

EUGENE WATER & ELECTRIC BOARD
REGULAR SESSION
EWEB BOARD ROOM
500 EAST FOURTH AVENUE
March 1, 2016
5:30 P.M.

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

Others Present: Frank Lawson, Lena Kostopulos, Sarah Gorsegner, Beth Machamer, Taryn Johnson, Mark Freeman, Jeannine Parisi, Matt Barton, Lance Robertson, Cecilia Braaten, Anne Kah, Lisa Atkin, Dave Churchman, Susan Eicher, Mel Damewood, Suzanne Adkins, Erin Erben, Deborah Hart, Mike McCann, Bert Dunn, Todd Simmons, Steve Newcomb, Brad Taylor, Adam Rue, Marianne McElroy, Sue Fahey, Will Price, Greg Kelleher, Megan Capper and Catherine Gray of the EWEB staff; Teresa Lloyd, Recorder.

President Simpson convened the Regular Session of the Eugene Water & Electric Board (EWEB) at 5:34 p.m.

AGENDA CHECK

No changes.

ITEMS FROM BOARD MEMBERS

Viewing pictures on the overhead, Vice President Brown discussed the McKenzie River cleanup on February 27th which was a success, and with the support of 25 volunteers yielded 22 cubic yards of debris. He also mentioned he had been subpoenaed on the Seneca deposition scheduled for March 17, 2016.

Commissioner Mital referred to the City of Eugene elections and thanked Commissioner Helgeson's for running for a second term, and getting his name on the May 17th ballot. He also asked the Board to consider input from senior staff regarding hiring a new General Manager (GM). He suggested staff could give Human Resources an anonymous survey on qualities to look for in the next GM.

Discussion among board members ensued about clarification on what type of survey and what would be the end goal. Discussion also included possibly broadening feedback from more than a leadership team.

Commissioner Manning suggested taking a vote later in meeting.

Commissioner Helgeson agreed, and suggested to defer the decision to item #14 Board Wrap Up.

Commissioner Mital discussed the impact of natural gas and that time should be devoted to that along with other resources such as solar power, etc.

President Simpson said he attended the McKenzie Clearwater Coalition in Vida, OR, a week prior to this meeting. He stated that individuals from the community want to expand broadband and internet services. There are areas with no services or areas that are greatly underserved. He recommended the September 20, 2016 EWEB meeting be a Meet & Greet focused on being a broadband and internet summit. He hoped to include people who might be involved in possible funding and expansion efforts. He also mentioned a thank you letter from the American Red Cross for a recent gift of \$28,565 from the emergency water container proceeds in alignment with the Board's interest in emergency preparedness within the community.

Commissioner Helgeson responded to Commissioner Mital's comment about the role of natural gas and thought it belonged in a strategic planning conversation relating to the resource plan. He said he would be traveling in a week to the Northwest Public Power Association (NWPPA) board meeting in Coeur d'Alene, ID, and will be bringing back reports of draft revisions of resolution about policy positions.

Commissioner Manning attended the Lane Council of Government (LCOG) appreciation dinner on February 26, 2016, and noted that President Simpson represented EWEB very well. He said he was pleased that the Clean Energy Senate Bill (SB 1547) providing renewable energy sources to people of low-income.

PUBLIC INPUT

Marilyn Cross, Chairperson of the McKenzie Clearwater Coalition, Vida, OR, thanked EWEB and President Simpson for contributing information about the exploration of the broadband opportunities in her area, which was well received by everyone and was an important part of their agenda. She said President Simpson and Joe Harwood, Communications Specialist, attended a meeting with her a couple of months ago regarding the change of format to the annual EWEB September meetings which should encourage residents of the area to be more involved with the meetings. She also mentioned she was a member of the McKenzie Action Team and noted 700 residents with no broadband services. She recognized that EWEB had loaned an engineer who helped with the Oregon Rural Development Council broadband conference in Bend, OR. His input was helpful and residents were responsive to his ideas and solutions.

President Simpson said U.S. Department of Agriculture (USDA) funds were available to add service to areas not served, and can do so incrementally for instance bringing broadband to schools and local medical facilities. He said EWEB could charter to provide services and assistance with engineers and existing carriers, and hoped that the September summit meeting would encourage other assistance for their community.

Commissioner Helgeson echoed President Simpson's comments and said the principle purpose was to maintain and enhance the relationship with their community. He was also in support of leveraging assets that EWEB had as a utility to provide broadband services.

Commissioner Mital had nothing to add.

Commissioner Manning said he is open to suggestions to liven the September meetings to encourage people to participate.

Vice President Brown said he was in support of everything that had been said.

