

EUGENE WATER & ELECTRIC BOARD  
REGULAR SESSION  
EWEB BOARD ROOM  
DECEMBER 4, 2012  
7:30 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 Jeffryes, Dave Churchman, Karen Lee, Steve Newcomb, Adam Rue, Michelle Martin, Edward Yan, Sue Fahey, Deborah Hart, Joe Harwood, Wendi Schultz-Kerns, Erin Erben, Kathy Grey, Leslie Kidd, Sheila Crawford, Lena Kostopulos, Gail Murray, Laura Farthing, Wally McCullough, Frank Lawson, Laurie Muggy, Lisa Akins and Taryn Johnson of the EWEB staff; Vicki Maxon, recorder.

President Simpson convened the Regular Session of the Eugene Water & Electric Board (EWEB) at 7:30 p.m.

#### **AGENDA CHECK**

There were no items.

#### **PUBLIC INPUT**

President Simpson informed the audience that they could speak in either or both of tonight's public input sessions (agenda items #2 and/or #6). He asked them to listen to the staff presentation first and then decide which public input session their comments would more closely relate to, as some of their concerns may be addressed in the staff presentation. He added that the Board is here to listen to what the public has to say.

**Jonathan Light** thanked the Board for their continued support and partnership in energy education funding which educates thousands of students, and said that these programs really do bring along future citizens in the areas of energy production and consumption and, most importantly, conservation. He noted that he had distributed a flyer to each of the Commissioners that shows students in outdoor situations.

**Al King**, a former State legislator, commented that he had served on the Salmon Committee when he was in the legislator, and that EWEB provides some very important energy education programs, and that he especially appreciates the "pipeline" EWEB provides to the Springfield School District. He thanked the Board for retaining its energy education programs, as students will become better stewards because of them.

**Dan Patch** commented that it is embarrassing that the public has to keep repeating the same things over and over, and that it is disingenuous for the Board to say they are listening when they have no intention of doing what the public is asking them to do. He said that at the

last public hearing, when he asked what the public should do when they are unsatisfied with the Board, President Simpson had replied that a recall could be done. He feels it is extremely disingenuous for the Board president to thumb his nose at the public and say that if the public doesn't like what the Board is doing, they can raise thousands of dollars and try to recall the Board, and see what happens. He feels that EWEB has no accountability for the errors and problems that are created financially, and that all they do is build a giant empire, and then when prices and the money don't add up, they turn around and sock it to the customers' pockets. He suggested that EWEB start spending some of their "war chest" before they start raising rates, and that the Board start listening to their constituents instead of just continuing to build their empire while the nation is on the brink of financial collapse. He said that the customers are supposed to own EWEB and that EWEB is supposed to work for them, but they don't; and that all they do is work for EWEB and enrich EWEB. He closed by saying that EWEB is making customers pay, and they are sick of it, and he asked the Board to start paying attention to customers.

**Steve Mital**, EWEB Commissioner-Elect in Wards 1 and 8, recalled that last Sunday the Register-Guard did a feature story on EWEB's proposed rate increases and compared them to SUB's and EPUD's rate increases, and that the article stated in a graphic on the front page that EWEB's rates were going up by 8% while SUB's and EPUD's were only increasing 4% and 3%, respectively. He noted that this is not an apples to apples comparison, and that SUB's and EPUD's rate increases did not factor in the full impact of the likely but not formally yet adopted BPA rate increases. He added that, in reality, BPA increases will hit SUB and EPUD harder than they do EWEB, as EWEB is insulated from these impacts to some extent because it generates 40% of its own power. He emphasized that this an important bit of context that Register-Guard readers deserved, but didn't get, and that the article included inflammatory and misleading statements. He said that in this morning's Register-Guard there was a letter to the editor that again compared EWEB's employee to ratepayer ratio to SUB and EPUD, and that this is another unfortunate example of an apples to oranges comparison masquerading as an apples to apples comparison. He said that his point is that the Register-Guard is the newspaper of record, and what it reports carries great weight in our community, and that it did damage to EWEB's reputation by publishing both incomplete and inaccurate information. He added that even though he looks forward to reading the Register-Guard every day and he values the truth wherever it leads, even if it's critical of EWEB, it has to be fair. He closed by saying that he believes the Register-Guard's standards have slipped, and that is a disservice to everyone. He urged EWEB Board and staff to not accept the Register-Guard article and to resurrect the checks and balances that EWEB has had in place in years past.

**Mike Gerot** is a River Road Water District (RRWD) Board member, and RRWD is one of EWEB's wholesale customers. He stated that the RRWD Board is concerned about the trends they are experiencing, especially with the current water rate increase proposal. He noted that over the next three years the proposed increase will result in about a 37% increase. He reminded the Board that RRWD is responsible for all of its own administrative, meter reading and billing functions, and that those are all costs over and above what they pay their water service. He thanked the Board for the opportunity to speak.

**Bob Cassidy**, a former EWEB Commissioner, is speaking tonight as an EWEB customer/owner. He emphasized that EWEB employees' wages are not the problem, and that he is proud to be an owner of a utility that pays good living wages to their employees. He noted that EWEB's lowest-paying position pays \$29,000 per year and is a job share position, with both employees being provided benefits coverage. He said that he feels sorry for customers who have difficulty paying their EWEB bill, gas bill, telephone bill, and all other things they can't afford because of low wages, and that he is proud that EWEB pays quality of life wages. His advice to the Board was to not wait for customers to contact them about a rate increase, and for customers to seek opportunities to let EWEB know they are doing a good job with running the utility to their benefit. He noted that EWEB's general manager is willing to work for half of his previous income and that, if EWEB customers need an enemy to blame, they should blame State and federal government, who over-promoted expensive wind power and are now doing unregulated fracking which is devastating EWEB's wholesale income.

