

ROCKWOOD WATER P.U.D.
MINUTES, REGULAR MEETING OF THE BOARD
24, AUGUST 2004
Rockwood Water Boardroom

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

Staff present: Harvey Barnes, District Manager (DM); Cathy Middleton, Office Supervisor (OS); Mike Baker, District Superintendent (DS).

Guests present: Fran Hyson, Jeanne Orcutt, Pat Brown, Kim Anderson, Ryan Frank, Art Landis, John Heberling, Ray Beach.

President **Herb Brown** called the meeting to order at 7:04 p.m. He welcomed special guests to the meeting and noted that public testimony would be limited to three minutes per person.

APPROVAL OF THE AGENDA

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

APPROVAL OF THE CONSENT AGENDA

Stephen McElroy moved to approve the consent agenda. Larry Dixon seconded the motion. The motion was approved; none opposed.

APPROVAL OF THE MINUTES

Herb Brown asked for public comment. No comments were made.

Sandra Ramaker moved to approve the August 16, July 20 and July 15 minutes. Larry Dixon seconded the motion. The motion was approved; none opposed.

APPROVAL OF THE BILLS

Larry Dixon referred to page 10 and asked about the nine DEQ coupons. **DM Barnes** replied that it was for coupons that we purchased for employees to take District vehicles in for admissions testing.

Stephen McElroy referred to page 5 and asked about the charge for legal services. **DM Barnes** replied that it was for legal services to respond to our auditor's request for information. **McElroy** also asked about the charge for shirts and sweaters for the crew. **DM Barnes** replied that it was for all the orange shirts we buy annually for the crew. He explained that OSHA requires that anytime we have people working in traffic, they have to wear safety orange shirts and by contract the District supplies them.

Herb Brown asked for public comment. No comments were made.

Sandra Ramaker referred to page 4 and the expense for Multnomah Community Television. She asked if additional tapes were purchased. **DM Barnes** replied that they were behind in the copies they were sending to us so we received several at one time.

Don McCarthy referred to page 12 and asked if we had to rent a backhoe noting that the District owns one. **DM Barnes** replied that it was for a larger backhoe.

Don McCarthy moved to approve the bills. Larry Dixon seconded the motion. The motion was approved; none opposed.

PUBLIC COMMENT ON NON-AGENDA ITEMS

Jeanne Orcutt stated that her comments are in regard to the Gresham City Council Meeting and the Rockwood Water PUD Special Meeting both held in the Gresham Council Chambers on August 17th. She reported that at the meeting she presented testimony that the IGA with Gresham approved by the PUD Board was in conflict with the Rockwood policy manual. She added that she read the policy that was applicable and Fran Hyson also testified.

Ms. Orcutt stated that later DM Barnes also spoke and commented that he knew he could not dispute the facts and the testimony they presented, so he attacked their credibility by calling them mean-spirited people to turn the City Council against them. She questioned being called mean-spirited for stating the facts and giving their opinion. She stated that this behavior by the Rockwood PUD Manager is not acceptable and should not be tolerated by the PUD Board. She added that she believes that DM Barnes owes her and Fran Hyson an apology.

Ms. Orcutt commented that at the last meeting, the Manager stated that the information provided by attorney Clark Balfour and his handout at CRW was incorrect and that voters within Rockwood PUD will not get to vote on annexation of CRW. According to ORS 198.855 it appears there would be a vote in both the territory to be annexed and the Rockwood PUD. She added that she believes this ORS 198.855 applies to PUDs as well as other districts and requested a written clarification from DM Barnes regarding the matter.

Fran Hyson commended the Board for asking so many questions on the bills and CRPC Shaw for her work in preparing the minutes. She presented a letter to the Board and requested a stamped copy of it confirming receipt by the District.

Discussion followed on whether to read the letter out loud. **Herb Brown** stated that it concerns the District Manager and indicated that he would like DM Barnes' opinion about the complaint filed by Fran Hyson. **DM Barnes** replied that since he has not seen the written complaint, it is difficult for him to comment on it. He added that it would be fair to provide him with a copy and at the next board meeting the Board could hold an executive session to discuss what action it may or may not want to take. It would allow him some time to seek counsel regarding the complaint.

POWER FEASIBILITY STUDY

DM Barnes reported that he received the feasibility study from D. Hittle & Associates this afternoon. He noted that copies of the study are available for those interested. He then deferred to John Heberling of D. Hittle & Associates.

