



# M E M O R A N D U M

EUGENE WATER & ELECTRIC BOARD

*Rely on us.*

TO: Commissioners Brown, Carlson, Mital, Simpson, and Helgeson

FROM: Sue Fahey, Chief Financial Officer; Deborah Hart, Interim Finance Manager;  
Adam Rue, Interim Fiscal Services Supervisor; Jerry Reller and Nate Schultz,  
Senior Financial Analysts

DATE: June 27, 2018

SUBJECT: Long-Term Financial Plan (LTFP) Update and 2019 Budget Assumptions

OBJECTIVE: Direction on 2019 Budget Assumptions

---

## **Issue**

Board Policy SD6 and Oregon Statutes require that staff annually prepare balanced budgets for the Electric and Water Utilities for Board approval by the end of the calendar year. Each summer the Board provides direction to staff on the assumptions used to develop the following year's budget.

## **Background**

Over the last several years, both the Water and Electric Utilities have faced financial challenges. Those challenges have been managed by strategically reducing operation & maintenance (O&M) and capital costs, reducing debt service obligations, and prudently using reserves to strengthen financial metrics. Strong water sales, cost controls, and debt reduction have greatly improved the financial stability of the Water Utility. The Electric Utility has used reserves to defease debt and reduce borrowing for the Carmen-Smith relicensing capital project. These actions coupled with other debt restructuring and cost containment have resulted in significant improvement to the debt service coverage ratio (DSC) which historically has been the Electric Utility's biggest financial challenge.

## **Discussion**

EWEB continues to focus on fostering customer confidence through many avenues, including aligning sustainable spending levels to what our customer-owners expect. In 2017, EWEB developed an affordability target (percentage of utility cost to median household income) of 3.2%. Based on the most recently available data, EWEB customers spend 3.87% of median household income on their electric and water bills, down from 4.06% last year. EWEB's combined electric and water bill is the sixth lowest out of sixteen northwest comparators, which is the same position as last year. Within the framework of delivering safe and reliable water and electricity, Management is committed to prudent stewardship of our customer-owners' financial and natural resources. Management believes the assumptions used to develop the LTFP balance financial resiliency and affordability.

To improve community-wide disaster recovery and outage response and to achieve consumption flexibility and power resource management benefits, Management is proposing an accelerated deployment of advanced meters. The LTFP as presented includes funding for the capital requirements, along with additional O&M needs in labor, marketing, professional services, warehousing, and other resources required to successfully implement AMI by 2021.

### **Overarching Forecast Assumptions**

The assumptions used in creating forecasts and budgets greatly influence the results. The following assumptions have been used in developing the current forecasts and are anticipated to be used in creating the 2019 budget. Utility specific assumptions are noted on Attachments I and II.

#### **Both Utilities**

- 2.0% non-labor CPI increase
- Labor/benefit increases:
  - 3.5% salary escalation
  - PERS – Pay down unfunded actuarial liability by \$36 million resulting in no employer rate change in 2019 (2016 advisory valuation indicated EWEB’s independent employer increase would be 8 percentage points), increase 5 percentage points in July 2021, 2023, 2025 and 2027
  - Health insurance increase – 6% in 2019 and then 8% in subsequent years
- 2019 ROC move/remodel O&M costs of \$1.2 million
- Shift in Shared Services allocation to 80% Electric/20% Water from 82%/18%, respectively. The split is based on share of total plant in service, revenues, and direct labor. Since 2012, the Water Utility’s proportionate share of the total in each category has steadily risen.
- Capital Improvement Plans as presented at the July 10, 2018 Board Meeting

### **Long-term Financial Plan Revenue Requirement Assumptions and Outcomes**

#### **Electric**

The Electric Utility LTFP indicates no overall average revenue requirement change is needed in 2019. Four out of the last five years the Electric Utility had no increase in revenue requirement, and other than the biannual BPA increase, revenue requirements are not projected to be higher in 2020. Through debt reduction and cost-saving initiatives, the Electric Utility is above its debt service coverage target, which has been a challenge in the past. The Electric LTFP outcome is included in Attachment 1.

