

EUGENE WATER & ELECTRIC BOARD
REGULAR SESSION
EWEB BOARD ROOM
OCTOBER 4, 2011
7:30 P.M.

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

Others Present: General Manager Roger Gray, Debra Smith, Mark Freeman, Tom Buckhouse, Robert Kline, Cathy Bloom, Susan Fahey, Lance Robertson, Sheila Crawford, Facility Fahy, Jeannine Parisi, Eric Hiaasen, Greg Kelleher, Suzanne Adkins, Jason Heuser, Sibyl Gieselman, Bill Welch, Erin Erben, Megan Capper, Tom Williams, Adam Rue, Michelle Martin, Edward Yan, Taryn Johnson and Anne Kah of the EWEB staff; Vicki Maxon, minutes recorder.

Vice President Simpson convened the Regular Session of the Eugene Water & Electric Board (EWEB) at 7:30 p.m. He noted that President Brown would arrive later this evening. He announced that it is Public Power Week and that EWEB is proud to be part of the community, and also proud of its ability to give back to the community and operate in a nonprofit fashion.

AGENDA CHECK

Commissioner Cunningham asked if item #1 under Correspondence (comparison of Public Power Council (PPC) and Northwest Energy Coalition (NVEC) could be attached as part of agenda item #15 (2012 Administrative Budget Cuts). Vice President Simpson said that it could.

PUBLIC INPUT

Jeffrey Hamerlund is a professor at the Mark Hatfield School of Government at Portland State University and the Chair of the Energy Caucus of the Northwest Energy Coalition, for the past 4-5 years, and in the 1980s he was the senior policy analyst and governmental affairs director for the PPC, and he also previously worked for Senator Mark Hatfield. He is concerned about the possibility of EWEB dropping its membership with NVEC, and that he values EWEB and its participation in the NVEC and the PPC. Senator Hatfield always told him he wanted him to do everything he could to protect public power. He considers EWEB as the #1 utility in the Northwest and values EWEB's perspective as a member of the NVEC.

Wendy Gerlitz is a relatively new employee of the NVEC. She urged EWEB to reconsider dropping its membership in the NVEC. She is a believer that coming together and discussing issues is the most powerful way to advance policy in this country, by bringing both sides together. She stated that the NVEC cannot function without EWEB and other membership utilities working together to make the coalition work as a policy force, and that EWEB is a very strong member of the coalition.

Henry Rippel is an EWEB customer who believes he is most certainly one of the poorest people in the room. He stated that he cannot afford a rate increase and that he lights his living room with an oil lamp because it's cheaper. He urged EWEB to prove that there is a need for a rate increase, and that the public cannot afford 16 cents/kWhr for wind power, and that he can't afford the 6 cents/kWhr that he is being charged, and that his EWEB bill has gone up 300% in the last 12 years. His family walks around in the dark at night to save money on electricity. He told the Board the rate increases have to stop and EWEB has to get back to cost plus 5%, which is what the Rural Electrification Act back in the 20s or 30s enacted, and that is what EWEB is supposed to be doing. He said the public needs cheap power, especially since the unemployment rate, though stated to be 9-9.4%, is more like 20-25%.

Will Rutherford is associated with the McKenzie Clearwater Coalition but is speaking tonight as a concerned citizen. He has questions about item #2 (Earth Economics contract) listed on the Consent Calendar. He said he believes this contract was in process when the September Board meeting was held in Leaburg, yet no mention was made of it at that meeting. He wondered who the contractee is, what this company does, and questioned if the Board has come back to trying to define the riparian area. He said he doesn't know the expected outcome nor who it is for, and he is not sure how EWEB is going to use the study. He noted that other studies are being conducted in the Willamette Basin and he wondered how this study integrates with those, and why EWEB would assume the expertise of this contractor. He wants to be sure that EWEB has viewed what their outcome is and that it is consistent with what the Board is spending money for. He noted that this seems to be a fairly niche consultant because there was no competitive bid and no competition, and that EWEB has existing staff expertise in this area. He suggested that the Board look into this contract further and be certain that as they buy into the contract, they are getting what they think they are getting. He added that the Clearwater Coalition will be involved with this contract one way or another, and that he would appreciate the Board sharing information with the Coalition as early as possible.

