

EMERALD PEOPLE'S UTILITY DISTRICT
Board of Directors' Meeting
March 17, 2020
Minutes

Convene	President Parker convened the meeting at 5:30 pm at the Emerald offices, 33733 Seavey Loop Road in Eugene.
Attendance and Introductions	Directors: Patti Chappel (by phone), Ron Davis, Charles Kimball, Brian Parker and Kevin Parrish. Staff: Doug Barab, Alicia Burgess, Sara Cline, Scott Coe, Wendi McKay, Kyle Roadman and Brian Sharr. Guests: Steve Andersen from EES Consulting
Agenda Timeline	Chappel mentioned an email from SDAO regarding Board meetings; the Board can decide to make an emergency notice and hold online only meetings. Coe said he'd like to remove the Grid Management Initiative Update from the agenda and reschedule for a later meeting. Parker added an item for discussion following the Treasurer's Report.
Deferred Items	None.
Finance and Treasurer's Report	The Accounts Payable Check Register for February 1-29, 2020 was reviewed and discussed. Cline clarified some key items from last month's register. The first item pointed out to the Board includes a buildout on a F550 truck; Cline noted the increase in truck activity on the check registers recently. A payment for EES Consulting, who would be presenting the Cost of Service Analysis during the meeting, was also noted. Several new AED's were purchased for various work trucks and around the headquarters. Some of these were new purchases, others replaced those that were expired. Chappel asked about the Cottage Grove-Lorane resources survey. Cline said this is part of a FEMA hazard mitigation survey for ensuring the land is suitable to dig.
Board Policy Proposed Update	Parker shared his proposal for an update to the current Board Policy Manual, in the section on expense reimbursements. The proposal would pertain to the Board's budget and spending in excess of each individual Board member's annual budget. If a Board member wishes to exceed their budget in order to attend a training or conference, the rest of the Board will need to be notified and approve the overage prior to the Board member exceeding their allotment.

Parrish said he thought the proposal seemed reasonable, he mentioned he was in a similar predicament years ago and was not permitted to go over his budget to attend a meeting. Chappel suggested the Board discuss it further and that the Board needs to look at the bigger picture when it comes to training.

General Manager's Report

Coe presented his GM Report to the Board with the following updates:

- There was another EPUD retirement on March 5. Debbie Childs who has been at Emerald for over 35 years, recently retired. Jerry Lay was scheduled to retire next month, but given the current situation with the coronavirus, staff and Lay have been in discussions to postpone his retirement date by a few months. His position has been filled with longtime employee Neil Williamson, however there have not been additional positions added thus far.
- Two line apprentices were at lineman training camp last week. They both represented EPUD well and took top honors.
- Coe said he would discuss renewable natural gas at Short Mountain in the Executive Session. Staff has not yet signed an exclusivity agreement with NW Natural, but it's been confirmed with attorneys to ensure all state laws are being met if an agreement is signed. It doesn't necessarily bind Emerald to moving forward with them.
- Coe has been working on GM mentoring since 2017 with both Roadman and Cline as part of the utility's succession planning. The goal is to provide the Board with two solid candidates upon Coe's retirement in February 2022. Parker said realistically, the Board is only 8 months away from making a decision on this so that the selected GM can spend more dedicated time with Coe before he leaves. Coe said to hire internally would not be an unprecedented decision. There have been 11 internal candidates hired as GM in the northwest just in the past two years. The continuity is a huge benefit and although it doesn't need to go this way, it is a good option. The Board will need to decide on what the overlap for the GM will look like when it comes to the budget session later this year. Coe reminded the Board there are also three Board directors up for re-election this year – Parker, Davis, and Kimball.
- Coe gave an update on safety at the utility. He commended Sharr and his team for keeping safety at the forefront and thinking of new ideas to keep injuries down. There was a huge improvement in 2019 with equipment and tools that directly correlates to safety among the crews. This will continue into 2020 and in years to come.
- Short Mountain received two new generators, however a component piece was the wrong size so new pieces will have to be installed.
- Coe spoke about the recent east coast TEA Annual Meeting he and Roadman attended. Roadman was a speaker and gave his presentation on advanced analytics, which Emerald has partnered with TEA on. The partnership with TEA will continue and Emerald will be considered an anchor tenant since the utility was the first partner in the program. Roadman will continue working with the TEA on this in an effort to get other utilities on Board and bring costs down.

