

EUGENE WATER & ELECTRIC BOARD
REGULAR SESSION
EWEB BOARD ROOM
JULY 21, 2015 – amended
5:30 P.M.

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

Others Present: Roger Gray, Steve Newcomb, Roger Kline, Deborah Hart, Sue Fahey, Susan Eicher, Cathy Gray, Harvey Hall, Adam Rue, Jeannine Parisi, Lance Robertson, Sibyl Geiselman, Adam Rue, Erin Erben, Todd Simmons, Dave Churchman, Brad Taylor, Julie Bivens, Mark Freeman, Tom Williams, Lena Kostopulos, Mike McCann, Joe Harwood, Steve Mangan, Alan Fraser, Will Price, Keith Jeskey, Jason Heuser, Suzanne Adkins, and Taryn Johnson of the EWEB staff; Vicki Maxon, Recorder.

President Mital convened the Regular Session of the Eugene Water & Electric Board (EWEB) at 5:30 p.m.

AGENDA CHECK

Vice President Simpson noted that General Manager Gray will touch on emerging issues facing the utility as part of agenda item #13, Board Wrap-Up and Focus Over the Next 12 Months.

ITEMS FROM BOARD MEMBERS

Commissioner Manning noted that he attended the Skip Collier Electrical Fundamentals 101 seminar last week.

Commissioner Helgeson noted that he, General Manager Gray and Vice President Simpson attended the EWEB picnic last Saturday, which was sponsored by the EWEB Retirees Association and the EWEB Credit Union. He said the turnout of 150-175 was great despite the 100° weather, and he appreciated the efforts of all involved in putting it on.

Vice President Simpson noted that he attended the Cal Young Neighborhood Association meeting with City Councilor Mike Clark and presented an overview of EWEB's riverfront development process. He said the meeting was well-attended.

He also stated that he will brief Commissioner Brown on the McKenzie River Cleanup that he attended, and noted that he took General Manager Gray for a ride in the electric vehicle that designed and developed by Arcimoto, the company he works for.

He also noted that a McKenzie River Valley customer had contacted him (assuming he was EWEB's upriver Board representative) about paying a deposit on his account, and he had referred them to senior management, and apparently all turned out well.

Commissioner Brown noted that he had participated in the annual McKenzie River clean-up, and that there was 1,100 lbs. of trash collected, and that the dumpster was so full it couldn't be taken to the dump. He added that it has been reported that kids underneath the bridge on the east bank of the river have been stealing insulation and then burning it there on a fairly regular basis.

He then noted that he is speaking at LGAC this coming Friday along with the Chamber of Commerce regarding the headquarters site.

He then noted that he and Commissioner Manning are working the EWEB booth at the Lane County Fair this Thursday night between 5:00 and 8:00 p.m.

He then reiterated his past concerns about the continuation of EWEB operations on the lower McKenzie River. He noted that when half the flow is diverted, it's less than three-quarters deep, and that bank vegetation continues to be discussed, yet EWEB is creating the greatest warming effect. He stated that the temperature between Walterville Canal and the river is a 5-7 degree differential, which is huge for the fish, and he added that every river in Oregon except the Santiam has shut down fishing after 2:00 p.m. He reiterated that he hoped EWEB would do something to help Mother Nature because warming is totally unnatural and not helpful for the overall health of the river.

Commissioner Manning added that General Manager Gray spoke at City Club on June 12 and did a great job, and that even though there were opponents of EWEB present who were trying to spark more adversarial content, it didn't turn out that way, and that he is proud of General Manager Gray and proud to support him.

PUBLIC INPUT

There was none.

APPROVAL OF CONSENT CALENDAR

1. a. June 2, 2015 Regular Session
- b. June 2, 2015 Executive Session

CONTRACTS

2. Halvorson Contracting - for the Electric Operations Remodel. \$131,000 Electric Operations. Contact Person is Todd Simmons.