APPROVAL OF CONSENT CALENDAR

MINUTES

1. a. January 22, 2016 Regular Session
- b. February 2, 2016 Executive Session
- c. February 2, 2016 Regular Session

CONTRACTS

2. Ultimate Software Group, Inc. – for the purchase of an Integrated Software as a Service (SaaS) Human Capital Management Services (HCMS) solution. \$1,300,000. Human Resources, Contact Person is Lena Kostopulos, 541-685-7466.

RESOLUTIONS

3. Resolution No. 1606 – Supplemental Bond Resolution, Contact Person is Sue Fahey, 541-685-7688.
4. Resolution No. 1608 – Appointment of Interim General Manager, Contact Person is Roger Gray, 541-685-7130.
5. Resolution No. 1609 – Authorizing Deferral of Expenses Not to Be Recovered in Rates, Contact Person is Sue Fahey, 541-685-7688.

ITEMS REMOVED FROM CONSENT CALENDAR

Commissioner Mital asked to pull item #5 Resolution No. 1609 for clarification.

It was then moved by Vice President Brown, and seconded by Commissioner Helgeson, to approve the remainder of the consent calendar.

Susan Eicher, General Accounting & Treasury Supervisor, said the standard required recognizing all the pension expense on EWEB books at once, rather than a pay-as-you-go plan that the State of Oregon: Public Employees Retirement System (PERS) board allows now, which is close to \$65 million between the two utilities. She further stated a public utility standard does not have to be built into the rates and does not have to be recovered in revenue until later on. What was being asked for was approval to implement that regulatory accounting standard. She noted that one issue that had come to light which the resolution on the bond covenant did not foresee, required calculated debt services coverage using generally accepted accounting principles. If regulatory accounting is not implemented, it would bring the debt service coverage below the bond coverage. She said other public utility companies were going the route of regulatory accounting.

Commissioner Mital asked if this was a recent accounting principle.

Finance Manager, Susan Fahey, said staff had warning it was coming but did not have the numbers to work with yet. Also being in a different calendar year-end, it will have the net pension liability of the whole system on the books and balance sheet, but will not reflect in the income segment.

General Manager Roger Gray added that all public utilities were dealing with this especially after 9/11, and added that it would not hit cash flow.

Commissioner Helgeson said he fully endorsed the concept, and noted it would create difficulties on rates and bond coverage if not implemented.

Vice President Brown thought it would still affect the \$65 million and it needed to be accounted for in a different manner.

Ms. Fahey clarified that the \$65 million came from a 2014 evaluation called the net pension asset, and noted at that time the amount was about \$14.5 million. It was now at a \$45 million net pension liability. She stated it was the difference between those two figures that would have to flow through the income statement in a single year if regulatory accounting was not implemented.

Ms. Eicher said the last advisory evaluation was around \$92 million and expected to increase significantly.

President Simpson suggested adding a footnote to describe making a regulatory account.

Ms. Fahey concurred that it was already planned.

Commissioner Helgeson asked about information from PERS, and would a projection of outflow obligations and what they would look like for the future be provided to the Board.

Ms. Eicher said PERS resets the rates at every odd year in July. The long term financial plan did assume increases in the PERS rates. She went on to say staff planned to implement financial strategies.

It was then moved by Commissioner Mital, and seconded by Commissioner Manning, to approve Item #5 Resolution No. 1609. The motion was unanimous (5-0).

2016 STATE OF THE UTILITY ADDRESS

President Simpson gave the State of the Utility address: (copy available upon request)

In summary he thanked his fellow commissioners for selecting him to lead the Board over the next year. He also thanked the EWEB employees and cited the major accomplishments for the last year:

- EWEB again kept electric and water price increases to a minimum.
- EWEB and its contractors completed work to install and put into service a new lift mechanism and motor on a second roll gate at Leaburg Dam.
- EWEB's reliability and safety metrics remain among the highest in the nation, a testament to the hard-working and professional employees of this utility.
- The work of our Board, general manager, leadership team and staff continue to cut costs through risk-based capital planning and priority-based budgeting in the midst of a changing utility landscape.
- EWEB has also found some initial success in renegotiating the 2008 Settlement Agreement for the Carmen-Smith license.

He looked forward to the year ahead seeing challenges, but also great opportunity. One challenge would be to educate our customers about "the radical new electric landscape," including the challenge this year and for the next several years, to educate customers about:

- Peak demand.
- Little to no storage capability.
- By-the-minute need to balance generation with demand.
- The necessity of demand-side management.

He emphasized that as commissioners and EWEB employees the need to find ways to illustrate the changing electrical landscape for customers. He further noted that "rate restructuring and the need to move from a consumption-based model to one that better recovers the fixed costs of operating an electric and water utility will come up again. Maybe not this year, but certainly in the not-too-distant future."

In closing, President Simpson thanked General Manager Roger Gray for successfully navigating EWEB through difficult times.

