

EUGENE WATER & ELECTRIC BOARD  
STRATEGIC PLANNING MEETING- RED LINED VERSION  
EWEB BOARD ROOM  
500 EAST 4<sup>TH</sup> AVENUE  
FEBRUARY 15, 2011  
4:30 P.M.

Commissioners Present: John Brown, President; John Simpson, Vice President; Rich Cunningham, Bob Cassidy, and Joann Ernst

Others Present: General Manager Roger Gray, Debra Smith, Sheila Crawford, Lance Robertson, Clay Norris, Mel Damewood, Jim Origliosso, Mike Logan, Gail Murray, Jennifer Joule, Mark Freeman, Patty Boyle, Cathy Bloom, Tom Buckhouse, Garilyn Johnston, Kevin Biersdorff, Brad Taylor, Kathleen Engstrom, Eric Hiaasen, Jeannine Parisi, Steve Mangan, and Taryn Johnson of the EWEB staff; Ruth Atcherson, minutes recorder.

President Brown convened the Strategic Planning Meeting of the Eugene Water & Electric Board (EWEB).

Vice President Simpson, seconded by Commissioner Cassidy, moved to add Public Input to the agenda after the Board Discussion on EWEB Management Presentation. The motion passed unanimously, 5:0.

Vice President Simpson, seconded by Commissioner Cunningham, moved to suspend the rules and to designate Sheila Crawford as facilitator for the meeting beginning with the discussion of Second Source of Water Supply. The motion passed unanimously, 5:0.

#### **EWEB Management Presentation on Strategic Planning**

General Manager Roger Gray introduced the top five issues, as outlined on the agenda. He reviewed the Mission/Vision/Values chart. He observed that the first hundred years of the utility were marked by a great deal of certainty and stability and predicted that the next hundred years would be marked by a great deal of uncertainty and instability. He averred that the most important thing the Board did was to provide a strategic long-term focus and to be the "long-term influencer." He related that the management team had been working over the past several months on its vision of strategic planning and would be presenting this to the Board as well. He underscored that their plan was not to change the core, but to change "the hows," i.e. the people, the partnerships, the technology, and the adaptability to major events. He felt that adaptability, in particular, was critical.

General Manager Gray reviewed a "road map" for EWEB's structure, which began with the Board's overarching strategy, which would then become the strategic plan and direction for the utility. He said this would be influenced by trends, external influences, risks and customers, partners, and competitors.

Vice President Simpson asked if the General Manager saw any significant deficiencies in how the Board's strategic direction had been. General Manager Gray replied that he did; he had seen the Board "slogging" through the operational direction more often. He felt that they were attempting to have a strategic discussion, but were having it in a "tactical context." He believed that taking the discussion to a more strategic level would make everything flow better.

Commissioner Cunningham thought they were talking about "rearranging" the way the Board did business, and though he thought it could be a good change he felt they should look at the charter and bylaws to see if a change needed to be made. He saw this planning effort to be a "change in direction." General Manager Gray did not think anything they were looking at in the present planning session would require a change in bylaws.

General Manager Gray wanted to focus on strategic planning, such as looking at reliability within the strategic context.

Vice President Simpson ascertained that the focus would be on reliability for the electric division and not the water utility, because water reliability was measured differently.

General Manager Gray said the electric utility benchmarked well in the frequency and duration indices of outages. He noted that the average outage duration was 80 minutes, which was equivalent to 99.97 percent reliability. He noted that it would not be meaningful to ask customers if they wanted more reliability because the answer would always be yes; rather, the question to ask the customer was how much more they would be willing to pay to increase reliability.

Vice President Simpson observed that if the average duration was an hour, as an example, it would mean that for every person who experienced no outages another person would experience an outage of two hours. General Manager Gray affirmed this. He added that there was a "huge" difference between serving the rural customers in the McKenzie River area and the city customers.

#### **Board Discussion on EWEB Management Presentation**

Commissioner Cassidy did not see the strategic work as being in conflict with the charter.

Strategic Planning & Governance Coordinator Sheila Crawford encouraged the Board to focus on a higher level discussion about the topics before them. She outlined the process for the discussion. She said management had provided a scenario chart that provided a pictorial of all of the options to be presented.

