

EUGENE WATER & ELECTRIC BOARD  
WORK SESSION  
EWEB BOARD ROOM  
500 E. 4<sup>TH</sup> AVENUE  
JULY 12, 2011

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

Others Present: General Manager Roger Gray, Debra Smith, Clay Norris, Tom Buckhouse, Jennifer Joule, Mel Damewood, Patty Boyle, Mark Freeman, Cathy Bloom, Lance Robertson, Edward Yan, Adam Rue, Garilyn Johnston, Michelle Martin, Wendi Schultz-Kerns, Dawne Howard, Joe Harwood, Dean Ahlsten, Mike Logan, Steve Newcomb, Taryn Johnson, EWEB staff, Ginger Morton, minutes recorder

President Brown convened the work session of the Eugene Water & Electric Board (EWEB) at 4:36 p.m.

## **REVIEW AND OBJECTIVES OF MEETING**

General Manager Gray said the Board would not see a ten year plan tonight. The discussion tonight would focus on 2012 only. Six financial scenarios for both water and electric would be presented, followed by a question and answer session. Overarching assumptions and budget scenarios, including customer, community and employee impacts would be discussed. Tonight's goal was for the Board to select no more than two scenarios each for water and electric. Incorporating suggestions, staff would bring the amended scenarios back to the Board on August 2, 2011. The Capital Improvement Plan (CIP) would also be discussed at that time.

General Manager Gray referred the Board to a memo from Debra Smith, Director of Customer and Shared Services, dated July 5, 2011 and a PowerPoint presentation titled *2011 Board Financial Retreat*. He said the Board would consider decision points based on the Board's Strategic Plan. The scenarios and impacts included analysis of product and service delivery levels, non-discretionary versus discretionary drivers would be clearly articulated, and the Board would have an opportunity to focus on strategic and policy-level decisions.

Ms. Smith said the assumptions were that the scenarios and numbers as presented would leave the Board with room to operate. She made it clear that as the Board went through the scenarios there was opportunity for additions from other scenarios as well as deletions. All electric scenarios included an approximate \$7.3 million draw on reserves based on 2011 being the starting point. She stated it was critically important that the Board provide focused direction to staff at the end of the work session. She said the chosen scenarios, with Board changes, would come back to the Board on August 2, 2011, at which time a final scenario for each utility must be chosen.

## **ECONOMIC ASSUMPTIONS / OVERARCHING ASSUMPTIONS**

Jim Origliosso, Financial Advisor, spoke regarding assumptions that were not going to change, or non-discretionary items. He said one assumption for the electric utility that was not going to change was the Bonneville Power Administration (BPA) power loss of \$11 million. On an annualized basis, recovering this loss would create a 6.3 percent rate increase. Other non-discretionary adjustments for the electric utility were inflation, estimated at \$895,000; International Brotherhood of Electrical Workers (IBEW) wage increase of \$572,000; and, a onetime only BPA conservation reimbursement of \$3 million.

Non-discretionary estimated adjustments related to the water utility were inflation of \$126,000, IBEW wage increase of \$143,000 and debt management of \$255,000. He reminded the Board these were non-discretionary adjustments over which it had no control, and each scenario had these costs built in.

The Board discussed was load forecasts and sale projections, which assumed continued economic struggles in Lane County. The 2011 projections assumed three percent growth in units sold for electric and zero percent for water consumption. The 2012 long-term financial plan assumed little change from 2011. Wholesale activity assumed no change from 2011 which was based on generation at 85% of normal water. 2011 was expected to be a better water year and forecasts showed a deposit of \$7 million to reserves. Management recommended use of this assumption for the budget process. Rate impacts for all scenarios assumed a twelve month revenue impact. Actual rate actions would be designed to provide the required revenue over an eight month period, which resulted in slightly higher rates.

### **LABOR COSTS EMBEDDED IN SCENARIOS**

General Manager Gray explained that the IBEW in all scenarios, by contract, had a wage increase of four percent. This assumption was unchanged with the current contract went through March 31, 2014. Non-represented wages (management, administrative, professional and technical – MAPT) were escalated by four percent for 2012. The assumption was a two percent cost of living allowance (COLA), or general wage increase, and two percent for performance based pay, promotions or market driven adjustments.

In response to Commissioner Cunningham's question regarding attrition rate of employees, Ms. Smith said attrition was not factored into the scenarios.

### **LIMITED INCOME FUNDING ALTERNATIVES & PROCESS**

General Manager Gray said the Board had directed staff to develop a rational basis for adjustment to the 2011 limited income programs for 2012. The scenarios to be discussed for the 2012 budget made assumptions around continuing or discontinuing funding at the current \$2.7 million level. Staff hoped its work with the community would ultimately help to drive an appropriate funding level for the 2012 budget and beyond. On August 5, 2011, an outside panel would convene to receive input and the Board was invited to attend.

