

EUGENE WATER & ELECTRIC BOARD
WORK SESSION
EWEB BOARD ROOM
APRIL 2, 2013
5:30 P.M.

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

Others Present: Roger Gray, Debra Smith, Karen Lee, Cathy Bloom, Sue Fahey, Susan Eicher, Todd Simmons, Mel Damewood, Roger Kline, Laurie Elliott, Brad Taylor, Mark Freeman, Matt Sayre, Wally McCullough, Dawne Howard, Mike McCann, Joe Harwood, Lena Kostopulos, Sheila Crawford, Patty Boyle, Wendi Schultz-Kerns, Steve Mangan, Frank Lawson, Dave Churchman, Kathy Grey, Sibyl Geiselman, Jeannine Parisi, Mark Oberle, Mark Maguire, and Taryn Johnson of the EWEB staff; Vicki Maxon, recorder.

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

**2012 YEAR-END AUDITED FINANCIAL STATEMENTS AND
MANAGEMENT LETTER**

Cathy Bloom, Financial Services Manager, introduced Julie Desimone from Moss-Adams.

Using overheads, Ms. Desimone reviewed the agenda for her presentation and briefly summarized the management letter which the Board has already reviewed.

She then commented that EWEB had received an unmodified opinion on their financial statements and no exceptions from or non-compliance with Oregon Minimum Standards were found. She added that the accounting estimates also remained the same, basically apples to apples comparison from prior to current year.

She noted one unanticipated audit adjustment in the Electric Utility which has no impact, and a passed adjustment in the Water Utility (two work orders that should have been placed in service at year end).

She then reviewed material weaknesses (none), one significant control deficiency (customer adjustment access controls), and other matters that were included in the Board backgrounder.

Vice President Brown asked why EWEB's PERS liability is not considered a material weakness. Ms. Desimone replied that there is no statement that requires EWEB to post that liability to their financial records, nor is there currently a reporting standard to do so, but that

will change two years from now. Ms. Bloom added that PERS doesn't currently provide the level of detail to EWEB that would be necessary to do that reporting.

Ms. Desimone then explained that the significant control deficiency found (customer adjustment access controls) was that there are many customer service employees at many different levels who have the access to make changes in customer information (i.e., rewrite vs. read only access), and that the review process is onerous and not as efficient as it could be.

In response to a question from Commissioner Mital, Mark Freeman, Customer Service/Energy Management Services manager, explained the different customer information access levels for customer service employees, noting that the employees who have access to credit card information and social security numbers are in a much higher tier. He stated that these information access levels and reporting capabilities are currently being reviewed and will be adjusted.

Regarding the Other Matters section, Vice President Brown asked for an update on the Anonymous Whistleblower Hotline item. Ms. Desimone replied that she had met with General Manager Roger Gray, and that she believes that his response is a step in the right direction—to talk with employees so that they understand what issues to raise and whether or not a full whistleblower process needs to occur. She noted that instituting a whistleblower policy is a requirement but a whistleblower hotline is not.

General Manager Gray added that the whistleblower process is a series of steps and that the policy is about whistleblower protection, with an employee education process to reinforce that, and that tools from the Eugene Police Department and the Oregon Ethics Commission are available to assist with this.

Commissioner Helgeson stated that he would like to make a distinction between raising issues and concerns and disagreements with management vs. issues that affect EWEB's financial statements and operations. He said that he wants to continue to maintain an environment of open communication as EWEB has always tried to do, but he doesn't view this as needed for a place for employees to go to air their grievances, though for audit concerns, it is something to reflect on.

General Manager Gray stated that he had asked Ms. Desimone if this was something on which immediate action needed to be taken, and he was told it was a tone issue that needed to be seriously looked at. He reiterated that the process is part education and part cultural, and that if employees are concerned about retaliation, there are internal and external ways to address that.

President Simpson asked for an explanation of Access Management under the IT Matters section. Susan Eicher, General Accounting & Treasury Supervisor, explained that this item addressed information access for employees who had changed jobs within EWEB or had left EWEB, but still had partial access to some parts of the information system, i.e., access was turned off at the network level but not for individual information systems.

President Simpson asked if there a checklist completed when an employee retires or is terminated. General Manager Gray replied that there is. Lena Kostopulos, Human Resources Manager, briefly explained the timing of information access cancellation depending on each individual situation (i.e., retirement, termination, etc.).

President Simpson asked for an explanation of Work Order Documentation Consistency under the Other Matters section. Ms. Desimone replied that there are several different employee groups who run work orders, but there is not a consistent methodology between electric and water, and improvement is needed in that area.

In closing, Ms. Desimone stated that EWEB's Accounting Department was very prepared for this year's audit, and that she appreciates everyone's work and their willingness to participate in discussions.