President Brown asked for information on how they arrived at the benchmarks to assess progress and who set those benchmarks. General Manager Gray explained that the benchmarks were a way to assess progress on the strategic direction from the Board. He said management would flesh out a plan with detail in response to such direction and then bring it back to the Board with short-term and long-term goals.

President Brown expressed concern, given that the make-up of the Board could change, that a new Board could reverse past decisions and scrap a strategic plan. He asked how they could assure that ratepayers money would not be wasted. General Manager Gray replied that utilities were long-lived. He believed that most of the decisions the Board had made thus far had been "excellent." He observed that the worst thing that the utility could do would be to swing from one decision to another. He averred that they would have to go on faith that people were building on decisions. He cited the second source of drinking water as an example, saying that it was an expensive endeavor but if one considered the risks it was worth it. He said as much as it would be unpopular to increase rates, the disaster that could unfold should something happen to the water source would be of such a magnitude that it was untenable not to seek a second source. He stated that once they started making the investment in a second source, it could not be reversed.

Commissioner Ernst thanked the staff for putting the framework of the strategic planning together. She did not think the Board could protect itself 100 percent from having another Board come in and scrap their strategic plan, but she felt that they were unlikely to have a Board come in and do so.

Vice President Simpson remarked that as he had gone through the topics he had wanted to "mix and match" and modify some of the recommended approaches. He encouraged his colleagues to think outside of the box.

#### **Ground Rules**

Ms. Crawford reviewed the decision process and presented the model for the consensus meter that she hoped to use.

#### **Break**

Dinner was served and everyone adjourned for a short break.

#### **Public Input**

There was no one present who wished to speak at this time.

Vice President Simpson had a brief business item to bring forward. He explained that he had been invited to participate in a discussion about biomass fuels hosted by the Northwest Energy Coalition (NVEC). He said if there were no objections he would invite Commissioner Ernst to join him because of her interest in the subject matter.

Vice President Simpson, seconded by Commissioner Ernst, moved to invite Commissioner Ernst to join him for the NVEC discussion on biomass fuels.

Commissioner Cassidy did not think they needed to approve something like this. He said if two Board members wanted to have a meeting they would not need permission.

Commissioner Cunningham did not think, procedurally, they were on legal ground. He intended to oppose the motion.

Commissioner Ernst apologized for bringing this forward at the Strategic Planning Meeting. She had not known about this earlier. She felt she understood the technology, the political citizen issues, and the life cycle cost nexus the NWECC was trying to develop. She thought she had information that could be part of the conversation.

President Brown observed that they were at the table with the NWECC because they were EWEB board members. He said she could go there and say she was not representing EWEB, but the perception would still be there with the other members that she was representing EWEB. He could not support the motion at this time.

The motion failed 3:2; Vice President Simpson and Commissioner Ernst voting in favor.

### **Second Source of Water Supply**

Ms. Crawford directed the Board to review *Exhibit 1 - Summary of Scenarios* in the backgrounder.

Commissioner Cassidy expressed a preference for the third scenario, the *Second Source Partnership*. He opposed the fourth scenario, which would develop a second source from the Willamette River at the current site.

Commissioner Ernst also preferred the third scenario.

General Manager Gray considered the third scenario to be more economic, but it was important to remember that if the Springfield Utility Board (SUB) was not willing to work with EWEB it would not be possible.

In response to a question from Commissioner Ernst, Electric, Water & Steam Division Director Tom Buckhouse said a partnership with SUB could look like a number of things including the fourth scenario. He underscored that the important part was getting a second source and water rights were a critical piece of this; EWEB already had a water right on the Willamette River.

President Brown had reservations about developing the water right on the Willamette, given that several sewage treatment plants were upriver from Eugene. He considered this to be community decision, but he would rather "drill a million wells" than take water from the river there.

Mr. Buckhouse pointed out that EWEB would also need water rights to drill wells.

Mel Damewood stated that EWEB currently had a permit for groundwater for 12 million gallons per day at the confluence of the McKenzie and Willamette Rivers. He said the reality of this was that anything beyond 6 million gallons per day interfered with the water rights of both SUB and the Rainbow Water District. He stated that the reality was that the only other second

source water right that EWEB had was the Willamette River. He stressed that the people of the City of Corvallis utilized the Willamette River for drinking water, having successfully treated it.

