the economy and had found that he could not do so.

Ms. Desimone offered to bring back information on debt to equity ratios for different utilities. She said the plant assets were not in the shape they should be; there was a lot of additional work to be done and many utilities were just doing the minimum to get by. She assured him that many utilities were faced with the same capital investments.

Regarding the Roosevelt Operations Center (ROC), Ms. Desimone explained that they would look at how contractors were paid and whether there was appropriate authorization for it. She underscored that they would not audit performance. Rather their focus was on whether costs were appropriate and whether they were recorded correctly.

President Brown was interested in the information on the ROC. He said the additional funds spent had raised the total to \$72 million. He felt that money that was still underneath the threshold amount had not needed to be spent. Ms. Desimone responded that these concerns were more aligned with the performance aspect of the project.

Mr. Johnson stated that one key focus of a financial statement audit was the internal controls and processes around how things were flowing to the financial statements.

Vice President Cunningham asked if the threshold for contracts that came before the Board for approval was appropriate. Ms. Desimone responded that the bidding laws under the Oregon standards were what the utility had to comply with. Mr. Origliosso added that EWEB's thresholds were more conservative than the ones set at the state level; EWEB's threshold for personal services contracts to need Board approval was \$20,000 and the state prescribed threshold was \$150,000.

Commissioner Farmer asked how many utility audits Moss-Adams conducted. Ms. Desimone estimated that they did between 50 and 65 per year.

Commissioner Farmer asked if any of them were qualified. Ms. Desimone replied that some did receive qualified opinions. She recalled an audit that had taken six months to do. She related that it had been the first time where she had significant doubts about being able to get through the information. She said most utilities did not have qualified opinions because they knew that if they received such an assessment in an audit bonding would "dry up" for them. She added that there were some clients who, when they walked in, looked like they would receive a qualified opinion and then worked diligently to correct things.

Commissioner Farmer asked what the top two things were that caused concern. Ms. Desimone responded that for smaller utilities it was that someone that had too much power and had gotten in too far over their heads. She said it usually did not involve fraud of any kind, only an inability to keep up with the necessary financial record keeping. Mr. Johnson noted that the most adjustments they made were in the plant process. Ms. Desimone concurred, explaining that it was primarily due to the amount of information feeding into it. She said this was not the case usually with a publicly owned utility because of how the rate structure was set up.

Commissioner Farmer asked if, when looking at a relicensing project, they were able to look at it in comparison with what would be normal repair and maintenance versus what it would cost for a new dam. Ms. Desimone replied that everything the utility would spend went to getting relicensed and there were a lot of expenses in that cost that did not go for repairs and maintenance. She said they did review it to ensure that the expenditures fell within the parameters of what the Federal Energy Regulation Commission (FERC) considered relicensing costs. She stated that they also reviewed it to ensure it was consistent with industry. She agreed that some costs did not appear to be as related to repair and maintenance of the structure, but given that they were required by FERC it was required to be deferred to be amortized over the life of the relicensing.

Commissioner Farmer asked if the audit took a hard look in those areas to ensure EWEB was being compliant. Ms. Desimone replied that FERC had 14 general policies on how the accounting records were to be followed. She said the North American Electric Reliability Corporation (NERC) covered the performance auditing aspect. Mr. Origliosso added that NERC conducted ongoing audits.

Commissioner Farmer asked if the audit would look at accounting relative to Renewable Energy Credits (RECs) and "some of the more fuzzy math things." Ms. Desimone affirmed that it would. She noted that there had been a lot of discussion on how to value assets and there was almost no industry guidance for RECs at this point.

In response to another question from Commissioner Farmer, Ms. Desimone stated that they had not seen the "hot button issues" from the bond rating agencies yet. She assured him that they would look into what they were and take them into consideration.

Mr. Johnson highlighted the changes that Governmental Accounting Standards Board (GASB) Statements 51 and 53, neither of which would cause a significant impact for EWEB because EWEB's staff had been keeping abreast of the changes.

Commissioner Farmer asked if they were saying there was no significant impact from accounting changes or were they saying there was no significant impact from market movement. General Manager Roger Gray responded that the market movement "still hurt."

Ms. Bloom recalled that the Third Quarter Financials report had included the new standards.

Ms. Desimone commented that the GASB standard regarding derivatives were more difficult to apply to utilities. She said they needed to make sure that the rating agencies understood what was required under accounting and understanding the differences between the Financial Accounting Standards Board (FASB) and GASB and how that impacted the statements. She stated that the rating agencies also wanted to ensure that utilities understood what a derivative product was, how it was reported, and that they were able to look at municipal utilities and get the same information every time.

