

EUGENE WATER & ELECTRIC BOARD  
WORK SESSION  
FALL BUDGET RETREAT  
EWEB BOARD ROOM  
500 E. 4<sup>TH</sup> AVENUE  
OCTOBER 18, 2011

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

Others Present: General Manager Roger Gray, Debra Smith, Susan Fahey, Cathy Bloom, Edward Yan, Adam Rue, Michelle Martin, Gail Murray, Lena Kostopulos, Tom Buckhouse, Mel Damewood, Clay Norris, Kevin Biersdorff, Sheila Crawford, Mark Freeman, Lance Robertson, Joe Harwood, Greg Armstead, Jeannine Parisi, Jennifer Joule, Jim Origliosso and Taryn Johnson of the EWEB staff; Vicki Maxon, recorder.

Vice President Simpson convened the Work Session of the Eugene Water & Electric Board (EWEB) at 5:10 p.m. He noted that President Brown will be absent tonight and that Commissioner Ernst will arrive later in the evening.

Vice President Simpson thanked staff for devoting time to this meeting, and added that the Board and staff have worked hard and are now 6-7 months into the zero-based budgeting process, though it is still a hybrid. He said he is looking forward to an efficient and thorough meeting and he hopes the Board can provide staff clear direction for the budget process.

## **REVIEW AND OBJECTIVES OF MEETING**

Debra Smith introduced Michelle Martin, Adam Rue and Edward Yan, rate analysts, who will assist in answering questions this evening. Ms. Smith then introduced Lena Kostopulos, EWEB's new Human Resources Manager. She noted that Ms. Kostopulos has already begun to work on General Manager Gray's annual performance evaluation process, and that she will introduce Ms. Kostopulos to Commissioner Ernst during the break in tonight's meeting.

Ms. Smith then reviewed the meeting agenda, noting that the EWEB budget and cash reserves are the two main items that will be presented. She reminded the Board that the purpose of this meeting is to get a clear sense of direction regarding the formal budget document and whether or not the draft looks good enough to go ahead with the process or if specific items need to be adjusted. She added that two public hearings regarding the budget are scheduled for November 15 and December 6.

Commissioner Cunningham said he is not willing to give clear direction regarding the budget until he sees the "nuts and bolts" of it.

Vice President Simpson asked Commissioner Cunningham if he meant that he wants to see a draft of the budget, and then asked Ms. Smith if a draft budget exists. Ms. Smith said that printouts of pages exist but not an actual document. She told Commissioner Cunningham that EWEB's budget process is similar to the one used by Eugene School District 4J, where the

formal budget gets created after a budget workshop. She asked Commissioner Cunningham to let her know if he needs to see more detail than what will be presented this evening.

Vice President Simpson reminded Commissioner Cunningham that the Board is not approving the budget tonight, rather just reviewing it.

## **2012 ELECTRIC BUDGET AND FINANCIAL PLANS**

With the use of overheads, Ms. Smith reviewed the budget process, the budget road map, and the context for tonight's presentation.

Vice President Simpson asked if the contribution in lieu of tax (CILT) reduction to Springfield was a consensus decision. Ms. Smith said that it was, and that this item is specifically related to EWEB's contract with International Paper, as it was re-negotiated as a pass-through. General Manager Gray added that EWEB is paying CILT on wholesale prices but not physical and retail sales. Ms. Smith noted that the renegotiated International Paper contract is now reflected in its entirety as to how revenue impacts will be affected.

Commissioner Cassidy asked if the second meeting with local community representatives regarding low-income assistance had been held. Ms. Smith said that it had been. Mark Freeman, Customer Services Manager, said that the group had discussed what the best way is to use the assistance funds and the eligibility criteria, and also the possibility to obtain other funding that may be discretionary.

Vice President Simpson asked if the Board will get assistance in order to determine how much money should be funded. Ms. Smith said they will, and that there is no basis for staff to recommend reduced funding this year, and that since the Board has now agreed to the triggers for this funding, staff will bring the trigger mechanisms before the Board and track how the community is benefiting from the assistance.

