

EUGENE WATER & ELECTRIC BOARD
WORK SESSION
EWEB BOARD ROOM
500 E. 4TH AVENUE
SEPTEMBER 6, 2011

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

Commissioners Absent: Joann Ernst

Others Present: General Manager Roger Gray, Debra Smith, Mark Freeman, Dean Ahlsten, Mel Damewood, Tom Buckhouse, Cathy Bloom, Susan Fahey, Michelle Martin, Steve Newcomb, Dawne Howard, Wendi Schultz-Kerns, Georgia Shaw, Bill Welch, Kathy Grey, Lance Robertson, Joe Harwood, Sheila Crawford, Adam Rue, Taryn Johnson and Anne Kah of the EWEB staff; Vicki Maxon, minutes recorder.

President Brown convened the Work Session of the Eugene Water & Electric Board (EWEB) at 5:30 p.m.

COMMUNITY CARE PROGRAM FUNDING AND TRIGGERS

Debra Smith, Customer & Shared Services Division Director, briefed the Board on the recent agency meeting regarding Community Care energy assistance, and the triggers used to help staff know whether to reduce Community Care funding back to pre-recession levels or when it might be appropriate to increase that funding. She referred to the summary of staff recommendations as distributed in the Board packet. Mark Freeman, Customer Service Manager, assisted Ms. Smith with the presentation.

She noted that the timing for this process is based on a program year that begins on October 1 of each year, and that staff is currently on track to reduce funding to \$1.7 million on October 1, 2011. She explained that EWEB has sufficient funds from donations to continue the program at this level per staff recommendation, and to allocate the donated funds and begin the 2012 program on October 1, 2011 at the same level that was provided for the year 2011. She added that EWEB's Community Care program ties into the federal Low-Income Energy Assistance Program (LIEAP) program year, which begins on October 1, 2011. She noted that staff requires no action tonight.

President Brown asked for confirmation that the \$2.7 million funding request includes an unfunded \$1 million figure which represents the federal program. Mr. Freeman confirmed that the base figure is \$1.7 million, with an additional \$1 million in reserves for the Community Care program.

President Brown noted that he had met with Jeannine Parisi, Community & Local Government Outreach Coordinator, Mayor Piercy and other City staff today, and that one of the subjects they discussed was back-up program funding.

Mr. Freeman replied that the Low-Income Home Energy Assistance Program (LIHEAP) funding that is used strictly for assistance with a customer's heating bills will not be offered this winter, and that staff is anticipating a drastic cut in assistance for the 2011-12 winter billing season, therefore the need to identify triggers which will help staff make decisions with community partners about the best way to allocate funds.

Ms. Smith added that most utilities who offer energy assistance do so with two funding sources—LIHEAP and a voluntary fund, and that EWEB is special because it has a rate-funded program that supplements the other programs. The reduced federal funding amount is uncertain and that funding is released in portions and not lump sum, so Lane County will get some allocation, but that amount will not be known until February 2012. Mr. Freeman added that LIHEAP funding assists seniors and the disabled first and then other low-income residents second.

President Brown asked who administers the LIHEAP program. Mr. Freeman replied that Lane County administers the program. Ms. Smith added that St. Vincent dePaul conducts the intake interviews and also partners with Catholic Community Services and other agencies.

President Brown asked if it is true that Springfield Utility Board (SUB) doubled their energy assistance funding this year. Mr. Freeman said that is true, and that he assumes that was because of the decrease in LIHEAP funds, but that even when SUB doubles their funding, EWEB is still far out in front of SUB as far as the amount that is funded.

Mr. Freeman reminded the Board that in the first year of the program, in excess of \$5 million was funded, and that more recently a one-time \$30 rebate was included in all customers' bills.

Vice President Simpson asked for confirmation that staff is asking for \$2.7 million funding for this year. Ms. Smith replied that is correct, if the Board is comfortable with that amount, and then staff will identify triggers. She added that in the next year the triggers will be tracked in order to get an indication of how well the community is doing relative to economic assistance. She said that one reason staff is comfortable with this figure is that EWEB is currently running on excess contribution levels instead of drawing from the \$6.3 million that is funded, instead hoping to make a nice deposit into the reserve account.

