

EUGENE WATER & ELECTRIC BOARD
STRATEGIC PLANNING WORK SESSION
EWEB BOARD ROOM
FEBRUARY 19, 2013
6:15 P.M.

Commissioners Present: John Simpson, President; John Brown, Vice President; Dick Helgeson, James Manning, and Steve Mital. Commissioner Mital participated via speaker phone.

Others Present: Roger Gray, Debra Smith, Erin Erben, Todd Simmons, Felicity Fahy, Sue Fahey, Cathy Bloom, Mark Freeman, Sheila Crawford, Steve Newcomb, Dave Churchman, Brad Taylor, Mel Damewood, Jeannine Parisi, Kevin Biersdorff, Lena Kostopulos, Tom Williams, and Taryn Johnson of the EWEB staff; Vicki Maxon, recorder.

President Simpson convened the Work Session of the Eugene Water & Electric Board (EWEB) at 6:10 p.m.

General Manager Roger Gray recalled that this Work Session is being held to get further Board opinions and direction in order to sequence, align and prioritize long-range planning issues.

CONTEXTUAL OVERVIEW OF STRATEGIC PLANNING

General Manager Gray presented a contextual overview of EWEB's strategic planning process and reviewed the road map. Using overheads, he compared elements of the 2011 strategic plan to the 2012 strategic plan and emphasized that the approach for activities and focus areas of the 2012 plan is much different than in 2011, primarily due to affordability. He emphasized that for 2012, staff has recognized that it isn't affordable to attempt to do all things that they would like to do, and prioritizing and strategically planning activities that compete for both funds and staff support will be critical in managing work as we go forward.

General Manager Gray then reviewed why strategic planning is done and that strategic plans must be long-term and forward-looking. He noted that normally, the strategic planning process is to plan for every 3-5 years and then have an annual check-in, but that doesn't mean that there won't be a change in direction if major events occur or are forecast to occur (i.e., price collapse of the wholesale power market and a major recession).

He reminded the Board that they had previously agreed to refine the 2011 strategic plan rather than re-do it, and that the plan being discussed this evening is the 2011 plan with a 2012 update.

Using overheads, General Manager Gray then reviewed EWEB's operating capacity under current industry and financial conditions (ranging from 2007-2013), and emphasized the

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volatility of the power market and no recovery in wholesale power prices, along with slow or no economic recovery, and hyper levels of uncertainty.

AFFORDABILITY OF STRATEGIC PLAN

General Manager Gray then addressed the affordability of the strategic plan. He asked the Board to visualize EWEB as a complex machine with four basic “dials” (or parts).

- Quality, reliability and scope of products (what EWEB does and how they do it)
- Financial health (debt coverage ratio and bond rating)
- Rate increases
- Risk (what risks does EWEB accept and what risks does it mitigate?)

He noted that the question is really what rate increases EWEB customers can afford and accept, and what should be done with the other three “dials.”

He then reviewed how projections from previous long-term financial plans have been affected by the collapse of the wholesale power market, the recession, and other factors, and how finally, EWEB ended up laying off some employees in 2012. He stated that there are still many hard decisions to be made, including cutting products, services and scope of what EWEB does; letting financial health slip (a decrease in debt coverage and bond rating); reducing capital investments and delaying projects and initiatives; and selling assets (e.g., real estate, generation, etc.).

Vice President Brown wondered, with his constituents currently complaining about the upcoming ballot measure, losing City services, and the proposed new City fees, how the Board can address a possible layoff of more employees vs. approving \$70,000 in energy education grants.

General Manager Gray replied that a top priority will be improving communication, including a possible customer survey. He noted that EWEB’s community budget committee process needs to get populated as soon as possible.

Vice President Brown stated that he would appreciate staff informing the Board on EWEB’s upcoming hard decisions so that they can communicate them consistently to their constituents, neighborhood groups, etc. He added that in the past he has been asked some questions he couldn’t answer because he didn’t have specific information.

President Simpson stated that he would like even more assistance than that, in the form of role playing, training, white boards, two-on-one discussions, etc.—i.e., basic public relations training for the Board.

General Manager Gray said he would be happy to provide that, and that staff could also accompany Commissioners to the neighborhood group meetings.

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Commissioner Helgeson stated that he is supportive of the above public communication suggestions but also mindful of its constraints. He recalled that the Board doesn't always hear from the community as one voice, and that sometimes public opinion is difficult to manage because of their lives and circumstances. He said he would like to find the balance but that it may never be found due to different opinions and/or complaints about different issues.