General Manager Gray said in addition to the final 2012 level of funding, the Board would make a decision on the use of rate, reserves or both. The 2011 budget for limited income was \$2.7 million (\$1.7 million funded in rates and \$1 million funded by reserves). Long-term requirements would be funded by a sustainable revenue source such as rates. If the Board elected to keep the 2012 limited income funding above the base of \$1.7 million, it would be the third year of increased funding. In two of the scenarios, management assumed a \$2.7 million limited income program, fully funded through rates. The other scenarios were \$1.7 million.

*Break at 5:30 p.m.  
Reconvene at 5:45 p.m.*

## **BOARD DISCUSSION**

The six scenarios presented to the Board for discussion were:

**Scenario 0: Stay the Course** – Maintain current program and service levels; rate impact for electric – 9.12 percent; water – 4.35 percent.

**Scenario 1: Strategic Plan** – Maintain current program and service levels and implement the Board's Strategic Plan. Rate impact for electric – 10.39 percent; water 4.91 percent.

**Scenario 2: Performance-based** – Adjust funding to programs and services up or down based on current performance compared to key performance indicators. Rate impact for electric – 12.37 percent; water – 3.35 percent.

**Scenario 3: Tick-down** – Reduce most programs and services. Rate impact for electric – 8.07 percent; water – 2.49 percent.

**Scenario 4: Aggressive tick-down** – Substantially reduce most programs and services. Rate impact for electric – 2.16 percent; water – 1.33 percent.

**Scenario 5: Bare Bones** – Cut programs and services to minimum levels. Rate impact for electric – 0.39 percent; water - <0.29 percent.

Specifics for each scenario were provided in a handout and a PowerPoint presentation.

Ms. Smith explained that the rate impacts in the scenarios did not include the rate increase of 2.1 percent set for November 2011.

## **ELECTRIC “STAY THE COURSE” SCENARIOS AND BOARD DISCUSSION WATER “STAY THE COURSE” SCENARIOS AND BOARD DISCUSSION**

General Manager Gray explained that each scenario was open to amendment and scenarios could be changed to incorporate parts of other scenarios.

General Manager Gray said Scenario 0, Stay the Course, would be a continuation of business as usual. There would be no employee impacts. Current contributions in lieu of taxes (CILT) arrangements with the Cities of Springfield and Eugene would be maintained. Existing low income and school grants programs would be continued.

President Brown expressed concern that future boards would be set up for huge rate increases if the current board adopted a budget where half of the rate was offset by a reserve draw. He said he was uncomfortable transferring money from reserves when liabilities and future concerns were unknown.

Ms. Smith said the hope was to come back to the Board in October at which time there would be resolution on the Carmen Smith financing and the Board would have opportunity to provide direction on reserves. She explained that the \$7.28 million draw on reserves reflected in the scenarios coincided with expected deposits to reserves in the current year.

Commissioner Cunningham said he would never vote to raise rates. He said he had no qualms using reserves to keep from raising rates as it was in the best interests of the ratepayers and the utility.

Vice President Simpson said he wanted to be clear that an 8.87 percent increase on the electric side and 1.95 percent increase on the water side was built into each scenario and Ms. Smith confirmed.

Commissioner Cunningham said he had been presented with a wealth of information he had not had time to study and was not prepared to make a decision.

Regarding Scenario 1, Strategic Plan, Ms. Smith said it maintained the current program and service levels and implemented the Board's Strategic Plan. Scenario 1:

- Continued the low-income program maintained at \$2.7 million, fully funded through rates.
- Maintained existing programs and service-delivery levels.
- Made small progress toward water second source planning.
- Made small technology investment to support AMI.
- Enhanced energy conservation programs consistent with IERP recommendation.

Commissioner Ernst asked what a ratepayers bill would look like, and Ms. Smith responded that a sample of a bill showing the rate increase could be brought to the next meeting.

In Scenario 2, Performance-Based, Ms. Smith said this scenario adjusted funding to programs and services up or down based on current performance compared to key performance indicators. Scenario 2 had the same impacts as Scenario 1 and:

- Reduced low-income program to \$1.7 million.
- Reduced in-school grant funding.
- Reduced CILT to the Cities of Springfield and Eugene.
- Had traditional debt structure for Carmen Smith funding.
- Had long-term reduction in electric and water system reliability.
- Increased investment in information technology (IT).
- Increased building maintenance funds to manage two sites.

Scenario 3, Tick down, reduced most programs and services and:

- Did not implement Strategic Plan.
- Low-income program was reduced to \$1.7 million.
- Reduced in-school funding.
- Had traditional debt structure for Carmen Smith funding.
- Reduced CILT to Cities of Springfield and Eugene.
- Had long-term reduction in electric generation and water system reliability.
- Increased investment in IT.
- Reduced human resources support services.
- Increased revenue from Trading activities.