Vice President Simpson asked for confirmation that the additional \$1 million will come out of that account. Ms. Smith said that is correct.

Commissioner Cassidy said he is concerned about the effectiveness of spending \$2.7 million and he also wonders how effective it is to have other agencies running the program for EWEB. He noted that the number of customers having their electricity turned off has increased

quite a bit. He said he would like to see more data about how well the program is working, what customer groups are receiving the assistance, and who is benefiting the most from the assistance.

Commissioner Cunningham commented that with the high unemployment rates in Lane County, he believes it is time to take a look at the program qualifications and instead of just arbitrarily giving assistance funds, a customer needs to meet the same qualifications as everyone else does., i.e., if a customer is unemployed, he should get the same level of funding. However, he noted that many single unemployed people get \$400 per week from Unemployment and have no incentive to go back to work, and that he doesn't want to assist people in that category. He added that there are many people in the area he represents who truly need assistance and that he wants to continue to assist them, but they should have to qualify under the same set of standards that Community Care has set up.

Commissioner Cunningham continued, saying that he appreciates forming a committee of community representatives to set triggers for funding, but he feels the committee should include one or two customers who receive energy assistance, as they are the best people to ask whether or not the programs are assisting them.

Commissioner Cunningham said he has no problem with considering \$2.7 million for the program with certain economic triggers. He said that later in tonight's agenda the Board will discuss how second quarter revenues are higher than staff thought they would be, to the tune of several million dollars, yet tonight's agenda also includes a public hearing regarding a 5% rate increase. He said he believes some of the assistance funds should be taken out of reserves and that rates should not be increased, especially due to the amount of calls he has received from constituents and the fact that they are not going to stand for any more rate increases. He added that he is not sure that the \$30 rebate that was applied to all customers' bills last year due was the answer. He closed by saying that he can no longer vote to raise rates just for the sake of raising them.

Vice President Simpson commented that he is in support of the \$2 million recommendation but would like to hear staff response to the previous comments regarding program effectiveness. Ms. Smith replied that staff has tried to focus the conversation on people who are outside the industry, specifically which people can respond at the State level. She said that Commissioner Cunningham's comments regarding customer participation on the committee make sense when the time comes to look at how the program could be changed or be made more effective, and that that would be the proper time to bring customers into the committee. She added that staff shares Commissioner Cassidy's desire to know how efficient the assistance program is for the community as a whole, but that is a "hard nut to crack."

Commissioner Cassidy reiterated that he is hoping that at some point that information can be obtained from customers. He said the Board needs to decide whether to fund this program from donations or from a rate increase, but that there are reserves available. He added that he believes this ties back to zero-based budgeting.

Vice President Simpson said that his earlier question regarding program efficacy has still not been answered, and he again wondered how staff would know what difference the addition of \$1 million would make for the community.

Ms. Smith replied that she will forward those statistics to the Board. She explained the process of how a customer's bill goes from a final notice to a door hanger to disconnect service for non-pay. She then gave the Board some examples of fluctuations in statistics between the years 2005-2011 in connection with economic conditions. She noted that the percentage of conversions from door hanger to disconnect for non-pay decreased from 22.9% in 2010 to 19.7% in 2011. She added that there was an increase in final notices but that many customers ended up managing their bill from that point on in order to prevent disconnection, and that she believes this is directly tied to EWEB's ability to allocate additional funds.

Commissioner Cunningham asked if any systematic bumps are seen when college students move out of their residences in June and move into their residences in September. Mr. Freeman said that they were seen in the past, but because of recent improvements in order to stay on top of collections, Customer Service has adopted a theory of "do what they want us to do first, and then do nothing second," meaning that discontinuing service and moving out is the first priority and collections is the second priority. He added that the connect/disconnect process stays pretty constant in June and September but some students relocate within Eugene, and therefore it is challenging to keep them in the collection process, but there hasn't been a lot of bad debt associated with student relocation.

Mr. Freeman then noted that today is traditionally the busiest day of the year for Customer Service employees, and he thanked the Customer Service employees who are present at tonight's meeting for making it through the busy day.