John Heberling explained that D. Hittle & Associates was retained to conduct a preliminary feasibility study evaluating the potential acquisition of electric facilities in the PUD service territory and the formation of an electric utility to serve electricity to the residences and businesses in the PUD itself. He added that his firm has done a number of these types of studies in the past noting that they were involved in the formation of the electric utility in Hermiston.

Heberling explained that there are presently six operating electric PUDs in the state of Oregon serving about 9% of the total power the state uses. He added that there are also a number of municipal and cooperative electric utilities they generally call publicly owned electric utilities and are for the most part customers of the Bonneville Power Administration (BPA). They purchase bulk power from BPA then sell it retail to consumers in their areas.

He explained that the study they conducted for the District is designed to try and get a sense of what type of electric facilities currently exist here and what it may cost to acquire those facilities; provide an estimate of how much power is actually being used in the community; estimate what the cost of purchasing that power would be; estimate the cost of operating the electric utility and what would ultimately have to be charged to the consumers to sell the power to them. **Mr. Heberling** stated that a publicly owned electric utility like the PUD is for the most part providing the electric service at cost.

He indicated that in the report they provided an introduction, some conclusions in section one, and then estimated that the electric distribution facilities within the District itself have a net book value of original cost less depreciation of around 33.8 million. He noted that this isn't necessarily what the District would have to pay to acquire those facilities; premiums are often charged on top of that and it could be a negotiated type of an acquisition. For the purpose of this analysis they used a figure of about 43.9 million for the facilities themselves. He explained there are other costs in addition to buying the poles and wires that already exist that they term separation costs and are designed to go out and basically cut the system at the boundaries. The wires are actually separated from those of adjacent utilities. The cost to separate the systems is included in the analysis. He noted that there is an administrative approach that can also be taken to serve customers in one utility off another utility's wires.

Based on all the estimates of what would be required to separate, acquire and start up the utility they've come up with a number of around 57 million of total debt that would be incurred to build a facility. He stated that they are looking at around 25,000 electric consumers in the District's service territory. He commented on the tremendous amount of detail contained in the report. He noted the estimate of total energy sales of around 350,000 megawatt hours.

Heberling stated that the ability of a new electric utility to purchase power from BPA has been and continues to be discussed at the present time. BPA recently came out with some new guidelines to help potential new utilities determine what might possibly become available to them. The BPA has said that if you meet certain criteria (primary criteria is ownership of the distribution system) then you're qualified as a preference customer and can purchase power from BPA at the same rate generally as other preference customers. They have floated the concept that in order to assure yourself of the lowest preference rate, you need to meet the criteria by July 1 of next year. If not met by that time, it is uncertain to what the price might be as it may include an additional charge.

He referred to table 6, page 18, the revenue requirement projection, and explained that it has been estimated that in the third year of operation the revenue requirement would be about 7.6 cents per kilowatt hour. Currently, the PGE rate is about 7 cents; however, that rate has been going up on average over the last 10-11 years about 3.5% per year. He noted that if that rate continues to go up, you will show that the PUD rate kind of stabilizes because for all practical purposes you're buying the electric facilities and you're paying off the mortgage which is very similar to buying a home as opposed to renting. Table 8 contains a cost comparison of the two sources. It shows some marginal benefits as time goes on. For example, in 2008, if PGE rates continued to increase at about 3.5% per

year, the PUD's electric service would be about 9.5% lower on average. The total savings to businesses and residences over the first ten years of operation has been estimated at about 52 million. Currently, revenues are in the range of 26-28 million for what's actually being paid each year for electricity based on the estimates that are here.

Heberling emphasized that the study is preliminary and there are a number of assumptions that have to be made at this stage of the game. He stated that they believe the assumptions to be reasonable based on their experience as well as the information that was available to them. As time goes on and the process moves forward, information would have to be refined, new data acquired, additional engineering work would have to be conducted, etc. to nail things down more precisely.

Herb Brown asked if we acquired PGE assets within the District boundaries, would the power have to cross those lines to get to the District or would we connect directly to BPA or go through someone else's lines. **Heberling** replied that they have basically thought that it would be a reasonable approach for the District to just acquire the distribution wires. The transmission lines would be retained by PGE so that they could keep their system integrated for the whole general area and they could transmit the power to their substations regardless of where they are. The District in all practical matters would be using PGE's system to get the power to District substations and then distribute it out. He noted that this is not uncommon.