Coe said additionally, a local utility has asked for Emerald's help with utilizing advanced analytics.

- An update on the FEMA reimbursement from last year's storm was given. All paperwork has been submitted to FEMA and it's still a waiting game at this point, but it looks promising.
- Coe discussed coronavirus and plans for the utility during this unprecedented time. Senior staff has spent many hours on this throughout the last week. Plans include splitting up crews in an effort to social distance. Emerald serves a critical need in the community and need to limit exposure as much as possible. The customer lobby will be closed beginning Wednesday, March 18; however customers will still be able to call in and talk to representatives. Vendors and suppliers coming in to the building will be limited along with limiting in-person employee interactions using teleworking capabilities. Crews will begin staggering their works shifts in order to limit interactions and crews will not be mixed as they usually are.

Coe said staff is actively working with Lane County's emergency response and the State. The State can help the utility, as first responders, with testing and supplies. Emerald's main goal during this time is to continue providing safe and reliable customer service, respond to outages, and continue working on some projects that are in the queue. A code has been created to bill time to, if needed, so we can capture data much like the utility would during a big snowstorm. Coe said as far as the effects on customers, it has been a fairly mild winter so far so there is still some customer assistance funding leftover that can be used if customers get behind on their bills due to the virus impact.

Chappel suggested a policy for customers who can't pay their bill during this time, or in the near future. Parker said it's too early to be panicked about what could happen and said staff will monitor the situation and discuss it with the Board. Coe said Emerald has focused on reducing losses in customer write-offs in recent years. The utility used to budget around \$150,000 annually and about four years ago customer service began focusing on reducing this number. Write-offs are now around \$40,000 annually. Coe said bottom line, if the number of write-offs increases again, someone has to pay the bill and unfortunately it goes back to the customers. Chappel said EWEB has issued a formal statement regarding customer disconnects during this time and suggested Emerald may want to issue a formal statement as well. Coe said EPUD will continue working and assisting customers with their billing just like always. Chappel suggested revisiting this topic in another week.

Parker requested a short break at 6:24 p.m. and the meeting was resumed at 6:30 p.m.

2019 Closeout Report

Before he began the closeout report, Coe said he wanted to take a moment to thank the Senior Staff team for their work, especially over the last week in handling the coronavirus. They work together very well and have come up with creative solutions for the entire utility.

Coe highlighted a few items from the 2019 closeout report, starting with the budget. Despite the difficult year with the storm, the high price power market in Q1 and the low water year, the top line of the budget was missed by just \$234,000.

Moving through expenses, Coe said overall the utility was better than budget by about \$1 million. Cline added there was a lot more time spent working on the capital side of the budget, due to the storm.

Cline continued, discussing several key items. Expense labor was lower because they were working on capital at the time when they would normally have been working their 40 hours. She said overall, with the storm, the utility came \$4 million over budget. With the pending FEMA reimbursement at \$3.2 million, it would be a decent year, absent the storm.

Overall, with the storm the utility was down around \$2.4 million, putting the utility about \$1 million in the positive, including the FEMA reimbursement.

Coe continued with the closeout report with the safety program. With significant changes made in the last year and over 600,000 miles driven by company vehicles, there was only one minor accident where a limb came down and dented a fender. There was only one loss time injury, a huge improvement over the previous year.

Coe discussed financial parameters briefly, the utility continues to be financially sound. Cash balances were drawn down some with the GMI project, but not as much as expected since expenses have come in lower than projected.