**Nick Uhrhausen** commented that he doesn't have too much of a problem with EWEB's electric rates, but he feels that water should be almost a free commodity. He added that he has never heard his neighbors complain about water rates until recently, and he asked the Board to reconsider the proposed water rate increase.

**Jeff Demers** is the Director of Operations for Willamette Water Company. He gave the following testimony:

"Willamette Water Company is a private water distribution company serving residential, commercial and industrial water customers in the greater Goshen area south of Eugene. Willamette Water has been an EWEB customer since 1972, and purchases all of its water from EWEB for resale to its customers under a surplus water agreement.

Over 60% of Willamette's water customers are residential. They are renters and homeowners in an unincorporated area of Lane County that is particularly depressed, many on fixed or limited incomes that make it a real economic struggle to keep the utilities on and the rent paid.

EWEB now proposes to increase the cost of water to Willamette Water customers, specifically, by a staggering 36% in February. That's nearly twice the increase EWEB is proposing for the rest of its customers. That's a four-year water cost increase of 104%--- more than double.

The proposed increase to Willamette and the process EWEB has engaged in is contrary to the basic principles of fairness. Despite Willamette being a major customer for over 40 years and being singled out by EWEB for its own special 36% rate schedule, there was no reasonable notice by EWEB--no letter, no phone call or opportunity to be heard. I read about the increase in Sunday's paper, and had my first conversation on this matter with EWEB staff yesterday.

Fairness dictates that Willamette should have been advised by EWEB staff of their intent to create a specific Willamette Water rate schedule with radically higher rates, and at a minimum

be given the opportunity to have a conversation about an action that will dramatically affect its ratepayers.

Furthermore, Willamette Water has a contractual relationship with EWEB. Our contract expired on August 24, 2012. We met with EWEB staff in May and submitted a letter dated November 5, 2012 requesting a one-year extension and proposing negotiations for a new water supply agreement. You have that letter. We have a genuine concern that EWEB's unilateral action to raise Willamette's rates without reasonable notice is inconsistent with EWEB's contractual obligations.

Willamette Water is not trying to cause a problem here or asking for a free pass. We are a water utility too, dealing with the same demand and cost issues EWEB is facing. We get it that revenue has to cover expenses. If legitimate costs go up and demand decreases, there has to be an offsetting increase in rates.

What Willamette Water is asking is that EWEB defer making a decision tonight to unilaterally raise Willamette Water's rates, and to appropriately address the rate issue in the context of good faith contract negotiation. Thank you."

**Mark Hudson** recalled that BPA has just said that they are going to raise rates from 12 to 20 cents/kWhr starting in 2016. Instead of blaming BPA, he urged the Board to move forward and try to solve its problems, and he offered some potential solutions and alternatives. For the tiers that EWEB has, he asked the Board to raise that rate. He noted that since Commissioner Ernst's concern at the last meeting was that low-income customers are really at the margin, EWEB should fund the low-income assistance program and add assistance for water bills. He suggested that if the City of Eugene is actually interested in EWEB's headquarters building, with the selling price being at around \$15 million, this option at least needs to be on the table. He also suggested that a partnership with the U of O, as their Masters in BA program has essentially a consulting service that wouldn't cost EWEB anything but staff time, and they would evaluate EWEB's business practices with a new, fresh set of eyes. He suggested that a ratepayer suggestion program may be helpful in which a customer can come up with an idea, and if it saves EWEB money, for the first year of that savings, the customer gets 10%. Lastly, he suggested that EWEB contact Peter DeFazio to see if they can get infrastructure funding. In closing, he asked that EWEB increase its communication with customers in order to limit misinformation.

**Dick Beers** commented that EWEB's customers don't have a choice for their public utility, and that utilities were originally set up for the economy of the people living in the area, but customers are out of that district now. He told the Board that EWEB has "given away the ship," and used the example that, according to the recent Register-Guard article regarding EWEB employee wages, every 10 years EWEB produces a millionaire. He noted that out of that work time, its employees only work two-thirds (70%) of the time, and the rest is paid time for time not worked (vacation, holiday, PERS, and all of the other things an employee doesn't have to show up to receive), and that it is that time not worked that is killing EWEB's customers. He said he doesn't believe EWEB customers are getting a return on their investment, and that the community needs help because it is broke. Regarding the proposed water increase, he believes there is no shortage of water right now, and that water should be free. He thanked

the outgoing Board members for representing customers, but said that unfortunately, he doesn't feel that customers have been represented for the last 10 years.

**Phil Kidd** is a former physicist. He said that after reading the recent Register-Guard article, he got the strong impression that the Board has already made its decision and are pretty much waiting for the public hearing to get over with so they won't have to worry about the budget again until next year. He then referred to the recent op ed piece by Dorothy Good, which he believes was an excellent summary. He asked the Board to study that article again, because the thing that seems to come out of these types of articles is that the Board has already made major decisions on the budget and that it was not printed in a form that is easily understood, nor is it sent out so that customers can review it prior to a public hearing. He asked the Board to put out information to all customers in an easily understandable format, and possibly show an example of an EWEB bill, and break that down into the eco-energy portion, the labor portion, etc., and list those prior to the budget decision. He added that it would also be helpful if the Board prepared a preliminary budget with all data available, and provided it to the public for them to study and understand.

