

EUGENE WATER & ELECTRIC BOARD
WORK SESSION
EWEB BOARD ROOM
DECEMBER 4, 2012
6:10 P.M.

Commissioners Present: John Simpson, President; John Brown, Vice President; Joann Ernst, Rich Cunningham, and Dick Helgeson

Others Present: Roger Gray, Debra Smith, Cathy Bloom, Susan Eicher, Roger Kline, Lance Robertson, Colleen Wedin, Jason Heuser, Richard Jeffries, Dave Churchman, Karen Lee, Steve Newcomb, Adam Rue, Michelle Martin, Edward Yan, Susan Fahey, Deborah Hart, Joe Harwood, Wendi Schultz-Kerns, Erin Erben, Kathy Grey, Leslie Kidd, Sheila Crawford, Lena Kostopulos, Gail Murray, Teresa Dingman, Laura Farthing, Wally McCullough, Frank Lawson, Brad Taylor, Steve Newcomb, Laurie Muggy, Lisa Atkin, and Taryn Johnson of the EWEB staff; Vicki Maxon, recorder.

President Simpson convened the Regular Session of the Eugene Water & Electric Board (EWEB) at 6:15 p.m.

He then reviewed the agenda for tonight's meeting.

2012 AUDIT PLANNING

Cathy Bloom, Financial Services Manager, introduced Susan Eicher, General Accounting & Treasury Supervisor, and Julie Desimone (EWEB's auditor) from Moss Adams LLP.

With the use of overheads, Ms. Desimone reviewed the agenda for her presentation, the audit process, and listed the areas that were emphasized in EWEB's annual audit.

Vice President Brown asked why the annual audit didn't pick up a BPA billing error in the hundreds of thousands of dollars. Ms. Eicher recalled a conversation at a previous Board meeting that EWEB staff had actually noticed the error before it was reported and will continue to monitor it.

Vice President Brown then asked if EWEB's staff reorganization/alignment has anything to do with the electric/water percentage reallocation. Ms. Eicher replied that it does not, and that it is merely staff changeover.

Ms. Desimone added that the 86/14 electric/water reallocation will be audited for "reasonableness" to make sure its underlying information is correct and that it's being applied properly. She also added that the audit wouldn't have found the BPA billing error because there's nothing from an audit perspective that would show that to the auditors.

Ms. Bloom added that BPA's bill is always highly scrutinized because it's so complex, and that EWEB has its own internal control for that type of thing.

Ms. Desimone noted that an opinion on EWEB's internal control structure is not offered because of the type of audit that is done for EWEB.

Commissioner Ernst asked what type of guidelines are used for the audit of the power trading floor. Ms. Desimone replied that they start with the risk management policy to see if there's anything far-reaching or out of line with normal utility practice and, if anything is found, it is reported directly back to staff.

Commissioner Cunningham asked if the audit will look at EWEB's PERS unfunded liability. Ms. Desimone replied that it will not, because of all the new standards and regulations that will go into effect in 2014-15. She then explained how that portion of the audit will be conducted in the future.

President Simpson asked how the Board knows that certain contract expenditures are in line with certain standards when they sign for them. Ms. Desimone replied that, according to State standards (required by law), sample contracts are looked at to be sure they are correct and that sample contracts aren't exceeded. They then verify that the signatures are valid and that the time frame is correct, and that they have been recorded into the various spreadsheets.

Vice President Brown asked how the auditors verify that no-bid contracts without negotiation are in compliance. Ms. Desimone replied that the audit looks at State statute to be sure the contract complies and is approved by current Board or management policies. She added that contracts can't be too informal or contain too much "gray area."

Using overheads, Ms. Eicher then identified two significant changes in financial reporting and changes in the names of various balance sheets. She added that staff training now involves more webinars in order to save money on travel, but that there are still a few necessary training sessions that require travel.

Ms. Desimone noted that pension standards will be approached during the next year, and that several years of restated financial statements will occur if everything goes as planned.

In reply to questions from Vice President Brown and Commissioner Helgeson, Roger Gray, General Manager, told the Board he will follow up on the accounting and legal standards of practice and, if there are constraints, methodology changes may be done more frequently so as not to get as much shock effect. He noted that this follow-up will take more than the usual 48-hour turnaround time.

President Simpson thanked Ms. Desimone and staff for their presentation.

EWEB'S 2013 LEGISLATIVE AGENDA

Lance Robertson, Public Affairs Manager, presented a brief introduction regarding the 2013 legislative agenda, and then Jason Heuser, Legislative Representative, gave his presentation.

