

EUGENE WATER & ELECTRIC BOARD
REGULAR SESSION
EWEB BOARD ROOM
MAY 6, 2014- amended
5:30 P.M.

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

Others Present: Frank Lawson, Cathy Bloom, Roger Kline, Wally McCullough, Lisa Atkin, Gail Murray, Lena Kostopulos, Steve Newcomb, Anne Kah, Tammy DenOuden, Sue Fahey, Lance Robertson, Jeannine Parisi, Brad Taylor, Susan Eicher, Mark Freeman, Edward Yan, Joe Harwood, Erin Erben, Harvey Hall, Matt Sayre, Alan Fraser and Taryn Johnson of the EWEB staff; Vicki Maxon, Recorder.

Vice President Mital convened the Regular Session of the Eugene Water & Electric Board (EWEB) at 5:30 p.m. and noted that President Brown will arrive later in the meeting.

AGENDA CHECK

There were no items.

ITEMS FROM BOARD MEMBERS

Commissioner Manning stated that he had attended the EWEB Green Power presentation in April at which the three award winners were announced.

Commissioner Helgeson stated that he will be attending the Northwest Public Power Association (NWPPA) meeting on May 20-22, and that will cause him to miss the Board work session on May 20.

He then stated that he has some general questions/clarifications with regard to the Board minutes. He specified that he has no problem whatsoever with the way the minutes recorder produces the minutes or with their content, but he wonders how the Board wishes the public testimony portion of the minutes to be handled, how they want the public input to be summarized and when, and, when written or electronic testimony is received, how the Board wants that incorporated into the minutes. He noted the new practice of not having minutes for Board work sessions, and again reiterated that he has no problem with how the minutes are currently being produced, but would like a clarification of how the Board wishes public testimony to be reflected in those minutes. He added that he will follow up with an e-mail to General Manager Gray and Taryn Johnson, Executive Secretary to the Board and General Manager, regarding his general questions and clarifications.

Commissioner Simpson stated that he supports having a discussion about the minutes and an open session about how the Board may want to make some changes, and that he supports

Commissioner Helgeson's suggestion to first optimize that discussion with an e-mail to General Manager Gray and Ms. Johnson.

He then noted that in Commissioner Helgeson's stead, he represented EWEB in a lobbying trip to Washington, D.C. last week with other members of the NWPPA, and that he will share a detailed lobbyist report with Board and staff when one is provided to him. In summary, the issues presented to federal policy makers were:

- Grid and cyber security
- Energy imbalance markets
- Preservation of tax-exempt bonds
- Preserve local control of BPA
- Urge State Department to expeditiously complete review of the Columbia River Treaty
- Preserve ability to use financial derivatives for hedging purposes
- Endangered Species Act (maintain regional control, resist federal top-down approach)

Commissioner Simpson then noted that he had recently read in the Oregonian that the director of the Oregon Department of Energy (ODOE) had resigned after only one year on the job. He asked for an update from staff regarding current issues involving EWEB and the DOE. He received two head nods in support of his request.

General Manager Gray replied that staff will give the Board an update.

Vice President Mital stated that he had attended the City Club of Eugene meeting last Friday, and that Tom Bowerman of Policy Interactive had presented statewide research around people's attitudes in regard to climate change and the policies regarding climate change at federal and state levels. Vice President Mital shared two observations: 1) regardless of political orientation, 70-75% of Oregonians (including rural/urban divisions) agree that climate change is a real concern, is human-caused, and is something that needs to be addressed head-on—a significant majority in support; and 2) Mr. Bowerman reviewed statements provided by approximately 40 candidates seeking re-election, and only a single one mentioned climate change and/or carbon pricing in their election statements, yet all 40 mentioned economic development multiple times; a sign that climate change seems to have dropped off of politicians' considerations. He stated that he believes this is something that needs to be re-balanced into the Board's mix of concerns—that they focus on jobs and reducing prices, and on managing the budget and preventing rate increases, but that climate change is real, and he hears that Oregonians are concerned, and he hopes the Board continues to take a leadership position.

He then stated that he is looking forward to the Board's upcoming work session and meeting schedule, but noted he will be out of the country on July 15 and will do what he can to participate.