**Dan Russell** commented that Mr. Kidd's comments summed up a lot of his feelings about the Register-Guard article, EWEB's tiered rates, etc. He noted that it's the poor customers who can't pay their bills and he wondered if the Board wants everyone in Eugene to have brown lawns. He said that it had cost him approximately \$100 to water his grass this year and that that is insane, and that EWEB has a lot of audacity in this economic climate, when everyone is struggling, to propose a 21% rate increase for River Road Water District, a 30-some percent increase for Willamette Water Company. He said that to hear that Water Willamette Company wasn't informed about a rate increase until two days ago is extremely disrespectful, and that he is appalled to see such high rate increases. He noted that he has not seen one proposal to lower EWEB's costs, yet its customers' rates are going to be raised by 20%. He asked the Board to give him a break, as in most businesses, when demand goes up, prices go up; and when demand goes down, prices fall and companies cut costs, but he doesn't see that happening at EWEB. Conversely, he sees that as water demand goes up, EWEB wants more money, and when demand goes down, EWEB still wants more money.

**Sandra Bishop**, a former EWEB Commissioner, gave the following testimony:

"I admire your work as elected officials on this board. I don't envy you these tough decisions. I'm here tonight to encourage you to make this budget-related decision based on facts, not reaction to public pressure.

You are elected to this board to make wise policy decisions that will guide the utility into the future. You are not here to win a popularity contest. We need decision-making based on facts, not a reaction to public opinion. Of course public opinion is important, but even more important is assuring that the public is educated about the function and the reality of EWEB and EWEB operations.

The fact is that 75-80% of EWEB's budget goes for power-related costs. Why are you spending all this time zeroing in on employee costs when approximately three-quarters of your

budget is driven by power cost? Are you really actively engaging in talking about the 70%+ of the budget that is not wage- or employee-related?

Where is the assessment of power projects EWEB owns? Why are we not hearing you talk about selling a power project or renegotiating power contracts? Why would you think your contract with the union is any less tangible than a power purchase or power sales agreement?

If you want to look for more revenue, and if you want to avoid raising rates any more than necessary, you should be looking at the part of the budget that drives the largest percentage of cost.

Please realize that your employees are the greatest assets of this utility. Don't sacrifice your employees on the altar of public opinion. Rather, educate the ratepayers as to where the money really goes at EWEB--what costs drive this budget and this rate increase.

Please look at the decision you will be making tonight in a larger context. Where will the utility be in five, 10 or 20 years? I see this utility as being at a critical juncture, a crossroads. It seems like the Board is becoming more easily swayed by public perception and opinion than by actual facts--by facts, I mean the economic underpinnings and the human values that drive this organization.

It is strikingly clear that the public wants relief from ever-increasing utility rates. But look at the potential unintentional consequences that you may be setting in motion by ignoring the obvious. The obvious is that continuing to ask for rollbacks from your employees is very likely to result in additional union organizing. That will likely result in an actual increase in costs and thus higher rate increases in the future.

You have asked the General Manager to go back to the unions and ask if the unions might make more concessions--this is after the union (IBEW) has already made major financial concessions by agreeing to forego a full 4% COLA and settle for 3% this year, and to see their annual increases ratcheted down to 2.5% based on the Portland consumer price index (CPI). I'm sure these agreements were not entered into lightly.

You have a situation now where your general manager, Roger Gray, seems to have a good working relationship with the union. It is apparent that General Manager Gray respects the union. You would be well-served to listen to the General Manager Gray when he says there is nothing more to be gained from pressuring employees, both union and non-union, right now to make more concessions.

Don't underestimate the cost of unionization. Even successful union negotiations are costly. Is this something that you are willing to put into your budget? How do you budget for it?

The employees are your best assets. They are the heart of the utility. I realize that conditions in the utility industry are very challenging right now. Everything should be done to avoid creating more of a siege mentality in relations with your employees. EWEB has to vie for

employees in the regional context. You can't afford to make EWEB an inferior workplace, and you can't afford to alienate your current employees and scare off future employees.

It's time to let your employees do their jobs. The public spotlight should be taken off employee salaries and aimed where the real driver in this budget is--power cost. Don't damage the strong loyalty and ethic of service that you have from all EWEB employees.

I know that you all have great respect for EWEB employees. I challenge you to demonstrate that respect by looking elsewhere to balance your budget and keep rate hikes down."

**Michael Townsend** is self-employed. He commented that there is a real need for information about where the rate increase is coming from. He said that there is much money going into EWEB's PERS accounts, and that they're basically for people who have had public jobs for the last 20 years. He pays \$10,000 a year for health insurance for himself and his family, so to have 12%, in addition to a salary, going into an employee's PERS account is a huge benefit. He pays 15.3% in taxes, and he pays on both ends, and if he can put \$2,000 to 4,000 into savings, he is lucky. He reiterated that EWEB offers \$10,000 in retirement for each EWEB employee and another \$10-20,000 for health care benefits, on top of their salary. He said he believes the citizens of Eugene need to be looking at what the cumulative rate increase has been over the last 10 years and that, though he hasn't looked, he is sure that his water bill has gone up approximately 100% in the last 10 years. He emphasized that if BPA or some of the energy sources EWEB is purchasing from are jacking up rates, EWEB customers need to know that. In closing, he urged others in the community to run for the EWEB Board, and that there seems to be a conflict between EWEB saying that there is a ton of inflation in the utility and Ms. Bishop saying that employees are sacrificing a lot.