Commissioner Cassidy reiterated that he is most interested in effectiveness of the assistance program, and that it seems like the records show that things are better in terms of how much assistance customers are getting. He reiterated that he is reluctant to see EWEB depend on possible future reserves to fund the assistance program and that using unemployment rates as a trigger is iffy, as some unemployed customers were part-time employees. He said he believes the unemployment trigger should be evaluated, and that he sees the assistance program as something that should be provided for the entire community.

President Brown thanked Ms. Smith and Mr. Freeman for their presentation. He said he knows there are other social service agencies who provide assistance, i.e., United Way, ShelterCare, and the Relief Nursery, and that vouchers distributed at Christmastime are also a big help to customers in need.

Commissioner Cassidy commented that when \$1.7 million was funded previously, customers went to St. Vincent DePaul to get assistance and were told that it was too late as there was no funding left, so in that case \$1.7 million may not have been enough.

Ms. Smith replied that communication with St. Vincent DePaul has vastly improved due to a lot of work by Wendi Schultz-Kerns, Cash Accounting Supervisor, to get the word out that the program starts on October 1 of each year.

Commissioner Cunningham asked the Customer Service employees who are present at tonight's meeting to stand and be recognized. He thanked them for handling the barrage of phone calls and told them that what they do does not go unrecognized from the Board, and that they are EWEB's first line of defense. He asked the employees who were present to pass this appreciation on to their colleagues.

President Brown asked his fellow Commissioners if they are in agreement with staff's recommendation for \$1 million in funding for the Community Care program. The staff recommendation was approved unanimously, 4-0.

2012 ELECTRIC DIVISION 10-YEAR CAPITAL INVESTMENT PLAN AND 2012 BUDGET

Using overheads, Tom Buckhouse, Electric, Water & Steam Division Director and Dean Ahlsten, Systems Engineering & Substation Reliability Manager, provided the Board with updated figures and a few changes from the presentation at the August 2 Work Session, and that final approval of the above will be requested at tonight's regular Board meeting.

Commissioner Cunningham asked for an explanation of the actual total expenditure for the Carmen-Smith upgrade and whether staff foresees a drastic decrease in project cost. General Manager Gray replied that the last estimate actually increased, and that staff would present a detailed update to the Board at the September 20 meeting. He added that at this point staff is reviewing the final design and commitments and that the latest cost estimate remains at \$156 million.

Commissioner Cunningham asked what will be done with set-aside funds if the design changes. He asked how the \$20 million savings would affect the capital improvement program (CIP) and if the cost of the overall program would be reduced if savings in that amount were indeed attained. Mr. Buckhouse replied that in that scenario, money would not be borrowed.

President Brown asked if the riverfront decommissioning expenditure will be treated the same as previously presented or if the expense will be separated into electric and water. He also asked for confirmation that this figure represents 14% of the cost.

Mr. Buckhouse replied that it will depend on the facility being decommissioned and that steam is 100% owned by the electric utility.

A brief discussion ensued regarding how decommissioning costs are separated out. Ms. Smith reminded the Board of their discussion at the last work session and that this figure is an anomaly which simply shows a projection regarding possible cost for preparing the site, and that they are shown as either reserve funds or cost which is paid for by the developer. She added that

only half of that amount will be spent in 2011 and EWEB funds for that expense will be slowed down. She asked the Board to assume that the bulk of the money will come from the developer, and that in some ways it will be a risk/reward conversation on a case-by-case basis, and that work will only be done where there is value.

President Brown said he would like to see those figures at some point. He then asked if the water side represents 86% of the cost. Ms. Smith replied that water represents a greater percentage but that it is lower than 86%. She added that it depends on how the land is parceled and whether different parcels have different ownership.

Vice President Simpson noted that the Board has been asked to approve a five-year CIP in the past and he wondered if this is the first year that they are being asked to approve a 10-year CIP. Mr. Buckhouse replied that approving that the first half (five years) is what has been done historically and that this is consistent with Board policy.

President Brown thanked Messrs. Buckhouse and Ahlsten for their presentation.

