

EUGENE WATER & ELECTRIC BOARD
WORK SESSION
EWEB BOARD ROOM
500 EAST 4TH AVENUE
MARCH 1, 2011
5:30 P.M.

Commissioners Present: John Brown, President; John Simpson, Vice President; Bob Cassidy, Joann Ernst. Commissioner Rich Cunningham participated by telephone.

Others Present: General Manager Roger Gray, Debra Smith, Lance Robertson, Clay Norris, Mark Freeman, Tom Buckhouse, Patty Boyle, Joe Harwood, Mike Logan, Cathy Bloom, Garilyn Johnston, Frank Lawson, Sheila Crawford, Kathy Engstrom, and Taryn Johnson of the EWEB staff; EWEB retiree and author George Mason; Ruth Atcherson, minutes recorder.

President Brown convened the work session of the Eugene Water & Electric Board (EWEB). He noted that Vice President Cunningham would participate by telephone.

EWEB'S 100-YEAR HISTORY BOOK PRESENTATION

General Manager Roger Gray introduced EWEB retiree George Mason, who had written a book on the history of the utility.

Mr. Mason shared highlights from the book, with overhead slides. He stated that the book was 437 pages long and included 1,137 pictures.

President Brown asked if Mr. Mason had discussed the proposal to dam Beaver Marsh in any detail in the book. Mr. Marsh replied that he had not.

Vice President Simpson ascertained that most board members from the first one hundred years were listed in the book.

President Brown thanked him for doing such wonderful job. Vice President Simpson said he looked forward to reading the book cover to cover.

BOARD GOVERNANCE

General Manager Gray explained that this was a Board discussion.

Commissioner Ernst expressed appreciation for the write-up that staff had done.

Vice President Simpson said he had been reelected to support strategic planning. He thanked staff for outlining four models that the Board could adopt. He felt that even if they were to all say they wanted to be a functional policy board, there would always be a melding of elements from the different scenarios. He thought they were moving more toward the fourth scenario, that of being a Functional Policy Board.

Commissioner Cunningham commented that he had wanted to review governance for some time. He felt that the reality of how the Board functioned was different from what they aspired to do. He related that two weeks earlier the Board had voted against having two people participate in the Northwest Energy Coalition (NWECC) discussion on biomass, but two people had participated anyway. He averred that if board members were not respecting the Board's values, then why have them.

General Manager Gray considered the issue of board governance to be critical. He said the Board had nominated various members to represent EWEB at the first meeting in January. He thought they could "write all the policies and governance in the world" but if a member did not want to adhere to the existing structures of the policies then he was not certain making more policies regarding this would make a difference.

President Brown had read the minutes of the NWECC meeting. He questioned why the NWECC had only given EWEB one week's notice regarding a topic that was as important as biomass generation. He noted that the minutes implied that EWEB had two representatives at the table though the Board had specifically directed that there only be one.

General Manager Gray said staff's recommendation would be to have a functioning policy board; they should be a board with unified positions rather than having board members acting independently. He stated that to act independently would be to fall into the first scenario on the *Scenario Comparison Chart*, the Hyper Autonomous Board. He recalled that staff had actually recommended that EWEB not maintain its membership with the NWECC in 2010, but the Board had chosen to do otherwise. He added that staff did not recommend renewing membership with NWECC in the present year, noting that the membership would be up at the end of June.

President Brown asked how the Board should address Commissioner Cunningham's concern. General Manager Gray observed that each of the board members had expressed an interest in being more of a strategic board and it seemed that they were still working backwards to strategy. He thought it was a board governance decision and they needed to either stick with the decisions to appoint representatives to the committees and boards that they sat on or if they did not stick with that, they should recognize that they were moving toward the first scenario. As management, they would recommend that the Board continue to work toward being a Functional Policy Board per the fourth scenario.

Vice President Simpson had been the designated participant in the NWECC meeting. He felt the conference call had been well-run and had consisted of many representative people in the utilities. He was confused that Commissioner Ernst had also been on the call at the same time as him. He noted that he had invited her to join him but it had been overruled by the majority of the Board. Because she had opted to attend anyway, he had not felt respected as the chosen, designated representative.

President Brown also considered it disrespectful. He did not think it bode well for good working relationships.

Commissioner Cassidy commented that though he had voted against having Commissioner Ernst also attend the meeting, he did not mind that she had done so.

General Manager Gray said in looking at the history of EWEB, in decades of decisions made the stability had come from decisions to change in a deliberate fashion. He stressed the need for a strong functioning policy board.

Vice President Simpson reminded everyone present that the board approved policies were on the EWEB web site. He believed it important to periodically review them. His goals for the Board were to increase the transparency of the operation and to create greater efficiency.

GOVERNANCE PROCESS POLICY GP4

General Manager Gray reiterated what Vice President Simpson had said regarding transparency as the overall strategy. He stated that the Board, along those lines would be reviewing Governance Process Policy GP4, the agenda planning policy.

Commissioner Cassidy had some concern about the wording regarding the notification of the President ahead of time should a commissioner want to pull an item on the Consent Calendar. He considered it to be a good courtesy to do so, but would not want to be bound to it.

Vice President Simpson did not think the Board would make it mandatory to provide advance notice, only that advance notice should be encouraged.

President Brown pointed out that staff members attended meetings to respond to Consent Calendar items and it was considerate of them to let them know whether or not they should be present.

Vice President Simpson supported the revision and hoped his colleagues would join him in approving it.

Commissioner Ernst indicated her support for the revisions.