**Rhonda DiMarco** makes less than the lowest-paid employee at EWEB. She had to save money to buy Christmas lights, and saved for three months previous to last summer in order to have enough water to water her lawn so that it would look nice. She said that EWEB customers have had enough of rate increases. She noted that her wages haven't gone up for two years and that she doesn't get food stamps, health insurance or energy assistance, and that she lives alone. She closed by saying that she pays her bills and works her butt off so she can have what I has and do what she needs to do.

Commissioner Cunningham commented that he had received 17 phone calls regarding the op ed piece that appeared in the Register-Guard and that he had even called General Manager Gray on a Sunday night because he had received so many phone calls from constituents.

He noted that he had asked staff for balances of all of EWEB's reserve accounts, and that there is no \$48 million set-aside for real estate and new buildings. He added that some of the phone calls he received were from EWEB employees, and that everyone is hurting. He wondered at what point something will give, and he noted that people who work in education haven't had a pay increase in five years, as there is no money there. He noted that EWEB doesn't have the authority to tell IBEW to open up their contract, and he asked that staff consider a cost of living adjustment freeze to show transparency and fairness. He reminded the audience

that if EWEB doesn't increase rates, its bond rating could go straight downhill, and they can't afford for that to happen.

He also reminded the audience that the real argument is with BPA, as they raise their rates each and every year, and take no prisoners. He recalled that EWEB has had very, very marginal rate increases for the last 7-8 years, but they have hit their own perfect storm, as they can't sell power for what it's worth, and they have tried not to raise rates so its customers can afford to live.

He continued by saying that there isn't anyone on the Board who wants to vote for the budget tonight, but that the Board has a fiduciary responsibility to not jeopardize EWEB's ability to borrow money, and he believes he has no other alternative than to vote for this budget in order to improve EWEB's financial situation.

Vice President Brown thanked everyone for coming to tonight's meeting and echoed Commissioner Cunningham's comments. He reminded the audience that the budget has already been cut 20% and that EWEB has laid off employees and terminated positions. He cautioned everyone that next year will be worse, and that EWEB has lost \$70 million since this budget process started. He said he appreciated Mr. Hudson's suggestions and that EWEB is seriously considering the City's offer to buy or share the EWEB headquarters building, and that this would result in the City spending \$12-14 million for a new building instead of \$45 million.

Vice President Brown agreed with Mr. Cassidy regarding EWEB employee wages not being the problem, and he agreed that EWEB's employees are its best asset. He noted that 20-25% of EWEB's budget represents the cost of operations and that EWEB can't control BPA, but is insulated by its own generation, even though they are forced into buying \$80/MW renewables and selling them for \$20/MW, and that EWEB will quickly go broke doing that. He reminded the audience that EWEB raised rates about 10 years ago in one fell swoop because of Enron.

He told Ms. DiMarco that he hears her loud and clear, and that her testimony really affected him.

President Simpson thanked everyone for testifying and wished them a prosperous and spirited holiday season. He noted that he is also a ratepayer and that Eugene's citizens need to be truly proud of EWEB, but a change needs to be made. He said that a disconnect seems to be growing between how EWEB operates and how customers feel it should operate, and that the way to close the gap is to include customers in the budget process.

He acknowledged Messrs. Hudson and Kidd for their suggestions to send public information out early and in a digestible form, and to design EWEB's bills to be more clear and to clearly show where the money goes. He also mentioned the possibility of setting up a citizens budget advisory committee for independent reflection on what staff and the Board have proposed.

President Simpson pointed out that if the budget is further reduced, customers may see more power outages, and weekend and after hours call-outs would be diminished, i.e., if a customer has a power outage on Friday evening, it may not be restored until Monday. He wondered if the public would be okay with that since customer have said repeatedly that EWEB's reliability is their #1 value.

He reminded the audience that employee wages represent only 1/4 of EWEB's budget, and that EWEB's primary cost is power, and always has been. He explained that the cost of power has risen especially because of the community's demand that EWEB invest in renewables and because of the wholesale power trading mechanism--buy low and sell high. He said that in the past this has allowed EWEB to afford to provide value-added services to citizens who have expressed that they appreciate EWEB's involvement in the community, but now EWEB has no choice but to dial this back, as it has become unsustainable.

He apologized to Mr. Patch for the flippant comment at a previous meeting, but said it is difficult to continue to get negative feedback for decisions which he feels are wise and sound for business.

He reminded the audience that EWEB's public relations staff answers customer inquiries in detail and that they send a copy of those replies to the Board, and that, in turn, those inquiries and answers are posted on EWEB's website so that the public can see them. He agreed that EWEB can do a better job of educating the public and that the Board is dedicated to making that a reality.

Commissioner Ernst clarified that EWEB Commissioners are elected to serve in different wards and that they are not paid, though dinner is provided at each meeting. She added that EWEB pays for her home internet access, as she previously did not have it. She said that when she was elected, she took the Board's mission and vision statement seriously, which is to provide reliable electric and water to its ratepayers, but that it also included that it had to be done affordably.