Scenario 4, Aggressive tick down, substantially reduced most programs and services and:

- Did not implement Strategic Plan.
- Reduced low-income program to \$1.7 million.
- There was a larger reduction in school grants.
- Capitalizing interest in 2012 increased long term cost.
- Reduced CILT to Cities of Springfield and Eugene.

- Posed a greater risk to electric generation and water system reliability.
- Provided no incremental investment in IT.
- Reduced human resources support services.
- Excluded proposed MAPT COLA.
- Increased revenue from trading activities.
- Scaled back conservation program and deferred demand management initiative.

Scenario 5, Bare bones, cut programs to minimum levels as it:

- Did not implement Strategic Plan.
- Reduced low-income programs to \$1.7 million.
- Eliminated school grants.
- Capitalized interest in 2012, which increased long-term cost.
- Reduced CILT to Cities of Springfield and Eugene.
- Was a great risk to electric generation and water system reliability.
- Provided no incremental investment in IT.
- Excluded MAPT COLA and adjustments.
- Transferred PERS contributions to MAPT employees.
- Utilized reduction in force strategy to offset IBEW wage increase.
- Increased revenue from trading activities.
- Reduced conservation programs and deferred demand management initiative.

A spreadsheet was provided listing approximate amounts for each reduction or increase.

The Board did not favor Scenarios 3, 4 and 5, which substantially reduced or cut programs and services to minimum levels.

General Manager Gray explained that on the electric side, a one percent rate increase would equal \$0.90 making the average increase \$9.00. On the water side, the average bill was \$26.00, and a one percent rate increase would equal \$0.26. This did not include the two percent rate increase scheduled for the fall of 2011.

## **BREAK**

*Break at 7:25 p.m.*

*Reconvene at 7:35 p.m.*

## **BOARD DISCUSSION**

A round robin was conducted.

Commissioner Cunningham favored Scenario 1, plus trading and building maintenance, minus the \$1 million to be paid from reserves; maintain the traditional debt structure for Carmen Smith funding. The balance would be \$280,000 less than proposed.

President Brown asked if the discussions could start over again. He said he would prefer the Stay the Course scenario with modifications implemented in January. Increased revenue from trading activities, even though there was an increased risk; reduce CILT to the Cities of Springfield and Eugene; review the grants programs; maintain facilities; increase building maintenance and site protection.

Vice President Simpson was in favor of the Performance-based scenario; increased rates in three equal parts beginning in the fall of 2011; capitalize \$2 million of the Carmen Smith interest; no MAPT COLA; reduction of low-income program from \$2.7 million to \$1.75 million; protect AMI strategic plan from AMI reserve; keep trading activities; protect electric and water reliability by not reducing funding; reduce CILT; and, protect the public affairs and IT budgets.

Commissioner Ernst thanked staff for their hard work, and the Board for its discussions. She favored Scenario 1, Strategic Plan. She would like to see a reduction in CILT; make sure there was performance auditing; reduce electric reliability by a small amount; keep water reliability as is; implement stepped rate increases starting in early 2012; maintain building maintenance; keep trading activities; reduce school grants; maintain the low income program at \$1.7 million for next year and provide the additional \$1 million from reserves; do not fall behind on the Carmen Smith funding; and, use reserves for AMI. Regarding other issues, such as COLA and Public Employees Retirement System (PERS), she did not want them changed, especially for non-union employees. She would like to see employer contributions to PERS. She also said it was important that EWEB continue to support the unions.

Commissioner Cassidy said he was not able to speak as much to the specifics and he wished he had had the materials beforehand to study them. However, he did lean toward Scenario 0, Stay the Course. He said he was proud of what EWEB was doing. Raising rates did not bother him. The key responsibility was to run the business properly and efficiently with a view toward better management for the future. He could not see cutting things that affect the way EWEB operated. He was against cutting COLA for lower paid employees. He was concerned that if CILT was reduced the Cities of Springfield and Eugene would lay people off. He felt February 2012 was a feasible time for a rate increase, as the sooner it was done, the less the increase would be. He did want a performance auditor hired. School grants were a good thing, but could be cut. The CIP should perhaps be more, even though it cost more, because it was a good way to run a business.

#### **MANAGEMENT SUMMARY OF BOARD DISCUSSION AND NEXT STEPS**

Ms. Smith and General Manager Gray agreed that based on Commissioners' feedback they would be able to bring back two new scenarios for consideration in August 2011. These scenarios would be based on the Stay the Course, Strategic Plan and Performance based scenarios, with modifications as directed by the Board.

President Brown adjourned the Work Session at 9:05 p.m.

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Assistant Secretary

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President