

September 29, 2004

To: Mayor Vera Katz
Commissioner Jim Francesconi
Commissioner Randy Leonard
Commissioner Dan Saltzman
Commissioner Erik Sten
Auditor Gary Blackmer

Subject: FY 2003-04 PURB Annual Report

Please find attached the FY 2003-04 Annual Report to City Council from the Portland Utility Review Board. The report is required by ordinance and summarizes the major issues that the PURB distributed recommendations on during the year and will continue to follow next year.

The PURB looks forward to participating in the October 5th work session with City Council to review our recommendations and to refine our direction for FY 2004-05.

The PURB would like to extend its appreciation to OMF's Financial Planning Division and, especially, to Bob Tomlinson for their effort on our behalf. Without their effort we could not be of service to Portland's utility customers.

Respectfully,

Portland Utility Review Board

cc: Susan Anderson
Mort Anoushiravani
Tim Grewe
Dean Marriott
Jennifer Sims

**FY 2003-04 ANNUAL REPORT
PORTLAND UTILITY REVIEW BOARD
September 29, 2004**

Issues Summary

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Issues Summary

The PURB reviewed the proposed FY 2004-05 utility rates and found them to be reasonable as indicated in our Opinion and Testimony Letter dated May 14, 2004 and presented in oral testimony to City Council on May 19, 2004.

The PURB also identified five major issues that will significantly impact rates now and in the decades ahead. These issues are:

- Combined Sewer Overflow (CSO)
- Water Treatment
- Water Reservoirs
- Wholesale Contracts
- New Billing System

These issues tend to be high cost and under intense public scrutiny, with the first three having important public health and environment consequences associated with the directions ultimately taken.

Recommendations Summary

Our May 14, 2004 Opinion and Testimony Letter contained provisional recommendations on the CSO project and water treatment, our comments on water reservoirs and wholesale contracts, and a suggestion on the new billing system.

On August 25, 2004, non-provisional recommendations (copies attached) were distributed covering aspects of the first three major issues, namely:

- CSO Project Affordability
- Additional Treatment of Bull Run Drinking Water
- Burial of Water Storage Reservoirs in Mt. Tabor and Washington Park

These three recommendations elaborated on our thinking in the May 14, 2004 letter and contain specific recommendations for City Council consideration and action.

Action Summary

PURB recognizes that it is too soon to expect City Council action on the above three strategic recommendations. We stand ready to work with City Council and others in the community to refine/finalize our recommendations so that these major issues can be resolved in a timely and effective fashion for the long-term good of the City of Portland.

The PURB is also prepared to discuss our secondary recommendations (re: water maintenance backlog and major project reaffirmation) as time permits.

Briefings, Reports and Tours

9/23/03	Council Work Session
10/10/03	Bull Run Tour
11/20/03	Cryptosporidium Waiver Commissioner Saltzman
11/20/03	Water Treatment Rosemary Menard
12/3/03	AWWARF Membrane Seminar
12/18/03	IRP Briefing Commissioner Saltzman
12/18/03	New Billing System Dick Hofland
12/18/03	Ratemaking 101 Dave Hasson
January 04	Your City, Your Choice Members attended various sessions
02/19/04	Solid Waste Financial Plan Susan Anderson
02/19/04	Water CIP Dennis Kessler
02/19/04	Water Financial Plan Dave Hasson
03/18/04	BES CIP Lee Klinger
03/18/04	BES Financial Plan Jim Hagerman
03/25/04	Solid Waste Rates Bruce Walker
03/25/04	BES Budget Jim Hagerman

03/25/04	Water Budget Dave Hasson
03/25/04	Friends of the Reservoirs Floy Jones
04/15/04	BES Rates Jim Hagerman
04/15/04	Water Rates Dave Hasson
04/22/04	Solid Waste Rates Bruce Walker
05/10/04	CSO Status Brendan Finn
06/17/04	Solid Waste Rates Bruce Walker
06/17/04	CSO Process & Status Dean Marriott

Attendance Summary

On August 14, 2003, the new PURB held its first meeting. In all, the PURB held 13 meetings in FY 2003-04 with average meeting attendance totaling 17.2 people. Absenteeism averaged less than one member, with 11 excused absences and 1 unexcused absence. Meeting attendance averaged 7.2 staff and 1.8 citizens.

PORTLAND UTILITY REVIEW BOARD (PURB)
ISSUE PAPER RECOMMENDATION
August 25, 2004

Issue

Combined Sewer Overflow (CSO) Project Affordability

Background

The City of Portland was mandated by the 1991 settlement of an environmental lawsuit to eliminate combined sewage and storm water overflows into the Willamette River. The first phase of the CSO project has been successfully completed for \$160 million. The second phase -- the westside big pipe -- is underway, currently scheduled for completion in 2006, and budgeted at \$400 million. The third phase -- the eastside big pipe -- is in engineering design and scheduled to begin construction in 2007 with completion in 2011. Over the past year, the overall project estimate has increased from \$1.0 billion to \$1.2 billion and, now, to \$1.4 billion.

The CSO project is funded by customers of the City's sewer utility (Bureau of Environmental Services) through rates based on usage and other factors. Over the 14 years since project inception, a couple of attempts have been made to identify project alternatives without success. At this time, BES has requested proposals to audit the westside big pipe construction contract, activities and procedures. PURB supports this impending audit.

Commentary

Agreements by the City that may have been sensible a decade ago have resulted in massive construction projects requiring complex engineering, novel technologies, and enormous capital investment. While apparently well managed, these projects have also experienced continuous cost escalation that we have no reason to believe will not continue in the future. Recent decisions by the EPA to review the City's CSO plans may increase uncertainties and drive costs even higher.