She pointed out that in 2007 her salary was twice as much as it is now, and that she supports almost three other people who have lost their jobs because of the economy, and that she believes "we're all in this together."

She recalled the major changes the Board has made in the last few years and noted that EWEB previously tended to balance their budget by raising rates, though not randomly, and that when General Manager Gray was hired, the economy was crashing. She acknowledged that General Manager Gray took it upon himself to look at the affordability piece of EWEB's mission and vision, and that the first change that was made was to not raise rates because of cost increases, but to make a rate increase the last priority, while balancing that with maintaining reliability, including EWEB's bond rating and EWEB's ability to borrow money in order to fund necessary projects.

She reiterated that EWEB employees' wages are a very small part of its costs and that the largest cost is what EWEB pays for power and transmission. She noted that on the electric side,

fracking has driven the price of natural gas down, and that has an effect on renewables so that EWEB has a difficult time in the wholesale market; and on the water side, fixed costs and employee wages drive most of that cost.

She added that the Board should ask employees to also tighten their belts by rejecting a cost of living increase (COLA) this year, though she hopes that won't lead to unionization; and that she believes EWEB employees should pay a portion of the contribution to PERS.

She echoed President Simpson's comments that the Board realized that the budget process was not transparent and that public hearings were held after the fact, and that this year the public was invited to be involved from the beginning. She, too, reminded the audience that public information is available on EWEB's website and that EWEB's public relations staff will always answer inquiries from customers.

In regard to tonight's public comment that water should be free, she recalled that some communities have polluted rivers and killed fish, and that everyone needs to be good stewards of the water that is used to generate electricity and provide customers with an excellent water source. She closed by saying that she doesn't believe electricity or should be free, but that EWEB should provide the best service they can for the most affordable rates.

Commissioner Helgeson echoed the comments of his fellow Commissioners. He said that, as a new Commissioner, he is still learning how to position himself and relate to his fellow Commissioners, and that he does monitor his possible pomposity.

President Simpson then called for a five-minute recess.

## **CONSENT CALENDAR**

### **MINUTES**

- 1a. October 2, 2012 – Work Session
- 1b. October 2, 2012 – Regular Session

### **BUDGET AMENDMENT**

2. Budget Amendment # 9 – Willamette 1325 Reservoir, Contact person is Debra Smith or Mel Damewood.

### **CONTRACT**

3. WESCO Distribution – for the purchase of 69kV, 115kV and 230kV Instrument Transformers on an as needed basis – Engineering Department – \$493,000 (over 5 years). Contact person is Debra Smith or Mel Damewood.

### **RESOLUTION**

4. Resolution No. 1225 – 2013 Legislative Session, Contact person is Lance Robertson.

It was moved by Commissioner Cunningham, seconded by Commissioner Ernst, to approve the Consent Calendar. The motion passed unanimously (5-0).

### **2013 BUDGET/RATES PUBLIC HEARING**

- 2013 Proposed Budget
- May 2013 Electric Rate Proposal/February 2013 Water Rate Proposal

With the use of overheads General Manager Gray, Debra Smith, Assistant General Manager; Cathy Bloom, Financial Services Manager; Sue Fahey, Fiscal Services Supervisor; and Adam Rue and Michelle Martin, Rate Analysts, reviewed the 2013 proposed budget, the May 2013 electric rate proposal, and the February 2013 water rate proposal.

President Simpson acknowledged and appreciated staff's excellent work and their effort to address customer questions.

General Manager Gray reviewed the agenda for the presentation, the context for the budget and rate process and the road map presented in previous budget presentations. He noted that there are two primary factors responsible for the proposed rate increase: a reduction in demand for electricity due to the recession, and the reduction in the cost of natural gas, which drives the wholesale power market.

Regarding additional ways to reduce the budget and avoid rate increases, he noted that the sale of assets would take quite a while and that a revision of EWEB's renewable portfolio standard (RPS) would take months, and that the only thing that could be done quickly would be massive employee layoffs. Regarding service reliability, cuts would not be made across the board but, if made, would be the ones that were least impactful to customers. He noted, however, that EWEB must comply with federal regulations regarding tree trimming, water filtration, etc. in order to comply with legal obligations, or they would be sued. He continued to give examples of how a reduction in service would affect customers, i.e., longer customer wait times on the phone, longer lines for customer service, longer response time for outages, etc. He also noted that EWEB's contract with Bonneville Power Administration (BPA) is a seven-year contract that EWEB can't walk away from, and that it would be financially devastating to do so.

General Manager Gray apologized to Mr. Demers, the Willamette Water Company (WWC) and the public present for dropping the ball on giving WWC notice about a rate increase, and said that this error was caused by a management cut, which resulted in a lack of communication.

General Manager Gray noted that recent public surveys had shown that the two major issues for customers are service quality and reliability, and rate affordability.

Ms. Bloom reviewed the budget and rates process, timeline, and summary of actions and changes to date.

Commissioner Ernst commented that the hiring of a water rate consultant was an important step in the water rate redesign, as it was discovered that some customers weren't paying their fair share of the base cost, which helped create a "death spiral."

In response to a question from President Simpson, General Manager Gray briefly reviewed the water rate tier structure, and how people foregoing their basic needs doesn't equate to water conservation.