Commissioner Mital voiced support for the community budget committee, and he wondered if staff can reserve some of the committee seats for technical experts who are also ratepayers, possibly EWEB retirees, current Springfield Utility Board (SUB) staff, etc. He added that he is far less supportive of community meetings, and that even though telephone surveys are the most expensive to do, he feels they would provide the best information in order to not shape opinions around a minority perspective.

General Manager Gray agreed that whatever survey is done should be statistically valid and that the ideal candidates for the community budget committee would have diverse viewpoints, i.e., a homeowner, a business owner, etc. He noted that staff will need time to train the community budget committee regardless of their expertise (similar to the training that the Integrated Energy Resource Plan committee received), and that the application process is currently being crafted.

President Simpson stated that he is not prepared to make a recommendation tonight but that he supports what Commissioner Mital has said, and that he favors the community budget committee process over community meetings.

As Commissioner Manning was absent at the last Board meeting, he asked to be filled in later regarding the scope of the community budget committee.

General Manager Gray stated that it would be helpful to receive Board direction regarding the community budget committee at the March 5 meeting because they need to be on board through the 2014 budget process, which will last from May through September, and will need to be recruited and trained during the March/April time frame.

Vice President Brown stated that he wants to be sure the community budget committee represents a broad diversification of the community and not only people who have the time to volunteer. He noted that currently there are no members of any major local standing committee from Commissioner Manning's wards, and that almost 80 percent of the members of standing committees such as the Budget and Planning Commissions are from wards south of the river, mostly from southeast Eugene.

Commissioner Mital voiced his support for the community budget committee, but with short-term duration and limited independence in the beginning, and increasing amounts of authority to be granted over time.

President Simpson agreed, and said that he will allot 15 minutes on the agenda for this item at the March 5 Regular Board meeting so that each Board member can be polled between

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now and that meeting in order to see what pieces of the community budget committee process work for them and what pieces don't. The remainder of the Board agreed.

DISCUSSION OF COMMISSIONER TOP PRIORITIES

Sheila Crawford, Strategic Planning & Governance Coordinator, gave a brief review of the list of EWEB's Strengths, Weaknesses, Opportunities and Threats (SWOT) that each Commissioner identified at the January 2, 2013 Work Session. From that list, she asked each Commissioner to identify their top three or four priorities.

After each of the Commissioner's priorities were identified, a lengthy discussion ensued, which resulted in the order of some of the priorities being shifted or revised.

Commissioner Helgeson stated that he is comfortable with the general thrust and direction of the Strategic Plan, and that he is less concerned with the other priorities that have been identified until the financial strategies are addressed.

Commissioner Mital noted that his priority regarding rate structure is to insulate low-income customers from rate increases in whatever way that can be done—possibly by energy conservation support, welfare support, revising the rate tiers, etc., so that when the Board approves a rate increase, it can be more confident that it won't jeopardize certain segments of the community.

Commissioner Manning stated that in his opinion, a second source of water could possibly be combined with the Emergency Water Plan.

President Simpson stated that second source is not on his priority list and that he would be okay with delaying it for two years.

Commissioner Mital asked if lowering EWEB's bond rating from AA to A is a simple decision. General Manager Gray replied that generally it is, and that this is something the bond rating agencies determine. He added that EWEB's financial consultant and Cathy Bloom, Financial Services Manager, will address that in more detail at the March 5 Board meeting.

Commissioner Helgeson noted that financial strategies do not only include, for example, a decision about the bond rating but also how to handle surplus assets, power resources, etc., and knowing what all the elements are in order to support the strategies. General Manager Gray added that part of those strategies also includes how the Board chooses to finance items, for example, some utilities don't want to issue debt.

Vice President Brown stated that he wants to take another look at EWEB's rate structure and at least have a discussion.

Commissioner Mital reiterated that his main reason to do this would be to find a way to insulate low-income customers from future rate increases.

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Vice President Brown reminded the Board that some customers and businesses are moving to Springfield because of their lower rates, and that he wouldn't want to alienate the business class in favor of low-income customers.

Commissioner Helgeson agreed with Commissioner Mital's request to look at ways to insulate low-income customers from rate increases.

General Manager Gray then described his view of the Emergency Water Plan vs. second source water, and a brief discussion ensued.

Vice President Brown stated that he would still like to have a discussion regarding second source water (at least for the short term), i.e., a "Plan B" second source, which could include working with neighboring utilities.

After the above discussion and some re-shifting of Commissioners' priorities, Ms. Crawford stated that the top three priorities are: 1) Emergency Water Plan/second source; 2) financial strategies; and 3) low-income customer rate relief.