Vice President Simpson asked if the \$175,000 figure that was discussed previously has been reduced. Ms. Smith said it had not, and that it was now funded through the excess contribution margin.

Commissioner Cunningham asked for clarification that it does not take Board action to deposit money back into the excess contribution margin but that it does take Board action to withdraw money. Ms. Smith said that is correct, and that all items funded from the excess contribution margin are brought back before the Board on a regular basis.

With the use of overheads, Susan Fahey, Fiscal Services Supervisor, continued the presentation.

Ms. Smith further explained the cash reserves draw (15%).

Commissioner Cassidy asked if Ms. Smith is talking about cash reserves that already exist. Ms. Smith said that is correct. She further explained that she is not talking about the BPA

decrement but simply about the assumption that water flows will be at 85% of normal so EWEB and slice generation will produce less power, and there will be less power to sell on the wholesale market during the next year. She added that staff assumes that the budget will be balanced by pulling money from previous years.

Commissioner Cunningham noted that EWEB is heading into their own part of recession hard and heavy, that every dollar spent needs to be carefully considered, and that staff should look for any expense that can be put off or renegotiated, and that needs to be done now. He wondered how staff can be sure that EWEB doesn't get into the financial situation it was in in the years 2001-02.

Ms. Smith replied that in 2001-02 EWEB's budget operated under a different set of circumstances, and that thanks to Jim Origliosso (former Director of Accounting & Finance/Treasurer) and Cathy Bloom, Financial Services Manager, there are now management policies regarding EWEB's cash position regarding the ability to make more money and also lose money when the market was high. She said that Commissioner Cunningham's point is valid in terms of job losses, etc., as staff is still seeing that and adjusting budget forecasts related to that, but that in terms of risk on the power trading side, EWEB is in a completely different position than it was at that time. She added that by hedging EWEB's position, EWEB is protected against what other utilities are doing and uses load forecasts to develop the hedging strategy.

Ms. Smith then further explained EWEB's market pricing risk and volume risk.

General Manager Gray clarified the risk of a recession in Lane County but that there is added risk of loss of power retail sales, and that the power sales forecast for 2012 is lower, so EWEB is back in a recession in terms of power sales forecasts.

Commissioner Cassidy commented that historically, he believes EWEB was living beyond its means and getting bonuses, and now drawing money again when they don't have a bonus, and that each year instead of raising rates, EWEB is drawing from reserves. He said he is concerned about EWEB's current cash position and what the financial expectations are.

General Manager Gray validated Commissioner Cassidy's concern and then briefly reviewed past cash reserve draws and deposits.

Commissioner Ernst commented that she wasn't sure if EWEB actually lived beyond its means or if there were events that occurred that contributed to that scenario. She recalled that first operation and maintenance (O&M) of infrastructure was put off for years, and that electric and water costs increased. She also recalled that after the energy crisis, EWEB diversified its portfolio toward more renewable energy, and that the problem now is that that portfolio is biting EWEB a little bit because it is now more expensive. Further discussion ensued regarding EWEB's renewable energy portfolio and its costs.

In regard to a question from Vice President Simpson, Ms. Smith further explained excess contribution margin cost. Ms. Fahey then explained how excess contribution margin cost relates

to wholesale power purchases, and how staff will develop different scenarios for the increased cost of wholesale power.

Commissioner Cassidy asked for an explanation of the projected expense for advanced metering infrastructure (AMI). Ms. Fahey replied that tonight's presentation for the capital side will touch on that in the long-term financial plan section and that the Board has not seen the business case for that yet, but that the amount set aside for AMI is indeed projected to be spent.

Ms. Smith explained the benefits that would be seen as a result of that, and that no rate impact for 2012 is anticipated because the assumption on electric side is that it will come out of reserves and that on the water side it will come from bond funds that were issued this year. She added that no incremental funding will be needed and that there is \$5 million in reserves on the electric side.

