



Summary of the April 12, 2010 EID Board Meeting

El Dorado Irrigation District — serving people, agriculture, businesses, and the environment in El Dorado County since 1925

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EID Makes Progress on Financial Tasks and Directives

New Contract Means Improved Prices for EID's Hydropower

Placerville, CA... During the El Dorado Irrigation District April 12 board meeting, general manager Jim Abercrombie reported on staff's progress in completing tasks and board directives related to the district's finances. Many of the actions were part of the February 4 resolution adopted by the board, which also put in place new rates for water, wastewater, and recycled water services.

Abercrombie reminded the board that last fall, the district “needed to adopt the 2010 budget before the start of the new year. The budget had to project sufficient net revenue to exceed our debt service costs by 25 percent to avoid defaulting on our bonds. We were negotiating with employees to reduce costs and with power purchasers to obtain better prices for the hydropower we generate. But we weren't far enough along in the talks to predict savings and higher revenues late last year.

“The board and staff also worked to cut the budget throughout 2008 and 2009, including a significant reduction in staffing, but found that a rate increase would still be needed to meet the bond requirements. So the 2010 budget adopted in late 2009 included a 35 percent increase for 2010, then 15 percent in 2011, and 5 percent in each of 2012, 2013, and 2014.”

Abercrombie said the district “heard from customers that the increases were too much, especially in 2010. We went back to the drawing board, and in late January, we announced Plan B, which lowered the proposed 2010 rate increase by almost half—from 35 percent to 18 percent.”

Plan B was contingent on the following four major tasks, which have been completed.

Negotiations with employees. On March 29, the board approved a new contract with the employees' union that will save between \$2.2 million and \$2.8 million in personnel costs over the next four years. Savings are achieved through wage freezes, changes in the retiree pension and health benefits for any new employees, and other actions that the employees sanctioned through a strong “yes” vote.

More dollars for hydropower. Negotiations with PG&E led to a new contract for the hydropower EID generates from its high-Sierra water delivery system. Under the new contract, staff projects \$6 million to \$10 million in power revenue per year, much more than was initially estimated in the 2010 budget. (See next page for more details.)

Savings from debt restructure. In late February, staff completed a restructuring of some of the district's debt payments, leveling them off over the life of the debt. This conserves cash and reduces payments an average of \$4 million in each of the next three years.

Defer capital improvement projects. The board adopted a new capital improvement schedule in late February that cuts the costs of the five-year program by almost one half. This reduces the need for future borrowings and conserves cash.

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“The February 4 resolution contained additional directives from the board,” Abercrombie said, “and we have made significant progress.”

In summary, the resolution:

- ✓ Authorized the Plan B rate increases, including the lower increase for 2010. This was accomplished when the board adopted the February 4 resolution.
- ✓ Directed the general manager to identify at least \$1 million in additional cuts in operating expenses by April 12, without compromising safe, reliable services. On March 18, Abercrombie announced a reorganization that included the elimination of 14 positions. The reorganization is saving the district \$1.3 million.
- ✓ Directed that the district will hold public workshops before going out for new borrowing. This gives customers a chance to discuss the need for the borrowing, and the district a chance to ask customers to support it.
- ✓ Directed staff to establish a new internal financial control test, requiring that projected annual revenues will fully cover annual operating expenses and debt payments, even if the district receives no new hook-up revenues. This has been incorporated into district practices and will prevent EID from becoming overly reliant on new hook-up fees in the future.

Abercrombie said work on two other fronts is underway. First, a community-based ratepayer committee is being convened to advise the district on a cost-of-service study, to be completed by the end of the year. Second, staff will complete a new report that reconciles past capital expenditures against bond proceeds, new hook-up revenues, rates, and other funding sources. This report is also due by the end of the year.

New Power Purchase Contract Signed

Abercrombie reported that depending on the type of water year, the district will receive between \$6 million and \$10 million a year for the hydropower it produces and sells from Project 184 (also known as the El Dorado project), the district’s high Sierra water delivery system. This is significantly more than the amount estimated in the original 2010 budget, which was subsequently revised to reflect the increase in revenues.

“Late last month, I signed a contract with Pacific Gas and Electric Company that ensures more predictable, improved prices for the power over the next 11 years,” Abercrombie said. “The contract now goes to the California Public Utilities Commission for approval.”

“In addition to the improved prices, PG&E will provide energy scheduling coordination services, saving the district \$90,000 a year,” said senior engineer Jake Eymann, who led EID’s contract negotiation team.

“Another benefit,” Eymann said, “is that we will no longer need to negotiate our renewable energy credit sales every year or wait up to eight months to receive payment. The credits are now going to be bundled with the energy price and paid to us on a monthly basis.” Eymann was referring to the payments that renewable energy producers receive as an incentive to help California meet its renewable energy goals. Project 184 is certified under this state program.

Other business

- Board president John Fraser reported that during closed session, the board voted to extend general counsel Tom Cumpston’s contract for two years. Cumpston and Abercrombie are the two contract employees of the board.

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Engineering and Operations Standing Committee

- Meeting as the Engineering and Operations Standing Committee, the board heard a presentation from EID director of engineering Brian Mueller and his staff about the status of the district's capital improvement plan (CIP). Staff reported that the replacement of Flume 51 last fall was completed on time and under budget and that the Silver Lake resort project—demolition of unsafe structures, removal of contaminated materials, construction of a new parking area, and installation of a split rail fence—was also completed on time and under budget. Among the key projects in 2010 are completing the installation of the Promontory and Rancho Del Sol water tanks, finishing the basis of design report for the Folsom Lake intake and pump station, and updating the district's design and construction standards for water, wastewater, and recycled water projects.

“Overall, we have spent about 20.5% of the \$34.5 million for 2010 CIP projects,” Mueller said. “The \$34.5 million is considerably below what we projected in the five-year plan before the financial crisis of late 2008, the continued recession, and the board's adoption in March of the updated CIP, which is about half of what we planned just a couple of years ago.”

- Cindy Megerdigian, EID's water/hydro engineering manager, provided the board an update on the continuing discussions between the district and the City of Folsom about a number of topics, including an intertie that would connect the two systems but would be used only in the case of emergencies and only if both parties agree. Construction of the intertie will be funded by Folsom.

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For more information, contact Deanne Kloepfer at 530-622-4513.