2012 WATER DIVISION 10-YEAR CAPITAL INVESTMENT PLAN AND 2012 BUDGET

Tom Buckhouse, Electric, Water & Steam Division Director and Mel Damewood, Water Engineering Manager, told the Board that tonight's presentation will provide updated figures and a few changes from the presentation at the August 2 Work Session, and that final approval of the above will be requested at tonight's regular Board meeting.

Vice President Simpson asked if this pattern for updates (as on the electric side) can be expected cyclically each year. Mel Damewood replied that is correct, and that there will be a true-up in April of each year for carryover projects that are not included in the CIP budget. Mr. Buckhouse added that budget amendments over and above the guidelines the Board has set will be presented throughout the year. Mr. Damewood added that, in essence, the Board will see the CIP budget at least three times a year.

Commissioner Cunningham asked what EWEB's portion of the cost is for the Veneta water line connection. Mr. Damewood explained that EWEB's responsibility is to run the water lines from Terry Street to Greenhill Road at West 11th Avenue, and that Veneta will be responsible for paying for the infrastructure that they need, as EWEB and Veneta require different sizes.

Commissioner Cunningham then asked what EWEB is spending on the project and how long it will take to recoup the cost through sales. Mr. Damewood said he does not have the figure in front of him but that from memory, he believes the total project cost is \$1.5 million and that approximately \$1.1 million is Veneta's responsibility, resulting in EWEB's cost being \$400,000.

Commissioner Cunningham then asked what the estimated actual sales to Veneta will be. Mr. Damewood replied that the recoup from what is spent isn't connected to sales at the meter.

He explained that the extra line size is necessary for redundancy for the entire west side of Eugene and that eventually the line will tie in to the Barger loop which will connect with Barger and Royal Avenues, due to expansion in that area of Eugene.

General Manager Gray reiterated that Veneta's portion of the extension is not tied to sales, and that Veneta is obligated to pay their portion of the cost regardless of the amount of sales.

Regarding advanced metering infrastructure (AMI), Commissioner Cunningham asked if it is possible for one meter to provide both water and electric service. Mr. Damewood replied that the water source is completely separate from the electric source.

Commissioner Cunningham then asked why one meter wouldn't work if some kind of signal were being used. General Manager Gray replied that the physical meter for AMI is a mechanical device as opposed to an electrical device, and that the sources have to be physically separate, but that under certain circumstances, it could be shared. For example, if the source communicates via a power line, only the electric meter can be reached, but he added that a common solution is being considered.

Commissioner Cunningham commented that it seems a common solution would make the installation cost much less. Vice President Simpson replied that a large amount of the cost is shared, but the unshared cost is the small 50-foot hop for the meter alongside a house.

SECOND QUARTER FINANCIAL STATEMENTS

Using overheads, Ms. Smith and Cathy Bloom, Financial Services Manager, provided a summary of the operating results for second quarter 2011.

Commissioner Cassidy asked if the Carmen-Smith update reserves have already been allocated. Ms. Smith replied that the Board previously reserved the right to use them for the Carmen-Smith update or for something else, but that staff has not yet been given that direction.

Commissioner Cunningham asked for a breakdown of the operating reserve of \$14.4 million. Ms. Smith said a breakdown will be provided at the October Board meeting along with the balances and targets that are set up in order to run the organization. A brief discussion ensued, in which Ms. Smith further clarified questions regarding operating reserves.

Commissioner Cunningham stated that his point is that the public sees that EWEB has a surplus of \$14 million, yet is still asking for a 5% rate increase. Vice President Simpson interjected that he wouldn't use the term "surplus," but rather the term "reserves."

Commissioner Cunningham reiterated that, regardless of which term is used, it is about public perception. He said that he gets calls from constituents saying that EWEB is the only agency in town who hasn't cut salaries or hasn't asked labor unions to make cuts and that, whether they are right or wrong, it takes a while for him to put two and two together and pull out

other documents that will help him back up what staff has presented to the Board. He added that if he were running for re-election, he would be committing political suicide for entertaining a rate increase based on the documents he has seen in this presentation, and that it looks like the Board is being hung out to dry. He said it is difficult to continue to face the public and say that he doesn't know where staff gets their figures when the budget shows different than that, for example, being told that the surplus is based on snow pack and then told later that the snow pack was not really there.