Commissioner Helgeson asked that staff move forward to reviewing what has already been done and why, and the effect it will have on certain issues, as he believes that is what the audience came to the meeting to hear.

President Simpson wondered, if the Board approves the budget and rate assumptions this evening, if there will still be a 4% rate increase in November, or if there is room for reduction if BPA's rate raise ends up being less than 10%. General Manager Gray replied that there is room for reduction depending on what the BPA rate increase is. He reminded the Board that there is no action required tonight regarding the BPA pass-through, and that the Board is merely establishing a placeholder for that pass-through.

Commissioner Cunningham asked if this budget assumes additional employee layoffs. General Manager Gray replied that it does not, however it does capture the effect of elimination of a wage increase for non-union employees, and a 3% COLA and 1% contribution to health savings accounts for union employees. He reiterated that he is discussing alternatives with the union and that other provisions could be considered, i.e., layoffs, no overtime, etc.

General Manager Gray emphasized that he has great respect for the union (IBEW) process, that they have never refused anything and are monitoring EWEB's situation, and that they care as much about EWEB's issues as EWEB does. He added that the reality is that the IBEW has its process and the Board has its process, and things can't be done quickly on either side.

General Manager Gray also reminded the Board that the rate increase forecasts assume tonight's presented budget, and that if there is no COLA given and a 3% savings is captured from the IBEW, EWEB would get a variance and staff would then amend the budget in first or second quarter of 2013. He noted that those savings would not have a material impact on a rate increase.

Using bar graphs, General Manager Gray then reviewed the 2013 electric and water rate drivers.

Commissioner Ernst noted that it was a previous Board who voted for the relicensing of Carmen-Smith at a high price, and that it would be difficult to renegotiate that contract at this point.

General Manager Gray then summarized electric and water rate drivers and the perspective vs. reality of the most frequent issues raised by customers:

Perspective: EWEB is raising rates 8% in May

Reality:

- May proposed rate increase is 4% overall, 3.7% residential
- EWEB is projecting a November increase of 4% solely due to an increase in BPA power costs

Perspective: Rate increase drivers are EWEB's high wages and benefits

Reality:

- Electric rate increases are driven by BPA price increases, lost wholesale revenue and the Carmen-Smith project
- Water rate increases are driven by continued loss of sales due to the economy and inadequate rate design, increase in shared costs (less for electric utility), and depleted reserves
- EWEB routinely benchmarks its wages and benefits and uses the 50<sup>th</sup> percentile as target

Perspective: EWEB management is "top heavy"

Reality:

- Senior management has been cut 66% since 2010 (from six to two)
- Market data indicates that senior management salaries are below market

Perspective: PERS is the problem

Reality:

- PERS rates depend mainly on the PERS investment portfolio performance, and increases have been an issue for most public employers for several years
- Past legislative changes have slowed the rate of increases
- EWEB has been, and will continue to be, active in legislative efforts

Perspective: Cutting more employees will solve rate increase issue

Reality:

- EWEB cut 9% of its work force this year, including 38 layoffs, in an effort to mitigate rate increases
- Less than 25% of O&M budget is labor costs, which is much lower than other agencies
- EWEB has been, and will continue to be, active in legislative efforts

Perspective: The new Roosevelt building, the purchase of West 3<sup>rd</sup> location, and new trucks are the cause of rate increases.

Reality:

- Roosevelt facility resulted in approximately a 2% rate increase in 2009
- West 3<sup>rd</sup> was purchased with reserve funds and 2013 budget only includes \$30,000 of utility costs
- In 2012, Fleet Services reevaluated vehicle replacement process to provide a smooth budget impact, which resulted in reducing the 2012 fleet capital budget by \$800,000. 2013 budget is 14% below 2012.

- Reliable equipment is critical to ensure provision of reliable electric and water services

Perspective: EWEB is “walking away” from conservation, solar and other social programs valued by customers.

Reality:

- Conservation is geared to meet approved IERP plans
- EWEB is still doing conservation in spite of losing sales in recent years and projected flat sales in 2013
- EWEB lost significant BPA conservation funding
- Solar subsidies have been reduced to match market and economic realities
- EWEB is proposing to reduce customer assistance programs because financial projections indicate challenges that would not make using reserves prudent. EWEB’s rate-funded program still remains the largest (on a percentage basis) in Oregon.
- School grants were reduced, but not eliminated

General Manager Gray noted that the purchase of the building on West 3<sup>rd</sup> Avenue had little to no direct effect on rates. He added that the most economically feasible situation for EWEB (and possibly for the City of Eugene) would be to share the headquarters building with the City, and then the rest of the property would become surplus and could be sold.

Commissioner Ernst asked if the \$15 million the City would pay to share the headquarters building would be used to offset future rate increases. General Manager Gray replied that there is a \$22 million gap for 2014 that needs to be closed and that the \$15 million would help to close part of that, which would make a later rate increase more viable.

Ms. Fahey presented an overview of the 2013 proposed electric and water budget, the electric and water operations and maintenance (O&M) budget assumptions, the electric and water budgeted O&M resources, and the electric and water budgeted expenses for 2013 compared to 2012.

Ms. Smith briefly reviewed how revenue, cash reserves and debt feed into the debt service coverage ratio and how a rate increase (or lack of) affects debt service coverage ratio.

Commissioner Helgeson noted that a high proportion of the budget is allocated to capital, and he wondered if that is normalized or if there are fluctuations in 2013 that cause that ratio.

