

ROCKWOOD WATER P.U.D.
MINUTES, SPECIAL MEETING OF THE BOARD
January 11th, 2006
Rockwood Water Boardroom

Board members present: Sandra Ramaker, Herb Brown, Stephen McElroy, Larry Dixon, Don McCarthy.

Staff present: Harvey Barnes, District Manager (DM); Sabrina Walyer, Administrative Secretary (AS)

Guests present: Paul Dayfield, Lee Dayfield, Jeanne Orcutt, Fran Hyson, Dave Shaff, David Hasson, Edward Campbell

President **Sandra Ramaker** called the meeting to order at 7:00 p.m.

APPROVAL OF THE AGENDA

President Ramaker asked if there were any additions or subtractions to the agenda. **DM Barnes** replied no, and no other board members had anything to add.

Herb Brown moved to approve the agenda. Don McCarthy seconded the motion. The motion was approved; none opposed.

PORTLAND CONTRACT DISCUSSION

President Ramaker began by announcing that this meeting is for the Portland contract discussion. **DM Barnes** remarked that he can do a brief introduction, and there are also three representatives from the City of Portland present to provide information and answer questions: Dave Shaff, David Hasson, and Edward Campbell. **Fran Hyson** asked why this meeting was not televised. **President Ramaker** answered that we do not usually record the special meetings, and that this is strictly a discussion time. **President Ramaker** added that we will make the CD available to the public. **DM Barnes** began by saying that this is a 20-year water sales agreement that has been in the works for about 7 years, and that it is wise to hold this meeting for any clarification needed. He added that the way that rates are determined is different than previous contracts.

Edward Campbell handed out a print of slides for the board members to refer to while he presented. He stated that he and his colleagues will be presenting the key provisions and benefits included in the contract, and answer any questions that arise.

Campbell explained that Portland conducts its' water sales under the guidelines of a model water sales agreement. Most of Portland's current wholesale agreements will expire by July of 2007, **Campbell** stated, whereas Rockwood's long-term contract has already ended and we are currently working from a one-year contract. A major benefit for Portland by selling water to wholesale customers is the fact that Portland produces more water than is needed by City residents, and so this creates revenue, **Campbell** said. Given that there have been discussions about changing the current water sales agreement for quite a while, **Campbell** explained, revisions have been made at the staff-level to come up with a version that will suite Portland and the wholesale customers. He said this proposed agreement has been made public for review, in efforts to make concerns heard by wholesalers before a final offer is extended.

Campbell noted, as shown on the chart, that there are 6 major customers who make up 90% of Portland's wholesale income, Rockwood being one of them. He went on to explain some of the differences between wholesale and retail customers. He said that wholesale customer rates include the cost of maintaining facilities that provided them with water (ie. Bull Run, storage reservoirs at Powell Butte). Wholesale customers **do not** pay for facilities and parts of the Portland water system that only serve the City of Portland residents (customer service, local pipelines and meters).

Dave Hasson took over the second portion of the presentation and continued explaining key provisions in the agreement, specifically rates, guaranteed purchase quantity and interruptible water. Beginning with rates, **Hasson** explained that the rate structure is based on the American Water Works Association industry standard. He said that Portland also uses a rate model to implement the proposed agreement, and when finished, will produce exact rates for wholesale customers around March 1st, 2006. As long as all wholesalers sign the agreement, he added, there will be no impact on retail rates from the wholesale agreement (as wholesale is less than retail).

Initially, **Hasson** continued, there will be a fixed volume of water purchased by each wholesale agreement, but by mutual agreement this amount can increase. The current agreement does not provide for any specific quantities. **Hasson** added that the reason for this change was that both the wholesale customers and Portland wanted more rate stability. With the proposed agreement, Portland guarantees this amount of water, and if the City does not provide this supply more than once every 10 years, the customer has the option of reducing their purchase quantity by 10% per year. This agreement allows the wholesale customers to trade and sell between one another.

Hasson went on to explain the concept of interruptible water, which is water that Portland has available to sell after in-city demand and guaranteed purchases are met. This "extra" water is interruptible, meaning it is not to be counted on all the time, but it is a benefit, **Hasson** noted. Another provision included in the proposed contract is the option to have a reserve capacity available through a separate agreement. A joint funding agreement, **Hasson** continued, is an option that other wholesale customers are interested in. This allows for joint funding for new infrastructures between Portland and the wholesalers.

Currently, **Hasson** said, the agreement is a 20-year term with 10-year renewals. This leaves the option of a 5 year notice for non-renewal by either Portland or the wholesale purchaser. The last provision that **Hasson** wanted to talk about it the water managers advisory board. This advisory board is comprised of representatives from all the wholesale customers and Portland. The reason for this board, **Hasson** explained, is for coordination of operational functions among the affected water systems and to provide a forum for the wholesalers to provide input.