President Brown reiterated that he would support it if the community supported it.

Commissioner Cunningham said he could support the Willamette River scenario, though he could "live with" the third scenario.

Commissioner Cassidy averred that they needed a second source that was large enough to handle a large volume of demand. He remained uninterested in developing a water right on the Willamette River.

Vice President Simpson considered the third scenario, the partnership scenario, to be his top choice, but the fourth scenario was "pretty much identical" to him. He could live with the other options. He liked the concept of not mixing Willamette River water with McKenzie River water for the drinking water source for the community.

Mr. Buckhouse stated that in the long-term there were only two sources of water to draw from: surface water and groundwater. He said they had pretty much hit the limits of the groundwater and this meant they were somewhat forced to consider the Willamette River.

In response to a question from Vice President Simpson, Mr. Damewood stated that the 1909 water right on the Willamette River was for 20 million gallons per day or 30 cubic feet per second (cfs). He said this was the target for supplying the city with water should the McKenzie River source "go down."

President Brown observed that a catastrophic event on the McKenzie River could affect the Willamette River. He wondered if another option would be to tap into the McKenzie River farther upstream. Mr. Damewood responded that the scenario they considered was the case of a catastrophic event disabling the McKenzie River for two or three months. He said it would take a significant volcanic event to deter the water from coming down from the mountains. He stated that what they needed to establish was a source that would serve as a stop-gap measure to distribute water to people in this type of emergency scenario.

In response to a follow-up question from President Brown, Mr. Buckhouse stated that the utility had a hard time keeping the water quality up during low usage periods; the quality deteriorated with time and water would need to be retreated.

Commissioner Ernst was strongly in favor of forming a partnership. She noted that she did not see the triple bottom line analysis in the assessment of the second source scenarios. She did not see the environmental impact that some of these choices would have. Ms. Crawford responded that if the Board gave direction to use the triple bottom line tool, staff would apply it.

Commissioner Cassidy was unclear as to how the fifth scenario, which would utilize the water right on the Willamette River with a plant sized to meet water demand requirements of the community, could be feasible. He thought the ideal situation would be one in which EWEB provided all of the water to Springfield, using the wells at the confluence as a back-up, not unlike the arrangement with Veneta.

Commissioner Ernst thought the fourth scenario could become the fifth scenario.

Commissioner Cunningham commented that Eugene and Springfield had been in competition to attract business. He felt that Eugene "missed out" more often than Springfield did. He did not think Springfield had shown much interest in partnering with EWEB, though General Manager Gray had at least been able to talk with SUB about the possibility of a partnership. He said they needed to protect the ratepayers with a second source because it was possible to have a volcanic eruption up the river.

Mr. Buckhouse reiterated that the utility was limited in what it could get from groundwater. He said it would work for a certain amount of time but EWEB would still be looking at a water treatment plant somewhere for the normal daily use of water.

In response to Commissioner Cassidy, Mr. Damewood stated that Springfield had about 12 million gallons of storage. He reiterated that the Springfield ground wells would not have the capacity to meet the need, should the McKenzie River water source become unavailable. He said in order to provide what he would consider to be minimal water service; Eugene would need 15 to 20 million gallons per day.

Ms. Crawford stressed that the Board was not deciding anything at this planning meeting, it was helping staff to set a direction in a way so that staff could bring something back for approval. It appeared to her that scenarios three and four were viable options. She surmised that everyone was supportive of pursuing existing water rights.

Vice President Simpson wanted to know if EWEB could set up a partnership or not. He also wondered what a second plant would do and whether EWEB could sell the water on a wholesale market.

President Brown asked what Springfield planned to do with the site it had just recently purchased. General Manager Gray responded that SUB was looking to expand on the McKenzie River. He said it would be a very expensive endeavor and one of the benefits to SUB of a partnership was that EWEB could supply water more cheaply through the Hayden Bridge facility. He did feel some concern that once this expansion was completed, SUB would have less incentive to partner with Eugene.

Commissioner Cassidy was interested in pursuing the partnership in order to determine whether it was a possibility.

