

## SPRINGFIELD UTILITY BOARD

223 A STREET, SUITE F  
SPRINGFIELD, OR 97477  
MINUTES

December 11, 2007

The regular session of the Springfield Utility Board was called to order by Chair Adams at 7 p.m.

ATTENDANCE: Board: Bobbie Adams, Chair; Virginia Lauritsen, Vice Chair; Ken Boyst; Theodore L. Johnson; Joe Mathieu. Staff: Bob Linahan; Jeff Nelson; Bob Fondren; Ray Meduna; Judy Berra; Matt Cox, Attorney for the Board. Others: Steve Counard.

MINUTES: \* Joe Mathieu motioned, and Virginia Lauritsen seconded, to accept the Regular and Special Session Board minutes for November 14, and the Budget Committee minutes for November 26, as presented. This motion **CARRIED** unanimously.

ACCOUNTS PAID: \* Ted Johnson motioned, and Ken Boyst seconded, to approve the accounts paid listing, as presented. This motion **CARRIED** unanimously.

BUSINESS FROM  
THE AUDIENCE: None.

BUSINESS FROM THE  
BOARD: Virginia Lauritsen thanked the members of the committee that organized SUB's 2007 Winter Banquet and commended them for doing an outstanding job.

Public Hearing for Adoption  
of 2008 Utility Operating  
Budget Chair Adams opened the public hearing at 7:05 p.m.

As there was no public comment, Chair Adams closed the public hearing at 7:06 p.m.

Adoption of Resolution 07-7,  
Approving the 2008 Utility  
Operating Budget \* Virginia Lauritsen motioned, and Joe Mathieu seconded, to adopt Resolution 07-7 (Exhibit A), approving the 2008 Utility Operating Budget, as presented. This motion **CARRIED** unanimously.

Presentation on Proposed  
Water Rate Increase Bob Linahan introduced Jeff Nelson to give the Board a presentation on the proposed increase in water rates.

Jeff Nelson referred to his overhead presentation (Exhibit B) and also a binder given to each Board member that contained a copy of the presentation.

The proposed increase in water rates is consistent with the 2008 budget approved by the Budget Committee in November, he said. The overall increase in revenue to the Water Utility is just under 9.6 percent. The base charges shown under the current rates as well as the proposed rates are the same. The only thing that is changing is the unit charge for both inside and outside the Springfield city limits, he said. The unit rates for the summer surcharge rates will also remain the same.

He reviewed his graph that reflected the average rate impacts for the different classes and the proposed annual revenue for 2008 of about \$6 million versus the annual revenue for 2007 of \$5.5 million.

Mr. Nelson then referred to the graph for the Residential Water Rate Comparison, noting that it reflected rates as of November 2007 using a monthly bill based on 20 units of water. Portland still has the highest water rates and Medford continues to have the lowest, he said. SUB is consistently among the three lowest utilities. SUB's rates, after this proposed rate increase, will be slightly below EWEB's rates. However, he noted that EWEB is proposing to raise their water rates in 2008 by 20 percent.

Mr. Linahan mentioned that at the Mid-Year Budget meeting for 2008, staff will propose a change in water rates for 2009 that will be driven by what SUB's different classes actually use individually as opposed to collectively.

Virginia Lauritsen noted that at the November Budget Committee meeting they had a discussion about water leaks and the costly new water projects being planned and she was concerned that the Water Utility's reserve level of \$400,000 wasn't high enough. She felt that staff needed to determine a time schedule for when the Water Utility would break even on its operations. Perhaps the schedule for the proposed water rate increases should be moved forward a bit, she said, and instead of a 10 percent rate increase, the Board may want to consider 12 or 15 percent.

Mr. Linahan said that he heard what the Budget Committee said during its November meeting, and he and his staff are preparing

information for a discussion at the January Board meeting on the Water Utility's reserve levels and construction capital. We are always updating our information, and six months makes a big difference, he said. Our current information indicates that our year-end numbers are going to be a lot better than what we previously thought. Jeff Nelson has been working with Chuck Arrera to update the Water Plan in terms of the Water Requirements and he will give the Board an update at the January Board meeting. Following his report, we will ask the Board for direction and the Board can decide if they want to make some changes or if, after hearing the current update, they may feel more comfortable with how staff is proceeding at this time in the Water Utility.

