

EUGENE WATER & ELECTRIC BOARD
WORK SESSION
EWEB BOARD ROOM
MARCH 5, 2013
5:30 P.M.

Commissioners Present: John Simpson, President; John Brown, Vice President; Dick Helgeson, James Manning, and Steve Mital.

Others Present: Roger Gray, Debra Smith, Cathy Bloom, Sue Fahey, Todd Simmons, Erin Erben, Mel Damewood, Steve Newcomb, Mike McCann, Harvey Hall, Sheila Crawford, Megan Capper, Michelle Martin, Adam Rue, Kathy Grey, Wendi Schultz-Kerns, Matt Sayre, Edward Yan, Roger Kline, Mark Freeman, Karen Lee, Lena Kostopulos, Frank Lawson, Lance Robertson, Deborah Hart, Patty Boyle, Susan Eicher, Anne Kah, Brad Taylor, Jeannine Parisi, Greg Armstead, and Taryn Johnson of the EWEB staff; Vicki Maxon, recorder.

President Simpson convened the Work Session of the Eugene Water & Electric Board (EWEB) at 5:38 p.m.

ELECTRIC UTILITY FINANCIAL STRATEGIES UPDATE

Cathy Bloom, Financial Services Manager, introduced EWEB's financial consultant, Jeb Spengler of SNW Securities, who has consulted for EWEB for approximately 15 years.

With the aid of overheads, Mr. Spengler presented a marketing and regional ratings update, EWEB electric ratings and medians, an analysis of EWEB's bond ratings, and a comparison of public power utilities' bond ratings between Standard & Poor's, Fitch, and Moody's.

He noted that the current rating agency focus is on liquidity, willingness to increase rates, environmental concerns, depressed wholesale market prices, and continued sluggish economic growth.

Mr. Spengler, Ms. Bloom and Sue Fahey, Fiscal Services Supervisor, then responded to questions and comments from the Board.

In response to a question from Commissioner Helgeson, Mr. Spengler noted that most utilities with generation have experienced lower bond ratings over the past couple of years due to the depressed market.

In regard to the possibility of EWEB's bond rating being lowered from AA to A, Ms. Bloom noted that there would be no changes in EWEB's bond contract, but access to the market and the cost for a credit line would be impacted. She added that the interest rate for new credit does not affect the existing bond rating at all, as it is sealed under contract.

Commissioner Mital asked why some utilities (investor-owned utilities, for example) choose to operate on a lower bond rating. Mr. Spengler replied that those utilities don't have as much cash on hand, they have less customers, and their service territory is less desirable.

Ms. Bloom stated that, historically, EWEB's financial policies were targeted for a AA bond rating, and she reiterated that it's really about access to credit, and that there would be a significant cost to maintain the AA rating when EWEB may not make use of it.

President Simpson asked how difficult it is to return to a AA rating after being lowered to A. Mr. Spengler replied that it is a slow process, and that the rating agencies look at two- to three-year trends, so it might take two or three years. He added that one strategy that might speed up that process would be to provide the rating agencies with frequent updates on EWEB's financial situation.

Commissioner Helgeson stated that he would favor a debt service coverage target in the range of 1.75. Ms. Bloom stated that the debt service target for 2012 was 1.93 and the budget that was adopted was for 1.61, so that would be below target for an A rating. She added that the goal in the long-term financial plan would be to move up from 1.75 and work over future years to keep it up, as it is safer to be in the 1.75 - 2.0 range.

Mr. Spengler added that the bond rate agencies look closely at financial forecasts, and that if they see a trend to work back up to 2.0, they look at that more favorably.

President Simpson stated that he is comfortable with a temporary decrease but not a long-term one. He asked whether or not this will need to be stated in a policy.

Ms. Bloom replied that she will present options and long-term projections at the March 19 Work Session, and that if Board policy changes to an A bond rating, the metrics will also need to be changed (i.e., 1.75-2.0), and that target reserves may also need to be revised. Mr. Spengler added that more credit is given for liquidity, and that EWEB may still fall into the AA category.

Commissioner Manning stated that he is skeptical about downgrading from AA to A because of the rating agencies' outlook, and that he would like to look at all the options more carefully and understand the process more fully.