Marilyn Cross is a McKenzie River resident who is concerned that this project is intended to establish a methodology for valuation of natural assets in the riparian area. She said this type of valuation is very important to the McKenzie River residents and that they are very interested in how that is going to be done. She urged the Board to require that any type of water quality contract will value the other assets involved, and stated that the McKenzie River residents are also very interested in understanding how two different efforts are brought together so that they have a consistent approach in understanding that the assets the residents own along the river are actually going to be valued, and how those valuations are going to be used in multiple different ways. She noted that the McKenzie River residents are not opposed to the study itself, but that the more those residents can be involved in shaping the public response to how that is done, the better.

President Brown arrived after Ms. Cross' public comment.

Sandra Bishop is a former EWEB Commissioner who requested that EWEB retain its membership in the NWEA. She gave historical examples of how EWEB has contributed to NWEA positions as a valued principal member of the NWEA and reiterated her request that EWEB retain its membership. She did not speak to the electric rate proposal.

Commissioner Ernst thanked everyone for their public input.

Vice President Simpson told Mr. Rutherford that the agenda and other information for Board meetings are published four days prior to each meeting, and that there is a link on the EWEB website that contains the agenda and other information for each meeting.

Commissioner Cunningham told Mr. Rutherford that the Earth Economics contract is about as benign as it can get, and that it basically is an educational item regarding incentives for customers. He added that he didn't think it would create even two minutes of debate.

Vice President Simpson commented that he was elected to listen to diverse opinions and formulate decisions based on a broad range of input. He said he agreed with Commissioner Cunningham that the Earth Economics contract is essentially an educational piece and probably wouldn't impact Mr. Rutherford's group, but that that doesn't diminish his testimony or concern. He added that he personally feels a genuine sense of connection with the McKenzie Clearwater Coalition and that he wishes that to continue.

APPROVAL OF CONSENT CALENDAR

MINUTES

- 1a. August 30, 2011 Regular Session
- 1b. September 6, 2011 Work Session
- 1c. September 6, 2011 Regular Session

CONTRACTS

2. Earth Economics – For conducting a valuation of natural assets in the McKenzie Watershed that support EWEB's Drinking Water Source Protection Program. Customer & Shared Services Division. \$30,000.
3. Salem Fire Alarm, Inc – For fire alarm system inspection, testing, and maintenance services. Customer & Shared Services Division. \$28,000 (over 5 years).
4. Silke Communications – For the lease of building and antenna space at Silke Communication's Mt. Hagen Site. Electric, Water & Steam Division. \$155,000 (\$31,000 per year over 5 years).
5. TEKsystems – For a temporary SQL Server Database Administrator (DBA) to assist in supporting systems like the financials, physical access control, electric line and pole maintenance, the warehouse inventory system, and the water SCADA system. Customer & Shared Services Division. \$27,000 (Total \$77,000 for 2011)

BUDGET AMENDMENT

6. Budget Amendment #9 – Additional Funds requested for the completion of the Seneca substation 69kV upgrade. Electric Division. \$335,125 (Total \$1,087,975)

Commissioner Cunningham pulled item #6. Commissioner Cassidy pulled item #2.

It was moved by Commissioner Cunningham, seconded by Commissioner Cassidy, to approve the remainder of the Consent Calendar. The vote passed unanimously (5-0).

Regarding item #2, Debra Smith, Customer & Shared Services Division Director, reviewed an e-mail from Karl Morgenstern that she had shared with Mr. Rutherford and Ms. Cross. She said she couldn't respond specifically to the process, science or approach of the project because Karl Morgenstern is currently on vacation in Hawaii, but that this firm has done similar work in the state of Washington. She added that the lack of public process occurred because this project stemmed from a grant that partners Oregon State University, the University of Oregon and EWEB, and that this contract is part of EWEB's contribution to the overall piece of work. She reiterated that EWEB is committed to improve communication and to the growing trust in their relationship with the McKenzie Clearwater Coalition, but that she can't address specific technical issues regarding the work.

It was then moved by Commissioner Cassidy, seconded by Commissioner Ernst, to approve item #2. The vote passed unanimously (5-0).

Regarding item #6, Tom Buckhouse, Director of Electric, Water & Steam Division, answered some questions from the Board regarding ongoing project costs and what certain costs represent.

It was then moved by Commissioner Cassidy, seconded by Commissioner Cunningham, to approve item #6. The vote passed unanimously (5-0).

ITEMS FROM BOARD MEMBERS

Commissioner Cunningham asked if a second water source will be a top priority in the next year or so. General Manager Gray replied that it is already a top priority, and that in the next 1-1/2 years there will not yet be a true second source, but the beginnings of an emergency water source plan will be crafted.