General Manager Gray noted that the business case for AMI will be discussed at the end of Q1 2012 and that the amount represented has not been approved yet, and would actually occur in Q3 or Q4, so in essence, the Board is approving the budget but not spending the money.

Commissioner Cassidy voiced concern that the ratepayers will pay for that \$5 million in anticipated spending. Ms. Bloom replied that his concern will be discussed and explained later in the meeting as part of the rate stabilization presentation.

Ms. Smith then discussed the rate horizon as it relates to AMI, and that this would also be part of a later discussion this evening.

Commissioner Ernst wondered how the labor negotiation timeline fits into the budget and if everyone will get a raise at the same time, and how that will match up with the fiscal year. Ms. Smith replied that the current IBEW contract expires on March 31, 2014, and that coincides with the timing of performance evaluations and salary adjustments. She added that the TLC raise goes into effect in April and is reflected in the represented paychecks in April. She noted that the performance evaluation cycle looks at the previous year's goals and results, which in turn drive salary adjustments.

Commissioner Ernst asked about the duration of the IBEW contract. Ms. Smith replied it is a five-year contract. General Manager Gray added that wage increases are prorated over the course of the year.

Commissioner Cunningham commented that he is in favor of AMI. He wondered if, with the Carmen-Smith upgrade and EWEB's extra debt, it would be better to look at a 10-year plan now and plug it in later. He commented that if falling revenues and rising expenses are considered, it is frugal to look at whether or not the Board wants to stop it, and he noted that there are very few scenarios that would lead him to vote for a rate increase.

General Manager Gray said he didn't believe a rate increase is necessary to cover AMI, and that it will instead be covered by a relative mix of reserves and bonds used, the amount of savings that occur immediately, and the current business case. He explained the difference

between using bonds and using cash, and he told the Board that staff will bring back scenarios at the end of March. He added that the current thinking is that drawing from savings is better than bond payments in relation to a neutral and possibly positive rate impact.

Commissioner Cunningham commented that this sounds like a “vicious circle” and he wondered if it is possible to have this discussion earlier and/or know the results of the AMI testing sooner.

General Manager Gray replied that AMI testing won't tell staff anything about the financial impacts but more about customer experience (qualitative vs. quantitative), and that that is looking good. He added that he believes that if staff says AMI has a good business case but a large rate impact, AMI will be “DOA,” and he noted that the Carmen-Smith upgrade will result in 50 years of benefit while AMI has the potential for a year one benefit. He reminded the Board that business case approval is separate from budget approval, and that business case approval comes first.

Commissioner Ernst commented that someone had mentioned that 70 cents/kWh is the general rule of thumb but she wondered how that is compared to bonds, and she noted that ratepayers still pay for the bond. Ms. Smith replied that a 1% rate action is worth about \$1.5 million (which increases over time).

General Manager Gray explained the process for bond issuance, capital cost and per-year cost.

Commissioner Ernst asked if it is better to cover the cost with bonds or with rates. Ms. Smith explained what portion of the cost is paid out of rates and what portion is paid out of debt service.

General Manager Gray likened the process to charging one's food, gasoline and utility bill on their Visa card instead of paying cash in one particular month, but that the following month they will still have to pay for it somehow.

Ms. Bloom noted that EWEB's credit rating is what allows a lower interest rate when borrowing.

Vice President Simpson commented that the AMI program has significant external as well as internal customer benefits, and that customers will indirectly benefit technically, which enhances EWEB's ability to develop products more efficiently for less money. He added that AMI will provide significant operational benefits that haven't been discussed yet, and that he is excited to see the other side of that coin when the AMI business case is discussed.

Regarding the long-term financial plan assumptions overhead, Commissioner Ernst noted that EWEB added FTEs and replaced retirees in 2009-10, and she wondered how employees can continue to be added when revenue goes down. Ms. Fahey replied that this is just an assumption that the forecast is built on in order to show the worst-case scenario. General Manager Gray added that staff is looking not only at labor costs but also looking to decrease contractor expense.