#### **Water**

The Water Utility is forecasting no additional revenue requirement through 2021. This is the second year with no overall increase in revenue requirement. Days Cash averages more than 400 days and reduces throughout the LTFP as reserves are used to smooth price impacts. All other Board approved financial metrics remain within target across the ten year plan. The Water LTFP outcome is included in Attachment 2.

### **Recommendation**

Management recommends that the Board direct staff to prepare the 2019 budget using the assumptions set forth in this document which include:

- no change in revenue requirement for the Electric Utility
- no change in revenue requirement for the Water Utility

### **Requested Board Action**

Management is not requesting Board action at the July 10<sup>th</sup> meeting; however, Management is requesting that the Board provide clear direction on the assumptions to be used in developing the 2019 budget.

- Attachment 1 -Summary of Electric LTFP Revenue Requirement Assumptions and Outcomes
- Attachment 2 -Summary of Water LTFP Revenue Requirement Assumptions and Outcomes
- Attachment 3 -Average Bill Comparison
- Attachment 4 -Median Household Income (MHI) %

## Summary of Electric LTFP Revenue Requirement Assumptions and Outcomes (000's omitted)

	Target	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Reserves and Cash	\$83,720	\$123,500	\$118,600	\$118,400	\$121,400	\$123,200	\$126,700	\$124,000	\$128,300	\$133,900	\$133,700
Debt Service Coverage Ratio	1.75	1.93	2.04	2.62	2.05	1.95	2.02	1.93	2.27	2.35	1.97
Days Cash	>150 Days	227	225	228	221	218	215	207	212	222	219
Average Rev Requirement Change		0.00%	2.50%	1.50%	3.75%	2.00%	2.50%	1.00%	2.50%	0.00%	2.50%
<b>Revenue Requirement Assumptions</b>											
	Compounded										
Price Schedule	10 Yr Total	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
General Rate Increase	4.57%			1.50%		2.00%		1.00%			
Carmen/Smith Debt	1.25%				1.25%						
BPA Increase	13.14%		2.50%		2.50%		2.50%	0.00%	2.50%		2.50%
Avg Rev Requirement Change	19.75%	0.00%	2.50%	1.50%	3.75%	2.00%	2.50%	1.00%	2.50%	0.00%	2.50%

Key Assumptions

- Retail load approximately the same as 2018 budget – 2.4 million MWh
- Contribution margin risk tolerance of \$1.9 million which represents 90% generation, 1.5% load reduction or 37% wholesale price reduction
- Similar contribution margin risk tolerance through 2023, expected conditions 2024-2028
- \$21.29 melded mid-market price curve increasing to \$35.61 in 2028
- Partial year Carmen-Smith generation outages in 2019 and 2023
- \$1.4 million per year contribution margin decrease for spill injunction 2019-2021
- Bond issuance: \$40 million in 2021 funding Carmen-Smith capital work
- \$1.0 million per year contribution to meter replacement reserve starting 2021 based on 12 year estimated life.
- \$900,000 for ROC move
- 2.0% non-labor CPI increase
- Labor/benefit increases:
  - 3.5% wage escalation
  - PERS – No change in 2019, increase 5 percentage points in July 2021, 2023, 2025 and 2027
  - Health insurance increase – 6% in 2019 and then 8% in subsequent years
- \$27.4 million to pay down PERS liability
- \$850,000 decrease in O&M due to shift in Shared Services allocation