President Brown commented that he was late tonight because he attended a fundraiser for local educational system and that five people had complained to him about the proposed EWEB rate hike and what President Brown was going to do about it. He urged his fellow Commissioners to remember that Board actions such as a rate increase affect people's lives and livelihood.

Commissioner Ernst commented that it may be time to entertain the idea of putting AMI to a vote, but that there is a lot of bad information that is circulating. She said that putting AMI

to a vote would create an opportunity to get the right information out to the public and have the other side represented, and that it would be good to find out where the community stands now instead of a year or two down the road. She added that she would like to see a discussion about this on an agenda relatively soon and would also like to get General Manager Gray's ideas regarding this.

General Manager Gray asked for clarification that Commissioner Ernst is asking for a public vote on the AMI concept and then to use bonds for part of the funding. He said he agrees that AMI is a huge issue and that it probably goes well beyond just a bond issue. He added that AMI, the Carmen-Smith upgrade and a second source for water will have profound long-term effects, and he agreed that a discussion should be held.

Commissioner Cunningham commented that the only person he heard from who questioned AMI was "far fringe left" and that all the others seem to feel that this project will save money in the long run, and they are ready to move forward. Vice President Simpson asked Commissioner Cunningham if he would like a discussion forum regarding AMI. Commissioner Cunningham replied that he would not.

General Manager Gray commented that he believes a discussion needs to happen in the first half of 2012 and that a vote and/or financing needs to be put in the overall plan now and not later, as multiple votes would have a potential delaying effect on the project.

Commissioner Cassidy said he is not for a public vote but he would like a discussion.

Vice President Simpson commented that he desperately needs to see the business case, wants to gather personal information about the features of the system, and be sensitive to the public concerns thus far, but that he doesn't have sufficient information to make a decision now. He added that he would support a discussion.

President Brown commented that he believes the Board should continue to listen to staff presentations and if they think the business plan or technology warrants a vote, it can be done then, but that he would like to stay with what the Board has.

Commissioner Ernst reminded the Board that General Manager Gray had just mentioned that multiple votes would have a potential to delay the AMI process and that if EWEB puts it to a vote, the discussion should happen sooner.

Commissioner Cunningham stated that the voters have empowered the Board to make the decision on whether or not to move forward, and that he doesn't want the word to get out that the Board is going to bring it to a public referendum, as that would not be in the public's interest.

Vice President Simpson replied that the Board is not doing that, rather just deciding whether or not to have a discussion. He then noted that he had received three nods for a discussion and asked if it could wait until the business package is presented to the Board.

General Manager Gray reiterated that timing is important and that he proposed that staff present the business case and, if there is no business case, the subject is moot, but that a discussion should be queued up at such a time that it is ripe. He added that the cost range of \$27-33 million is not because staff can't make a good estimation but because the features of the system are very inconsistent.

President Brown asked why the Board would have a discussion regarding a vote on something that isn't financially feasible. He added that if the project is affordable, then a discussion about process can happen. He wondered why the Board would change what they've got going now, but that it was okay with him if the time length of that future agenda item was increased from 60 to 75 minutes.

Vice President Simpson reiterated that he would like to hear the business case first and then have a discussion. Commissioner Ernst said she would like staff to prepare a small backgrounder on what it would take to put AMI to a vote.

Commissioner Cassidy noted that a City of Eugene ballot would not cover EWEB's upriver customers or customers who live at the far boundaries of the service area.

Commissioner Cunningham reminded the Board that Sheila Crawford, Strategic Planning & Governance Coordinator, had told the Board that the approximate cost of a charter amendment would be \$37,000 that the only people who could vote on AMI would be the ratepayers who live in the city of Eugene, and that some of those may or may not be EWEB customers. He added that either the electors should be empowered or Board action should be negated, but either way the Board has to act first, and that in order to get his vote, the business model has to be presented first.

President Brown noted that tonight's agenda is now running behind and that he hears that the Board desires a later discussion. General Manager Gray replied that the discussion would be queued up for first or second quarter of 2011.

Commissioner Ernst commented that she has heard that the Seneca biomass plant is having compliance problems and that she knows of one other fine that they have received for equipment failure, but that they did report it to Lane Regional Air Pollution Authority (LRAPA) and paid the fine. She added that EWEB signed a contract with Seneca in good faith and that EWEB customers were told that the health impact would be low and would stay low if Seneca stayed within its permit parameters. She said she would like to queue up a Board discussion regarding Seneca, and that the Board has a responsibility to their ratepayers to draft a letter to Seneca stating that the Board will not tolerate them being out of compliance.