Commissioner Cunningham preferred for EWEB to "stand alone." He thought it would be interesting to know whether the communities had tried to form partnerships in EWEB's early days. He commented that if EWEB had been trying to form a partnership for 50 years, for instance, to no avail, perhaps it was time to stop trying.

General Manager Gray commented that President Brown had raised the community perception issue regarding the Willamette River and it would be good to look into that further. He noted that the first two scenarios dealt with the McKenzie River, but the latter three involved utilizing the water right on the Willamette.

### **Infrastructure Reliability and Cost Implications**

Ms. Crawford called attention to *Exhibit 1 -- Summary of Scenarios* from the backgrounder provided on *Infrastructure and Cost Implications*. She said staff's recommendation was to stay with the status quo.

General Manager Gray stated that the Board had made huge steps up in terms of capital investment on the electric side.

Mr. Buckhouse said it was noteworthy that the water utility had just recently begun benchmarking to other water utilities. He related that one thing they had found was that the water utility was below average in terms of the magnitude of interruptions to customers. The utility had begun investing more in infrastructure replacement in the past few years.

Commissioner Ernst supported staying with the second scenario, the status quo. She was only concerned with the downtown network and where it fit in with the current plan.

General Manager Gray stated that this was already reflected in the Capital Improvement Plan (CIP). He said the downtown event they experienced in the previous year underrepresented the impact because it was a large impact though it did not affect a large number of customers. He considered it a huge liability risk.

Commissioner Cassidy was comfortable with the status quo with the exception of the reliability statistics for the water utility.

President Brown was also comfortable with the status quo in regard to the infrastructure reliability.

Vice President Simpson asked if there were any compliance upgrades the utility would be forced to do on the horizon. Mr. Buckhouse responded that this was already in the works for the electric utility and he did not know of any pressing issues for the water utility.

Vice President Simpson said he had been judging reliability on a convenience factor and he asked if there were also life/safety issues that needed to be considered. Mr. Buckhouse pointed out that this was how the utility had been formed in the early part of the 20th century - in response to a typhoid breakout.

General Manager Gray said once they went beyond basic public quality standards, it would be a challenge to provide 100 percent reliability in the face of catastrophic failures.

Vice President Simpson commended staff for how well reliability had been maintained. He favored the fourth scenario, which was to make small increases each year to bolster system reliability. He indicated he could "live with" the status quo and the third scenario, but would oppose the first scenario which would run to failure and the fifth, which indicated a small decrease in reliability.

Commissioner Cunningham was also opposed to the first scenario. He was not certain maintaining the status quo, the second scenario, would "get the job done." He favored the fourth scenario though the third scenario, which would provide for aggressive pro-active replacement, was the one he would ultimately choose if he could. He said his top choice would be a scenario "2.75," which would be the status quo leaning toward aggressive replacement of infrastructure.

### **Customer Service Philosophy**

Ms. Crawford said staff recommended the first scenario, of the three provided in the memorandum on the *Customer Service Philosophy*.

Commissioner Cassidy said one of his big concerns about the program had to do with how effective it was, other than what they could see in money that could be saved. He hoped that a performance auditor would be able to evaluate the service and find the places that needed more accountability. He did like what they were doing in regard to customer service.

Vice President Simpson felt that customer service went "far beyond" customer care. He averred that most of the utility's "owners" experienced EWEB every day, though the majority of people who interacted directly with EWEB did so through the Customer Service Representatives on the phone and in the lobby. He opposed the third scenario, one that went "back to basics" with shortened lobby hours and reduced staffing. His preference was a hybrid of the first and second scenarios, which were the status quo and the expanded service model respectively. He added that as the economy improved, he would like to see the investment in the Customer Care Program decrease proportionately.

General Manager Gray surmised that Vice President Simpson was in agreement with former-Commissioner Ron Farmer's desire for the program to be tied to an objective metric.

President Brown could accept the status quo. He wanted to know how they would define an improved economy. He still did not like the fact that the utility was collecting the City of Eugene's stormwater charges. He also wanted to point out that customer service was not only about assisting people in need, it was also about assisting people who had an issue about how EWEB implemented its policies. He felt the service had been vastly improved.