## Attachment 2

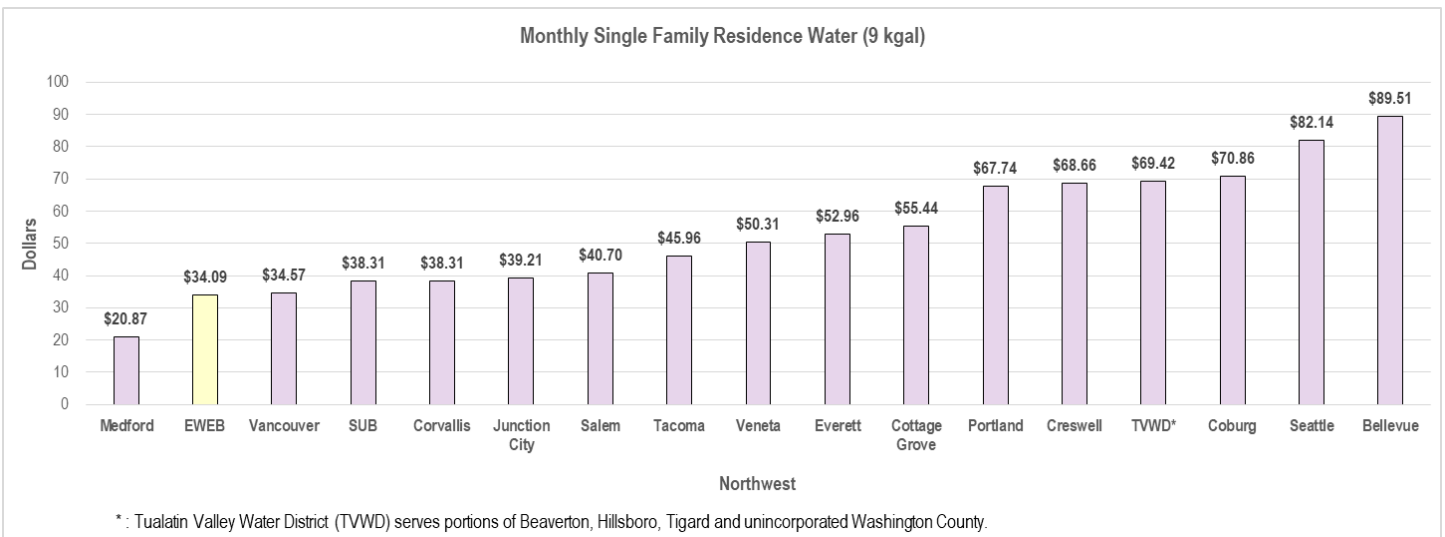
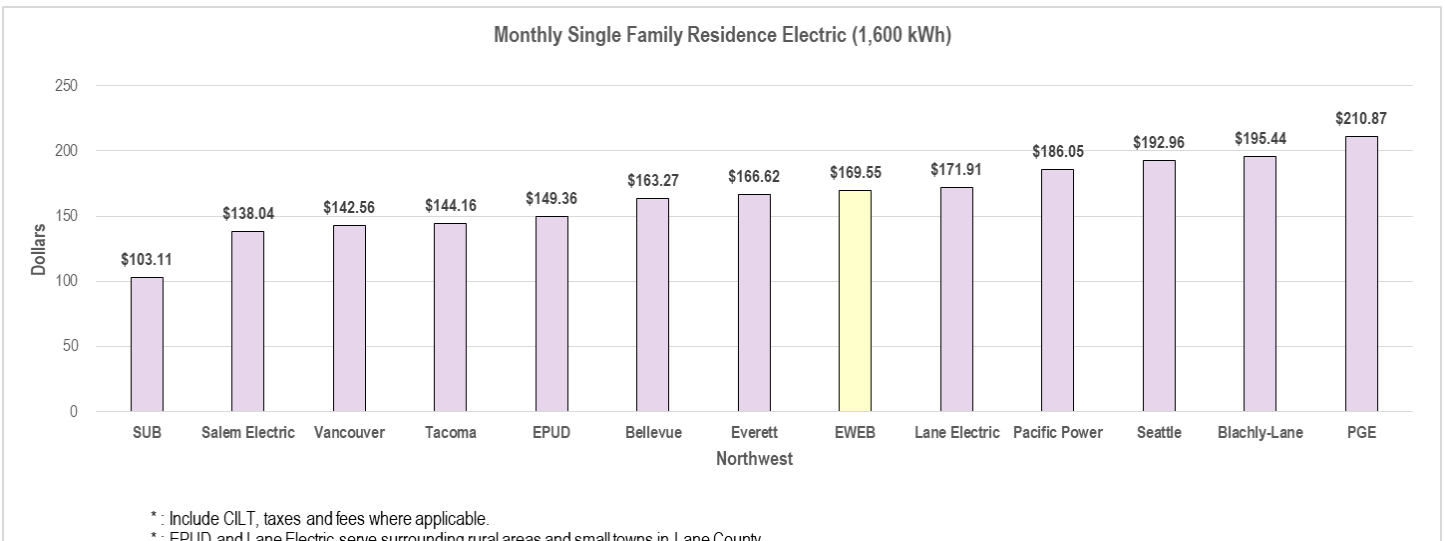