Vice President Simpson wondered if it would throw a monkey wrench into the process if the Board says no to the FTE piece, or if it would save money. Ms. Smith replied that the Board is welcome to say that they are not comfortable with any long-term rate action and that staff is happy to receive feedback regarding FTEs. She reminded the Board that they have the financial control to maintain total O&M and total payroll but do not have control over the number of FTEs, but rather total personnel or total cost of payroll, i.e., it's not a body count.

Commissioner Ernst commented that it sounds like a fine line with the current economy and that if the Board is looking at assumptions for 2013-14, maybe there should be Board input, and that the Board could say that positions shouldn't be replaced solely because of attrition.

Ms. Smith replied that it would be most helpful for the Board to say they're not comfortable with rate actions and then look at the long-term financial plan and develop a different rate scenario, and that it depends on what the Board wants to manage.

Commissioner Ernst commented that she isn't comfortable with a rate increase based on these assumptions.

Vice President Simpson commented that he sees these as long-term management issues and that he doesn't feel it is appropriate for the Board to govern the utility by tweaking individual positions, yet it is important to mirror what's going on in the local economy. He added that he feels that many direction type suggestions and decisions are best expressed in the Spring financial view when staff is doing more strategic higher-level planning. He asked General Manager Gray if he feels that a 2 FTE increase is status quo and if he feels that is within the strategic planning vision message that has come from the Board.

General Manager Gray explained that the suggested FTE increase arose from a combination of strategic decisions and tactical directions, and that one of those is the in-sourced contract. He noted that the Carmen-Smith update will result in approximately two additional FTEs for construction of the fish screen and ladder. He added that it is best for the Board to give high-level direction on rates and budgets and that staff hires contract help in order to meet FTE levels if there is a hiring freeze and/or an increase in overtime. He gave the example of a dispatcher retiring and not being replaced, which causes the other four dispatchers to experience burnout because they are working overtime in order to compensate for that position not being replaced. He added that he is equally uncomfortable with FTEs being based on rates.

Commissioner Cunningham asked why the rate increase can't be 4.5% across the board. General Manager Gray replied that is because the BPA pass-through and Carmen-Smith update are coming in earlier, resulting in loss of BPA revenue and debt from the Carmen-Smith update. A brief discussion ensued regarding this scenario.

Commissioner Ernst asked where the rate increase will fit in when Carmen-Smith goes off line for the upgrade in 2013. General Manager Gray replied that it will be folded in. Ms. Smith confirmed that staff agrees with forming a new group to restructure things in a way so that rate actions (other than the Carmen-Smith update and AMI) will be less. She noted that staff

started with status quo for zero-based budgeting and then brought options forward that allowed them to change things up, and that staff does indeed see the need to change long-term rate effects.

General Manager Gray suggested that it would be helpful for staff to get long-term Board direction to “take the whole thing down a notch,” and then staff would come back during the strategic planning process next year to show what the notch down represents.

Commissioner Cunningham voiced frustration that the realistic amount that the Board can make an impact on is \$1 million, and that everything else goes in its own direction, i.e., division of labor may be impacted if EWEB lays off 15 employees here, or cuts some items that cost more, but that ultimately it gets to the point of what people can afford.

Commissioner Cassidy commented that people in the community will always fuss about a rate increase but that he feels those people are the minority, and that most people realize that they are receiving an extremely high-quality product at a low cost. He said he believes that the Board and staff run a good utility with great pride, that they receive many awards, and that they do not waste ratepayers’ money. He added that he has warned his constituents that rates will go up.