PUBLIC INPUT

Bob Cassidy told the Board they are doing a fine job and that he is proud of them. He noted that at the February meeting the Board had mentioned the vision statement of EWEB--to be the best community-owned water & electric utility in the nation--and that they had also wished to pay General Manager Gray a salary that is the average of other utilities, and said that if they didn't do that, he would leave EWEB for a higher-paying position. He said this puzzled him because he believes EWEB wouldn't have hired anyone who was only working for their salary, but rather he assumes that person would want to lead EWEB because of the quality of the organization, and that he believes \$40,000 wouldn't make a difference either way except in average pay. He reminded the Board that General Manager Gray's salary won't affect rates whether it is raised or reduced, and he asked the Board not to do something just because other utilities are doing it, as there are other ways of determining what a fair salary should be. He suggested that EWEB determine their salary ratio by looking at the people who are doing the work vs. the people who are in leadership positions.

Abraham Likwornik, representing Families for SAFE Meters, read excerpts from a demand notice that was presented to the Board this evening (including a CD of evidence and proof), demanding and requiring that the Board cease and desist the contract signing or implementation of all plans to purchase or install any type of digital smart meter due to the potential harm it may cause to the community. The notice stated that if the Board chooses not to comply with this demand, appropriate actions will be taken, including notifying the proper authorities, and possible legal action. The notice listed EWEB's environmental policy and portions of Board by-laws and Oregon Revised Statutes (ORS).

Larry Deckman, a Eugene attorney, encouraged the Board to use their influence to support ongoing efforts to institute a federally sanctioned train quiet zone in Eugene, as it will benefit EWEB and the entire community. He stated that the train horn sounds at least 40 times for every train passing through Eugene and that it is required to be at least 96 db (the volume of a jackhammer at close range). Multiplying this by 25 trains a day amounts to at least 1,000 ear-splitting blasts every 24 hours, seven days a week, occurring daily during quiet hours between midnight and 6:00 a.m. He noted that when one is at 5th Street Market and a train passes by, the whistle is so loud that one can't carry on a conversation. He said that the frequency of and noise from the train whistle diminishes EWEB's property value and that of EWEB's neighbors, and also reduces the Eugene community's quality of life. He also noted that 600 communities nationwide already have quiet zones, including Portland, The Dalles, Pendleton, Tualatin, Westfir and just last August, Salem.

Kathy Ging voiced concern that her public testimony is not appearing in the Board minutes as submitted in writing or electronically, which she had been informed in the past was established protocol. She also voiced concern that her public testimony from the March 2014 Board meeting appeared in the minutes in an unorganized manner while others' public testimony was intact, and she gave other examples of what she believes were important points that were left out of the minutes. She further stated that a November 2013 EWEB document stated that minutes

will be produced for EWEB work sessions but that has not been the case, that she believes requiring a ratepayer to purchase an audio recording (CD) of a work session is unreasonable, and that it is curious that this policy was adopted after she had e-mailed a couple hundred people about forming a citizen-initiated EWEB energy committee. She then gave some examples of ratepayers not receiving information in a timely manner, including EWEB doing little or nothing to warn them of the storm that occurred in the first week of December 2013, and noted that both the City and County had identified EWEB as the source for that type of information. She hoped that this oversight will not be repeated.

Vice President Mital commented that it is very difficult to manage a public input session. He asked that those who testify respect the Board and audience, comply with the timer system, and do not clap or boo after public or Board comments, because this makes some people feel intimidated. He also asked the audience to respect others in the audience who may have very different opinions than theirs.

Commissioner Manning thanked the public for their testimony.

Commissioner Helgeson appreciated the public testimony and said that the Board will ask General Manager Gray to follow up with EWEB's legal counsel in order to advise them of anything they need to know with respect to the demand notice that was presented to the Board this evening. He added that to his knowledge, the Board has done nothing inconsistent with their role but that he would be interested in learning more about the Board's duties in response to the information contained in the demand notice.

Vice President Mital thanked Mr. Deckman for his perspective regarding the train horns, as the Board hasn't heard about this issue in the last 12 months or so. He added that as EWEB disposes of its riverfront property, they may be paying attention to that in order to increase its value.

CONSENT CALENDAR

MINUTES

1. a. April 1, 2014 Executive Session ORS 192.660(2)(i)
1. b. April 1, 2014 Regular Session

CONTRACTS

2. CYME International - Distribution Analysis Engineering Software and integration services. \$146,000. Engineering Services. Contact Person is Mel Damewood.
3. Oldcastle Precast of Wilsonville - for the purchase of precast concrete vault products. \$1,215,640 (five years), Engineering Services. Contact Person is Mel Damewood.

4. PMG, Inc. - to provide hazardous materials abatement and demolition services for EWEB Steam Plant Boilers #1 and #2. \$550,000, Environmental Services. Contact Person is Steve Newcomb.

5. Solvay USA, Inc. - for delivery of Aluminum Sulfate to the Hayden Bridge Water Filtration Plant for water treatment. \$573,000 (five years), Water Operations. Contact Person is Brad Taylor.

