



# MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

*Rely on us.*

TO: Commissioners Simpson, Helgeson, Mital, Brown and Carlson  
FROM: Mel Damewood, Chief Engineering and Operations Officer  
DATE: December 12, 2016  
SUBJECT: Veneta Contract  
OBJECTIVE: Information Only – Report Back from Board questions on 12/06/2016

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## Issue

At both the November 2<sup>nd</sup> and the December 6, 2016 Board meetings, water price proposals were discussed with the EWEB Board and Commissioners asked some questions regarding the proposed decrease for Veneta wholesale water prices and what the intent and conditions of the contract were at the time it was approved by the Board. General Manager Lawson requested Management provide a summary to the Board regarding the issue.

## Background

In 2007 EWEB started discussions with the City of Veneta regarding wholesale water sales. After performing viability and feasibility studies, in early 2010 Veneta was awarded a grant to construct approximately 10 miles of pipeline. One of the grant conditions, required Veneta to have a wholesale water sales contract. In April 2010, the EWEB Board approved the contract, which was 3 years before EWEB would start delivering water to the City of Veneta.

EWEB Management provided several reasons for recommending that the Board approve the Veneta contract. First and foremost was that the contract helped EWEB in securing its existing water rights (rights and permits) by adding beneficial use of the water via wholesale demand. Management also wanted to create precedence in EWEB's right and authority to enter into wholesale agreements with other municipals without needing authorization from the City of Eugene. This was key to ensuring EWEB's future regionalization efforts could be forwarded if the Board chose to do so. Amid a recession and declining sales revenue, a long term contract that helped spread the high fixed costs of water production and delivery over a wider customer base would be beneficial for EWEB customer-owners. It should also be noted that EWEB had the production and delivery capacity within its existing system, so capitalization to enable this agreement on EWEB's behalf was minimal.

## Discussion

In researching Board minutes the following was found:

At the March 23, 2010 Board Retreat Session:

Commissioner Ernst ascertained from Mr. Taylor that Veneta wanted 500,000 gallons per day, with anticipated revenues of approximately \$300,000. She asked if this would meet the need to perfect the water right. Mr. Taylor responded that EWEB would need to utilize more water than the need Veneta would generate.

In response to a question from Vice President, General Manager Berggren stated that the contract cost for Veneta was \$1.26 for 1,000 gallons wholesale and Veneta was responsible for the cost of the conveyance system.

At the April 10<sup>th</sup>, 2010 Board meeting, the Board approved the Wholesale contract with Veneta, with the following sales projections and conditions:

2.2 *The Parties agree this Surplus Water Purchase Agreement obligates Veneta to purchase from EWEB an estimated 150 million gallons per year to serve its customers. **Veneta agrees to purchase a minimum of 8 million gallons per month.** Veneta will construct a transmission line and other necessary improvements to deliver up to 4 million gallons per day (“mgd”) to its system. EWEB will construct water system improvements from its existing water system to the Point of Delivery set forth in Section 10.1 at Greenhill Road and Highway 126. The Parties recognize that these water system improvements will be sized to meet EWEB customer demand plus the Veneta purchase of Surplus Water up to 4 mgd. Veneta agrees to reimburse EWEB for that proportionate cost of EWEB Water System improvements necessary to deliver up to 4 mgd to the Point of Delivery. Veneta may elect to pay its cost share by lump sum payment or through rates.*

*2.2.1. By June 1<sup>st</sup> of each year, Veneta will forecast its demand for the period June 1 to May 31. EWEB commits to supply up to 4 mgd, subject to Article 2.3 and the terms of this Agreement. **The amounts nominated for this year will become the quantity factored into rate calculations and allocations.***

The projection of 500,000 gallons per day (about 15 million gallons per month) at the March 23, 2010 meeting would have resulted in approximately \$230,000 annual revenue at \$1.26 per gallon. The contract section 2.2 amount of 8 million gallons per month is about half of the amount discussed in March and would have generate approximately \$120,000 annually for EWEB at the same price. EWEB and Veneta settled on the 8 million gallons per month based on the assumption that was the volume needed to pass through the long pipeline to maintain water quality.

The line was operational in September 2013 and in May 2014, the City of Veneta provided correspondence to EWEB in concert with the terms and conditions of the contract section 2.2.1, and reduced its projections to 6 million gallons per month (mpm). EWEB received subsequent emails stating the projected demands of 6 mpm, through 2018. During this period, water quality was maintained at the 6 mpm rate, thus the basis of the original 8 mgm minimum amount was not required.

The contract also stipulates the methodology and amount of margin as noted below:

*4.1 Veneta will be charged under this Agreement equal to an amount estimated to be proportionate to its share of the cost to EWEB of providing water using standard cost-of service and ratemaking principles as described in Manual M-1, published by AWWA Manual of Water Supply Practices–M1. Principles of Water Rates, Fees and Charges. Fifth Edition. Denver: 2000. (hereafter “AWWA Manual M-1”) and future Editions of*

*the Manual M-1. A cost-of-service allocation methodology will be used to allocate the Water Revenue Requirement as determined by the EWEB Board approved budget annually. The components used to determine the Water Revenue Requirements will be:*

*4.1.3. A return on investment of 10% or as otherwise directed by the EWEB Board not to exceed 10% will be charged on both the Operations and Maintenance Costs and the Capital Costs. It is the intent of EWEB to apply this rate of investment to all Surplus Water agreements or contracts.*

After reading through the contract and the subsequent conditions, staff has acknowledged a contradiction between Sections 2.2 and 2.2.1. EWEB will begin an amendment process with the City to clarify the contract terms. To date, EWEB has charged the City of Veneta for the actual amounts used and has not asserted charging the stated minimum of 8 million gallons per month per Section 2.2, but has honored the language in 2.2.1.

### **Action**

This memo is for information only, and no action is required. Please contact Mel Damewood @ 541-685-7145 or email at [mel.damewood@eweb.org](mailto:mel.damewood@eweb.org)