General Manager Gray replied that this represents a conscious decision to ramp up maintenance in the transmission and distribution system and to focus on reliability. He added that most water utilities are starting to face this same issue and that staff is working to get a benchmark within EWEB’s peer group for the water utility.

Mr. Rue then presented the electric rate proposal, including a comparison of residential electric rates both locally and in the Northwest.

President Simpson noted previous Board discomfort around the average monthly residential consumption figure of 1050 kWh, and asked that this item be placed on the starboard report.

Commissioner Ernst agreed, saying that it seems that an owner-occupied, four-person single family residence with 100% ceiling heat (i.e., an apartment) is what should be looked at.

Commissioner Helgeson recalled that the Register-Guard article had said that the proposed electric rate increase was going to cost some customers \$1,000 more per month, and he wondered if there wasn't an extra zero in that dollar amount. He also wondered if there truly are some residential customers whose annual EWEB bills are in the \$10,000-\$15,000 range. General Manager Gray replied that it would be hard for him to imagine that is the case, and that more likely a residential customer's total annual bill (for electric and water) starts at around \$1,000.

Ms. Martin then presented the water rate proposal. Ms. Smith noted that staff has recommended that Willamette Water Company's water rate increase be enacted on May 1, 2012 rather than February 1, 2012, in order to represent the amount of notice that was given to EWEB's other wholesale customers.

Ms. Martin then reviewed the 2013 proposed water revenue by class, and a local and Northwest utility water rate comparison.

Vice President Brown wondered how delaying WWC's rate increase is financially fair to River Road Water District, Santa Clara Water District, and EWEB's other wholesale water customers.

General Manager Gray reiterated that the failure to notify WWC of a water rate increase was an oversight on a previous manager's part, and that the timing of WWC's rate increase represents the amount of notice that was given to the water districts.

Commissioner Ernst asked what the revenue gap is and where that money will come from. General Manager Gray replied that this represents approximately \$12,000 per month, and that EWEB will close the gap on their side.

Commissioner Cunningham wondered if the WWC water rate increase could be enacted on April 1 (i.e., splitting the difference). President Simpson replied that in his opinion it is reasonable to go with staff's recommendation, but he polled the Board on whether EWEB should grant WWC zero, 60 or 90 days' notice before enacting their water rate increase. President Simpson and Commissioner Cunningham preferred a 90-day notice, Commissioner Ernst preferred a 60-day notice, and Vice President Brown and Commissioner Helgeson deferred to staff's discretion.

## **SECOND PUBLIC HEARING ON 2013 BUDGET AND ELECTRIC/ WATER RATE PROPOSALS**

**Dick Varner**, retired EWEB Fiscal Services Supervisor, told the Board that he had verified the typical all-electric home square footage usage amounts, and that they are more weighted toward apartments with gas-based heat pumps. He verified that at one time there indeed was one residential customer who used .25 KW a year and one who used over 50,000 KW per year.

He continued, saying that the potential path toward no rate increase in May would require the Board to take a risk on the power side with substantial reserves. He noted that a 93% hydro assumption is approximately what the worst 10 years would be, but that 95% would be a bit more optimistic, and that if staff wanted to offset this, they should look to average water. If a 95% figure is used, reserves should be used to offset the planned debt service issue in 2013 and then factor in employee pay adjustment, which would cover about 2/3 of proposed rate increase but not all of it, unless the power assumption was more optimistic. He added that doing that for one year would be okay but, doing it for more than that would be good. He noted that the 90% hydroelectric assumption was a good first move but that he believes that could be more optimistic.

Regarding rate design, he suggested a similar design as for water, i.e., going to the full cost of providing electric service to a home at \$25/per month rather than \$10.85 per month. He commended staff for increasing the water basic charge.

In closing, Mr. Varner said that he hopes the Board will consider postponing action on the electric rate increase until they have a chance to discuss with staff whether or not any of his suggestions would merit changes in the electric rate increase.

Commissioner Helgeson thanked Mr. Varner for his testimony.

President Simpson told Mr. Varner that it was great to see him and that he appreciated his time, and he thanked him for a great backgrounder which was full of excellent ideas, but that in his opinion they are too late, though he is not quite ready to defer his suggestions. He added that it would be perfectly appropriate for staff to consider these options throughout the year and begin to study the various impacts.

Vice President Brown thanked Mr. Varner for his input but said he will defer to General Manager Gray and staff. Commissioner Cunningham also thanked Mr. Varner for his input and said it was good to see him.

### **2013 BUDGET – Resolution 1222**

It was then moved by Commissioner Cunningham, seconded by Commissioner Ernst, to approve Resolution 1222 for 2013 budget action. Commissioner Cunningham complimented staff for their excellent work on the budget.

Commissioner Ernst commented that this is one of the most difficult budgets that EWEB has ever done, that she feels sorry for all the employees who were laid off, and that she wishes that wouldn't have had to happen. She thanked the remaining EWEB employees for being professional and for taking care of the EWEB's ratepayers. She closed by saying that she believes that Board and staff have made as many cuts as they can and that if there are more cuts made, that would affect reliability, which would not be a good thing. She voiced support for staff's recommendation.