6. Wildish Construction Company - to provide construction services for EWEB's College Hill 703 Connector Main. \$259,000, Engineering Services. Contact Person is Mel Damewood.

BUDGET AMENDMENT

7. Budget Amendment - Amendments to increase Electric Operations & Maintenance Budget for February Storm Costs. \$1,600,000. Electric Operations. Contact Person is Cathy Bloom.

OTHER

8. 2013 EWEB Public Contracting Rule Revisions - Contact Person is Cathy Bloom.

It was moved by Commissioner Simpson, seconded by Commissioner Manning to approve the Consent Calendar. The motion passed unanimously (4-0).

RESERVE FUND STATUS AND TRANSFERS: RESOLUTION #1409

Cathy Bloom, Finance Manager, and Susan Eicher, General Accounting and Treasury Supervisor, presented a brief summary of the changes to reserves as a result of 2013 operating budget variances and other recommended reserve transfers and targets.

They then addressed clarifying questions from the Board, and General Manager Gray gave additional details on cost savings and the highest and best use of reserves.

Commissioner Helgeson fully endorsed staff's recommendation to pay off the Harvest Wind project outstanding debt. Commissioner Manning asked if this will change EWEB's A debt rating.

Ms. Bloom replied that this will reduce debt and help stabilize recommendations, but that how EWEB manages future debt strategies will determine their long-term credit rating, and that staff will further address this topic at the July Board meeting.

Vice President Mital questioned whether it makes sense to pay off the Harvest Wind project given its performance issues. Ms. Bloom replied that EWEB is a partner in this project and that it is still generating electricity, and that regardless of its performance, EWEB is obligated to pay the remaining debt. General Manager Gray added that the project is actually operating fairly well at this time.

It was then moved by Commissioner Simpson, seconded by Commissioner Manning, to approve Resolution #1409. The motion passed unanimously (4-0).

2014 FIRST QUARTER OPERATING DASHBOARD/GOALS

General Manager Gray noted that this document is identical to the last one presented in reporting first quarter results and that the Board backgrounder is self-explanatory.

Commissioner Helgeson appreciated the format and layered approach with the ability to drill down and revise. He asked if EWEB is on the road to recovery regarding employee goals and if staff has recommitted to that issue.

General Manager Gray replied that EWEB's performance management and compensation system have recently undergone major changes and that several things still need to happen - goals (ideally with Board approval), mid-year assessment, and then an annual assessment. He added that Lena Kostopulos, Human Resources Manager, has done a great job on this project.

Commissioner Helgeson appreciated that the document doesn't only show green lights all the time, which means that there are still things to work on.

It was moved by Commissioner Manning, seconded by Commissioner Simpson, to adopt the 2014 organizational performance dashboard KPIs. The motion passed unanimously (4-0).

Vice President Mital called for a 10-minute break.

2013 YEAR-END AUDITED FINANCIAL STATEMENT & MANAGEMENT LETTER

President Brown arrived during this agenda item.

Julie Desimone of Moss Adams summarized the 2013 audited financial statements and management letter and briefly summarized the findings. She thanked staff for their management response and the great discussion and work product to address the internal control issues that were identified. She then addressed questions and comments from the Board.

Commissioner Helgeson voiced concern about the nature of the items listed in the management letter. He noted that there has been some employee turnover due to retirement and staff cuts, with many new employees and supervisors, and that there is no longer a layer of senior management to provide oversight. He wondered if it is possible to prioritize those items that management feels are high priority and for the Board to get an update during the course of the year.

General Manager Gray replied that the items listed in the management letter resulted from a combination of things and that he agrees with the findings, and that he too would like an interim update from Moss Adams. He added that he doesn't want to wait until 2015 to establish

an internal audit function and that he will create a mini dashboard for these issues with a quarterly snapshot for major items.

Regarding the inventory item listed under material weakness, Ms. Desimone noted that the move to the Roosevelt Operations Center (ROC) created a dramatic increase in inventory, and that inventory is historically not a high-risk area. She reminded the Board that an auditor does not look at every transaction, and that this item alone would not have been a weakness, but it was a combination of things that took it to that level.

General Manager Gray reiterated the need for an internal auditor, as the scope of an external auditor is only a few weeks per year.

Commissioner Manning asked General Manager Gray if he sees the need for an audit more often than annually. General Manager Gray replied that the hiring of an internal auditor would add the ability to drill things down and that staff may need specialized training to help us improve controls, but that he recommends against a full-blown audit more than once a year, and that the best time to do it is when the annual books are closed. He also voiced the desire to look at performance auditing in addition to financial auditing.