Commissioner Cunningham commented that he continues to believe that Seneca runs a safe operation that has the potential to provide heat and electricity to approximately 30,000 homes, and that he has seen no credible news media report that they are in violation of safety policies. He added that Commissioner Ernst happens to be a reporter for a "local rag" that is reporting this information, and he told Commissioner Ernst not to pick on things in his ward unless she has credible evidence.

Regarding item #3 in the Consent Calendar, Vice President Simpson asked that EWEB's fire alarm inspection contract be closely monitored as there were problems last time the inspection, testing and maintenance were conducted.

CORRESPONDENCE

General Manager Roger Gray noted an e-mail that he had sent to the Board regarding EWEB's Water Operations receiving an Outstanding Performer designation said he was very proud of that award.

General Manager Gray then reiterated Commissioner Cunningham's request to move tonight's comparison of the PPC and NWEC from Correspondence to agenda item #15.

General Manager Gray noted that the review of the Trapper sale impacts is a staff summary, which was an outstanding Board request that has now been satisfied, and apologized for the delay.

Regarding the Roosevelt Operations Center (ROC) post construction audit, General Manager Gray noted that this is a summary of the consultant's final report, and that the most important component is six areas for improvement which have been noted. He added that some of those six have already been implemented and the remainder will be implemented before construction begins on the Carmen-Smith upgrade.

Vice President Simpson commented that document management is near and dear to him and that the EWEB's auditor had said that document systems will carry the day over knowledge very time. He said that he envisions staff developing on overall plan to replace the systems that are pre-yesteryear, and that he hopes that an emphasis is put on this business practice because it will pay off for far more than just Carmen-Smith. He added that he would like to see an emphasis on procedural-based management and that can't be done unless there is a decent document management system in place.

General Manager Gray replied that the above contract evaluates all business systems as they may or not be impacted by AMI, and that eventually a comprehensive plan will be crafted for replacement of all major business systems over a multi-year time period.

Commissioner Ernst commented that she didn't want staff to take this negatively, but that the way the current system is set up, there isn't a ratepayer advocate for many of these projects. She reiterated a previously stated desire to move forward with an owner's representative who is there to mostly be independent and look at all decisions that are made, and that possibly that person could be a ratepayer or even a Board member.

Commissioner Cunningham commented that he had copied the Board regarding his proposed amendment of the EWEB by-laws and asked if it will be queued up for one of the upcoming two Board meetings. Vice President Simpson replied that it would be queued up very

soon, and Commissioner Cunningham then reminded the Board that the proposed amendment would consist of both a presentation and an action item.

Commissioner Cunningham then commented that he agrees with the ROC audit and that he has requested an additional report. In regard to Commissioner Ernst's comment, he said he would rather have a competent engineer who serves the community well (no matter what the cost) than a ratepayer who has no credentials, as it would probably save EWEB \$500,000 to \$1 million.

BOARD AGENDA AND CALENDAR

General Manager Gray reviewed the Board agenda, including the proposed amendment of the EWEB by-laws and an additional meeting to follow up the previous Integrated Energy Resource Plan (IERP) discussion, which will be scheduled at the next agenda planning session.

Vice President Simpson noted that the Board had received an invitation to participate in the 100 Trees for 100 Years tree planting project at the ROC on October 22, and that he, President Brown and Commissioner Cassidy had RSVP'd. Commissioners Ernst and Cunningham said they would also attend.

General Manager Gray reminded the Board of EWEB's major customer event coming up on Friday, October 28, 2011.

NOVEMBER 2011 RATE ELECTRIC RATE PROPOSAL

Debra Smith, Customer & Shared Services Division Director, reviewed that this is the second presentation regarding electric rate action. She explained that this rate process is driven by Public Utility Regulatory Policies Act (PURPA) but noted that water and steam rate increases are not. She noted that this process did not happen for the water utility last spring because an adjustment needed to be made, but that the process would recur for the water utility next year.

Adam Rue, Senior Rate Analyst, reviewed the electric rate information that was presented to the Board last month. Ms. Smith reminded the audience that a 5% electric rate increase had previously been proposed but ended up being lower, and explained that the rate smoothing strategy in May had been added in to the fall rate action, which then brought it up to 5%.

Vice President Simpson asked why the delivery costs have not been changed. Mr. Rue replied that this particular rate change is only related to market factors. Ms. Smith added that the additional 3.01% is still power cost-related and the delivery charge and some other components will be adjusted in the spring.