UPDATE TO THE ELECTRIC AND WATER LONG-TERM FINANCIAL PLANS

Debra Smith, Customer & Shared Services Division Director, reviewed the proposed updates to the Electric and Water Long-Term Financial Plans with power points. She stated that what they were doing supported the issuance of new debt and the re-funding of existing debt. She said EWEB was issuing debt in the amount of \$36 million on the electric side of the utility and \$25.5 million on the water side of the utility. Related approvals were included in the Consent Calendar for the regular meeting in the form of resolutions asking the Eugene City Council for its approval. She noted that part of the process was to go to the rating agencies, which would need for the Board to have reviewed the financial plans and to have taken a position on them.

Ms. Smith said when looking at the Board "road map" the work around the long-term financial plans connected to the 2012 strategic direction the Board provided two weeks earlier at the Strategic Planning Meeting. She stated that from a board policy perspective, the plans could be connected to Board Policy SD6. She strongly recommended reading that policy.

Patty Boyle, Fiscal Services Manager, highlighted the biggest items in the water side of the forecast. She said all years of the forecast included the 85 percent assumption. She stressed that it was a conservative approach and in a year with average water they would see an additional \$5 to \$7 million in revenues based on surplus power and dependent on wholesale market prices. She stated that the biggest driver for the 7.5 percent increase was the impact of the Bonneville Power Administration (BPA) "re-up."

In response to a request from Vice President Simpson, Ms. Boyle stated that the 85 percent hydro year had been adopted as the assumption in order to build in a cushion for the budget.

Commissioner Cassidy asked about setting up a reserve fund for Automated Metering Infrastructure (AMI). Ms. Boyle responded that though the Board was not adopting this, the reserves were there to represent what was excess in the budget and there was only a placeholder for AMI.

Commissioner Cassidy understood that the rates would have to go up. He believed that the rates were very good in comparison with other utilities.

Ms. Boyle discussed the BPA decrement. She explained that it was a reduction in EWEB's Tier 1 allocation. She said at present they had a particular level of Tier 1 power available to them in the current contract and it served EWEB's load with some excess left over to sell. She stated that the new contract provided less of this power, which would reduce the revenue EWEB currently received in wholesale power sales by between \$12 and \$14 million. She said EWEB would need to make that up by either reducing expenses or raising rates. Ms. Smith pointed out that one of the key drivers for the present year's rate action was "just a small piece" of the decrement for the present year.

Vice President Simpson asked if the BPA decrement would be ramped or in steps. Ms. Boyle replied that it occurred as they went into the new contract period all at once, but because it was coming in the federal fiscal year the first part of the decrement would happen in October.

Vice President Simpson asked for an explanation of debt service coverage. Ms. Boyle explained that when borrowing money, the bank would look at income to see if there was enough money to cover all of the debts. She said this was debt service coverage; if all of the income just meant all of the costs then the debt service coverage was a one-to-one ratio.

Ms. Smith said they preferred to see a 2.0 ratio over the current ratio, which was 1.56. She pointed out that the likelihood of having below average rainfall was very low and the actual numbers would be higher, and this would be one of the things they would discuss with the rating agencies.

In response to a question from President Brown, Ms. Boyle stated that for each additional \$1 million in revenue, there would be at least four basis points on debt service coverage. She explained that a basis point was .01 percentage. President Brown asked if this would net EWEB the AA rating. Ms. Boyle responded that this would be what staff would advocate for with the rating agencies.

Vice President Simpson recalled that Commissioner Cassidy had brought up the idea of using reserve funds to "blunt" the impact of the BPA decrement to the rates. He acknowledged that this was possible in the short-term but this would not be sustainable in the long-term because the reserves would have to be replenished.

Commissioner Cassidy indicated his preference for having a higher bond rating for the future. He thought reserves were very important to this, but he did want to engage in a conversation about just how much they wanted to have in each category of reserve funds.

Commissioner Ernst said the write-up on the financial planning had been easy to understand and she appreciated this. She wanted to have a conversation, in looking at the rate structure for the electric utility, on having the rate structure be similar to what they had discussed for the water utility. She thought they should look at the tier structure as a way to encourage conservation.

Ms. Boyle moved the discussion on to the financial plan for the water utility. She stated that the second source funding began in 2016 with rate increases; there was no current plan to build a reserve fund.

President Brown noted that staff was using the term 'lease' in regard to the water utility's role at the Roosevelt Operations Center (ROC). He asked if this implied there would be no amortization. Ms. Boyle replied that it was a capital lease and the water utility would have it as an asset on the books. She said the water utility owned roughly 30 percent of the ROC. She explained that when the surplus property was sold, the water utility owned a larger portion and it would be able to pay down its debt.

Commissioner Cunningham asked if staff had been able to predict the generation figures for the present year. Ms. Boyle replied that the current forecast was for 100 percent generation for both EWEB and the BPA for the present year.

Commissioner Cunningham could support the rate increase for the water utility. He believed that each rate increase needed to rise and fall on its own merits. He thought they could say that they could anticipate having to increase rates over the next few years but he did not think this should diminish the responsibility to examine each rate increase.

Vice President Simpson fully supported the resolution. He said it was important to him that EWEB sustain its outstanding bond ratings.

Ms. Boyle noted that Commissioner Cassidy had asked about the debt service for Hynix. She explained that when Hynix had closed its plant, it had paid off the debt service for infrastructure and the funding would run out in 2011.

Ms. Boyle reviewed a table on key items to the water utility. She said they had adjusted rates so that there were very small surpluses or deficits. She stated that the operating reserves were built more closely to industry standards. She explained that debt service coverage was significantly higher for the water utility because it had a lower debt load and because it had average usage in its forecast.

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

Assistant Secretary

President