Vice President Mital recalled a previous year-end audit discussion regarding an anonymous whistle blower hotline. General Manager Gray said that in his experience at other companies, two-thirds of the allegations ended up being false, and he noted that EWEB has adopted training in how to raise issues in many different ways, some being external (i.e., the Police Department). He recalled recent accusations at the Bonneville Power Administration (BPA) and how devastating they were.

Commissioner Simpson stated that he trusts General Manager Gray and Moss Adams, and that his gut feeling is that some Board responses are an over-reaction. He specifically noted that he is uncomfortable with an internal auditor reporting to the Board president, and he wondered how the Board should respond to the management responses that were submitted to Moss Adams.

General Manager Gray asked the Board to send their comments to the leadership team and then in turn to Moss Adams, and then management will respond to those in terms of a supplement to the previous management response. He added that a change in Board reporting would require policy change approval and that the suggestion for an internal auditor to report to the Board president was merely that--a suggestion.

Commissioner Helgeson said that he isn't looking for a change in the Board's governance structure or in the role the Board plays in oversight, and that the Board holds General Manager Gray accountable for managing these issues. He noted that he only wants General Manager Gray's response to be transparent, and that to him the issues listed in the management letter seem pretty basic.

General Manager Gray noted that the work asset management (WAM) system implementation will take care of a lot of the issues that were listed.

Commissioner Manning and Vice President Mital echoed Commissioner Helgeson's comments and supported his approach.

Ms. Desimone appreciated the healthy relationship between her company and EWEB management and staff. The Board thanked Ms. Desimone and her staff.

MAY 20 STRATEGIC WORKSHOP SCENARIO PLANNING

Using overheads, Erin Erben, Power & Strategic Planning Manager, presented a high-level tickler regarding the Board strategic planning session to be held on May 20.

She presented the proposed agenda, take-aways from the previous strategic planning process, the proposed targets and their timelines, the current and upcoming processes to achieve these targets and goals, and the proposed LTFP scenarios for the electric and water utilities.

She then asked for Board feedback regarding the proposed agenda, the Long Term Financial Plan (LTFP) scenarios, and the presented targets and timelines.

Commissioner Helgeson stated the following:

- Comfortable with Ms. Erben's lead
- Remains equally interested in and concerned about what was talked about in the earlier agenda, and asks that it remain in the process
- Feels rate pressure about the bandwidth in which Board can operate
- Biggest concern is not pricing ourselves above Oregon IOUs because of exposure to potential problems
- Likes different range of services, some of which have been compromised
- In order to become average or lower, need to recover some type of strategic advantage
- Doesn't have a magic formula for day to day operations
- Regrets not being able to attend the May 20 session

Commissioner Simpson echoed Commissioner Helgeson's comments and added:

- Doesn't see anything to consider more in CPI; doesn't see a scenario greater than CPI that allows comparison
- Not driven to bring EWEB to middle of the pack
- Main concern is that EWEB doesn't appear competitive with IOUs
- Even then, opportunity to say EWEB enjoys preference power
- Have a message to tell the public that this won't last forever, either

Ms. Erben noted that staff feels that CPI is the upper end of what can be supported as that would result in approximately a 3% percent rate increase, and that staff feels they should try to do better than that.

General Manager Gray reminded the Board that three scenarios for each utility is all that the Accounting staff can realistically handle in this time frame, but that CPI is very realistic and a lot can be done with that.

Vice President Mital stated that the information he heard tonight is fantastic and he feels that he has heard more tonight than he has in the last 16 months of being on the Board, and that this is exactly what he had asked for and what he had discussed with General Manager Gray regarding how to influence present or future.

President Brown stated that the proposed agenda is a great tool for the Board to move forward with but that he hears a mixed message as, in his opinion, rates are very important. He said he has heard loud and clear from residential and business customers that they're sick and tired of rate increases, and he said he will be pushing to keep rates as low as possible without "the wheels falling off."

Commissioner Manning echoed President Brown's concern about rates and how they can be contained. He noted that EWEB rates can't be compared to Springfield Utility Board's (SUB) and other utilities' rates because EWEB is unique, and that he feels EWEB should be the benchmark and the leader.

Commissioner Helgeson clarified that he didn't mean to say that rates aren't the principle focus, but that there may be differences in how deep the Board would go in order to restore some relative position on rates. He added that he believes the Board should consider how to place the Carmen-Smith project and an alternative water supply back into the Board's agenda, and briefly explained what he would like to discuss regarding those two items.