Mr. Nelson reported that staff was preparing a Rate Comparison binder for the Electric and Water utilities for the January Board meeting. The binder will contain a memo put together by EWEB that compares EWEB's and SUB's combined water and electric bills, based on an average customer's monthly usage. The Board should be pleased with the result of that comparison, he said.

Mr. Nelson concluded his presentation with a recommendation from staff that the Board adopt Resolution 07-8, as presented, following the close of the Public Hearing.

The Board thanked Mr. Nelson for his presentation.

Public Hearing on Proposed  
Water Rate Increase,  
Resolution 07-8

Chair Adams opened the public hearing at 7:27 p.m.

As there was no public comment, Chair Adams closed the public hearing at 7:28 p.m.

Consideration of Resolution  
07-8, Approving Water Rate  
Increase

- \* Joe Mathieu motioned, and Ted Johnson seconded, to adopt Resolution 07-8 (Exhibit C), approving the water rate increase, as presented. This motion **CARRIED** unanimously.

BUSINESS FROM THE  
GENERAL MANAGER:

Presentation on Post-2011  
Power Supply Options

Bob Linahan reminded the Board that in 2011 SUB will need to acquire power beyond what Bonneville is going to provide. He then introduced Jeff Nelson to give a presentation that was held over from the October 13 Board Retreat regarding post-2011 Tier II power supply options.

Mr. Nelson said that Bonneville can be a default Tier II provider, and we will always have the option of Tier II power. It's just a matter of the cost and the Board's preference on the type of resource.

Referring to his overhead presentation (Exhibit D), he briefly reviewed the resource acquisition process. To begin with, staff will define the Board's and Management's objectives and philosophy and then conduct a staff analysis, said Mr. Nelson. The staff analysis will involve forecasting SUB's load/resource balance needs and identifying options from demand-side management to supply-side resources and purchases. We will conduct a screening and portfolio analysis to look at different scenarios offering multiple types of resources to see the impacts on our costs over time, he said. He noted that SUB, as a medium-size utility, is not required to comply with Resource Portfolio Standards (RPS) in terms of having a percentage of its resource portfolio come from new renewables by 2025. However, we still need to consider environmental externalities as we move forward because there may be a carbon tax or an issue other than RPS that causes a cost increase, he cautioned.

As we narrow down our options, we need to look at a selection of preferred and alternative options, and then do a risk analysis, Mr. Nelson said. Then we will give a presentation to the Board on the information gathered from the staff analysis and make a recommendation. Following Board action, staff will implement the resource plan and update it as needed.

Mr. Nelson pointed out that SUB would not need very much Tier II power in the first few years. Although we won't know exactly what our Tier I allocation from Bonneville is going to be until after our decision point for the first part of Tier II power, we will have more and better information as we get closer to 2011. He

assured the Board that staff will be updating resources and options to be considered and Board members will be kept informed and up-to-date all along the way so they will have all the information they need to make decisions.

Mr. Nelson explained that under the regulatory requirements, in addition to Oregon's RPS for utilities, established by Senate Bill 838, and potential federal/state carbon cap legislation, SUB is obligated to meet 10 percent of its load with renewable resources by 2025, although we have no interim targets between now and then, which larger utilities, like EWEB, do. He cautioned that part of SB838 states that if SUB purchases power directly from a coal plant, that purchase automatically puts SUB in the large utility class and subject to higher RPS standards.

Technology, over time, tends to drive down costs, as demonstrated with wind energy and other resources, Mr. Nelson said, but technology is only one variable that impacts the overall cost picture. On the other hand, metal prices tend to drive costs up over time, he said. He then reviewed his Power Cost Comparison (Point in Time) chart. He noted that Bonneville's current power rate is about \$32 per megawatt hour (MWh). Market power for 2011 delivery is expected to be about \$60 per MWh. And comparing the different types of resources, from small cogeneration to wave energy, the current cost of power ranges from \$63 to \$240 per MWh, he said.