SECOND PUBLIC HEARING ON NOVEMBER 2011 ELECTRIC RATE PROPOSAL

Dan Patch is against the proposed electric rate increase and is tired of EWEB asking the public to make sacrifices on a regular basis. He stated that the public doesn't believe that EWEB has ever made a sacrifice but instead just pyramids up, up and up with enrichments, all kinds of new items and vehicles, employee entitlements, etc. He stated that the community is hurting, yet EWEB is once again asking the public to make a sacrifice to keep paying more and more for electricity, and that it has to stop, especially due to a potential second recession. He said a rate increase is like a slap in the face in light of the current economy and, from the public view, EWEB has a very poor reputation, one of being spoiled like a small child that won't shut up, and every time they want money, they complain that BPA is to blame, but they never seem to look in-house—what about middle management, what about upper management, what about fleet vehicle replacement control, and all kinds of things. He said if you add it all up, it's a lot of money, but EWEB is like a giant monster, and that's the perspective from the public. He closed by saying that it's a bad time to be asking for more money, especially when EWEB hasn't shown the public that they've done anything to tighten their belt.

Sandra Bishop reiterated her request that EWEB retain its membership in the NWECA and did not speak to the electric rate proposal.

Commissioner Cassidy noted that EWEB management and staff did not receive salary increases or bonuses this year.

President Brown commented that the perception in the community is that EWEB doesn't know there's a recession or a downturn, and that they are oblivious. He noted that is not his opinion, but rather what is being said to him. He said that he was hammered on by 4-5 people at the meeting he attended earlier tonight, and that he wants to make sure the community knows what EWEB is doing. He added that he believes that the Board has lowered rates more than it has raised them and that the facts will speak to that, but that he believes that a rate increase in March or May is bad timing, especially considering that \$150 million still needs to be addressed.

Commissioner Cunningham commented that as Mr. Rippel stated earlier in his public comment, most people have far less income during these tough economic times, and that his own sole source of income is Social Security Disability. He reiterated that he will not be voting for a rate increase, but that he will be making a motion to pass along the Bonneville Power Administration (BPA) portion of 1.99%, in order to keep things at an even keel. He added that EWEB needs to have some accountability and that he agrees that public perception isn't all good, and that he doesn't believe the community can afford a rate increase right now.

Commissioner Ernst commented that she doesn't take a rate increase lightly. She agreed that the public perception is that EWEB is bloated and keeps asking for more and more money and never makes any cuts, but that she's also heard the opposite of that. She said that before she came on the Board, she too had that perception. She believes that EWEB hasn't found the best way to get the information out such as raises that weren't accepted or that \$4 million was cut out of the budget, and that EWEB has moved to zero-based budgeting. She reminded the audience

that this rate increase has been developing for over a year and that the Board has also developed scenarios to cut to bare bones—i.e., cutting public involvement, not hiring consultants, not participating in grants, etc., and that EWEB employees donate a lot of their time to volunteer organizations. She said that she is focused on what EWEB does, and not what BPA does, and that she realizes that a rate increase is hard to deal with. She reminded the audience that EWEB has a low-income energy assistance program in place and that if people in the community need help, that is what the Board needs to hear, but that she believes that this rate increase helps create a budget for EWEB that will give the ratepayer the best service they can get.

Vice President Simpson thanked Mr. Rippel and Ms. Bishop for their testimony. He commented that he has significant angst over the timing of the BPA allocation decrement and cost, but that the region used to build dams wherever and whenever they wanted without any concern for wildlife or for fish being sliced and diced in dams or fish ladders. Any energy field items were extracted and pumped out of ground without any environmental concern, and bad forest practices were rampant, and today the environment is paying for those mistakes, as is the community. With the increasing population in the Northwest, BPA has run out of power and they have to go out in the open market to theoretically buy power from the lowest bidder. BPA has restructured the way power is sold to EWEB and the independently owned utilities (IOUs), who by the way have higher rates to line the pockets of their investors, but EWEB is nonprofit and we will stand by that, and any excess EWEB has is held in reserves. He reminded the audience that in 2001 there was a horrible drought and EWEB had to borrow \$50 million just to be solvent. He agreed that BPA's timing for this decrement and cost increase is horrible but that it has been in the works for almost a decade, and that all utilities who draw from BPA are doing rate hikes. He noted that EWEB can control the 3% component and that is the part Commissioner Cunningham mentioned, and that the Board promises to continue to maintain cost control. He added that EWEB is not out of the loop relative to BPA but that EWEB is engaged at the regional level to influence supply and the marketplace to keep transmission costs low and maintain the renewable energy options that the community desires, even though they cost more.

