

EMERALD PEOPLE'S UTILITY DISTRICT

Finance Committee Meeting

October 20, 2011

Minutes

- Convene Jim Theabolt convened the meeting at 5:40 pm at the Emerald office, 33733 Seavey Loop Road in Eugene.
- Attendance Finance Committee: Robert Ball, Larry Bottemiller, Hal Conner, and Vicki Flynn.
- Staff: Sara Cline, Tiffany Collier, Brian Johnson, Chris Miles, Kyle Roadman, Jim Theabolt, and Beth Matthews.
- Guest: Bob McKuhn, Rate Committee member and ratepayer.
- Welcome and Overview Theabolt welcomed the Finance Committee and began the overview of the 2012 Budget Proposal. He reminded the Committee what the 2011 budget looked like, and that it was a good year overall budget-wise. Theabolt said EPUD is heading into 2012 in good shape.
- Theabolt continued the budget overview by updating the Finance Committee on Symbiotics and a timeline of costs associated with the Fall Creek and Dorena projects. In December, 2010 the Board had authorized General Manager Frank Lambe to sell Dorena for \$1.8 million and Fall Creek for \$664,000. The payments were due on July 1, 2011. However, only the \$1.8 million for the Dorena Project was paid and the money for Fall Creek is still outstanding. EPUD has negotiated a stipulated judgment against Symbiotics and thus has a legal right to their assets. Theabolt commented that Symbiotics would be wise to pay their debts and not irritate FERC. Roadman said that our attorneys feel EPUD has a strong legal position with this stipulated judgment.
- Theabolt reviewed the financial goals set forth in Board Policy. These were presented on page iii of the 2012 Budget Proposal. He also reviewed the comparison of rates between EPUD and other utilities. Theabolt remarked that in total, the utility is meeting almost all of the Board's goals. He said that 2012 will be a bit more challenging than some of the future years, but that EPUD is certainly doing better for customers than its predecessor. Most other regional utilities are facing rate increases as well, including Blachly-Lane, SUB, EWEB, and Mid-State.
- Conner inquired about inverted rates and asked for an explanation of those. Roadman responded that EPUD has studied this topic as part of the recent COSA and that some utilities which have been doing inverted block rates are now actually going away from that.

Election of
Committee Chair

Motion Flynn/Bottemiller nominated Ball as Committee Chair.

Vote Unanimously approved.

Presentation of
Staff Proposed
Budget

Roadman began the presentation of the 2012 Net Power Cost budget with background information. He said that wholesale power costs have always been a major budget item, historically between 30-40% of total expenditures. He discussed how BPA has stopped building new resources and utilities are now given a fixed amount of low-cost Tier 1 federal power. In addition, utilities are responsible for servicing their own load growth beyond this amount. Roadman said this will play directly into some of the power supply choices we're making.

Roadman said there is now a much larger emphasis on market pricing and capacity. He said the region is currently significantly over-supplied in the short-term. EPUD is preparing for this change in power supply by pursuing non-federal resources and the election of a Slice/Block contract with BPA. This will allow for greater flexibility to integrate non-federal resources and provide more local control and decision making. In addition, EPUD has established a formal Risk Management Program with a new Risk Policy and Risk Management Committee.

Roadman noted that this requires active management of power supply and careful budget analysis. EPUD has focused on this the last couple of years, Roadman said.

Roadman talked about how long-term resource decisions can have short-term impacts, and what may be a good long-term investment can have short-term negative impact. He said that any year could be impacted by unique load, weather, and/or market price conditions. The proposed 2012 budget is designed to withstand a near "worst case scenario" for Net Power Cost, but the challenge is to also maintain a realistic tool for performance measurement and tracking.

The Net Power Cost Budget on page iv of the Budget Proposal was reviewed in more detail with the Finance Committee. They were reminded that in late 2007, EPUD entered into a 20-year power purchase agreement to acquire a share of the output from the White Creek Wind generation facility. However, with the recession and resulting drop in demand for power, White Creek Wind will not likely be needed to serve EPUD load for another few years. As a result, plans in the proposed 2012 budget for White Creek Wind are for the output to be sold into the short-term wholesale markets. Though this will still generate revenue for EPUD, it will not cover the full costs as it would in a long-term resale contract. It was noted that the Net Power Cost for 2012 is increasing by \$2.55 million. Of this, White Creek Wind is responsible for \$811,630.

BPA power costs were discussed with the Committee along with information on the impact of surplus energy pricing. Roadman noted that BPA implemented an average 7.8% rate increase on October 1 and the effective increase for EPUD is closer to 5.8%. The expected budget impact for 2012 would be \$804,421 when

factoring in load growth. Roadman also noted that under the new BPA contract, EPUD is responsible for disposing of surplus energy and prices have fallen since BPA rates were locked in July. As a result of this price decrease, the 2012 Net Power Cost budget has increased an additional \$321,535. Roadman noted that this price forecast is subject to change.

Roadman discussed other components of Net Power Cost which include BPA transmission costs and billing credits, power scheduling and risk management, green power purchases, and customer generation purchases. Roadman said most of these costs are projected to be flat in 2012, with a total budget impact of \$319,539. He noted that the majority of this increase relates to EPUD's first full year of power scheduling and risk management.

Roadman discussed Budget Conservatism, which is designed to provide a small buffer against unfavorable conditions. An extra \$293,718 has been built into the proposed 2012 budget for this. Staff said they made an attempt to balance a conservative budget vs. cash reserve levels in order to cover unforeseen events. Roadman noted that the two options to cover bad outcomes are to add conservatism to the budget and to hold additional cash reserves. He explained that the downside to adding too much conservatism to the budget is that you lose the ability to have realistic performance tracking and measurement throughout the year.