Commissioner Cunningham said he would like to see the costs associated with the second scenario and that he could not support the third scenario at all. He believed that EWEB had constantly been improving its customer service. He felt that the Customer Care Program had gone over and above any other community in the state. He hoped that as the economy improved

they could take some of the money in the program to start moving toward the expanded service model.

Debra Smith, Director of the Customer & Shared Services Division, said when she looked at the context of phone and walk-in contacts, EWEB was in the third quartile. She believed they were doing a good job but there were certainly opportunities to move up "a tick."

General Manager Gray thought they could approach this in the same way they were approaching reliability, i.e. they could come up with a plan to move into the next quartile and what strategies it would deploy and how much it was projected to cost.

Commissioner Ernst could support the first scenario. She said they should keep in mind how to transition the Low Income Energy Assistance Program (LIEAP), which she thought would ultimately need to be increased but moved into a permanent funding source. She asked to see a scenario of what that would look like.

Commissioner Cunningham observed that as they brought the Automatic Metering Infrastructure (AMI) on line, they would have to transition the customer service department so that they could handle the calls triggered by it. He thought this supported pursuance of the second scenario.

Ms. Smith said staff would prepare scenarios, one that would project for a potential increase in the service level and the associated cost, and one that would look at some objective metrics to tie the Customer Care Program to the economy and also what it would take to maintain the program in the rate base. She added that the potential for increasing the customer base had been the driver for General Manager Gray, Jeannine Parisi, and herself to participate in the Envision Eugene process. She stated that if there was an increase in density, EWEB would be impacted from it and would also benefit from it. She thought that they had been working on the Key Accounts side to support local economic development efforts and on the rates side they were looking at how to allocate the Bonneville Power Administration (BPA) legacy resources in a way that would help grow and support the economy.

Commissioner Cassidy said one of the aspects of the Community Care Program was the emphasis EWEB placed on conservation and education. He asked to see that further clarified.

#### **Break**

A 10-minute break was taken at 7:05 p.m.

#### **Power Resource Planning**

Ms. Crawford called attention to the *Exhibit 1 - Summary of Scenarios* contained in the backgrounder on *Power Resource Planning*. She commented that EWEB was in the Integrated Energy Resource Planning (IERP) process. She said staff was recommending that the Board reaffirm its commitment to its present strategy and not automatically include or exclude any resources pending the completion of the IERP.

Commissioner Cunningham asked when the Seneca biomass fuel facility would power up. Power Resources Division Director, Clay Norris, responded that it was projected to begin producing power in March.

Commissioner Ernst did not think growth could be accommodated through conservation. She said they had to "wrap their heads around thinking outside the box" for power generation. She felt that a 20-year view was not being addressed in the scenarios. She saw a flaw in the power plan in statements such as one saying that conservation was defined as approved energy efficiency. She averred that if they were going to look at renewable energy sources in the long-term and to get away from fossil fuels they would have to engage in some behavior modification. She said they might not provide the same level of services in the way that EWEB did now. She thought they would maintain the same level of reliability but the utility might charge more at certain times for it. She wanted to see how this would fit in as part of the plan. She also took note of demand response, an approach to generation that had power resources maintained to meet extreme peak loads. She believed maintaining a peak load plan was costly. She asked what percentage of EWEB's power it actually had to buy.

Mr. Norris responded that in terms of having to buy power, the amount of power purchased was very small. He explained that what tended to happen was that through the hedging programs they might sell a block forward and then that could result in having to buy power on the short-term. He related that earlier in the day the transmission lines from the Carmen-Smith generation facility had gone down and the utility was counting on that power.

Commissioner Ernst was pleased that the utility did not buy a lot of power. She reiterated that they needed a "whole shift of mind," so that people would voluntarily cut back in power use during peak load hours.

Mr. Norris remarked that demand response was not a new concept to most of the nation, though it was somewhat new to the Northwest. He had worked with other utilities that had used demand response, including public utilities. He stated that it had mostly been in response to economics.

Commissioner Ernst understood that AMI would make the transition to demand management easier. She asked to see a scenario that doubled or tripled the amount of conservation and how that impacted the triple bottom line. She would support the first scenario, which maintained the status quo, in the short-term because of the economy and the rate increases that were ahead to maintain reliability. She believed EWEB needed a strong leadership in photovoltaic (PV) generation over the next 20 years. She preferred to take leadership in PV over the next eight to ten years.