NOVEMBER 2011 ELECTRIC RATE APPROVAL

It was moved by President Brown, seconded by Commissioner Cassidy, to approve Resolution 1131, enacting a 5% electric rate increase in November 2011.

It was moved by Commissioner Cunningham to amend the above motion to instead approve only a 1.99% rate increase (the BPA pass-through portion). There was no second.

The original motion was then repeated, to approve Resolution 1131 enacting a 5% electric rate increase in November 2011. The motion passed 4-1 (Cunningham voted against).

DECEMBER 2011 STEAM RATE PROPOSAL

Using overheads, Tom Buckhouse, Director of Electric, Water & Steam Division, reviewed the December 2011 steam rate proposal. He noted that six customers remain on the steam system.

Commissioner Ernst asked if PeaceHealth (Sacred Heart University District) Hospital is still using steam heat. Mr. Buckhouse replied that they are, with a 102% increase in their commodity charge. He explained that staff is talking with them to extend that until EWEB's steam system operations cease, and to agree to guarantee a minimum volume of steam purchase, which lowers the expense to everyone else even though it doubles their commodity rate. He noted that since their fuel charge is not changing, the overall impact will be a 33.8% increase.

Vice President Simpson asked if PeaceHealth Hospital has any interest in EWEB's steam boiler. Mr. Buckhouse replied that they may consider that, but in order to continue operating when EWEB's steam system shuts down, there would have to be dual redundant facilities, as EWEB can't give up the boiler without shutting its system down, so that isn't in the plan for right now.

Commissioner Cunningham asked who will be the last customer to convert. Mr. Buckhouse replied that First Christian Church will be the last to leave the steam system, in the next two weeks, and that they won't be influenced by the steam rate increase.

Commissioner Cunningham then asked if the six customers who remain on the steam system will be able to transition. Mr. Buckhouse replied that staff believes they are beginning the transition process and that EWEB, the City of Eugene and PeaceHealth Hospital all have a plan in place, but he is not sure about the other three.

Commissioner Cunningham asked if the remaining three customers will have an opportunity to finance loans or anything else they may need. Mr. Rue replied that they will.

PUBLIC HEARING ON DECEMBER 2011 STEAM RATE PROPOSAL

Wendy Gerlitz reiterated her request for EWEB to reconsider discontinuing their membership in the NWEAC and that the NWEAC would like to continue to work with EWEB. She did not speak to the steam rate proposal.

Commissioner Ernst commended staff for the great job they have done assisting steam customers in transitioning from the system, but that it is difficult for her to imagine EWEB without a steam system.

Vice President Simpson commented that he remembers seeing the steam plant belching smoke into the air, and that EWEB has come a long way from driving chip trucks onto the hogged fuel pile at a 45-degree angle and burning bales of marijuana in the boilers at the request of the Police Department. He said his hat is off to staff for migrating customers away from the steam system and doing a great job with the federal funding. He agreed that it will be difficult to imagine EWEB without a steam system.

President Brown congratulated staff for the great job on the steam transition, but added that he is not going to miss the steam crews pumping boiling water into the drains.

Commissioner Cunningham also thanked staff for their hard work.

DECEMBER 2011 STEAM RATE APPROVAL

It was moved by Commissioner Ernst, seconded by Commissioner Cassidy, to approve Resolution 1136, enacting the December 2011 steam rate increase. The motion passed unanimously (5-0).

HEALTH INSURANCE CONTRACT RENEWAL

Ms. Smith told the Board that this is a housekeeping item. She reviewed the history of fluctuating premium increases and told the Board that the current plan has lower deductibles but employees pay 20% for in-plan visits and 40% out of plan with very few exceptions. She noted that the PEVB plan will pay 15% in plan and 30% out of plan and that exclusions and extra payments are being implemented, i.e., arthroscopic surgery would be paid at a percentage plus \$500 although it excludes a number of procedures, and she gave examples of those.

She noted that there has been a big increase in the prescription benefit for Tier 1 and 2 retirees because of the retiree health insurance settlement.

Commissioner Cunningham commented that staff has done an incredible job getting below the flat line.