Vice President Simpson commented that he felt exactly the same way, and that he has talked to low-income customers about the extra cost of renewables like wind and solar, and that conservation costs more than buying dirt-cheap power. He said that low-income customers accept that expense and value it, but that of course there are still ratepayers who want the least possible cost, and that they are in the mix with the withering middle class ratepayers who can still afford it. He reminded the Board that even though the rate increase is approximately \$4.50 per month on a residential bill, he realizes there are customers whose backs are broken by that, and that EWEB offers low-income assistance for those people. He said he is very proud of EWEB’s ability to save money and find cost-cutting measures, and that all ratepayers who complain about the cost of the Roosevelt Operations Center (ROC) need to be reminded of its long-term benefits. He noted that even at his own homeowners’ association presentation regarding rate projections, he thought he would be beat up over the projected increases, but that he was instead thanked for giving his neighbors the opportunity to look ahead and budget for a rate increase instead of bicker over the percentage.

Commissioner Ernst commented that she agrees with Commissioners Cassidy and Simpson and that she has also had irate constituents call her, but after she explains to them what they get for the rate they pay, they are happy. She added that she just wants rate increases to be realistic, and that she realizes that zero-based budgeting will take a look at that in the spring, and that the Board has the tools to make those decisions and include the public in them.

Ms. Smith then reviewed some history on how cutting FTEs has sometimes resulted in higher costs.

Commissioner Cunningham commented that he is more conservative regarding the way things should be run, but that the last 4-5 years have caused him to question that. He added that

regarding the budget, cool heads have to prevail and a point has to be reached where there is a happy medium, and that raising rates for the sake of raising rates is not the medium.

Ms. Fahey continued the presentation, reviewing debt service coverage. Commissioner Ernst asked several questions about interest rates and Ms. Bloom provided an explanation. Ms. Fahey noted that the forecast presented is built on a 5% interest rate.

Vice President Simpson then called for a 10-minute break.

## **2012 WATER BUDGET AND FINANCIAL PLANS**

With the use of overheads, Susan Fahey reviewed the 2012 water budget and financial plans.

Commissioner Cassidy noted that water rates have been raised for the last three years in a row, yet reserves have still not been replenished. General Manager Gray replied that the water rate design depends heavily on irrigation (sprinkler systems) and that last summer was a particularly rainy one.

Regarding a second water source being developed by the year 2017, Commissioner Ernst asked if there could be some rate smoothing done before that. Ms. Fahey replied that there could be and, if rate smoothing wasn't done, there would be a 26% water rate increase in 2017. Vice President Simpson said he would like that increase to be smoothed over five years.

Commissioner Cunningham asked where the second water source will come from. General Manager Gray replied that most probably it will come from the Willamette River.

Commissioner Cunningham wondered if Dexter Lake with its huge dam could be a big producer, and if that could be a natural source to procure from that area. General Manager Gray replied that the main issue for that source would be the cost for acquisition of rights.

Commissioner Cunningham then asked how far up one would have to go in order to get water plains. General Manager Gray replied that EWEB is currently working with Springfield Utility Board (SUB) to protect the water plains. Mel Damewood, Water Engineering Manager, added that EWEB has no water rights upstream of the Willamette River at the current time.

General Manager Gray commented that EWEB could potentially use its own claim and perfect it in the area of the stream plant or the middle fork.

Commissioner Cunningham recalled that the mayor of Oakridge had asked EWEB to buy some of their water. General Manager Gray replied that water rights are more expensive the further uphill one goes.

Commissioner Cunningham asked if rates could be smoothed by starting that process in 2014 or 2015. Vice President Simpson said he is also for that. Ms. Smith replied that Ms. Bloom can't go to market to issue debt unless she knows what amount she is issuing for.

Vice President Simpson asked if this increase would be 17/17/17% across all three water tiers. Mr. Rue replied that it is a melded increase of the all-customer total.

Vice President Simpson noted that the "peanut butter" theory becomes an issue because Tier 3 rates are expensive. Tom Buckhouse, Electric, Water & Steam Division Director, noted that the Carmen-Smith upgrade won't be built until the license is received and that the second water source won't happen until firm water rights are obtained, and that process is still underway.