Edward Campbell continued, bringing up the issue of conservation and curtailment. Basically, **Campbell** noted, both Portland and the wholesale customers will conform to state water planning and conservations standards. Should curtailment occur, he said, Portland wants to create a plan with the wholesale customers for Water Bureau approval. **Campbell** cited some of the benefits to each side of the agreement. Portland will benefit by no increase in retail rates, and a 20-year guarantee of specific income and customer base. Portland will also have the opportunity to sell interruptible water. Portland will have no requirements to build additional infrastructures. An adequate water supply for Portland will be maintained, and the City may add additional wholesale customers for retail and wholesale benefit. **Campbell** then explained the benefits to wholesale customers. These benefits include having a guaranteed firm supply of water, an anticipated reduction in rate, flexibility to trace capacity, opportunities to purchase reserve quantities, and also defined cost control.

Mr. Campbell added that the Portland staff had put together a list of dates to anticipate when future discussions and meetings will be held. He acknowledged that this schedule shows when Portland expects to have their rate model completed, and when the wholesaler responses are due. **Campbell** advised that on the packet of slides there is contact and reference information for further inquiries.

President Ramaker referred to the board to pose their questions and comments. **Herb Brown** asked about the interruptible water, and if it will be backed up by the Portland ground water supply. **Edward Campbell** answered yes. **DM Barnes** added that the interruptible water is not to be depended on, it could be there at a specific time, and yet it may also be unavailable. **Don McCarthy** asked if there had ever been a situation where water was unavailable. **DM Barnes** answered that yes, in 1992, Bull Run was shut down but it wasn't an entire curtailment.

President Ramaker asked what should happen if the board decided to sign the contract, but then another wholesaler does not. **Edward Campbell** answered that they make clear to the other wholesalers how much participation is needed to make the agreement possible, but at this point, it is not needed for every wholesaler to be included. He added that there is an aggregate amount that is needed in order for the deal to move forward. **Don McCarthy** asked if there is concern that not all of the listed wholesalers will sign. **Campbell** answered that there has been public discussion of this possibility, and the 6 largest will most likely need to sign.

Larry Dixon asked for clarification on the rate structure, and if he read correctly in the contract that rates will increase by the cost-of-living plus 2% over 20 years. **Dave Shaff** replied that the notation means that the operation and maintenance costs for the items controlled by Portland could increase no more than the cost-of-living plus 2%. **Shaff** explained that this isn't a cap on rates, but on some of the operating costs and that it allows some of the wholesale customers to pay for some of the major operations Portland may need to undertake in order to bring water to the retail and wholesale customers. **DM Barnes** said the proposed agreement requires the City to complete a project, put it into service, and we pay on what has actually been completed.

Paul Dayfield asked why many of the terms in the proposed contract appear to be in Portland's favor.

Break at 8:19 p.m.

*****10 Minute Break & Change CD*****

DM Barnes answered that we are likely to get a 17% rate reduction with the agreement and the opportunity to cap part of their expenses. Another benefit to wholesalers is the change in methodology from the replacement costs appreciation to book value. Ultimately, **DM Barnes** said, both sides have things they'd rather see changed. **Mr. Dayfield** asked if the water rates are fairly the same as other districts, except for the added costs of distribution. **DM Barnes** replied no, that Rockwood has the lowest rate on the Bull Run system, and the further west you go, the more expensive the rates become.

Jeanne Orcutt asked how much help Portland received from the federal government when building the Bull Run dams and the conduit. **David Shaff** replied he was not sure, because the dam is 100 years old, and there is no federal amount that they are aware of. **Fran Hyson** asked if Portland had considered bringing the water rates down to a more reasonable rate since Rockwood is one of their largest wholesale customers. Hyson added that you cannot rely on the wells.

Lee Dayfield mentioned that Rockwood Water PUD should have made more of an effort to let the rate payers know what has been going on. She added that we should put the contract up on the

website. **DM Barnes** commented that he had advised a staff member to take care of that and scan the contract onto the website. **Fran Hyson** added that people are very unaware of current events, and it is unreasonable to have to spend \$25 to take a CD or video out, and that had we televised this meeting the patrons would have watched it. **Hyson** continued that she doesn't understand why this board hesitates to spend a little money to inform its' patrons.

Larry Dixon asked what will happen if the board decides not to sign, and if there is an arbitrator. **Dave Shaff** answered that no there is no arbitrator, that we would all have to start over and discuss the areas of the agreement that are posing problems.

President Ramaker thanked the representatives from the City of Portland for being there and said the she feels we should put it on the agenda for the next meeting.

ADJOURNMENT

Herb Brown moved to adjourn the meeting. **Stephen McElroy** seconded the motion. **The motion was approved; none opposed.**

The meeting was adjourned at 8:54 p.m.

Secretary