Commissioner Mital asked if it would be appropriate to narrow the second source discussion to include a broader collaboration with neighboring utilities. General Manager Gray replied that currently there is a two-pronged strategy for second source: 1) EWEB goes it alone (the most expensive); and 2) to collaborate with regional partners. He added that a possible third prong would be "second source light" (the smallest that can be accomplished that would cover essential operations for the community).

A lengthy discussion ensued regarding the possibility of collaboration with regional partners.

Erin Erben, Power Resources & Strategic Planning Manager, stated that the backgrounder for the March 5 meeting will cover many of the above issues, but that low-income rate relief would be a new priority that hasn't been addressed previously, so this would necessitate a re-prioritization of the work staff is currently doing.

General Manager Gray noted that EWEB's current energy conservation policies and programs benefit participating customers, but tenants, for example, are hurt by them and end up paying higher bills because their landlord hasn't participated in the energy conservation programs.

Mark Freeman, Energy Conservation and Customer Service Manager, stated that the backgrounder for the March 5 meeting also includes a customer education piece regarding the above.

A lengthy discussion ensued regarding how to prioritize the low-income rate relief issue, and that it may not be by adjusting the rate structure but instead with other tools (the Customer Care program, energy conservation measures, etc.).

The Board then agreed to ask staff to return to them with some options for low-income rate relief.

DISCUSSION OF ADDITIONAL AREAS OF IMPORTANCE

Ms. Crawford asked the Board to identify any additional areas of importance.

Vice President Brown asked for an update on the Riverfront Master Plan process.

Kevin Biersdorff, Principal Project Manager, gave the Board a brief update. He stated that City Council approval could occur as early as May and that when that occurs, EWEB needs to be ready as quickly as possible to move the identified parcels of land. He explained that because of complex financial considerations, high community expectations, the importance of market reach and timing, and many other factors, he intends to hire a real estate consultant through an RFP process. Mr. Biersdorff then listed some example tasks to include in the RFP and briefly reviewed the RFP process.

Vice President Brown asked who will assist in determining what land is surplus and who will set the price. Mr. Biersdorff replied that the real estate consultant will be responsible for this, and he added that EWEB may need to follow up with a marketing broker. Vice President Brown voiced concern about how to accurately gauge the bidders' ability to carry out these duties.

Commissioner Helgeson endorsed the hiring of a real estate consultant and agreed that EWEB needs to be positioned to move forward on the process, even though it may take a while. He voiced concern about the parcels of land being "cherry picked."

President Simpson asked how much money has been spent on the riverfront project so far. General Manager Gray replied that staff will do a Starboard report on that and will also include a report on the funds that have been set aside for disposition.

Vice President Brown voiced support for hiring the real estate consultant. He cautioned that the City Council will soon be discussing collapsing the riverfront urban renewal district, and that that would greatly affect the riverfront project.

Jeannine Parisi, Community and Local Government Outreach Coordinator, stated that individual conversations between the Board and City Councilors would be important, and that staff has already prepared some discussion items.

Commissioner Helgeson stated that he hopes the Board will have an opportunity to discuss the Bonneville Power Administration (BPA) passthrough strategy and the upcoming City of Eugene fee proposal. General Manager Gray replied that the BPA passthrough could be a part of the upcoming rate discussion.

Ms. Smith replied that information regarding the City fee proposal is forthcoming from staff.

Vice President Brown stated that he feels it is important for the Board to discuss the City fee proposal and take a stand early, before the election. General Manager Gray replied that he will follow up with the City Manager regarding a formal ask from the City.

A lengthy discussion ensued regarding the City fee proposal. President Simpson stated that there may be an opportunity for EWEB to participate in the wording of the ballot in order to make it clear that it is a City fee and that EWEB is merely the billing agent.

MANAGEMENT SUMMARY OF BOARD DISCUSSION, CONCLUSIONS AND NEXT STEPS

Ms. Bloom stated that the March 5 Work Session will consist of a financial initiatives discussion with EWEB's financial consultant, including EWEB's long-term financial plan, historical bond ratings, and the current bond market. She said that staff plans to present a simple model that will show the impacts of certain financial scenarios on debt ratio, i.e, sale of property or generation, and that they will also present financial options that would result in either a AA or A bond rating.

President Simpson asked staff to let the Board know how their choices can assist with putting together the budget.

Ms. Bloom also noted that at the March 19 meeting, staff will bring back scenarios on which financial options would result in what activities (i.e., cuts in service, etc.).

General Manager Gray added that staff will also present alternatives regarding what services would have to be cut in order to make rate increases more palatable, and he reminded the Board that the "status quo" rate increase is currently a high number.

President Simpson adjourned the Work Session at 8:50 p.m.

Assistant Secretary

President