Brown asked about the charge for this. **Heberling** replied there is a charge for this and the way it's worked in the past is that BPA has negotiated what they consider to be a fair payment to the utility whose wires they're using to transmit power from their substations to customers they don't have a direct connection to. They then charge you a fee which may or may not be tied to what that exact charge is. An alternative could be to actually build a transmission line that connects to a BPA substation. **Brown** thanked Heberling for his presentation.

Art Landis referred to the discussion regarding delivery charge and asked what is typical. **Heberling** replied that BPA charges about \$.93 per kilowatt per year. He noted that they have estimated the delivery charge to be in the range of \$900,000 per year noting that they expect it to go up in a few years.

DM Barnes referred to the book value presented and asked if it was calculated using book value plus a 30% premium. **Heberling** replied yes. **DM Barnes** asked if it's reasonable to think that we could buy the facilities for a 30% premium. **Heberling** explained that the premium on the book value varies a lot depending on the circumstances but there are a number of recorded sales that can be referred to support that a 30-35% range is average.

Sandra Ramaker commented that there is a lot of information to digest for the next meeting but her initial reaction is that she can't begin to ask the patrons to come up with this kind of bond money and pay what it would cost to do this. She added that the District would be overextending itself given the other projects going on.

Larry Dixon referred to page 13 and asked how they came up with the number of residential customers for 2006-2010. **Heberling** explained that the number is based on the postal unit data received from the District for the number of households and residences that mailings go out to within the service territory. He noted that it includes houses and apartment units. He added that some assumptions were also made regarding large commercial loads in the area.

Don McCarthy asked if more substations would need to be built. **Heberling** replied that they think a substation might need to be built - probably in the NE corner of the District. They won't know for certain until they can sit down with maps and representatives for the current system and determine where the actual feed comes from these folks.

Board members will review the study and discuss the issue further at the next meeting.

BOARD MEMBER TRAVEL – AWWA SUMMIT

DM Barnes requested approval to reimburse board members for travel expenses for the AWWA Summit.

Sandra Ramaker moved to approve travel expenses for those board members able to attend. Larry Dixon seconded the motion. The motion was approved; none opposed.

UPDATE ON CLACKAMAS RIVER WATER ANNEXATION

DM Barnes reported that the District has submitted all of the required documents to Clackamas County and is awaiting scheduling on an agenda. He believes that it will be scheduled for the September 2nd Clackamas County Board of Commissioners meeting, but also possibly August 28th.

UPDATE ON IGA WITH CITY OF GRESHAM

DM Barnes reported that it was approved by the City of Gresham and that we will move on with the projects. Gresham has received the agreement copies that the Board signed and is routing them through the proper channels for signature.

PROJECT UPDATES

DM Barnes reported that the pipeline project to connect the new chlorinator facility to our distribution system here has been completed. The reservoir upgrade project is completed and we're awaiting the final paperwork from the contractor to submit final payment. The small well pump has been installed and the initial pump tests completed. The chlorinator building itself is behind schedule, but we are very close to substantial completion with the exception of a couple of blending pumps. Those pumps are expected to be shipped on September 3rd. He explained that there were some initial problems with the casting and the pump bodies had to be recasted. The pumps should be installed within a week and a half following shipping. By the end of this week the telemetry systems and controls should be tested; all the chlorinator and ammonia injection pumps should be tested also. We will be going through some tests and training with the District's Water Operations Specialist on how all the pumps work. He noted that we have been working with some of our sensitive customers in monitoring the water quality very closely.

Herb Brown noted that the next regular board meeting is scheduled for Tuesday, September 21, 2004, as indicated at the bottom of the agenda.

FOR THE GOOD OF THE ORDER

DM Barnes asked OS Middleton if she had anything to add. She stated she did not. He commented that things are going well and that we are really busy with some exciting projects that are going on. He added that a replacement Administrative Secretary has been hired, Kathy Stine; she will start on September 1st and will be present at the next board meeting.

Sandra Ramaker reported that the upcoming SDAO Conference will be held at the Portland Marriott. She noted for each District that sends an attendee, registration for a second attendee will be free of charge if they have not attended before.

Herb Brown commented that the Board is doing a good job of representing its citizens and the District is in good financial condition.

ADJOURNMENT

Larry Dixon moved that the meeting be adjourned. **Don McCarthy** seconded the motion. **The motion was approved; none opposed.**

The meeting was adjourned at 7:57 p.m.

Secretary