Risks for 2020 were discussed, including an economic softening that may result in lower retail sales when selling surplus into a very low wholesale market. Coe noted the line item in the budget for reimbursable revenue could also come in much lower, thus impacting bottom line results.

Next, Coe reviewed the employee satisfaction survey that is shared with the Board every year. The written comments were better than in previous years and the percentages were similar to last year. Coe thanked the management team for taking care of employees as well as customers and keeping morale high. He mentioned succession planning with Cline and Roadman and has high hopes if either of the two are selected as the next GM; he expects them to take the utility even further than he has.

Roadman discussed the cost of power, which is reviewed with the Board each year. He shared the cost per MWh for each of Emerald's power resources. The BPA Slice/Block product came in at \$38.84; higher than it has been in the past. Bonneville's cost has gone up and it's reflected in the block product. Short Mountain costs are also increasing, which is something to keep in mind as staff continues the discussion on renewable natural gas options.

The contract with White Creek Wind was also mentioned, this contract ends in 2027. Roadman recapped how the Bonneville costs are calculated. If there was a short water year, with the Slice product Emerald pays for the costs of changing conditions up front where load followers would pay for it later on when BPA recoups their costs. Both products are supposed to be similar in pricing, the main difference is timing.

Roadman said the water year was not great in 2019 and the market spike in March saw pricing close to \$1000 per MWh. Low water and high market prices make for a difficult start to the year. The first Friday in March 2019, in the middle of the snowstorm, was a tough day. Several actions were taken by staff in response to the high pricing. Emerald has a normal hedging program, or insurance, where call options can be used for power purchases. This call option avoided over \$200,000 in power costs during this time period. The load forecast was also adjusted and the decision was made to under-forecast during the high pricing event in March to account for the system outage from the storm. Staff also diversified between the day-ahead market (\$1000/MWh) and the real-time market, which settled at under \$100/MWh.

Roadman said the Short Mountain production trend is steadily climbing, and cost of power is now around \$47.56 per MWh. White Creek production is trending slightly down and the solar program is higher than it's ever been.

Executive Session

Parker adjourned the Board meeting at 6:58 pm to convene an Executive Session pursuant to ORS 192.660 (2) (f) to consider information or records that are exempt by law from public inspection and 2 (i) to review and evaluate the employment-related performance of a public officer.

Present: Directors - Patti Chappel (by phone), Ron Davis, Charles Kimball, Brian Parker, and Kevin Parrish

The Board meeting was reconvened at 7:41 p.m.

GM Performance review discussion

The Board all agreed they are pleased with Coe's work. They will discuss how they plan on proceeding with the GM succession planning at a future meeting.

COSA Review

Coe introduced Steve Anderson from EES Consulting to discuss the Cost of Service Analysis (COSA) recently conducted by the company. Coe asked the Board members to think about the presentation and if they have any thoughts regarding the COSA to bring it to staff prior to the next meeting.

Roadman and Anderson presented the EES report of the COSA. A COSA is a formal study comparing rates to the actual cost of service. Utility costs are directly assigned or allocated to customer classes.

The COSA is performed using Generally Accepted Accounting Principles (GAAP) and is a reasonable benchmark to work from, although it's just a snapshot of current conditions and isn't meant to be perfect. A COSA will not tell determine how rates should be set, that is a policy decision to be made by the Board.

Roadman began with a description of what a rate study looks like, saying the cost of service is just one piece of it. Revenue requirement is also a piece. The study compares a utility's total projected revenues to its projected expenses and determines the system-wide adjustment to rate levels that may be required. The next step in the study is the cost of service analysis which allocates revenue requirement to each customer class. The final step is the rate design analysis which compares COSA-derived rates to current rates for each customer class. In this step, the study also considers rate adjustments to ensure fairness and equity. Anderson discussed what is meant by each customer class saying there is somewhat of an art to know what is related between the distribution and the transmission system. Comparing COSA's for customers across a district, there are utility's with 3 customers per mile line and there are areas with 30 customers per mile line. Anderson said there was time spent comparing the previous COSA conducted by EES to ensure there weren't any huge misalignments.