Ms. Smith replied that she understands how Commissioner Cunningham feels and that she isn't saying that the snow pack is not there. She noted that the cash position related to the water year for 2012 hasn't changed substantially since August and that staff may get one more month's worth of data. She apologized if it felt like a bait and switch but said that there has been no attempt to keep any of that data from the Board. She added that staff's position has been and continues to be that ongoing costs are funded with sustainable revenue sources and, for example, if at some point the Board asks for a \$2.7 million program for energy assistance, it would be captured in rates, as part of EWEB's budget philosophy.

Commissioner Cassidy commented that he has no problem at all with explaining EWEB's budget shortfall to his constituents and that, in his opinion, operating expenses and purchased power expense revenues balance each other out.

General Manager Gray interjected that he understands Commissioner Cunningham's frustration with a rate increase in the midst of a large surplus. He explained that at the beginning of the year, staff assumed a very adverse situation with a \$6 million draw if actually realized, but it ended up being a good hydroelectric year and the market recovered, and now staff is forecasting a deposit to reserves. He noted that electricity is the most volatile commodity on earth, and that if EWEB developed a policy of raising or lowering rates based on the above results, the rates would bounce all over. He said the Board has established the ability to use reserves to balance out the effect of the electric market, and that market is driven by hydroelectric effects which can be here now and gone next year, and that scenario has to be covered by deposits.

Vice President Simpson asked for clarification that if there was a drought two years in a row, staff would have to withdraw from reserves. General Manager Gray replied that the combination of a permanent cost increase in EWEB's BPA contract and a bad hydroelectric year would be a double whammy.

Commissioner Cunningham asked if staff could prepare a document that would show percentage of rate increases on a year-by-year basis, when the margin would go from 85-90%, and what that would represent in dollars. General Manager Gray added that the document could also show what the budget implication would be.

Commissioner Cunningham asked what EWEB's current interest rate is. Ms. Bloom replied that it is 4.3% or 4.4%, the best rate ever. She added that when EWEB goes out next

spring to borrow funds for the Carmen-Smith upgrade, it will be at whatever market rate is at that time, and that staff is currently budgeting for 4.5%.

Commissioner Cunningham asked if there is a way that EWEB customers can invest in the Carmen-Smith upgrade. Ms. Bloom said there is a way, but the allotments would be larger, and that customers would have to coordinate with EWEB's banker (in this case, JP Morgan). Ms. Smith added that 16-17 years ago mini bonds were issued for a large water system expansion and that it could be done again, but it is very expensive to administer.

President Brown asked for confirmation that the \$6 million is not going to be taken out of reserves. Ms. Bloom replied that more money is beginning to be deposited in reserves, and that the 2012 budget assumes a draw of a little over \$7 million, and that \$7.9 million has actually been deposited.

Commissioner Cunningham asked why those funds can't be shifted in order to lower rates. Ms. Smith replied that they are shifted. She explained that if 2011 hadn't been a good water year, by the end of 2011, \$6.3 million would have been taken out to fund operating expense, and the question would be how that could be re-earned and put back in, which ultimately might mean a rate increase. Since that didn't happen, the 2012 budget is now being built, and shows that \$7 million is being drawn out, including a reserve draw. She said that is staff's way of bridging the 85% hydro assumption that, if there is a reasonable water year, can mitigate some rate impact.

Commissioner Cunningham asked for confirmation that if the water year next year is the same as this year, that money will be generated, and the 2013 budget will be built assuming that money. Ms. Smith said that is correct. For example, when projects like AMI are considered, there will be options on how to fund it, and rate impact to customers is reduced with that decision. Because of that, interest costs will not be incurred and won't be passed on through rates, so customers do get the benefit of that, but less directly.

Further discussion ensued regarding how a given water year affects budget assumptions, and Ms. Smith further explained the budget projections. She noted that if staff takes a less conservative approach in their hydro assumption, the bond rating agencies will look for EWEB to carry higher cash balances to compensate for risk, so an 85% assumption is a way of managing that risk.