The PURB is very concerned about the environmental and human impacts of sewer overflows, and we fully support eliminating them as soon as possible. However the current CSO solution no longer seems tenable. With combined water and sewer bills and rates among the highest in the nation and slated to climb higher year by year, the PURB believes that Portland customers alone cannot shoulder what is most recently estimated to be a \$1.4 billion CSO price tag -- or anything approaching this amount -- any longer. This issue paper elaborates on the provisional CSO recommendation attached to PURB's May 14, 2004 rate testimony letter.

Recommendations

The PURB recommends the following:

- Establish what has been done to date,
- Review what other cities and jurisdictions are doing with regard to combined sewer overflows,
- Pursue new funding sources,
 - Formal congressional lobbying
 - Organized grass roots lobbying
- Evaluate diversion/treatment alternatives,
- Review legal possibilities, and
- Investigate other less apparent tactics and strategies such as, extending the project schedule.

We further recommend that the above be approached aggressively with sufficient financial backing and dogged pursuit. A successful outcome will require a cohesive team of residential and business customers as well as the City's political and professional managements and, most importantly, Oregon's congressional delegation. The PURB intends to continue to work diligently on this topic, hopefully with these partners.

Vote

Unanimous, with all eight members voting for the recommendation. One position on the nine-member PURB is currently vacant.

PORTLAND UTILITY REVIEW BOARD (PURB)
ISSUE PAPER RECOMMENDATION
August 25, 2004

Issue

Additional Treatment of Bull Run Drinking Water

Background/Commentary

The proposed EPA Long Term 2 Enhanced Surface Water Treatment Rule (LT2) [FR 47639] regulation is based on the premise that the presence of *Cryptosporidium* is responsible for widespread municipal drinking waterborne illness. The EPA estimates 140+ deaths each year and millions of endemic cases of illness from this organism. However, no deaths from *Cryptosporidium* have been associated with municipal drinking water in over ten years, and endemic disease has never been demonstrated. The outbreaks the EPA has described in relation to *Cryptosporidium* were associated with catastrophic sewage exposures of the respective municipal drinking water systems. The drinking water contained dozens of pathogenic organism species throughout the catastrophic sewage event that in some cases lasted for weeks. Conversely, the Bull Run drinking water system has historically had no sewage exposure and no public health issues.

The Unfiltered Systems Working Group public comment document submitted to the EPA (01-09-04) included the cities of New York, Boston, San Francisco, Tacoma, and Seattle. The Unfiltered Systems Working Group came to the same conclusions publicly presented to the Portland Utility Review Board over two years ago;

- watershed protection and improvement are important to water quality;
- public health impact has been overestimated; and
- capital improvement cost has been underestimated.

The Unfiltered Systems Working Group advocated a lower threshold of treatment, but also promoted flexibility in alternative compliance strategies, such as credits for enhanced watershed protection. Based on the numerous drinking water system benefits they outline, the net sum for required additional treatment could be zero for Portland.

Recommendations

We are seeking assistance in obtaining a complete LT2 waiver of additional treatment for the Bull Run drinking water system. We would appreciate your help in presenting the following points to the EPA:

- historical watershed protection provides a superior water source,
- organisms and turbidity can be reduced through appropriate funding for Bull Run road decommissioning and watershed enhancement,

- stricter water quality surveillance throughout the system is available; drinking water monitoring using the HACCP program is now promoted by the EPA, the American Water Works Association, etc.,
- historical public health benefits of the current system,
- treatment costs have been underestimated,
- public health benefits have been overestimated,
- enhanced disinfection provides no measurable improvement in water quality, and
- no sewage exposure at Bull Run.

Vote

Unanimous, with all eight members voting for the recommendation. One position on the nine-member PURB is currently vacant.

**PORTLAND UTILITY REVIEW BOARD (PURB)
ISSUE PAPER RECOMMENDATION
August 25, 2004**

Issue

Burial of Water Storage Reservoirs in Mt. Tabor Park & Washington Park

Background

After the September 11, 2001 terrorist attack on America, concerns were heightened about the exposure of Portland's drinking water to intentional contamination through the open water storage reservoirs at Mt. Tabor & Washington Parks. As a result, the City put its future plans to replace these reservoirs with underground storage tanks on an accelerated timetable.

Commentary

Subsequent public outcry in opposition to the reservoir burial plan prompted the City to appoint an Independent Review Panel (IRP) in December 2003 to study the proposal for burial of the Mt. Tabor Reservoirs, and provide a recommendation on how to address security and water quality concerns related to open water storage. The Washington Park reservoirs were excluded from consideration by the IRP.

In May 2004 the IRP issued its final report in which a majority of panel members recommended that the City implement risk mitigation measures, such as security guards, security fencing and other measures to protect the City's water storage reservoirs, rather than burial in underground tanks. Cost was a key consideration in the Panel's recommendation, and risk mitigation measures were the least costly option considered by the IRP.

Recommendations

The Portland Utility Review Board (PURB) also maintains cost as a key consideration in evaluating the City's plans for replacing or improving components of the drinking water system. Therefore, in light of the information that was made available to the public through the IRP process, and also in light of the majority recommendation of the IRP, the PURB recommends that the City Council abandon plans to replace the Mt. Tabor & Washington Park water storage reservoirs with underground tanks, since less costly measures are available for protecting the City's stored water. The PURB further recommends that the City continue to involve the public in the decision-making process about how best to protect the City's drinking water from contamination.

Vote

Unanimous, with all eight members voting for the recommendation. One position on the nine-member PURB is currently vacant.