Next, Roadman shared the different expense classifications that factor into the COSA. These include the power supply cost, customer service, taxes, and operating reserves among others. This raises some potential issues with the COSA including cross subsidization; or one class paying for another's cost burden. There can also be misaligned rate structures where costs are being collected via the wrong component. Both of these issues impact the ability to offer fair and equitable rates. Anderson said rate structures are mostly inaccurate because there is a hesitance to have a high fixed basic charge.

Roadman discussed Emerald's 2015 strategic plan guidance. The guidelines state that rate schedules would reflect at least 90% of cost of service, adjustments would be made over a 5-10 year time period to reach their goal and would not be made in combination with annual rate changes, and no rate schedule would be adjusted more than 10% in a given year.

The 2020 COSA highlights conclude that the current rates for most customer classes are largely appropriate. The residential, commercial, and industrial rates are within 10% of their cost of service. A couple of outliers are two industrial customers who exceed the 10% threshold and a similar variation among individual commercial rate classes. Irrigation rates remain much lower than their cost of service; between 35% (single phase) and 105% (poly phase) undercharged. Anderson said this is not an uncommon issue among utilities.

Roadman said the current electric system charge for Emerald is \$31 for residential customers. The previous COSA showed the actual cost of service at \$38.70 and now it has increased slightly to \$41.93, about \$10 difference from what is charged.

To get to 90% of the cost of service, the monthly electric charge would need to be set at \$37.74, or \$6.74 higher than the current charge.

The COSA examined the electric system charge forecast for the next 10 years to determine any significant changes in the utilities cost structure that could impact the system charge. In 2023, most of Emerald's bonds will be paid down however, it would not make a drastic decrease in the monthly charge.

Next, Roadman discussed EPUD's system charge history over the last ten years. In 2010, the charge was set at \$10. The increase to where it's at today follows a larger trend in public power toward higher fixed charges. The primary justification for this is to have rates that better reflect actual costs and to avoid cross subsidization between customers. The majority of PUD's surveyed now have basic charges set at over \$20. In comparison, Emerald is in the 75th percentile range with the highest being \$53 and the lowest set at \$10. Parrish said that getting the basic charge set at its actual cost of service is important so the utility can cover its costs. Parker agreed that 100% of the cost of service should be the goal. Davis stressed that the utility was formed to be the energy provider of choice, at a low cost.

Roadman said the next step will be the topic of rate structure in the 2020 Strategic Plan. The Board will be asked to confirm or update its guidance on the COSA if needed.

Board Director
Report-Outs

Chappel gave a recap of her recent APPA Washington D.C. Legislative Rally trip from last month. She attended a breakout session called "Demystifying Energy Resources" and met with some legislators. She said some of the visits were good, others were not and many at the time mostly wanted to discuss the coronavirus. There was some discussion on keeping BPA competitive as well.

Kimball suggested when directors attend these types of conferences, a short written report to the rest of the Board would be beneficial to find out what all was accomplished and information gained on the trip.

Parrish discussed his recent conference in Reno for NWPPA. There were a lot of utilities under travel restrictions and by the final day of the conference, there were not many in attendance. The first day of the conference is for the executive committee to meet and on Thursday the government relations committee met. Parrish mentioned a vote on NWPPA resolutions for the year and the only one that anyone had an issue with was a resolution on electric vehicles.

Consent Agenda

Motion Director Kimball/Director Parrish motioned to approve the Consent Agenda.

Vote Unanimously approved.

Review of Motions The motions made during the meeting were reviewed for accuracy.

Public Comment None.

Suggested Items for Future Meetings None.

Upcoming Meetings/Events A list of upcoming meetings and events was included on the Board Agenda.

Directors' Concluding Comments None.

Adjournment President Parker adjourned the Board meeting at 8:40 pm.
Minutes prepared by Wendi McKay, Executive Assistant.