Commissioner Cassidy asked if an educated guess can be made regarding how reduction in the number of laundry loads and other conservation affects water sales. Mr. Damewood replied that staff is focusing on outdoor irrigation at this point in regard to savings on future capital projects and that with a rainy summer, that has been difficult to gauge, and that peak load is what is looked at, and how irrigation helps reduce that peak.

Vice President Simpson asked if it is true that when EWEB asks customers to use less water, EWEB's costs go up. Mr. Damewood replied that is true, as water has high fixed conservation costs but cheaper rates for increased sales.

General Manager Gray commented that managing peak is critical as it drives cost, but the effect of that is very small compared to the effect of water.

Commissioner Cassidy asked how much is spent on that. Mr. Buckhouse replied approximately \$300,000 per year.

Commissioner Ernst asked if potable water is used for irrigation. Mr. Buckhouse replied that is correct.

Commissioner Ernst then asked if it would be possible to have a future discussion regarding that. Mr. Buckhouse replied that would take a whole another set of typing to distribute it, and he confirmed that when he says irrigation, he is talking about sprinkler systems, i.e., for lawns, parks and athletic fields.

Ms. Fahey asked for a head nod that the Board okays the zero-based budgeting process. The head nods were unanimous.

Commissioner Ernst asked some clarifying questions regarding the electric and water O&M assumptions. Ms. Fahey asked for a head nod indicating agreement with the electric and water O&M assumptions.

Commissioner Cunningham commented that he can't commit to a second rate increase in 2012 until the March 2012 budget process is presented, but that he can buy into everything else presented this evening.

Three head nods were noted, with Commissioner Cunningham disagreeing with a second rate increase in 2012.

General Manager Gray explained the process of drawing on reserves and future deposits regarding hydroelectric power, and noted that staff is basically practicing the rate stabilization fund.

Regarding the 2012 water budget assumptions, Vice President Simpson asked how 8.4 million KGAL can be assumed. Ms. Fahey replied that amount is pretty standard, with the low being 7.9 million KGAL.

Four head nods were noted regarding the 2012 water budget assumptions.

Ms. Smith suggested that the Board go back and look at their policy around financial controls, and that this speaks to Commissioner Cunningham's concern. She noted that the budget requires making assumptions on both sides, and that staff also have to be cost managers, because if EWEB has a bad year, expenses are reduced and, along with Messrs. Buckhouse and Damewood, the costs are carefully managed and tracked each month.

Mr. Buckhouse noted that the water side is \$300,000-and-some under projected expenses due to a bad water year.

Commissioner Ernst noted that a chunk of money is being spent to upgrade EWEB headquarters and continue improvements at the ROC and that, once that money is spent, that expense will be done. She wondered if that will be built into future budgets.

Ms. Smith said it will, and she reminded the Board of an e-mail that was sent to them regarding the capital budget for facilities over the next five years, and that the biggest chunk of that was for O&M this year.

General Manager Gray added that shorter-term expenses on headquarters were factored in and fleet numbers were traded off into future years.

Ms. Smith summarized that staff will complete the budget document along the lines of the above assumptions and bring it back to the Board at the November 15 meeting. She added that Commissioner Cunningham will be given an additional level of detail (the "resource view") in order for him to see how much is being spent on specific resources.

Vice President Simpson thanked staff for their hard work, and told Ms. Fahey that he appreciated the font size she used on her overheads and that her charts were very easy to see. Ms. Fahey in turn thanked staff for their help.

## **CASH BALANCES AND TARGETS**

Vice President Simpson asked if this presentation is required as part of the budget process or if it is only FYI. He wondered if it could be tabled or if there is a necessity to hear this presentation tonight.

Ms. Smith replied that it is not a necessity, but that Commissioner Cassidy had specifically asked for this information, and that it can be framed up for a couple of choice points in order for the Board to take action at the next meeting.

General Manager Gray added that Ms. Smith had stayed up late to prepare this presentation and that he had made a personal commitment to Commissioner Cassidy to present this information.

Vice President asked how much time it is realistic to take for this presentation since this type of budget work session used to last approximately eight hours and has already been majorly compressed.