Vice President Simpson thanked staff for their hard work. He added that hearing public testimony that all EWEB does is waste money is sometimes true and sometimes not, and sometimes a matter of perception, but that it doesn't feel good for the Board and staff who are trying to negotiate these lower premiums. He thanked Ms. Smith for her efforts and he hopes that this cost savings will be publicized.

Ms. Smith replied that Laurie Muggy, Senior Human Resources Generalist, should get most of the credit for the improvements contained in the contract renewal.

It was moved by President Brown, seconded by Commissioner Ernst, to approve the health insurance contract renewal. The motion passed unanimously (5-0).

2012 ADMINISTRATIVE BUDGET CUTS

General Manager Gray gave an overview of the various budget cost cuts and reviewed the wide price ranges. He noted that Commissioner Cassidy had requested further discussion regarding this item but no changes. He added that if NVEC membership was cut, there would be a proposal from staff to replace that membership and that he would like Board direction on that item.

It was moved by President Brown, seconded by Commissioner Cunningham, to adopt the budget cuts as proposed. Commissioner Cunningham seconded the motion for purposes of discussion.

Commissioner Cassidy noted that he was not present for the discussion at the August 2 meeting and that he either agrees, disagrees or has some questions regarding each of the proposed cuts, and that he would like to hear Board reaction to his impressions.

President Brown commented that General Manager Gray is paid a lot of money to recommend proposed cuts and that he is not in total agreement with all of them, but the Board has to start cutting someplace. He added that this isn't the first time the NWEC has been a topic of conversation regarding their miscommunication and previous conversations with the Board. He said he believes the Board needs to start leading by example, as everything they do affects the community and everyone has a sacred cow, and that he will even cut funds for river protection if he has to. He emphasized that spending has to stop.

Commissioner Cassidy reviewed the proposed list of cuts and whether or not he agreed with each item. He noted that he is in support of retaining membership in the NWEC.

Vice President Simpson said he is prepared to make a motion to accept the entire package of cuts but wondered if the Board should support it as a package or break each cut out individually.

Commissioner Cassidy reminded the Board that he has asked for more information regarding some of the proposed cuts. Commissioner Cunningham said he would like to vote on each item individually.

President Brown stated that he believes it is ridiculous to break the cuts down to minutiae, and since General Manager Gray has made a recommendation to cut costs, that is what the Board should do.

It was moved by Vice President Simpson, seconded by Commissioner Cassidy, to remove discontinuation of NWEC membership from this vote and move forward with discussion.

Commissioner Cunningham moved to lay that motion on the table as un-debatable. Vice President Simpson overruled that motion.

Three Commissioners voted to sustain Vice President Simpson's overrule.

The original motion for approval of an amendment to remove discontinuation of NWEC membership from the budget cut package was repeated. The motion passed 3-2 (Brown and Cunningham voted against).

Commissioner Cunningham asked what the annual membership dues are for the NWEC. Vice President Simpson replied that it is \$12,900 annually based on KWhr consumption and that it is re-calculated on a per-year basis, so it would actually be more like \$10,000 to \$10,500.

A brief discussion ensued regarding voting on a modified package which would not approve or decline NWEC membership and extracting that item for further discussion.

It was then moved by Commissioner Cunningham to amend the above motion to retain items 1 and 2 and go forward with all the proposed budget cuts except NWECE membership, staff travel and executive management team travel. There was no second.

President Brown asked for confirmation that Commissioner Cunningham wishes to retain items 1 and 2 but go forward with the rest of the proposed budget cuts. Commissioner Cunningham said that is correct.

President Brown asked about the \$75,000 that will be spent to hire a staff member if NWECE membership is discontinued. General Manager Gray replied that if the Board wishes to continue to monitor the biomass position paper, removal of the Snake River Dam, etc., he believes staff would support that. He added that EWEB membership in most organizations is done in order to relieve staff burden, and that in this case he would propose to add staff if NWECE membership ~~is is continued~~ discontinued.

Vice President Simpson amended his original motion to approve all proposed budget cuts with the exception of discontinuing membership in the NWECE. The motion passed 3-2 (Brown and Cunningham against).

It was then moved by Commissioner Cunningham, seconded by President Brown, to cut EWEB's annual contribution to the NWECE by \$10,000, resulting in a contribution of \$2,900; for purposes of discussion.

A lengthy discussion ensued regarding whether or not to discontinue membership in the NWECE. President Brown commented that he has a problem talking about rate increases while continuing membership in an organization that has been spoken to about their lack of communication, and now they've taken a group stance favoring Snake River Dam removal, and EWEB does not agree with that stance. He added that the Board has heard General Manager Gray say that membership in the NWECE is creating a lot of work for staff when EWEB is trying to save money, and that Commissioner Cassidy had said that it wasn't worth the money that was spent for him to attend the NWECE meeting in Idaho. He wondered why the Board is attempting to make the NWECE the sacred cow.