The Board thanked Roger Gray and presented an award as a gift and token of appreciation for the last six years of EWEB service.

President Simpson explained first meeting with Mr. Gray.

Commissioner Manning noted Mr. Gray's work in the community, and along with his wife, Susan, the work they did with Habitat for Humanity and other non-profits organizations.

Commissioner Helgeson also acknowledged the Gray's contributions and added EWEB will continue to be benefited in the future role he was taking as CEO of Northwest Requirements Utilities in Portland.

Vice President Simpson recognized Mr. Gray was the EWEB general manager through tough times and difficult decisions.

Commissioner Mital said he appreciated his good work and it was a pleasure to know and learn from him, noting his kind and patient spirit.

Vice President Brown summed up other community service he provided, and said he and his wife would be missed as an addition to the community.

Susan Gray added thanks and said it was a privilege to be part of the EWEB community of terrific employees who work hard to keep the water clean and the lights on.

REVISION TO BOARD POLICY SD2, ENVIRONMENTAL POLICY

Steve Newcomb, Environmental Manager and Suzanne Adkins, Environmental Supervisor said management was requesting feedback from the Board on the draft revisions to Board Policy SD2 which would be revised, based on Board direction, and re-submitted for final approval at a subsequent Board meeting.

Commissioner Helgeson asked if it was any problem approving their recommendation now.

Mr. Gray noted it was a two-step process but could be approved now or formerly through the Consent Calendar.

Commissioner Helgeson appreciated the language reinserted and noted the two-step process was already done.

President Simpson motioned to approve management recommendation of the re-draft. The motion was approved (5-0).

REVISION TO BOARD POLICY EL3, PUBLIC REQUESTS FOR BOARD EXPENDITURES

Lance Robertson, Public Affairs Manager, referred to the first draft revision to Board Policy EL3 which relates to public requests for donations, sponsorships, grants and other direct requests for expenditures. He noted that the policy had been in effect for 30 years with only one or two revisions, and felt it required some substantial changes. Management requested feedback from the Board on the draft revisions which would be revised, based on Board direction, and re-submitted for final approval at a subsequent Board meeting. He reflected on the need for the policy noting public requests for sponsorship and donations were robust, and had developed guidelines at a staff level in order to approve them. He said it was working well. The staff asked for a higher limit or a way the Board would consider direct requests to allow staff to continue to process them at a staff level.

Commissioner Mital suggested to keep policy with revisions. He recommended an addition would be an annual report for transparency.

Mr. Robertson responded that would be easy to do and would provide the Board with a spreadsheet.

Mr. Robertson was open to any amount.

Commissioner Brown asked staff if the policy would be amended to reflect a report back to the Board once a year.

Mr. Robertson responded yes they could do that.

Commissioner Helgeson said he understood there was provision in the budget and is comfortable with the way staff administers the process with policy and procedures. He asked what happens when funds are committed or a request comes outside of the budget.

Mr. Robertson said if that happened below the allocated threshold then staff would come back to the Board for approval or request for additional funds.

Commissioner Helgeson agreed the threshold of \$2,000 was too low but not comfortable with \$50,000. He would like to have another discussion about numbers.

Mr. Gray elaborated the budget policy governs no matter what and agreed with Mr. Robertson's response.

President Simpson asked staff to bring back to the April board meeting, and requested the reporting component be added to the budget terminology. He asked staff to supply a matrix with dollar values, and pros and cons of dollar values.

President Simpson called for a 10-minute break.

WHOLESALE MARKET UPDATE AND MAJOR DRIVERS

Referring to his slide presentation, Dave Churchman, Power Operations Manager, talked about market impacts and industry factors, and how they affect EWEB:

Industry Forces –

- Growth of Renewables
- Drop in Gas Price
- Increased Regional Coordination

Impact on Market –

- Falling Wholesale Prices
- Hourly Shape of Wholesale Prices is Changing

Impact on EWEB – Changed our Risk Profile

- Load loss is now a much greater exposure to EWEB than it was in 2008.
- Hydro is a much lower exposure than in 2008.
- Wholesale price on a % basis is half the impact it was in 2008

He discussed how EWEB could manage and do more to protect from these risks, and emphasized what could be done to protect prices.

Vice President Brown asked what happens with Carmen-Smith in regards to re-licensing.

Mr. Churchman explained it depended on competing forces, i.e., will new renewables outpace coal retirements. He also stated baseload resources would be replaced and flexible resources are going to be valuable in the future.

Commissioner Mital asked if the new Renewable Portfolio Standard (RPS) will increase value of surplus power.

Mr. Gray responded and said the RPS was bad for EWEB and Oregon. He explained that it destroyed the value of hydro power.

Mr. Churchman added that if the RPS passes it was better for wind.