Ms. Smith replied that she believed they could present this information in about 30 minutes with time allowed for discussion afterward.

Vice President Simpson asked his fellow Commissioners to notate their questions and comments during the presentation and also note the slide number, and to hold their questions and comments until after the presentation.

Vice President Simpson then called for a five-minute break.

Ms. Smith summarized an earlier Board presentation regarding cash balances and targets. Ms. Bloom briefly reviewed the Fitch bond ratings and briefly explained the Standard & Poor's bond rating process.

Ms. Smith reminded the Board that no action is required this evening unless the Board has changes in preparation for the November 2 Board meeting, but that action will indeed be requested at the November 2 Board meeting.

With the use of overheads, Ms. Bloom continued the presentation.

In reply to a question from Commissioner Cunningham regarding slide #1, debt service, item 2.42, Ms. Bloom replied that the rating agencies calculate debt service in different ways, and that EWEB's formula is revenues – other expenses + other cash. She added that Fitch added in funds segregated from other budget items except for the Carmen-Smith upgrade and power sales, and then added back cash.

Commissioner Cunningham asked if EWEB controls the funds for unfunded pension liabilities and the supplemental retirement plan. Ms. Bloom replied that that line item refers to

an old pension and OPEB fund (post retirement medical benefits) from the 1980s that is now closed, and that a separate legal trust was set up for that, so the Board does not control it.

Commissioner Cunningham commented that considering the \$10.6 million budgeted for improvements at the ROC, and the fact that the wastewater recycling system has never worked, he supports the rate stabilization fund but would like to keep half of that funding separate, reserved only for ROC-related expenses, for another year, as there is no telling what else at the ROC is going to malfunction.

Ms. Smith replied that she had signed a retainage release for the wastewater recycling system this week and that staff considers the project to be complete. She noted that the wastewater recycling system parts are warranted and that it is now fully commissioned.

Commissioner Cunningham reiterated his desire to set aside 25% of the rate stabilization fund for ROC improvements for another year until staff knows for sure that everything is going to operate correctly.

Commissioner Cassidy asked what would happen if EWEB's bond rating went down and how that would affect EWEB's interest rate. Ms. Bloom replied that it would depend on the market at that time, but the rating would be affected by approximately 100 basis points.

Regarding the Unfunded Liability overhead, Commissioner Cassidy noted that there is no set-aside for an emergency such as losing the McKenzie River as EWEB's water source before there is a second water source obtained. He wondered how much liability that would be, for example, what would happen if Hayden Bridge Filtration Plant went off line.

General Manager Gray replied that there would be two possible effects—damage to the infrastructure (such as a Cascadia type event) and distribution damage, so there would be a cost consequence plus revenue loss, and the reserves would be gigantic. Ms. Smith added that Federal Emergency Management Agency (FEMA) would kick in but there would obviously be some business interruption.

Commissioner Cassidy commented that knowing how much is in that fund would be critical for knowing what kinds of emergencies could be handled. Ms. Smith replied that if there is a water catastrophe, the electric side can lend money to the water side, but she doesn't believe funds can be withdrawn and, if so, only for the short term.

Commissioner Cassidy asked for more information regarding hydroelectric volume risk and price risk.

Ms. Bloom said that the current target is based on a 2008 study. Clay Norris, Power Resources Division Director, noted that staff refers to volume risk as less rainfall and less power generation, and that they attempt to have funds available to cover that. Mr. Norris continued, saying that drought affects power price, and then there is less generation, and replacement generation is more expensive. He said it becomes a complicated study, and that what staff sees

today is price volatility down and prices down compared to during the energy crisis, but that an active hedging program reduces exposure.

Ms. Smith added that the risk was determined to be an appropriate amount if market and volume issues came all at once, but not in the case of a catastrophic event.

General Manager Gray commented that today's energy climate is surplus power long vs. energy crisis short, and that the worst scenario for the decade is falling power prices. He added that power reserves have to be studied carefully, and that depends on risk management and separating out the hydroelectric risk into rate stabilization.