Vice President Simpson protested what he views as a fundamental philosophical shift in EWEB's attitude, and that he wants to preserve the relationship with NWECE. He added that he disagrees that additional staff would be required to help deal with the NWECE and that they have been of great value to EWEB for a very long time. He said he fears that the Board is starting to look inward and not outward enough, and that the NWECE offers an important perspective of overall view and the avoidance of utility-centric decisions. He then read a prepared position statement and reiterated his support for retaining membership in the NWECE.

President Brown reiterated that he has yet to hear one perspective from the NWECE and that the Board has had previous heated debates regarding how they do business. He told the NWECE representatives present at the meeting that he did not have confidence or faith in their organization and that he was tired of them causing continued consternation between Board members, and that the way the NWECE has divided the Board is not good policy.

Commissioner Cassidy voiced his support for continuing NWEC membership and said he believes that the trouble began when there was a change in Board and staff due to non-re-election or staff retirement. He added that he believes retaining NWEC membership is not going to affect the budget that much.

Commissioner Ernst commented that she is sorry that President Brown doesn't think the Board has heard anything from the NWEC and that she has attended conferences and reported on information they have provided. She said in her mind the biggest problem is the lack of communication between Board members, and that she agrees with Vice President Simpson's position statement.

Further discussion continued. Commissioner Cunningham told the NWEC representatives present that there needs to be consequences when their biggest donor (EWEB) is considered equal to a member who donates \$100. He said he believes that the NWEC's Snake River Dam removal stance was a slap in the Board's face and that is why he would be voting to cut EWEB's donation, as he doesn't believe EWEB has received what they deserve as a major donor.

Commissioner Cassidy said he believes that NWEC has not taken a position to remove the Snake River Dam. Vice President Simpson concurred.

The previous motion for an amendment to reduce EWEB's contribution to NWEC from \$12,900 to \$2,900 was repeated. The motion failed (3-2).

General Manager Gray commented that the NWEC portion of the proposed cuts has now been tipped far out of balance and the consequences are far deeper, and that he believes that NWEC did in fact take a position regarding the Snake River Dam removal. He reiterated that there will be implications if the Board wants to be a passive NWEC participant, and that staff will have to be added in that case. He stated that the only reason the biomass paper exists is because the Board intervened and stated that it was intellectually dishonest, and that he has spent too much personal time rewriting opinion statements. He reiterated that he has never been surprised by any other organization EWEB belongs to but that he cannot stand by and watch this process continue and that he will be forced to put up staff resources to deal with it. He closed by saying the Board should revisit the Snake River Dam removal position that was discussed at the September 20 Board meeting.

President Brown commented that he fully understands what General Manager Gray is saying and that River Partners has recommended that the Snake River Dam be retained. He said that he is deferring the decision to General Manager Gray and that the Board doesn't have a voice at the table to preserve dams but they do have one to remove them. He agreed that an imbalance has been created and that the Board has to listen to General Manager Gray's recommendation.

Further discussion ensued. President Brown recommended that if NWEC membership is going to be retained, then PNUCC and River Partners membership should also be retained

Commissioner Ernst reiterated her belief that the Board should remain neutral on this issue because they are not experts, and that membership in PNUCC and NWEC gives the Board an opportunity to be at the table instead of just accepting what is presented by BPA.

General Manager Gray reiterated his recommendation that membership be discontinued for all three organizations.

Vice President Simpson wondered if that would infer approval for an EWEB staff person to monitor the above issues.

Commissioner Ernst reinstated her belief that the Board should remain silent regarding additional EWEB staff.

President Brown said he believes the Board is now trying to advise EWEB regarding staffing. Vice President Simpson disagreed and said it is his belief that the Board is remaining silent.

It was moved by Commissioner Ernst, seconded by Commissioner Cassidy, to amend the motion by reinstating the entire line item, i.e., to retain membership in all three organizations, and that the Board should remain silent regarding staffing. Commissioner Cunningham stated that he only agrees with the portion of the amendment that states that the Board should remain silent regarding staffing. The motion passed 4-1 (Cunningham voted against).

President Brown adjourned the Regular Session of the EWEB Board at 10:35 p.m.

Assistant Secretary

President