3. H & J Construction, Inc. - for the East 24th Avenue Main Extension West of Hilyard Street Project. \$285,500, Engineering Services. Contact Person is Mel Damewood.

4. Maul Foster & Alongi, Inc. - for Remedial Design Engineering Services. \$420,000, Environmental Services. Contact Person is Steve Newcomb.

5. Northwest Youth Corps - for required vegetation maintenance services. \$400,000 (over five years), Environmental Services. Contact Person is Steve Newcomb.

6. TetraTech, Inc. - for Owner's Representative services during the construction phase of Leaburg Dam Roll Gate #1 and #3 Hoist Replacement Project. \$184,925 (total \$ 274,875), Engineering Services. Contact Person is Mel Damewood.

7. WESCO Distribution - for the periodic purchase of molded rubber products (as needed to replenish stock). \$525,000 (over five years), Engineering Services. Contact Person is Mel Damewood.

RESOLUTIONS

8. Resolution No. 1518 - Financial Policy Changes. Contact Person is Susan Fahey.

9. Resolution No. 1520 - Resolution Approving Board Policy SD 20: Enterprise Risk Management. Contact Person is Roger Kline.

10. Resolution No. 1521 - Board Policy SD 5: Public Plaza Policy Revisions. Contact Person is Lance Robertson.

Vice President Simpson pulled item #9, stating that he is in favor of it, but would enjoy having a brief conversation about the e-mail President Mital had sent to the Board. President Mital noted that he had sent a follow-up e-mail to the Board regarding #9.

It was then moved by Commissioner Brown, seconded by Vice President Simpson, to approve the remainder of the Consent Calendar. The motion passed unanimously (5-0).

Vice President Simpson asked what President Mital's concern was regarding the above item. President Mital replied that the way it was written suggested that it was more or less establishing policy, and General Manager Gray had said that it established practice.

General Manager Gray noted that Roger Kline, Enterprise Risk & Internal Controls Manager was the author and that it is an evolutionary process that is making good progress. He added that even if the Board doesn't approve it as policy, he will carry it out anyway, and that he will address it further during Correspondence (item #12) but recommends against very detailed policies because of their constant change.

It was then moved by Vice President Simpson, seconded by Commissioner Manning, to approve item #9.

ELECTRIC AND WATER 10-YEAR CAPITAL IMPROVEMENT PLANS (CIPs)

Mel Damewood, Engineering Manager, and Wally McCullough, Water Engineering Supervisor, presented the above CIPs, and answered clarifying questions and comments from the Board.

Commissioner Manning asked for an update on the plan for College Hill Reservoir. Mr. McCullough stated that staff has more planning to do, but is considering smaller reservoirs, with decommission of College Hill in 2026, replacing it with a 5 MGD reservoir at that site.

Commissioner Helgeson appreciated staff's discipline with capital planning and the sequencing from earlier presentations. He asked for clarification of how investment meets objectives and the correct impact in terms of customer investment, but noted that he can get this information off line.

Mr. Damewood noted that the Board will continue to get EL-1 reports regarding the above.

Commissioner Brown asked about progress on the Spring Blvd. Mr. McCullough replied that the design for Spring Blvd. is 90% complete and that the contract award for a new pump station with multiple redundancy will be brought to the Board in October.

It was moved by Commissioner Manning, seconded by Commissioner Brown to approve the above electric and water 10-year CPIs. The motion passed unanimously (5-0).

LTD/EMX PROJECT - UNDERGROUND UTILITY RELOCATIONS CONSTRUCTION CONTRACT SUBMITTED FOR APPROVAL

It was moved by Vice President Simpson, seconded by Commissioner Helgeson, to approve the above construction contract.

Commissioner Brown asked about reimbursement and what category this will fall under in the budget. General Manager Gray replied that there is not a specific line item for it and that there is no specific report for it at this point, but that could be done. He noted that LTD's project manager follows this very closely. Ms. Fahey further explained the budget and reimbursement process for the project.