Vice President Simpson asked if most other agencies connected with PERS also have large unfunded liability. Ms. Bloom replied that some agencies borrow more money, i.e., in the late 1990s EWEB assessed unfunded liability at \$60 million, and that through litigation, staff hoped that unfunded liability would go down, so in reality EWEB only borrowed half of that amount and paid down the unfunded liability. She added that EWEB was a leader when litigation was instigated and that EWEB is guaranteed the 8% interest rate, but that other employers issued debt and their rates changed.

Commissioner Ernst asked if the interest rate is going up 4%. Ms. Bloom replied that it is at 29% now, and employees statewide will pay more. She said that EWEB will pay 33% on its payroll.

Commissioner Ernst asked for clarification that a new employee will come in at the 6% rate and she wondered if that increase was a State decision. Ms. Bloom said that it is correct. Ms. Smith added that the increase is based on what happened in the pension plan itself and not the employee contribution.

Commissioner Ernst then asked where the \$99 million is invested and if some of that figure went into rate stabilization, would it be an investment. Ms. Bloom replied that EWEB is governed, by statute, to invest that money.

Commissioner Ernst then asked if it would be better to put \$10 million into an AMI fund, assuming that it wouldn't be used for 2-3 years, than put it into a different fund where it isn't going to make money. Ms. Bloom replied that it would be better, and that would just be a different investment. She added that interest rates are horrible but EWEB invests in order to get the best rate possible.

The Commissioners then voted for their preferred option.

Commissioner Cunningham prefers a modified Option A with \$2,500,000 for creation of a ROC fund. Ms. Smith replied that there would be some value in putting that money into the Riverfront Master Plan fund, as there is more liability at the headquarters site relative to asbestos, etc. which can't be passed on to a future developer.

General Manager Gray added that a general property fund could be set up, and he reminded the Board that the worst case scenario regarding the wastewater recycling machine at the ROC would be to disconnect it and then reconnect to the City sewer line.

Commissioner Cunningham changed his vote to Option A, unmodified.

Vice President Simpson, Commissioner Cassidy and Commissioner Ernst also voted for Option A.

Ms. Smith told the Board that they could switch to Option B later if they desired. General Manager Gray added that regardless of whether Option A or B is put into place, they can be revisited if a major event takes place. He explained that designated funds are one-time funds that will be funded and depleted to zero, i.e., for the steam service transition, and then the fund will be retired. He added that the only exception would be rate stabilization, and that possibly the Board might want to do a combination of “floor and cap” for several bad water years in a row, but the cap might be so flush that there would be no reaction needed this year.

Ms. Smith added that it could be set up with a floor at this point, but in an amount that reflects what might be dropped. She then gave examples.

Vice President Simpson commented that even though he is voting for Option A now, in Q1 of 2012, if the Board goes forward with AMI, he will want to switch to Option B and queue up a resolution to move the funds over. General Manager Gray replied that option B would be premature until the business case for AMI comes forward, and then there would be a proposal to borrow or use cash, and then switch to Option A-, B or B-. Ms. Smith added that by then EWEB will have re-sized purchased power reserves and potentially other units of funding.

Commissioner Cunningham commented that he will defer to General Manager Gray regarding parameters that are set and recommendations.

General Manager Gray clarified that Option A consists of a floor and cap around the rate stabilization fund, and that purchased power reserves will be carefully studied prior to March 31, 2012. Ms. Smith added that she is comfortable setting the floor right now, but the cap is connected to purchase power.

General Manager Gray briefly reviewed scenarios for several future decisions, including bonds for the Carmen-Smith upgrade, etc. He asked the Board and staff if they feel they have clear direction. The Board and staff replied that they do.

Ms. Smith noted that she will send the Board an electronic revision of tonight’s budget handouts as she has shifted some items, but has made no material changes.

Vice President Simpson adjourned the work session at 8:40 p.m.

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Assistant Secretary

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President