Overall, the cash reserve levels planned in the budget have been designed to handle a near "worst case scenario" for Net Power Cost. Roadman noted that this is not an absolute worst case scenario, but that Staff specifically looked at a 95% confidence level. Staff designed the budget to ensure that cash reserves would be sufficient to handle this 95% scenario. Roadman reviewed a table showing the difference between the budgeted Net Power Cost and the 95% Net Power Cost. He also showed how this variance would affect EPUD's ending cash reserve levels if the 95% scenario came true. In this case, an additional \$1.46 million would be needed from cash reserves, which he explained would still leave available cash well above the Board requirement. Roadman also noted that Staff has performed studies of short-term cash flow impacts, including extreme levels of hourly and monthly demand, supply, and market pricing. Although some months can look worse than others, these short term cash flow impacts were within acceptable ranges.

Cline distributed and discussed an updated Page 3, Budget Summary. She indicated that the proposed budget for 2012 assumes low-to-moderate growth in all customer classes. Cline said that once the original staff-proposed budget was submitted and a preliminary review was done, staff then went back to the drawing board to reduce the proposed budget by about \$2 million, deferring projects where feasible. She noted that there was search money included in the 2012 proposed budget for the General Manager recruitment, as Frank Lambe has announced his plans to retire in 2012. She said the budget also reflects payouts for three other retirements in addition to Lambe's.

The Committee had several questions in regard to the cost for the generator for the building and about the existing phone service and the ability to provide messages to ratepayers during an outage. Theabolt explained that it is designed to handle overflow calls and that it is set up and ready to go for ratepayers to successfully get to the message center.

Cline called the Committee's attention to several areas of the budget:

--the 4% rate increase which is included in the 10 year forecast and scheduled for April 2012;

--Debt Financed Capital – borrowing has not been recommended;

--Beginning Cash Balance – the 2011 budget beginning cash balance was forecasted based on projections in order to prepare the budget; the 2011 projected beginning cash balance has been adjusted to reflect the cash available based on trial balances associated with the 12/31/2010 audited financial statements.

Conner expressed concern about any borrowing. Theabolt responded that you have to think long-term, rather than just short-term. He said it will be necessary to make sure that the utility has adequate cash on hand, although as noted in Cline's presentation, borrowing has not been recommended in the proposed 2012 budget.

Cline continued her presentation, saying that a new line item has been included for Hydro Project Sale Funds and that anticipated or actual hydro proceeds are included as appropriate.

There was a question about metal thefts. Staff said that BPA has had 5 substations hit by vandalism due to copper theft. Miles explained about the security cameras at EPUD's substations and the extra wire mesh which is installed to protect substations from theft.

Conner talked about electric cars, saying that he hopes EPUD will be on top of that. Collier said there are currently 3 hybrid vehicles in EPUD's fleet. She said that the utility does look at that. Conner inquired the cost of recharging electric cars. Johnson said that he had recently looked at this and that the situation varies depending on the infrastructure. He also noted that the battery lifespan of the car can be a limiting factor at this point.

Bottemiller expressed some thoughts he had on pre-paying long-term debt. Collier referred the Committee to page 19 under the Financials tab for more information on EPUD's Bonds and Revenue Obligations Payable. Theabolt and Collier explained the net revenue available for debt and ultimately the net surplus/deficit. They explained that there is no excess cash. Ball said that he appreciates the utility is not looking at doing any future borrowing and that is what he likes about this budget. He confirmed that if EPUD never borrowed another dime through 2021 that they would be debt free. Theabolt and Collier confirmed that this was correct.

Conner inquired what the term “unaudited financials” meant. Cline and Collier explained this for the Committee. Ball pointed out the independent auditor’s comment on page 30/31 at the end of the proposed budget document.

Conner also inquired what the thoughts/dreams are for the future of Emerald. Collier and Roadman said it is best to stay focused on serving customers and delivering quality service. However, they also said they would like to keep costs low, do no borrowing, and continue to provide high reliability.

Collier referred the Committee to the 10-Year Forecast, again stating the expected 4% rate increase to be effective April 1, 2012. Cline explained that some of the items on the deferred list are factored back into the 2013, 2014, and 2015 projections. Roadman also commented that overall growth has been down since 2007, especially in the industrial sector. Johnson displayed a sample of expected increases from other utilities, which showed the percentage and timing of the increases.

Recommendation and Discussion

Motion

Bottemiller/Flynn moved to approve the proposed 2012 budget in the amount of \$40,109,207 as presented, with no changes recommended.

Vote

Unanimously approved.

Collier confirmed that this budget amount is based on the presentation which would include the April 1, 2012 rate increase of 4%.

Cline asked the Finance Committee for feedback on the presentation of the budget documentation. She explained that this was the second year using the new budget system and presentation of the proposal packet. She said staff is always open to feedback and looking for ways to improve.

The Committee responded that there was really nothing which needed to be changed in the document presentation.

Collier said staff is always happy to have the Committee attend Board meetings and invited them to do so if they were interested. Ball said he will appear at the Public Hearing, which is scheduled in connection with the November 8 Board meeting.

Bottemiller thanked the entire staff team for the work they do at EPUD. Conner also commented that it was important to have the Finance Committee here.

Upcoming Meetings and Events

The Board meeting scheduled for Tuesday, November 8 beginning at 5:30 pm in the District offices will include a presentation of the Finance Committee’s recommendation as well as a Public Hearing.

Adjournment The Finance Committee meeting was adjourned at 8:20 pm.

Minutes prepared by Beth Matthews, Executive Assistant.

Beth Matthews