Vice President Simpson will call Mr. Damewood for further explanation

Commissioner Helgeson appreciated EWEB's relationship with LTD and stated that it reminds him how expensive it is to re-do electric and water infrastructure.

Commissioner Manning asked if a specific interval of periodic updates could be established so he could be sure ratepayers are treated fairly. General Manager Gray suggested a quarterly report followed by Board discussion if the Board desires.

The motion then passed unanimously (5-0).

General Manager Gray suggested that agenda item #11 be moved ahead of items #9 and #10 since the public hearing for the long-term financial plan and 2016 budget assumptions can't be started earlier than its posted agenda time.

President Mital called for a 10-minute recess.

EWEB RATE DESIGN PROPOSAL

With the aid of overheads, Erin Erben, Power & Strategic Planning Manager, and Adam Rue, Senior Energy Resource Analyst, presented the rate design proposal, and asked for direction and feedback regarding the previously received background. Following are each Commissioner's comments regarding direction:

Vice President Simpson:

- Agree with shift to price and away from rates – visionary change that Board should embrace especially as we shift more and more to the base charge.
- Will AMI capture energy demand? (yes) That would open potential to consider residential demand charge – I strongly support that
- Not too concerned about gradualism but I respect it – “pressure” if you will
- Support flattening tiers but vote for focusing on adjusting basic charge upward first and flattening later - \$10 increase (gradualism) to base charge is what I want now – ultimately I want it to be fair – don't favor cross-substitutes of high energy consumers subsidizing monthly service of low energy consumers – low-income customers are not necessarily the lowest consumers.
- Go further/faster
- Would like more conversation about partial requirements – concerns about not capturing adequate revenue for users who may lean on the system in a distributive generation environment – relates to system availability and people need to pay for it. Not in a hurry, though.

Commissioner Helgeson:

- Support flattening tiers – customer acceptance is important, and time and pace, and also what customers consider acceptable for the “cost of nothing”
- Water rates – make all same arguments for it as we did for electric – I'd like people to use capacity and not be penalized for it – might want to lighten that load and see greener lawns at some point

Commissioner Brown:

- Fine with flattening tiers and basic charge
- Need more explanation on medical and low-income rate (page 8) – i.e., a fixed bill credit? (Ms. Erben stated this is not proposed for this year, but a concept)
- All for medical, low-income and military rates – I want to help these customers if we can.

President Mital:

- Prioritize flattening first and basic charge second
- All for medical, low-income and veteran support

Commissioner Manning:

- All for low-income, medical and veteran support
- Opposed to the elevation charge because others would have to pay for that effort (Ms. Erben noted that staff doesn't have data in order to move forward with that now but should by next year)

President Mital asked about the rationale for moving forward with the adjusted basic charge. Ms. Erben replied that half of EWEB's costs are basically fixed and that there is a way to go, but that would be justification for doing something now instead of later.

Commissioner Helgeson stated that there is no doubt is justification for charging customers at higher elevations and that he looks forward to hearing more. He briefly summarized the historical context for these costs and stated that he believes there should be differentiation in the system development charges.

Regarding customer charge vs. demand vs. flattening, General Manager Gray noted that the concept of residential demand charge in one class rather than fixed charges is a very important price signal to send. He asked the Board to revisit Monica Shovlin's, Marketing Program Supervisor handout. He noted that the August meeting agenda is pretty full but 15 minutes may be able to be inserted for this topic.

Vice President Simpson wondered if feedback could be captured through a Google poll or an equivalent with the results being released afterwards, i.e., listing several potential items with an explanation paragraph following each item.

President Mital stated that the Board will consider the best mechanism for that between now and the August meeting.

LONG-TERM FINANCIAL UPDATE AND 2016 BUDGET ASSUMPTIONS

With the aid of overheads, Sue Fahey, Finance Manager, and Deborah Hart and Harvey Hall, Senior Financial Analysts, presented the above update and budget assumptions and answered clarifying questions and comments from the Board.