President Brown noted that he had asked every component of EWEB to save costs. He encouraged Moss-Adams to do the same. He had concerns about the expenditures at the ROC and wondered how they could pursue a thorough review of them, but he preferred to find a way that did not cost a lot of money.

Commissioner Ernst said she would like to see both a performance and construction audit at the ROC. She agreed with President Brown that she would want to know the cost first.

Commissioner Cassidy echoed this.

Commissioner Farmer recommended that they identify their concerns first and this would drive how much money they would spend on such an audit. He also wanted to thank Ms. Bloom, given that it was his last meeting with her, for helping him understand what was happening when he first became a commissioner. He encouraged his colleagues to look further into the audit and financial statements.

Vice President Cunningham asked if the utility had gotten the reserve money back that was not spent for the ROC. Commissioner Farmer replied that the money was borrowed and not in reserve; EWEB just did not spend it.

Ms. Bloom clarified that EWEB had not issued bonds for the additional amount. Mr. Origliosso said the savings had come from the bond estimate being based on a number that included inflation that had not occurred.

Vice President Cunningham said he wanted to know what they had learned from the ROC that they could take to the project at Carmen-Smith. General Manager Gray responded that he would suggest that they approve the financial audit of the ROC. He thought they should do further auditing of the ROC construction project so that they could address the concerns expressed by some community members and also for the purposes of information that might prove useful in the Carmen-Smith relicensing project. He recommended that they bring back a more specific scope of work and structure for such a performance audit at a later date.

2011 LEGISLATIVE AGENDA DISCUSSION

Debra Smith, Employee, Customer, & Community Services Division Director, stated that she had provided the Board with a copy of the policy regarding the Board Role in Legislative Sessions.

Jason Heuser, Legislative Representative, reviewed the election results. He said the legislative session would be unique because of the change to annual sessions. He recalled that he had spoken of the \$3 billion deficit which was for the remainder of this biennium. He noted that the state usually had a \$17 to \$18 billion general fund budget and \$3 billion would mean significant cuts would have to be made in this legislative session. He thought there would be policy bills moving forward, but the focus would be on the budget. He had heard from a few people in the legislature that they would likely convene on January 10 and then immediately recess, sending every member home except for those who served on the Ways and Means Committee and the revenue committees.

Mr. Heuser provided an overview of the legislative agenda relative to EWEB, outlined in the memorandum entitled *2011 Legislative Agenda* dated *November 30, 2010*.

In response to a question from Commissioner Ernst, Mr. Heuser said he thought there would be many supporters for a Renewable Portfolio Standards (RPS) amendment to address RECs that were from "vintage" generation projects. He predicted that they would know no later than February 1, 2011, whether legislation would be necessary.

Regarding the Business and Residential Energy Tax Credits (BETC and RETC programs), Commissioner Farmer thought most Oregonians supported renewable energy resources but in the past few years it seemed that a lot of out of state investors had gotten involved and built projects to provide power for places other than Oregon. He said they needed to change the structure to ensure that the tax credits benefited Oregon. Mr. Heuser concurred. He added that they would certainly not want the program to go away, however.

Mr. Heuser discussed the RPS amendment to address high water and high wind events. He explained that wind generators did not want to have their energy displaced because their projects were dependent on RECs and the Federal Production Tax Credit (PTC) which were only earned when their generation meters were running. He said the amendment would allow these generators to still receive their credits during times of displacement, but it would require the consent of the federal government and this would take time. He thought this would be brought back in 2012.

Commissioner Ernst asked what the downside of this would be. Mr. Heuser responded that it would be difficult to tell. He related that the Bonneville Power Administration (BPA) had convened a stakeholder meeting on December 3 to discuss this and this was the first time all of the affected stakeholders had been in the same room. He believed there was an opportunity to get out of the situation without a lot of impact and cost.

Regarding potential legislation to require septic inspections at the time of property transfer, Commissioner Farmer asked what was intended to happen with an inspection that indicated a system was failing. Mr. Heuser replied that a failing system would be flagged with the Oregon Department of Environmental Quality (DEQ) and would be part of the negotiation in the property sale.

Commissioner Cassidy asked if any opposition was anticipated. Mr. Heuser responded that he could not say at this point.

In response to a question from Vice President Cunningham, Mr. Heuser said he hoped some part of the BETC and RETC would be retained if it came on the chopping block.

In response to a question from Commissioner Farmer, Mr. Heuser stated that any type of revenue raiser would be in the general fund. He had heard from neighbors in Washington that there could be a tax on RECs. He was uncertain whether these threats would materialize but with a \$3 billion deficit anything was possible.

Commissioner Farmer asked if Mr. Heuser was collaborating with the various utility organizations to make a united charge on that. Mr. Heuser affirmed that they were absolutely going to coordinate efforts.

