

SPRINGFIELD UTILITY BOARD

223 A Street, Suite F
Springfield, OR 97477

2018 MID-YEAR BUDGET COMMITTEE UPDATE MEETING

MINUTES

August 8, 2018

- ATTENDANCE:** Budget Committee: Board: David Willis, Chair; John DeWenter, Vice Chair; Pat Riggs-Henson; Virginia Lauritsen; Mike Eyster. Lay Members: Bill Belcher, Budget Committee Chair; Bobbie Adams; Steve Moe; Neal Forrester; Michelle Bronson; Kris McAlister; Ken Boyst; Robert Scherer.
Staff: Jeff Nelson; Sanjeev King; Greg Miller; Bart McKee; Cindy Flaherty.
Others: Sandy McLean.
- CALL TO ORDER:** Budget Committee Chair, Bill Belcher, called the meeting to order at 5:02 p.m. and welcomed everyone.
- REVIEW OF BUDGET:**
- Mid-year Financials for Water and Electric
- Jeff Nelson shared that Bob Fondren was on vacation and would not be able to be at tonight's meeting to give his presentation on *Financial Reserves* (Exhibit A), but these materials were recently sent to the Budget Committee for review. Mr. Nelson then referred everyone to the mid-year budget binder containing the 2018 update presentation on *Electric and Water Utility Major Capital Improvements and Ten Year Cash Flow* (Exhibit B) and noted that this year's format is similar to last year's. Some of the changes in the unbudgeted items, that he wanted to highlight tonight, explained Mr. Nelson, was that the Board has an interest in investing another \$1 million in infrastructure; one reason for this is to promote leveraging public assets to facilitate or enhance private competition on the telecom side. We've spaced that out, for budget purposes, half of that being spent this year, and then the other half being spent in 2019.
- Electric revenues are down \$1 million. Water revenues are on track for 2018, and noted that the weather sensitive months are in the summer; there's \$800,000 in two (2) additional property acquisitions (1-Electric, 1-Water) – the Electric property already closed; the Water property is up for discussion tonight. Mr. Nelson said that SUB has some projects that are on the radar, and with our list of capital projects we can only squeeze so much into a planned 10-year cycle. Sometimes projects are driven by other external factors that end up moving our plans around. As with the City's 28th Street paving project

and additional 4th level water facilities in 2019 have increased the Water Utility's projected budget for 2019. Planned water projects have been adjusted (shifted forward) but there is limited flexibility due to projects needing to complete timelines (e.g. water treatment plant online). Also, there's the replacement of a substation transformer.

Greg Miller explained that with SUB's South 28th Street paving project, from Main Street to M Street, the City also has plans for reconstructing and repaving that street. SUB has a number of water lines in that street that include 16 inch, 20 inch, some 24 inch, and even some 36 inch water lines that come from the Willamette Wellfield. With the City's construction taking place, staff will need to take this opportunity to get our facilities in that space reconstructed and configured for SUB's needs before the City does their construction. SUB has had this on the radar but is now planned for 2019. Jeff Nelson added that when projects like this come up, there is only so much flexibility that SUB has in terms of being able to shift some other projects around. For example, we have a lot of work being done on the transmission side and the source side, and we need to keep on track with those timelines, so this type of work adds another project on top of the capital projects plan.

Sanjeev King also noted that the Laura Street substation had a failure of the portion of the transformer that controls the voltage, which caused damage within the transformer itself. This was the big substation class transformer and the most expensive piece of equipment in the substation. These large transformers also have the potential to fail catastrophically, and staff did a wonderful job diagnosing the problem so we could take it offline before there was any demonstrative failure. The planning that has occurred over that last 30 years at SUB in the Electric Division, has put us in a position where we can take that large transformer out of service and still serve all of SUB's customers. This is a type of redundancy that we've built into our system so that it's somewhat resilient to a loss of one of these large transformers. He added that the lead time to get a large transformer is about a year, and then it takes time to install it and commission it. As a result, we are in the process to go out to bid for a new substation transformer, but it won't be received until 2019, so that's why it's one of those unanticipated budget items. The cost is expected to be approximately \$500,000 to \$600,000. The loss of life with transformers is highly dependent on how they're loaded or used.