Commissioner Cassidy agreed with Commissioner Ernst. He said they knew the rates would go up and EWEB should be "constantly telling that" to the customers. It seemed to him in the promotion of conservation they had previously hit a wall in retro-fitting houses and so they had cut back on the amount of money for that program and concentrated on businesses. He felt it had to be done whether they got a response or not and that the one tool they had was higher rates.

Vice President Simpson preferred the first scenario, the status quo. He could not support the second scenario, which would base power supply decisions on the lowest expected cost, or the fourth scenario, the middle path that would look for lower cost resources that retained some attributes of sustainability. He was leaning toward a hybrid of the third scenario and the first. He said while he did not favor fees and tariffs or shifting the burden of PV systems to people who had no interest in them, he was a strong advocate of a "multiple menu" approach that would give customers options to "dial in different flavors" of electricity. He thought some people might actually want to sign up for demand side management (DSM) specifically to get a lower rate. He noted that the AMI system would be required for this. He felt that among options they could allow customers to override DSM for times when company was visiting. He thought time of use tariffs would be an effective approach. He noted that he had been a wind customer and had shifted to Green Power when the change had occurred. He did not think EWEB should reduce the level of services or engage in behavior modification. He believed therein lay the value of conservation. He felt that price signalization had the most value.

Commissioner Ernst said she agreed with Vice President Simpson.

Commissioner Cunningham supported the status quo in the first scenario, but could support stronger PV leadership. He wanted to get more hard data on cost and the most cost-effective green energy. He understood that PV energy was the most expensive renewable energy source. He noted that he was also a subscriber of Green Power. He preferred to stay with the status quo until they had something further to recommend.

Vice President Simpson supported PV but did not want EWEB to pay for it.

Mr. Norris noted that Vice President Simpson's stance was not the current status quo. General Manager Gray clarified that EWEB did not subsidize it; it was cost neutral for the ratepayers.

Commissioner Cassidy considered this to be "a little bit about being leadership."

Commissioner Cunningham was sold on renewable energy but his biggest concern was whether an energy source would cost more to transmit to the ratepayers than it did to generate. Mr. Norris replied that it was unlikely that transmission would cost more. He said one thing that was costing more was "wind integration," which sought to balance the uncertainty of the generation with the schedule of need.

General Manager Gray considered the feedback thus far to be beneficial.

In response to a question from Commissioner Cunningham, General Manager Gray stated that if they focused solely on cost without considering fuel risk, carbon tax and other things, the cheapest thing to do would be to build gas-fired generation. He said PV transmission was the most expensive resource.

Commissioner Ernst did not think they could talk about cost without talking about the triple bottom line.

General Manager Gray said he would not advocate for putting "all the eggs in one basket" in regard to renewables. He considered wind energy to be the most economic, but the "shaping" issues were a challenge.

Commissioner Ernst thought they should have a list of resources to include or exclude.

President Brown preferred to remain with the staff recommendation, i.e. the status quo. He wanted to let the stakeholder group for the IERP happen and did not want to dilute the significance of what they would bring back. He did not believe it would be beneficial to trump the process at this point. He added that he was very opposed to behavior modification and supported conservation efforts.

Ms. Crawford asked if there were any energy resources the Board would want off the table.

Mr. Norris cited coal as an example of a resource that was not one the EWEB would support using.

Commissioner Cassidy thought biomass facilities that were close to or within the city limits were bad. He felt they had agreed to the biomass facility without knowing exactly what the impacts would be to the air shed.

~~Commissioner Ernst believed that biomass was only 80 percent efficient, and this was only because the model presented by Seneca would utilize the excess heat to fire its kilns; if they burned biomass for electrical generation it would be only 20 percent efficient. She would prefer to take biomass off the table for electricity generation. said to me, biomass though if it's, because I showed you that chart a while back where when you have, like the Seneca plant is a combined heat and power. So you have biomass you're generating electricity with the biomass but you're using that excess heat to run your kilns, so that's about 80 percent efficient. If you have just a biomass plant where you're burning trees to produce electricity it's only about 20 percent efficient so that, to me, seems like it would be something I would want off the table as far as electricity generation."~~

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Vice President Simpson would take all fossil fuels off the table except for natural gas. He would also oppose nuclear power. He noted that the Board had passed a policy that took a stance against nuclear generation some years earlier.