Commissioner Manning asked for confirmation of EWEB's current bond ratings. Ms. Fahey replied that electric utility is A and water utility is AA, with a rating review for the electric utility coming up this week.

Vice President Simpson asked if a 6% BPA rate increase would translate to a 2.5% EWEB rate increase (it would). He voiced surprise at only a 2.5% increase because of how much power EWEB purchases from BPA. General Manager Gray further explained the process.

Commissioner Brown asked about the reliability of predictions for the Seneca and Carmen-Smith projects. Mr. Hall replied that the forward price curve is not a forecast although it is used to value power, and that staff tries to respond to pressures and hedge, and manage asset sales accordingly.

President Mital asked about employee cost of living adjustment (COLA) increases as part of the CPI. Ms. Fahey noted that EWEB's process is different than most public agencies, and Lena Kostopulos, Human Resources Manager, briefly explained the difference. She noted that EWEB is presently in collective bargaining for IBEW so she can't discuss specifics this evening.

Vice President Simpson encouraged staff to be conservative with their projections, as he believes the forward price curve will be fairly flat.

Commissioner Helgeson stated that he feels good about the forward price curves and asked staff not to forget what it's taken to get to this point, and to reconstruct the rate design so as good news is told, customers won't perceive the process as "just another rate increase." He noted that EWEB has maintained its bond rating and kept rate increases low, and that he would like staff to continue to point of pooling of net revenues over time, while also producing reserves to help pay down anticipated investments.

General Manager Gray thanked the Board and staff for the last several years of work which have brought EWEB to this point. He noted that rate issues for years 2020 and 2021 haven't been solved yet but that he has every confidence they will be, and that the forward price curve is a critical subject, historically driven by gas prices. He added that shutdown of wells is happening now, and distributive generation, solar and wind prices will serve as the cap for how things will escalate, and upward pressure will dictate the fundamental cost of materials. He also said that he doesn't expect prices to go back up unless there is a radical change in gas and solar prices, and that he will be most comfortable with a low, flat market, and making decisions around that.

President Mital wondered how big an area should be considered for the impacts of distributive generation on EWEB. General Manager Gray replied that it will depend on national policies, and that the cheapest renewables are wind and centralized solar (big plants), and transmission for policy around the nation. He noted that wind and solar will also offer downward pressure and that massive central solar is now being built, i.e., 8,000 MW, which is remarkable.

PUBLIC HEARING ON LONG-TERM FINANCIAL PLAN AND 2016 BUDGET ASSUMPTIONS

Bob Cassidy voiced concern about EWEB's transition over the last couple of years. He appreciated General Manager Gray talking to City Club recently, but in his opinion, his presentation may not have been blunt enough about what is coming. He stated that he recently finished a book and an article in New York Magazine about why green energy makes utilities nervous. He asked staff to make this article available to the community, as he doesn't believe the message is out there at all, and there is a need to prepare the community for that transition. He noted that EWEB won't change as quickly as other utilities will and wondered what else EWEB could sell besides electric and water—possibly sewer? He asked the Board to consider thinking about this in the future.

Commissioner Manning noted that only a very small portion of the community uses solar and that it may be worth the time and consideration to consider expanding the portfolio, but that EWEB needs to continue the technology at hand and use it to their benefit, and prepare for the 22nd Century.

Commissioner Helgeson stated that this is an opportunity for strategic planning and thinking, and that he looks forward to a future agenda including a high-level discussion with staff about what the future looks like, high-level responses, and a community-based discussion around how EWEB should align themselves and look at long-term investments.

Vice President Simpson appreciated Mr. Cassidy's comments. He stated that as electric technology advances, we as a society will have less and less dependency on the grid as we know it. He noted that with battery storage avail, there may be a significant shift where daily home consumption of matches what a panel provides, and that with a good enough system, a customer can get off the grid, and eventually half of San Francisco and Los Angeles will move up and up. He added that he is committed to facilitation and adoption of technology by customers as guided by the Strategic Plan, and more fixed charges, which plays into this. He noted that at some point, the last person on the grid will have to pay \$250 million.