Commissioner Helgeson referenced follow up for 2008 revenue. He understood the relevance of the market forecast, but was not clear for purposes of resources. He said he was curious about what staff thought of the forward price curve as a marker and what it means in the long term.

President Simpson asked staff to supply answers with a follow-up report.

Mr. Churchman responded – 750,000 megawatt hours long each year and \$30 drop.

2016 ANNUAL IERP UPDATE

Erin Erben, Power & Strategic Planning Manager, gave a review and presentation with slides. She and staff reviewed the Integrated Electric Resource Plan (IERP) and options for the next step plan to begin the 2017 IERP update process:

- Management would provide additional information on how the process may align with the Pricing Reform Advisory committee asked during the March 15 Strategic Planning Workshop.
- Management asked for feedback on the timing and scope of the next IERP public process.

Ms. Erben said loads were still down and capacity was still an issue, and market prices were still low. She referred to five recommendations that were summarized and that the Board approved in 2012. An annual update was presented to make sure the IERP was still on course.

Adam Rue, Senior Energy Resource Analyst, gave a detailed review of energy and peak load forecasts and price forecasts.

Ms. Erben suggested to spend time having discussion with customers on strategic planning and pricing issues.

There was discussion between staff and the Board pertaining to peak loads, reserves and conservation, and scenario planning.

MARCH STRATEGIC PLANNING BOARD WORKSHOP AGENDA

Ms. Erben referred to an agenda handout for the Strategic Planning Board Workshop discussion on March 15, 2016, and asked for any last fine-tuning elements before the workshop. She discussed the areas of focus would be half the time on water and half on electric. Time would be spent on the Pricing Advisory Committee and Public Engagement. She said the Board would pick topics to refine for the meeting in April with staff to bring ideas.

CORRESPONDENCE & BOARD AGENDAS

Mr. Gray referenced correspondence follow up to previous Board questions regarding the EL1 Capital Report and the Pentachlorophenol Plume.

Vice President Brown referenced testing for the plume. He said the Board needed to be kept informed to keep on track.

Mr. Gray referred to the data and said he would further follow up.

Commissioner Helgeson said based on given information the plume was a low level concern. His suggestion was to demonstrate to the public it would be monitored.

Mr. Gray recommended the Board should continue to focus on planning sessions and the GM new hire sessions.

President Simpson reminded everyone that the March 15, 2016 meeting will be at 8 a.m. and the April 5, 2016 meeting will start a half hour early at 5 p.m.

BOARD WRAP UP

Vice President Brown asked Mr. Gray for an update on the City of Eugene – Riverfront agreement and when it will wrap up.

Mr. Gray said he will follow up with an off-cycle report.

Vice President Brown addressed helping the salmon vs. water in the lower river. He also would like to have a discussion about EWEB and banking relationships, i.e., why not keep money in local banks.

Commissioner Mital echoed Vice President Brown's concern about the salmon and the lower river, and said it would be a good discussion in one of the Board's strategic planning sessions--possibly in April. He also addressed resiliency planning for both utilities and keeping the momentum going forward.

President Simpson referenced Commissioner Mital's idea earlier in the meeting regarding natural gas as fuel. He said he would rather focus on customer retention and make electricity a more attractive product, and to discourage fuel switching.

Commissioner Helgeson appreciated trend of improvements reflected in the Safety Performance and Workers Compensation Savings memo dated February 16, 2016 from staff.

Commissioner Manning received feedback and expressed concern saying the turn-around for low-income residents to receive EWEB assistance was very lengthy, and said it was something EWEB needs to check into.

There was discussion about low-income customer feedback, and Mr. Gray said that would be looked into and addressed.

The Board came back to the issue of having an initial staff survey in regards to hiring the new GM:

Commissioner Helgeson said staff input was a good idea but would like to see a structured emphasis on management team.

Commissioner Mital said he felt that the people's voice should be heard via supervisors or through a simple survey, i.e., Survey Monkey, etc.

Vice President Brown said he would like to take input from the leadership team and agreed with Commissioner Helgeson's suggestion.

President Simpson also agreed with Commissioner Helgeson's suggestion.

Commissioner Manning liked Commissioner Mital's concept but he did not think time allowed for a survey.

It was moved by Vice President Brown and seconded by President Simpson for a management to gather employee feedback through leadership teams regarding the hiring of the new General Manager.

Discussion ensued among the Board and staff about the turn-around time being approximately three weeks, and team leaders delivering responses in a written format. The List of Criteria developed by Lanie Prouse of Mycoff, Frye and Prouse would be used as a guideline for the survey.

Commissioner Manning questioned the value of the survey and what it would measure stating he could not support it.

The motion passed (4-1). Commissioner Manning abstained.

President Simpson adjourned the Regular Session at 8:24 p.m.

Assistant Secretary

President