Commissioner Cunningham wanted to give the biomass facility the opportunity to prove itself. He would not take it off the table. He echoed Vice President Simpson's opposition to fossil fuels, with the exception of natural gas. He opined that there were "a lot of extremists" in the community who had asserted that biomass was going to "kill people" and cause pulmonary disease and he felt their concerns were groundless in fact.

President Brown also opposed fossil fuels except for natural gas. He opposed providing any wind power to areas not served by EWEB. He wanted to construct the least amount of transmission as possible.

General Manager asked for more clear direction regarding nuclear generation.

Commissioner Ernst ~~thought the new nuclear generation was safe said I am not actually against taking the newer nuclear off the table.~~

Vice President Simpson said the old way of fission was what he was opposed to.

Commissioner Ernst did not think biomass should be defined as combined heat and power.

### **Rate Strategies**

Ms. Crawford directed the Board to turn to page 3 of the memorandum on *Rate Strategies* dated *February 15, 2011*, where scenarios were laid out. She said management's recommendation was to migrate toward scenario two, cost causation with better price signals, and to consider the 85 percent hydro generation assumption as a possible shift in scenario three. She related that they also wanted to determine if the 85 percent hydro assumption could be managed more efficiently than it currently was managed. She stated that management further recommended that the migration toward scenario two or three be accomplished by moving more of the fixed costs to a fixed rate structure and for variable rate structure changes to be put into place if and when AMI was put into place.

Vice President Simpson asked if management was recommending exposing rate methodologies to the customers on bills. Ms. Smith responded that there were two components at present and the question was what percentage of the costs did they want to attempt to recover through fixed charges versus the variable piece.

General Manager Gray noted that the water utility, in particular, was dominated by fixed costs. He said the utility was migrating in a direction toward cost recovery. He said on the electric side it was different because there was more variability in the cost. He stated that in the long run there were costs associated with building new plants in the water utility and it was still good to send a signal to people to conserve so that new facilities would not need to be built.

President Brown commented that former-Commissioner Farmer had lived through the financial disaster. He recalled that he had admonished the utility to never forget this and the 85 percent assumption had come from that time. He liked the second scenario but felt that the third scenario was a "non-starter."

Commissioner Cunningham agreed, though he would be amenable to accepting the fourth scenario, which was the status quo, but only until they had reached the point at which they deployed AMI.

In response to a question about the 85 percent hydro assumption from Commissioner Cunningham, General Manager Gray stated that staff planned to report on it at the next meeting.

Vice President Simpson opposed the first scenario, which would create even simpler rates

that were more stable and conservative, but higher. He preferred the second scenario, cost causation with better price signals. He did not think they needed to jump on it; it would come organically. He also would not support the third scenario and could live with the status quo in the fourth scenario.

Commissioner Cassidy supported the second scenario with a "little bit" of the status quo in scenario four.

Patty Boyle stated that according to the Public Utility Regulatory Board Policy Act (PURBPA), they had established how to set rates and after a long legal process they had set rates in such a manner that people who behaved the same way, they would be charged the same way.

General Manager Gray stated that the thought process in the third scenario was not to abandon former-Commissioner Farmer's principle; rather there was probably a better and more effective way to accomplish the same thing.

Ms. Smith said staff had additional time scheduled at a future meeting to further discuss rates.

#### **Board Discussion and Wrap-up Summary**

General Manager Gray said in the interest of time he would recommend deferring the Board Governance and Direction item.

Commissioner Cunningham advocated for exercising legislative restraint in this economy, which was the general comment from the state legislative delegation. He supported leaving things at the status quo. He did not think there was a need to change the rate structure before having the knowledge of what would change and AMI in place. He had been pleased with the discussion on customer service; the utility had come a long way in that department. For him the most important issue facing the utility was the determination and development of a second source of water. He believed there had to be other sources available to EWEB and they would find them. He also considered protection of the infrastructure to be very important. He commented that it would be interesting to take the minutes from this meeting and seal them in a time capsule for the EWEB of 100 years from now.