Vice President Brown asked how EWEB could justify selling bonds for Carmen-Smith (a \$100 million project) and how the bond rating agencies view that. Mr. Spengler replied that the rating agencies look at debt more than they look at whether or not a project is economical. Ms. Bloom added that the agencies assume that EWEB will raise rates accordingly in order to keep the current metrics.

Roger Gray, General Manager, noted that at a 3-4 cents/kWhr range, Carmen-Smith would still be a solid investment. Debra Smith, Assistant General Manager, further explained

the cost scenario for Carmen-Smith and how the bond agencies view that. She noted that the bond agencies have been analyzing the Carmen-Smith project for some time.

Commissioner Mital stated that he is comfortable with an A rating. He reminded the Board that there are so many concerns on the table that are beyond EWEB's control, and that the only thing the Board can control is raising rates or reducing expenses.

Commissioner Helgeson reiterated that he would like to look at scenarios for a target of 1.75 debt service coverage.

Vice President Brown stated that he is comfortable with an A rating and that he would also be okay with the Carmen-Smith project not happening.

Mr. Spengler stated that he would prefer to continue to present EWEB's bond rating as AA and will work further with Ms. Bloom in order to do that.

Using a spreadsheet, Adam Rue, Senior Financial/Rates Analyst, reviewed how different financial scenarios would affect EWEB's long-term financial plan (i.e., how debt service coverage would change based on these proposed scenarios). His examples included delay of the Carmen-Smith project, reduction of O&M expenses, proposed rate increases, sale of assets, etc.

A brief discussion ensued regarding the Public Employees Retirement System (PERS) unfunded actuarial liability (UAL) and different ways to pay it down.

President Simpson asked Mr. Rue for a copy of the spreadsheet model so he could experiment with some financial scenarios on his own. He thanked Ms. Fahey and Mr. Rue for their work.

PUBLIC INVOLVEMENT IN BUDGET AND RATES PROCESS

General Manager Gray gave a brief recap of the discussion that was held at the February 19 Board meeting regarding three alternatives for public involvement in the budget and rates process, including a community budget and rates committee. He said that since that Board meeting, he has met with several of the Commissioners regarding how to form the committee and what the makeup of the committee should be.

In light of his meetings with several Commissioners, he said he would like to change the staff recommendation to alternative #3 (surveys) and alternative #2 (community meetings and more effective use of public hearings), which would result in more public participation. He noted that budget meetings could conceivably become budget hearings, with more public participation, restructuring of public testimony, and possibly a workshop format.

Regarding alternative #1 (a budget and rates advisory panel), he stated that there is not time to do it this year because of the amount of time it would take for the application process,

interviews of applicants, etc., and the fact that he wouldn't want to introduce the committee halfway through the 2014 budget process.

He noted that it would be best to choose the committee by the end of the 2013 calendar year (in order for them to begin their work in March 2014 for the 2015 budget), and that through other types of public outreach before then, staff may start to see some logical candidates come forward.

Commissioner Mital and President Simpson agreed with General Manager Gray's recommendation. Commissioner Mital added that it might be helpful to have the committee in place so that they could sit in on Board meetings in October 2013.

Vice President Brown stated he is concerned about getting the word out to the community about the budget process, let them know what is coming up, and why it is happening. He reiterated his statement from previous meetings that EWEB Board and staff need to get in front of the public much more than they currently are.

Commissioner Manning stated that he likes the idea of getting the committee in place by October so that they can get used to the budget process. He added that he himself would like to start speaking at some community meetings as soon as he can be scheduled.

Ms. Smith reminded General Manager Gray that EWEB has purchased clickers that will aid in audience participation during public meetings.

Commissioner Mital stated that he has a bias against website surveys because they produce skewed results, and that he wants all customers to have access to the same information. General Manager Gray agreed, saying that the surveys that are done will be statistically valid or controllable surveys.

As a result of delaying the budget and rates advisory panel process, General Manager Gray recommended that Resolution #1303 be tabled, and it was pulled from the Consent Calendar for tonight's Regular Session.

President Simpson adjourned the Work Session at 7:20 p.m.

Assistant Secretary

President