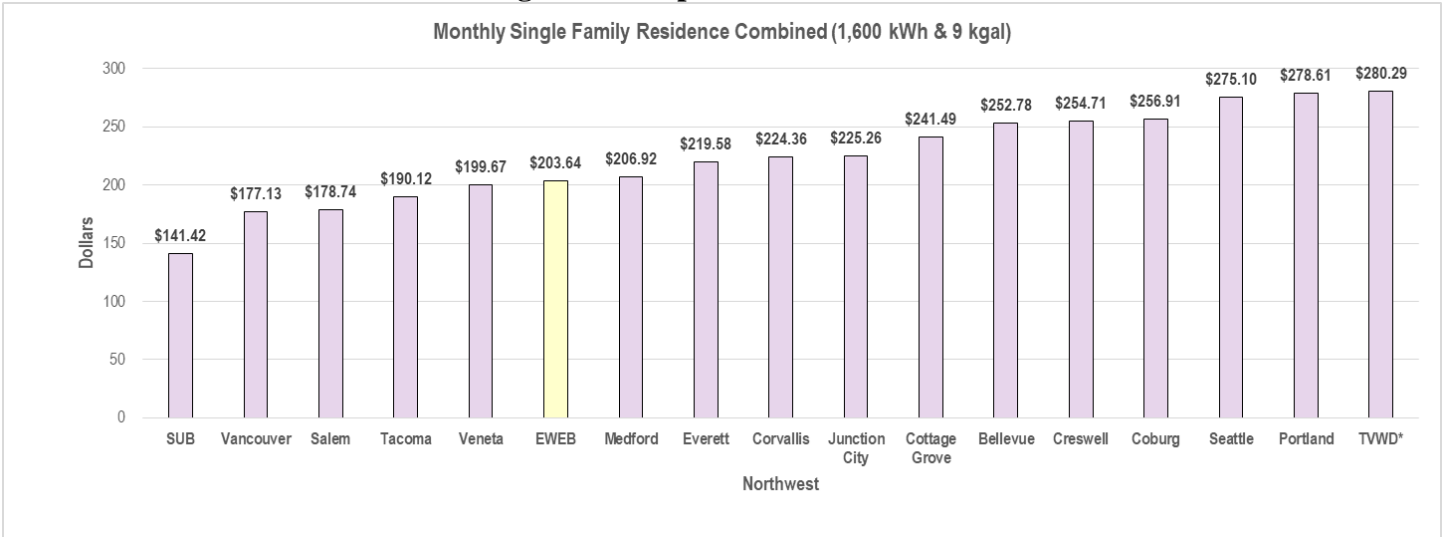
### Summary of Water LTFP Revenue Requirement Assumptions and Outcomes (000's omitted)