SUB is able to track how a transformer is functioning, in order to tell when it might need to be replaced.

Jeff Nelson then reviewed a slide on proposed capital spending and noted that SUB is investing a lot more in the infrastructure in the system than we have in decades. But it's all about being proactive, looking to the future, and trying to make sure we're on top of our system. He then briefly reviewed charts on the spending mix for Electric and Water, which details where each dollar expense goes.

Update on Water Capital Projects

Greg Miller gave an update on major capital projects for the Water Utility. Water production projects include pump station testing and repairs for performance and efficiency; pump station construction site work for the South Hills pump station site; seismic retrofit of storage facilities includes South 57th Street water tanks; pump station electrical and controls is part of the upgrade project to an existing pump station facility; water plan updates – the Water Management and Conservation Plan (WMCP) is complete, and the Water System Master Plan is still pending the Capital Plan and our System Development Charges (SDCs) update; and upper level facilities which consists of exploration of our 3rd and 4th level service areas for pumping and storage, which would include SUB's South Hills, MountainGate, and Natron areas, for future growth in those areas.

Water source projects, said Mr. Miller, would include pump, motor, and well testing and rehabilitation – this would include all of our wells and source sites for testing performance and capacity; surface water intake construction is part of our Thurston Wellfield Treatment Plant project; re-sanding of filter beds at Willamette Slow Sand Filtration Plant is part of the ongoing regular maintenance of those filter beds to replace sand periodically; the new McKenzie Surface Water Treatment Plant – we are currently working on a couple of pieces of this project, and the Cedar Creek Mitigation Project – our crews are currently laying pipe for this project, which will also be part of the river water intake. In addition, part of that will include our pilot filter process for determining our treatment technology methods to be part of the Thurston Wellfield Treatment Plant.

To explain the Cedar Creek Mitigation Project in more detail, Mr. Miller shared that some of the water rights for the wells, currently in operation at the Thurston Wellfield, are connected or associated with

stream flows in Cedar Creek; so there are stream flow conditions that we have to ensure are met, in order for SUB to meet the obligations and requirements for water rights for wells in Thurston Wellfield. One of the ways to manage that is to put water into Cedar Creek in the upper reaches of the Zone of Influence, which affects those wells. By wrapping this into our water treatment plant project, we've designed part of the river intake structure so we can pump water from a river intake into Cedar Creek when those flows are below the required levels, in order for SUB to meet the obligations to Water Resources Department for our water rights at Thurston Wellfield.

Water transmission projects include Kelly Butte Phase II, which was completed earlier this year. Part of that system is in service, and crews continue to build pipeline for our North System transmission; the Steam Plant property swap with the City has been finalized and recorded for future Eastside Pump Station, and we are currently working with the City to do some demolition with some structures on that property this year; the Steam Plant North to Gateway and additional transmission is also part of what crews are working on, and our target for completion of this project is scheduled for 2019, barring any unscheduled work; Thurston transmission is being completed in segments between Thurston Wellfields and South 57th Street reservoirs/water tanks, which is planned to be phased over multiple years.

SUB continues modifications of distribution system pipelines and sampling plans to meet Oregon Health Authority's (OHA) water quality regulations. SUB is also working with OHA on the addition of and modification to the distribution system entry points for water quality sampling and those regulatory requirements to construct and install monitoring equipment at entry points in our system that gives us real time online data for reporting and regulatory requirements for those source sites at the entry points before they go into the distribution system.

As for water distribution projects, Mr. Miller shared details on a project to plan and relocate Glenwood infrastructure for City improvements. SUB has completed phase I of the project that the City has completed. At this time we don't know that Phase II of the City's Glenwood project has a start date, and if Phase II were to come on the radar, then that would mean SUB would also need to do that work for those improvements in Glenwood. Bart McKee added that we

installed a 16 inch water line down Franklin Boulevard and Mississippi Avenue in Phase I; we were able to connect the existing Glenwood water services to that water line, because the old Glenwood waterline was essentially destroyed by the street construction. Phase II would consist of a complete replacement of the existing Glenwood system, going west from Mississippi Avenue, as we have nothing new in place to connect to; so basically it would be designed from scratch.