Vice President Simpson observed that the Board was made up of five lay people. He felt that the most important thing they could do was to let the customers make the decisions. He said they were elected to refine and represent the public's positions. He supported regional partnerships; it was an important value for him. He hoped there were opportunities for Eugene and Springfield to work together in the development of water planning. He advocated for a "multiple menu option" for services, especially on the electric side. He would loathe mixing the two rivers water for drinking water, but he felt it was a decision only the consumers could make. He agreed with President Brown that the IERP process must be allowed to complete and the Board needed to have its recommendation before it could proceed with its own recommendations in regard to power planning. He agreed that the customer service was improving by the year and he expressed appreciation for it. He noted that he had conversed with a low-income friend who had expressed a willingness to pay more for Green Power. He felt that "picking the sweet spot"

on the reliability curve would involve a great deal of public interaction. He thought they should use customer surveys, possibly specifically designed to capture this information.

President Brown said the community was embarking on a first-time discussion on how it would grow and where it would grow in the Envision Eugene process. He averred that the community was behind other communities in this respect. He believed that everything they had discussed would probably have more impact internally to the electric utility more so than the water utility and everything would have an impact on rates. He felt that the Board had expressed a reluctance to affect rates directly in the recent past. He said it was important not to forget that in addition to planning for the future it was important that they take care of what they had now. He thanked staff for an excellent presentation at the meeting.

Commissioner Cassidy commented that metro planning had been done around transportation and water. He did not see that they were involved, as they should be, with water and the whole development of the large metropolitan area. He thought that the whole agenda needed to be reevaluated. He said while the "partnership business" was nice, it was "almost passive." He felt EWEB should be more aggressive in seeking a second water source. He was not averse to raising rates, even in a down economy, if that was what it took to manage a good utility. He appreciated the comments made about customer service. He considered it to be one of the big features of the utility and that it should be publicized more.

Commissioner Ernst considered the conversation to be beneficial. She hoped they could continue to work at this level and then they could potentially reduce the number of meetings from two to one per month. She believed that one of her most important roles was to listen to the ratepayers. She would really like to see videos of the meetings on the EWEB web page. She was glad to see that the utility was "finally moving forward" with the second source of drinking water. She felt the infrastructure reliability was moving forward in a good way. She also had seen improvement in the customer service. She stated that as things changed and the utility looked toward getting more fossil fuels and more distributed energy, which meant local energy, they needed to start thinking about what the utility would look like. She averred that as they reduced their own generation capacity, they needed to think about how it would affect the size of the utility. She believed that when this happened they could either downsize the utility or they could take ownership of it. She also advocated for taking a "hard look" at the debt capacity and the contribution margin and "how those are intertwined." Regarding board governance, she thought this was the type of board governance they should work toward.

Ms. Crawford asked for a thumbs up/thumbs down on whether the Board liked the meeting and found the format accessible. The Board gave a unanimous thumbs up for the meeting.

#### **Staff Summary of Board Discussion and Next Steps**

General Manager Gray ascertained from the Commissioners that they preferred to wrap up the meeting and defer Board Governance and Direction. He expressed appreciation for the meeting. He felt it would set the tone for management to bring things before the Board in a way that would aid in making good decisions. He stated that EWEB would likely launch a public input process regarding a second source water supply.

In response to a question from Commissioner Cunningham, General Manager Gray said the construction of the pipeline to Veneta was slated to begin in 2012.

General Manager Gray said the reality of the utility was that it could not "change on a dime," though the Board would be able to move an item up a tick or down a tick. He felt that very clear themes had emerged from the meeting in regard to the Board's overarching strategies. He predicted that there were tough decisions ahead for the Board to make, coming from the IERP process and the second source water supply.

General Manager Gray concluded by thanking them for their work. He planned to bring the strategic planning back to a meeting in March.

Commissioner Cunningham requested a backgrounder on the Eco-machine at the Roosevelt Operations Center. General Manager Gray responded that it looked as though the operations center would have to become connected to the city's sewage treatment system.

#### **Board Governance and Direction**

Commissioner Cunningham, seconded by Commissioner Ernst, moved to defer this item to a meeting in March. The motion passed unanimously, 5:0.

President Brown adjourned the Strategic Planning Meeting at 8:45 p.m.

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Assistant Secretary

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President