Ms. Smith stated that they would be asking the Board to approve a resolution with three components:

- That EWEB would maintain local control;
- That legislation they would engage with complemented or improved EWEB's programs that were cost-effective to the ratepayers; and
- The third was in regard to EWEB's long-standing commitment to preserving and conserving the environment.

She said approval would provide Mr. Heuser with an opening position. She explained the process. The Board would receive a legislative report each month. She stated that General Manager Gray played a key role; if commissioners had an issue that they felt was not being addressed they should communicate that to him.

President Brown asked if the Board was still planning to go to Salem on February 8. Mr. Heuser confirmed that they were. He noted that he had already talked to the legislative delegation about EWEB's centennial anniversary.

GENERAL MANAGER'S THIRD QUARTER GOALS

General Manager Gray referred to the memorandum from him dated *December 7, 2010* entitled *Third Quarter EWEB Balanced Scorecard Performance Metric Report*. He pointed out that in the operations area, safety incidences were down and the severity of incidents was also down. He considered this to be a very positive development.

Commissioner Farmer commented that the target was half of what it had been four or five years earlier, an indicator of progress in the area of safety.

General Manager Gray said, regarding outage notifications, that though the level could be perceived as bad, the utility was in good shape compared to the utilities they used as benchmarks.

General Manager Gray reported that the City of Eugene had expressed its intent to appeal the ruling regarding the water sale to Veneta. He said they hoped the City Council meeting scheduled for the following week would include a motion to remove Veneta from the legal proceedings so that it could move forward with its water line.

Continuing, General Manager Gray related that EWEB staff had been moving the conversation with the Springfield Utility Board (SUB) to a higher level. He hoped to schedule a meeting between the SUB Board and the EWEB Board as the utilities needed to work together.

General Manager Gray discussed the headquarters relocation. He said EWEB was working collaboratively with the city regarding the site. He had found it interesting in conversations that the city faced similar problems to EWEB, such as a back-up data center. He thought they would probably see some cooperation with the city as a result of this process they would not have seen otherwise.

Mike Logan, Key Accounts Manager, highlighted the status of the steam transition plan. He stated that 16 buildings had transferred off the system and 18 others were in the design process. He said over 50 percent of the buildings were in some stage of completion.

Vice President Cunningham asked how many buildings EWEB would end up "just shutting down" in 2012. Mr. Logan responded that by the end of the next year there would likely be a handful that would go into early 2012. He underscored that they were well ahead of schedule and if the momentum continued he was certain the transition would be completed.

In response to a question from Commissioner Ernst, Mr. Logan affirmed that the fund was holding strong. He said they had leveraged more private capital than had been anticipated. He stressed that the energy savings were incredible, nearly 40 to 70 percent savings in transitioning to a high efficiency heat pump.

General Manager Gray attributed the success of the transitioning program to several drivers: the hard work of Mr. Logan and his team, the Board's clear date to have the transition be complete, and the recent 25 percent rate increase. He thought the utility should continue to stay the course and should not talk too much about a bail out in the short term. He said letters had been sent out again to the remaining customers and it would be very hard for someone to come toward the end of the process and assert that they did not know it was coming.

Regarding Automatic Meter Infrastructure (AMI), General Manager Gray said the utility was not, as an organization, well-positioned to implement AMI from a technology standpoint and was somewhat behind in the process from where he would have liked to be. He stated that they also needed to determine what they wanted from such a system and this would take more planning and discussion with both EWEB and its customers.

Commissioner Cassidy thought this would be a good topic to discuss at their retreat.

General Manager Gray saw 2011 as a planning year and not an implementation year. He said they would come back with some more specific proposals on AMI and the programs they were thinking about.

Commissioner Ernst indicated her support for stepping back. She averred that if they wanted a successful AMI system, they would have to engage the consumers.

General Manager Gray said things at Carmen-Smith were going well; the license was predicted to be granted in the second quarter rather than the first quarter. He asked project manager Mike McCann to report on it.

Mr. McCann related that they were waiting for three pieces to pass the FERC: the 401 certification from the DEQ for which the public comment period was now closed and the buy-offs from the National Marine Fishery Services (NMFS) and the National Fish and Wildlife Service (NFWS). He explained that the NMFS had to include the impacts to the orca in their biological opinion because of a recent court case and was working on that. He said they expected to have everything wrapped up and submitted to FERC in January, 2011. He underscored that it was going well.

In response to a question from President Brown, Mr. McCann explained that orcas ate Chinook salmon and if the Carmen-Smith project impacted the Chinook it would have an impact on orcas.

President Brown adjourned the Work Session at 7:32 p.m.

Assistant Secretary

President