Mr. Heuser identified the new legislative representatives and the legislative representatives who have received promotions. He also noted that Governor Kitzhaber has not announced any re-election plans (which is unusual). He then briefly reviewed the following topics which had previously been sent to the Board in a backgrounder memo:

- 10-Year Energy Plan
- Net metering and feed-in tariffs
- Oregon Revised Statutes proposals (utility revenues)

He then stated that his next Board presentation may be earlier than usual (in February), as he believes the legislative session regarding PERS will be done early in the session. President Simpson said he is comfortable with that change in presentation schedule.

Vice President Brown asked Mr. Heuser if he knows what Lane County is considering regarding revision of the Contribution in Lieu of Tax (CILT) amount. Mr. Heuser replied that Lane County has given him assurance that their intent is to have it be revenue-mutual, which would require the City to write a check to EWEB out of their share.

Vice President Brown wondered if that would open up a chance for EWEB to pay a 3% CILT instead of 6%. Mr. Heuser replied that the Legislature doesn't have the authority to change that contract. General Manager Gray added that the Eugene City Council and EWEB Board haven't jointly agreed to make that change yet, and that there are some parity issues regarding why EWEB customers are taxed and some other utility customers are not. He added that the discussion revolves around whether or not the revenue is derived outside and/or inside of the city limits.

Commissioner Ernst commented that she would like to see the Board become more involved in legislative issues and possibly write a letter of support regarding some of the issues. She gave the examples of EWEB's Energy Supplier Assessment (ESA's) amount being raised every year and the fact that it has doubled since 2007; and that the recommended feed-in tariff would be devastating to EWEB right now, though the one based on kWhr consumption looks interesting. She also noted that a carbon tax was not on the list of issues.

Mr. Heuser replied that a group of western states and governors may brainstorm the carbon tax issue but that it does not look promising.

Commissioner Ernst continued, reiterating that EWEB should be proactive regarding a carbon tax because market prices have reduced so much because of fracking for natural gas.

Regarding EWEB's renewable portfolio standard (RPS), Commissioner Ernst voiced desire for a Board policy regarding data centers in EWEB territory in order to maintain local control. She added that she believes that topic may already be queued up for discussion before the end of 2012.

President Simpson noted that that discussion is on the agenda for first quarter 2013.

Commissioner Cunningham commented that the Governor had recently alluded to a sales tax. Mr. Heuser replied that there has been some discussion about that but it is not an immediate legislative issue.

Commissioner Cunningham said he believes that EWEB's two largest legislative issues are PERS reform and the Columbia River Crossing (CRC), which has enormous regional impact.

Regarding PERS reform, Mr. Heuser replied that EWEB owes \$94 million, and that even though he himself has to be optimistic, he believes it would behoove EWEB to be pessimistic. He noted that the Governor has included \$800 million in PERS savings in his budget, and that the binary quality of the pick-up has to be 6% or somewhere in between, but that cost of living adjustments will be tough to justify.

President Simpson thanked Mr. Heuser for an excellent report and for the background on the statewide net metering issue. He said he agreed that the major theme is maintaining local control and cost containment, at all costs.

President Simpson then asked Mr. Heuser if he is involved in the BPA pushback. He noted that EWEB's customers are pushing the Board to keep rates in check, yet EWEB receives 60% of its power from BPA. He wondered who should be the group to demand that BPA rates not rise.

Mr. Heuser replied that other EWEB staff interacts more directly with BPA and that some issues involving BPA get taken to Congressional delegation.

General Manager Gray commented that EWEB's Power Resources staff participate in rate cases and also participate through the Public Power Council (PPC) and other membership group, and that sometimes staff are part of subgroups where interests are unique (i.e., transmission). He noted that there have been some small victories, but that BPA is a 75-year-old company and their infrastructure and fish and wildlife costs are also going up. He added that the Public Utility Commission (PUC) participates as a group (not the individual utilities), and that BPA rate cases are elaborate and drawn out, and in the end, BPA has the authority to set its own rates through Congress and the Federal Energy Regulatory Commission (FERC).

President Simpson concurred with Commissioner Ernst's request for the Board to get more involved in legislative issues. He asked Mr. Heuser to prompt Board as he sees fit to assist him and/or write letters for legislative reform. He voiced willingness for a Board representative to travel to Salem if necessary.

Commissioner Helgeson voiced strong support for the assessment fee. Regarding net metering and feed-in tariffs, he hopes the legislature doesn't have the authority to decide the technical requirement. Regarding the RPS, he stated that he believes that under the current economic climate, EWEB would look to relax that.

Mr. Heuser told the Board that he will contact Taryn Johnson, Executive Assistant to the Board and General Manager, regarding the Board's availability for letter writing, phone calls, or a possible trip to Salem.

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

Assistant Secretary

President