Commissioner Helgeson thanked Ms. Desimone for the helpful narrative commentary that accompanied the financial statement.

Ms. Bloom stated that the Board will receive a mid-year audit/financial update as usual.

CARMEN-SMITH PROJECT FINANCIAL UPDATE

Using overheads, Mike McCann, Carmen-Smith Project Manager, presented an update of the Carmen-Smith license implementation project, including the project history and background, the relicensing process, the current relicensing status, and the license implementation schedule.

Patty Boyle, Principal Project Manager, presented an economic analysis, including relicensing or decommissioning/replacement costs (if a natural gas plant were built, which would be the least-cost alternative for peaking power), the benefit of relicensing, and the incremental value of a relicense in relation to a carbon tax. She noted that replacement power will have to be purchased.

In terms of the long-term financial plan, she noted that the new schedule delays a rate increase, to continue as scheduled will require a draw of reserves, and a delayed schedule comes with some risk.

In response to a question from Commissioner Mital, Ms. Boyle discussed relicensing and retaining ownership vs. selling the Carmen-Smith project. She stated that the sale of Carmen-Smith would definitely generate interest, and that staff is asked on occasion if they would consider selling Carmen-Smith, as peaking hydroelectric plants don't come on the market very often. Roger Kline, Generation and Fleet Manager, added that there would be many issues to consider when marketing Carmen-Smith, including social, environmental, etc.

General Manager Gray added that EWEB could look at a sale, but whether or not Carmen-Smith is more valuable than a gas-fired plant, or vice versa, would be a Board policy

decision, and for the future, whether or not Carmen-Smith would function better than a gas-fired plant would also be a Board policy decision.

Ms. Boyle answered clarifying questions from the Board.

Due to its expense, Mr. McCann discussed the various alternatives to building the fish passage, but he noted that the settlement agreement would have to be renegotiated in order to do so (i.e., tradeoffs would have to be presented).

Vice President Brown reiterated his longstanding concern that an oil leak from the transformers at Carmen Substation into the river is a huge risk. President Simpson stated that he is also interested in relocating the transformers from the deck.

General Manager Gray replied that staff agrees that this is a risk that needs to be mitigated, though it might potentially delay the license, but the license may be in perpetual delay anyway.

General Manager Gray also stated that the Carmen-Smith plant is 50 years old and some work also needs to be done in the powerhouse, with or without the license.

President Simpson asked what type of work can be done without the license. Mr. McCann replied that any maintenance or repair of existing infrastructure that wasn't called out in the license application and does not require Federal Energy Regulatory Commission (FERC) approval can be done, for example, replacement of motors in the powerhouse. He noted that a restroom at Trailbridge has already been added and the bridge at Carmen-Smith diversion reservoir has been rebuilt, and that communication upgrades were done in preparation for construction.

In answer to a question from Commissioner Helgeson, Ms. Boyle briefly reviewed financial considerations and discount interest rates, and how they would affect value.

Commissioner Helgeson asked if the Board could receive a "sensitivity analysis." General Manager Gray replied that staff will follow up with that information.

Commissioner Mital asked how climate change will affect river flow. Mr. McCann replied that climate change was factored in as part of the analysis, but staff's research found that the McKenzie River will pretty much maintain its flow over 50 years.

Commissioner Mital asked when the decision regarding retaining Carmen-Smith or building a gas-fired plant will need to be made. Mr. McCann replied that once the license is granted, EWEB has 30 days to accept or reject it, and staff will return to the Board at that time for input.

Commissioner Mital wondered if EWEB could receive financial assistance from organizations who offer it when carbon emissions will be offset. Mr. McCann replied that financial assistance in that regard would only apply to a new plant, not an existing one.

Vice President Brown asked if EWEB will receive any monetary credit for the Forest Service survey mistake that caused the delay in the relicensing process. General Manager Gray replied that EWEB will not, and he added that in some ways the delay has actually been a benefit. A brief discussion ensued regarding the Forest Service survey and how it affected the relicensing process.

General Manager Gray stated that it is getting to the point where a decision needs to be made on whether the Board wants to continue this project, as even the powerhouse upgrades are costing money.

Vice President Brown stated that during construction, even a small increase in flow disrupts the river, and that the river guides and other upriver residents are very concerned about this. He wondered if there will be public outreach regarding how construction will affect the river flow.

Mr. McCann replied that staff attends the river guides meeting every year to give them updates. He added that staff doesn't plan to disrupt the river flow and that they will do their best to minimize it, and that their intent is to run the river flat during the construction period.

President Simpson adjourned the Work Session at 7:22 p.m.

Assistant Secretary

President