Vice President Brown agreed that Board and staff have cut as much as they can, but he believes there may be more to cut. He recalled that when the Board previously decided to cut energy education, they ended up restoring it. He noted that the little stuff adds up--the wetlands project at the Roosevelt Operations Center (ROC), reducing EWEB crews in the Vida area by 50% in order to maintain just a few customers, and the negative situation at Walterville. He closed by saying that he will support the motion, but there is a lot of work to do so that crews who have worked in the rain all day today do not feel they need to be present tonight to sit and wait for the Board's decision.

Commissioner Helgeson commented that he appreciates staff's work on the budget and that he appreciates EWEB's employees for responding to customers. He agreed with Vice President Brown that there is more work to be done and that EWEB is not out of the woods yet, and he noted that tonight the Board is solving issues for 2013, but not the long-term issues for 2014-15.

President Simpson commented that he appreciates staff very much, and that when employees were laid off, part of him died, because that was something he never planned on doing. He apologized for dragging his feet at the beginning of budget talks this year and last year because he had refused to believe that EWEB was in dire straits, but that he was finally able to "wake up and smell the roses," and was finally able to understand. He closed by saying that he is forever indebted to EWEB's leadership team and budget staff for crafting the budget.

Commissioner Ernst thanked Commissioner Helgeson and Vice President Brown for looking into the future, and added that she believes that Commissioner-Elect Steve Mital also has the ratepayers' interest at heart.

General Manager Gray thanked the Board for their acknowledgement of EWEB's employees, and said that the entire budget process and also the articles in the paper have been tough. He agreed with President Brown and Commissioner Helgeson that there are still big challenges ahead, which will be brought to the Board in the first quarter of 2013. He closed by saying that he personally will fail to do his job if the only thing that is done in December is layoffs, as there are a lot of alternatives to look at, ranging from small to large.

President Simpson commended General Manager Gray for finding thousands of dollars' worth of items to cut without impacting customers.

The previous motion was repeated, and Resolution 1222 to approve the 2013 budget was passed unanimously (5-0).

### **2013 MAY ELECTRIC RATES – Resolution No. 1223**

It was moved by Commissioner Cunningham, seconded by Commissioner Helgeson, to approve Resolution 1223 to enact the May 2013 electric rate increase.

Commissioner Ernst asked for clarification that EWEB Community Care program funding will be \$1.7 million, and for clarification that the program is accessible to customers who make less than 60% of median wage.

Wendi Schultz-Kerns, Cash Accounting Supervisor, replied that that the program is for customers whose income is at or below 60% of the Oregon median household income. She reminded the Board and the audience that information regarding this program is available on EWEB's website and that customers can call EWEB or come to the EWEB office for more information. She added that Oregon's median income went down a bit this year, and she also noted that this program still includes customers who have lost their jobs, but this requires proof that they have applied for Unemployment.

The motion was then approved unanimously (5-0).

### **2013 FEBRUARY WATER RATES – Resolution No. 1224**

It was moved by Commissioner Cunningham, seconded by Vice President Brown (with modification, excepting Schedule 5 because of the extension of time for the Willamette Water Company rate increase to go into effect), to approve Resolution 1224 to enact the February 2013 water rate increase.

Commissioner Helgeson stated that he will be voting no on this item, though he generally supports staff's direction, because he feels there is more that can be done and not enough time given to work it out, though he appreciates that the rate increase has been rolled back.

Commissioner Ernst stated that she respects Commissioner Helgeson's no vote because he is a new Board member. President Simpson agreed with Commissioner Ernst.

Ms. Smith noted that staff will be convening on Friday morning, December 7, to look at opportunities to reshape the capital investment on both the water and electric sides in order to attempt to adopt a smoothing strategy on the water side, and that there is still an opportunity to reflect that in the 2014 smoothing strategy piece. She added that regardless of how the Board votes, staff has set an aggressive target for mid January to present a new look at the capital improvement plan.

Commissioner Helgeson then stated that, due to the above-mentioned staff attempt, he will now vote in support of the motion.

The previous motion then passed unanimously (5-0).

## **ITEMS FROM BOARD MEMBERS**

Regarding meeting with the City Council about the possibility of the City of Eugene sharing the EWEB headquarters building, Commissioner Ernst commented that she believes that will be an uphill battle because of the general public's nostalgia about City Hall being located downtown. However, she added that she has won over some of her constituents and is still in agreement with that plan.

President Simpson thanked the public that were still present for suggesting some budget solutions at tonight's meeting. He reminded the audience that any e-mails that are received on the same day as the Board meeting will probably not be read or properly interpreted. He asked that any e-mails to the Board be sent 2-3 days ahead of a Board meeting.

Regarding future public hearings, Vice President Brown commented that, in his opinion, when EWEB publishes that a public hearing will occur at a certain time and then the hearing ends up occurring two hours later than that published time, the public should be given an opportunity to testify at the scheduled time, and that the Board should be more courteous to the public in the future so they won't have to sit for two hours past the published time in order to present testimony.

Commissioner Cunningham thanked staff for making his job easier for the last four years.

## **CORRESPONDENCE/BOARD AGENDAS**

General Manager Gray briefly reviewed highlights of the December 18 Board meeting and noted that there will be an executive session at 5:30 p.m. with the regular session starting at 6:30 p.m., and that public input will be held at approximately 7:30 p.m.

He also mentioned a future agenda item regarding a tariff for the University of Oregon to transmit power.

President Simpson adjourned the Regular Session at 10:45 p.m.

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Assistant Secretary

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President