CORRESPONDENCE/BOARD AGENDAS/EMERGING ISSUES:

General Manager Gray briefly reviewed the following items regarding the August meeting agenda:

- An Executive Session (re: property issues) beginning at 5:00 p.m. is necessary for the August 4 meeting
- Rate design discussion and feedback with Ms. Erben

Emerging Issues:

- Power market issues/shifts discussed tonight – theoretical is now real and coming faster than expected
- Rates and rate design issues are a critical part of how we will face that – how we survive and thrive
- Alternative water source from concept to real – water rights have already occurred and hoping property will occur next month
- Northwest and California drought - will change water markets and create huge political issues--fines for water districts, people stealing water. Predict Oregon will have a tougher time because of less storage and climate change.
- Infrastructure – focusing holistically on risk/benefit is important. We have external audits already but there are many other risks that aren't financial – i.e., infrastructure assessment. What are all the risks we face?
- As we see the economy recover and baby boomers retire, longevity of the organization is critical. Planning for the turnover with baby boomers retiring is very important.

BOARD WRAP-UP/FOCUS OVER NEXT 12 MONTHS

Commissioner Helgeson asked for confirmation of a provision in the BPA contract that allows for reconsideration of the slice option. General Manager Gray replied that there is (he believes in April or May 2016), and that this issue will be brought back to the Board for a timely discussion, possibly in December. He added that this is a big decision but staff doesn't have all the options yet.

Commissioner Brown voiced the desire to accelerate the alternative water source (AWS) project and wondered why that isn't being given more priority. He noted that two or three emergency water supply trailers aren't going to cut it if a natural disaster occurs.

Brad Taylor, Water Operations Manager, replied that AWS is on a fast track but permitting is still three years away.

Regarding the emergency water supply trailers, Mr. Taylor noted that equipment procurement as part of the 2016 budget will allow EWEB to treat non-potable water and deliver it through the trailer system but with a very small window, and that it is difficult to get beyond 1

or 2 MGD. He added that the cities of Portland, Tualatin and Lake Oswego are all on the same trajectory and paradigm shift, but it's a small amount of water.

General Manager Gray noted that EWEB will eventually be able to treat river water for human consumption.

The Board voiced their preference regarding their focus over the next 12 months:

Vice President Simpson:

- Stay apprised and focused on rate structure and remaining comparable, and that, regardless of the great news on financial front, EWEB must not fall back on its laurels.
- Concur with finding ways to attract and retain new generations of EWEB work force who have different values than what we're used to
- Be resilient, i.e., regarding Cascadia earthquake zone. Form stronger bonds with regional emergency management agencies and, if deficiencies, perhaps we can play a role.
- Discuss the AMI opt-in program more, and the options and products which will be available to customers
- Concerned that the Information Service Department is under-funded and outdated – need a conversation about this some time within the next year.

Commissioner Helgeson:

- AWS and Carmen-Smith – rates in common
- What is missing is a longer-term vision--distributive generation, for example—to begin thinking about longer-term view in terms of this utility. Inform context in which we make decisions and preserve important characteristics of this institution. We're obligated to contribute to that vision.

Commissioner Manning agreed with his colleagues' comments, especially regarding the future of the work force, with significant turnover happening in the next five years. He suggested that apprenticeship and journeymen (BOLI) should be developed now, from the existing supply of students. He thanked Ms. Kostopulos and her team for going to Kalapuya High School and bringing the students to EWEB to observe various jobs.

President Mital noted the list that was generated at the recent Board retreat, and specifically mentioned advanced metering infrastructure (AMI), AWS, and a focus on rates and rate structure. He reiterated that issues are surfacing faster than Board and staff may have thought they would.

Vice President Simpson appreciated his colleagues' comments regarding emerging issues, and said that he looks forward to their next discussion.

President Mital adjourned the Regular Session at 8:00 p.m.

Assistant Secretary

President