Rate Increase
Projections and Reserves
for 2018 through 2027
for the Water Utility

Mr. Nelson shared a brief overview of his overheads relating to water rate increases and reserves for the Water Utility. The water rate increases are relative to what was presented to the Budget Committee last November/December; however, this new forecast shows a 3% increase for 2020 when previously there was no rate increase for 2020, but everything else is the same for water rate increases.

He then shared a graph that detailed the Water Utility's ending working capital and long term investments, and explained that the Utility has funds to keep both Electric and Water at, or above, the minimum targets. Mr. Nelson then shared a graph on Water Utility Reserves that shows a summary of revenues and expenses over time.

Update on Electric
Capital Projects

Sanjeev King gave an update on major capital projects for the Electric Utility. These projects include the construction of the Glenwood substation which will take the majority of our dollars and time. Over the next three years, not only will we construct the substation but there will be an associated transmission line to serve that substation as well as constructing the distribution facilities to tie that system in with the rest of the system in Glenwood and will even extend, and help support, across the river and provide some much needed resiliency to our electric distribution system.

Other capital projects include replacement of aging equipment such as distribution and transmission breakers, battery banks, and a substation transformer; equipment upgrades and additions consists of transformer protection and relays; and retrofit existing substation for oil containment. Another project is to identify and develop a substation

site in east Springfield. Although this is further down in our 10-year plan, we recognize that there is a need for a more permanent solution to serve east Springfield.

Mr. King then reviewed transmission projects for the Electric Utility. These include site, permit, and construct transmission line in Glenwood; upgrade portion of Olympic-Jasper transmission line; review closed loop schemes and load flow; and when we talk about a substation in east Springfield, depending on where that is, it means permits and construction of transmission line.

Overhead/underground distribution projects includes a lot of maintenance of our existing infrastructure by replacing aged items before they fail, looking at ways to tie our distribution system together better so there's more resiliency; aging poles and cables that need to be replaced; voltage conversion projects that have to do with SUB's long history of acquiring different service territory regions that were served with different voltage; and new construction of distribution feeders out of the Glenwood substation.

Rate Increase
Projections and Reserves
for 2018 through 2027
for the Electric Utility

Referring to his graph showing projected electric rate increases, Mr. Nelson explained that even though there's a lot of work going on right now, we aren't showing any changes on what the prior plan was on rate increases for the Electric Utility.

Kris McAlister requests that we track how many customers try to access our emergency assistance program (Project SHARE) in comparison to our rate increases/decreases, and to have that information in future documents in order to ensure that we are competitive on that end as well, and that our customers in need are being served.

Mr. Nelson briefly reviewed graphs on the Electric Utility ending working capital and long term investments from 2017 to 2027, and a 25-year history of the Electricity Utility reserves; as well as a slide on the Utility's cost allocations. He then made note that the Telecom is its own Utility in this budget now, and has its own cost allocations.

Jeff Nelson wrapped up his presentation with a brief recap on the Utility's 10-year cash flow, and shared his slide titled, *SUB vs. EWEB (EWEB with no rate changes)* that shows the rates and how our net bills would stack up over time on the residential side for the years 2017 to 2027, providing the assumptions in the model that are presented in this presentation actually occurred (and its assumed that there are no rate increases for EWEB on their electric and water).

Mr. Nelson noted that Bob Fondren had some thoughts he shared in his absence: In his opinion, the financials continue to show that SUB is in a strong financial position; the assets have been increased; the capital investments outpace depreciation; the Electric Utility has zero debt and has about \$31.5 million in cash on hand in investments; the Water Utility assets have also increased and its capital investments continue to outpace depreciation.

After brief discussion, Budget Committee Chair Belcher thanked everyone for their participation in tonight's meeting.

ADJOURNMENT: The meeting was adjourned by consensus at 5:58 p.m.

David Willis, Board Chair

ATTEST:

Jeff Nelson, Board Secretary