Mr. Nelson referred to his graph on Avista's 2007 Integrated Resource Plan (IRP) Case Study. Avista's 2007 Preferred Resource Strategy (PRS) differed substantially from its 2005 plan in three main areas: the removal of coal as a resource, the challenge of acquiring renewables, and the need for natural gas-fired plants. Coal-fired generation was replaced entirely with natural gas-fired resources, he said. Another interesting point is that Avista's conservation acquisition is 25 percent higher than in 2005 and 85 percent higher than its 2003 IRP. He noted that as costs go up, more cost-effective conservation is pulled into plans that had not been in the past.

Future Conservation programs that we are going to be looking at include energy efficiency to reduce energy use; load management to reduce peak use; and transmission and distribution efficiency, said Mr. Nelson. Conservation is a local,

cost-effective resource that helps us to avoid transmission costs by reducing our load.

Referring to non-BPA resource options, Mr. Nelson said that staff will continue to evaluate local resources like solar, small-scale hydropower and cogeneration. He said it was important to note that new, larger scale resource development, regardless of location, has a long lead time of about five years. SUB explored a couple wind projects and a coal-fired plant in Washington, he said. However, due to problems with these projects (the wind projects had transmission issues around getting a firm path from the generation to SUB, and the state denied the coal-fired plant's permit), we are not going to pursue them, he said. He noted that SUB has been using Lands Energy Consulting (Steve Kern) to assist in evaluating Bonneville's product options as well as other resource options.

In conclusion, Mr. Nelson briefly reviewed the guiding principles for staff that were discussed at the Board Retreat: (1) priority should be given to reliable resources; (2) resources should be affordable and meet community standards; (3) resources should add value to SUB's customers; (4) priority should be given to the least-cost resource; (5) SUB's resource portfolio should be competitive; (6) management should be effective and efficient; and (7) our resource strategy must address state and federal resource policies. He invited Board members to take the opportunity to add to this list as they feel the need to do so.

The Board thanked Mr. Nelson for his presentation.

Mr. Linahan noted that since staff will be giving presentations to Board members in January on the Water Utility's Ending Working Capital and Capital Reserves, and since these items were of particular interest during the November Budget Committee meeting, he plans to include a copy of these presentations for the lay members of the Budget Committee with the mailing of the Fourth Quarter Financial Report.

Revisions to Board Policy 7-1-2,  
Securing Commercial and  
Industrial Accounts

Mr. Linahan said that staff is recommending a few revisions to Board Policy 7-1-2, Securing Commercial and Industrial Accounts. He referred Board members to a redline copy of the proposed revisions in their meeting binders. The proposed

revisions include a recommendation to remove the last two paragraphs of security options under the Deposit section because the language is out of date, he said.

Then, under the Personal Guarantee section, the current language indicates that new commercial/industrial accounts may be secured with a personal guarantee by providing SUB with a 3-year letter of credit from their own utility. However, the standard in the industry, and in most systems, is that only a 1-year letter of credit can be produced. In addition to simplifying the language in this section, Mr. Linahan recommended that the time requirement for satisfactory credit history be changed from a 3-year letter of credit to a 1-year letter of credit.

Mr. Linahan recommended the Board approve the revisions to Board Policy 7-1-2, as presented, and that the revisions take effect immediately.

- \* Virginia Lauritsen motioned, and Ken Boyst seconded, to approve the revisions to Board Policy 7-1-2, as presented and as indicated in the redline copy of the policy (Exhibit E), and that said revisions will become effective immediately. This motion **CARRIED** unanimously.

ADJOURNMENT:

The meeting was adjourned by consensus at 7:42 p.m.

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Bobbie Adams, Board Chair

ATTEST:

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Robert C. Linahan, Board Secretary