Commissioner Cassidy commented that it seems like the water reserve target is missed almost every year. Ms. Smith agreed, and added that the conservative approach used for forecasting on the electric side hasn't been used on the water side.

President Brown thanked Ms. Smith and Ms. Bloom for their presentation.

SECOND QUARTER GENERAL MANAGER GOALS UPDATE

General Manager Gray referred to the memo regarding the update and status of the Board-approved 2011 General Manager goals through June 30, 2011. He said that generally speaking, the goals are going well and he also pointed out some that are being closely monitored:

- financial ratios were met on electric side but not water side
- improvement in reserves on water side have been offset by lower consumption

He noted that water and electric reliability are both doing well.

Commissioner Cassidy asked why the fuel reduction amount was below target. General Manager Gray replied that the target was set before the Roosevelt Operations Center (ROC) opened, and because of staff relocation to the ROC, it has been more difficult to meet that goal.

Commissioner Cassidy asked if work days lost to accidents are trending downward. General Manager Gray replied that there has been gradual positive progress, but that his personal goal is zero work days lost to accidents, though he realizes that will be difficult to achieve. He added that for the last decade, EWEB's safety record has improved each year.

Commissioner Cassidy asked if EWEB is going to get a clear picture of how much it can borrow from the bonding agencies. General Manager Gray suggested a separate discussion on this subject at the time the Board is asked for direction on use of reserves. Commissioner Cassidy said he would appreciate having that discussion.

In response to a question from Vice President Simpson regarding what the term "target" means, General Manager Gray clarified that "below target" means that a certain area is under-performing or not meeting target. Mr. Gray noted that from now on he will use the term "missed target" or "target not met" when referring to General Manager goals. Mr. Gray added that "trending downward" means "not perfect."

General Manager Gray said that future goals include a presentation regarding AMI and a second source of water. He said that staff has made reasonable progress with Rainbow Water District and SUB on this subject but that a stand-alone second source is also being considered.

Regarding the riverfront decommissioning process, General Manager Gray told the Board that staff has gotten their message about being careful with expenditures, and that staff is working with the City Planning Department and will have an update on that process in a couple of weeks. Mr. Gray added that it looks as though approximately half of the funds allotted for this item will be spent.

Vice President Simpson asked what the TBD items are. General Manager Gray replied that they are an employee engagement survey scheduled for October of this year, customer

satisfaction benchmark survey in Q4, and the diversity plan, which is under development. He added that those targets have been established but the actual numbers haven't come in yet.

Commissioner Cunningham wondered if the general manager's annual evaluation could be done in the month of December from now on, since it is possible that three Board members might be going off the Board at this time next year. General Manager Gray replied that the evaluation was done later last year due to the fact that he had just recently been hired. He said he believes there are pros and cons to waiting until the end of the year but that the timing is up to the Board's discretion. A brief discussion followed about the timing of the evaluation.

General Manager Gray added that his personal goals for this year were also set late, and that he would like to set them in January of each year going forward.

Commissioner Cunningham suggested a resolution at a future meeting to do the general manager evaluation in December of each year.

President Brown asked how many steam customers are going to make the deadline for conversion to electric in the next few months. General Manager Gray replied that he hoped that number could be counted on one hand. He said all of the steam customers are aware of the deadline for conversion and that they also know that rate increases for them will be dramatic, but that in some cases the delay is because of the customer's ability to finance the conversion.

President Brown said he does not want to reward customers for procrastination and that they have had many years' notice. He added that he also does not want a customer who waits too long to convert to get a free ride, nor does he want to penalize the customers who have gone by the rules, but he also doesn't want to leave anyone without steam heat.

General Manager Gray replied that staff has conveyed that exact message to those customers who have not yet converted.

Vice President Simpson asked when the deadline is for conversion. General Manager Gray replied that the deadline is June 12, 2012, and that in the month of June, the argument for a public health crisis will be hard to make.

Commissioner Cassidy said he agrees with that approach.

The Work Session was adjourned at 7:10 p.m.

Assistant Secretary

President