President Brown asked for clarification on whether or not a rate increase percentage that is based on CPI is outside of the BPA pass-through (which occurs every other year).

Ms. Erben replied that this is a discussion the Board needs to have. General Manager Gray gave additional clarification on the CPI and BPA's rate position.

Vice President Mital voiced the desire to continue to focus on rates and recognized that it will be more difficult to support a 0% rate increase.

Commissioner Simpson voiced concern that General Manager Gray won't be able to attend the May 20 strategic planning session. Commissioner Helgeson reminded the board that he will also be out of town on that date. Ms. Johnson also noted that two Commissioners will not be able to attend the July 15 Board meeting.

Vice President Mital asked Ms. Johnson to research an alternative date for the strategic planning session that is no later than 10 days after May 20. Commissioners Simpson and Manning supported Vice President Mital's request.

General Manager Gray confirmed that he and Ms. Johnson will poll the Board for their availability between May 20 and 30, and will also poll their availability for a regular Board meeting date other than July 15.

CORRESPONDENCE & BOARD AGENDAS

General Manager Gray highlighted several items:

- Desire for feedback on the EL-1 capital report
- Reminder about the tour/river trip at Hayden Bridge next week
- Reminder about the American Water Works Association (AWWA) conference EWEB is co-hosting with Rainbow Water District this Wednesday thru Friday
- Follow-up on rescheduling May 20 strategic planning session and July 15 Board meeting

Vice President Mital voiced appreciation for the EL-1 capital report.

General Manager Gray then recalled the e-mail from Jeannine Parisi, Government and Community Affairs Coordinator regarding President Brown and Commissioner Manning being appointed to the advisory panel for disposal of the riverfront property. He noted that when this panel comes back to the Board for a public session, the Commissioners will step out of that advisory role. The Board voiced their support.

BOARD WRAP-UP

Commissioner Manning noted that he had failed to mention his attendance at the April 17 Other Post Employment Benefits (OPEB) meeting, and thanked Ms. Bloom for her exquisite work.

President Brown that he will be attending the Visitors & Convention Bureau meeting on Monday, May 19 and that it would be good to at least look into the train whistle quiet zone issue that Mr. Deckman presented in tonight's public testimony, as adoption of a quiet zone in other communities has not created a negative impact.

General Manager Gray stated that a train quiet zone would definitely have a positive impact for EWEB property but that there is a safety issue, and his recommendation would be for EWEB to support the City Council's position on this if safety concerns could be mitigated.

Commissioner Manning wondered what the Board's legal position would be on this issue as this is the first time the Board has been solicited to support a "movement," though he would certainly support the City Council on this.

Commissioner Helgeson stated that it sounds like this item would be under City Council jurisdiction, and he asked General Manager Gray to keep the Board updated on this action and whether or not EWEB will take a formal position on it.

Commissioner Simpson stated that he doesn't believe train whistles have anything to do with the provision of water or electric service or the Board's policy position, and that he doesn't want to get too involved in this issue.

President Brown stated that this issue will affect EWEB's property value and that he would like to have more information on this issue before the Board takes a position.

Vice President Mital asked for clarification that President Brown will proceed with this issue on an individual basis and not as part of his EWEB role. President Brown clarified this.

Vice President Mital offered the casual observation that the Board has been accused of being "down in the weeds" on occasion. He appreciated Commissioner Helgeson's style of focusing on more distant issues and trusting General Manager Gray and staff to take care of more immediate concerns. He also noted that it's clear to him that the Board often takes up a lot of staff time for an issue that ends up being minutia, and that he would like to think about how best to engage staff and the Board.

Commissioner Simpson asked for General Manager Gray's suggestion regarding how to proceed with the demand notice the Board received this evening regarding smart metering. General Manager Gray replied that he will ask for policy and legal assessment from general counsel and then will follow up with a memo from general counsel regarding the demand notice and a memo from himself regarding the policy issues.

Commissioner Simpson commented that he spoke to many utility general managers and staff during his trip to Washington, D.C. and that one general manager had said that, though he sends out questions to his Board via e-mail, the Board doesn't ever reply via e-mail. He said he believes it is important to have these types of conversations and find out how other general managers and Boards communicate with each other.

Commissioner Helgeson offered to attend the AWWA conference if there is Board presence needed. General Manager Gray said that there will be meet and greets and other times when it will be important for a Commissioner to be visible, and he asked him to contact Brad Taylor, Water Operations Manager, or Jill Hoyenga, Planner III regarding his availability.

Vice President Mital adjourned the Regular Session at 8:07 p.m.

Assistant Secretary

President