Key Metrics	Current Target	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Reserves & Cash	\$12,680	\$23,100	\$18,700	\$18,500	\$22,300	\$23,700	\$24,300	\$24,100	\$24,300	\$20,600	\$17,000
AWS Reserve Balance		\$5,600	\$5,200	\$4,900	\$4,500	\$4,000	\$3,600	\$3,200	\$0	\$0	\$0
AMI Reserve		\$0	\$0	\$300	\$800	\$1,400	\$2,000	\$2,600	\$3,100	\$3,700	\$4,300
Bond Funding					\$10M				\$40M		
DSC	2.00-2.50	3.27	3.38	3.56	3.25	3.20	3.68	3.86	3.42	2.84	2.94
Days Cash	> 150 days	475	407	415	446	463	440	428	401	328	273
Average impact resulting from change in revenue requirement		0.00%	0.00%	0.00%	3.00%	3.00%	4.00%	4.00%	5.00%	5.00%	5.00%

#### Key Assumptions

- 7.8 million KGAL consumption
- 2.0% non-labor CPI increase
- Labor/benefit increases:
  - 3.5% wage escalation
  - PERS – No change in 2019, increase 5 percentage points in July 2021, 2023, 2025 and 2027
  - Health Insurance -- 6% in 2019 and then 8% in subsequent years
- \$850,000 increase in O&M due to shift in Shared Services allocation
- Contributions to AMI reserve starting 2021 based on 20 year estimated life
- Bond issuance: \$10 million in 2022 funding Type II capital work, \$40 million in 2026 for a second source filtration plant
- \$4 million System Development Charge reserve draw for debt service payments in 2020 and 2021
- Contribution margin risk tolerance of \$750,000

### Average Bill Comparison – Current Rates



## Median Household Income (MHI) %

### Background

The Board has requested staff provide bill affordability information. To prepare this information, *Assessment of Affordability of Residential Rates* (Glenn Barnes and Shadi Eskaf; Environmental Finance Center at the University of North Carolina, Chapel Hill; 2016) was used.

The approach uses the local community's median household income (MHI) and is based on the following data:

1. Monthly water and electric bill at average residential consumption per month.
2. Annual bills at same level of use.
3. Median Household Income in 2016

Currently, there is no national standard for what affordable percent (%) of MHI value is or is not. When using this assessment, consideration must be given to financial sustainability of the utility as a whole in addition to affordability of price. Setting artificially low prices may produce financial constraints to reinvesting in the system and eventually harm public health through poor product quality and service.

To address the limited income customer-owner bill impact, EWEB has maintained a customer care program for many years that provides assistance for bill payment and weatherization programs.

Included below are the combined average water and electric bill for residential customers (water is 7 kgal and electric is 1050 kWh) in Eugene, Portland, Medford, Vancouver, Tacoma, Seattle, and Everett. This average is annualized and compared as a percentage of MHI.

### Eugene, Oregon

	<u>Current Prices</u>
Monthly water & electric bills at overall average residential consumption (Overall average residential : water consumption 7 kgal; electric consumption 1050 kWh)	\$144.50
Annual bill at same level of use	\$1,734
Median Household Income (MHI) in 2016 for Eugene, Oregon	\$44,859
<b>Water &amp; Electric % MHI</b>	<b>3.87%</b>

### Portland, Oregon

	<u>Current Prices</u>
Monthly water & electric bills at overall average residential consumption (Overall average residential : water consumption 7 kgal; electric consumption 1050 kWh)	\$192.12
Annual bill at same level of use	\$2,305
Median Household Income (MHI) in 2016 for Portland, Oregon	\$58,423
<b>Water &amp; Electric % MHI</b>	<b>3.95%</b>

<b><u>Medford, Oregon</u></b>	<b><u>Current Prices</u></b>
Monthly water & electric bills at overall average residential consumption (Overall average residential : water consumption 7 kgal; electric consumption 1050 kWh)	\$133.28
Annual bill at same level of use	\$1,599
Median Household Income (MHI) in 2016 for Medford, Oregon	\$44,130
<b>Water &amp; Electric % MHI</b>	<b>3.62%</b>

<b><u>Vancouver, Washington</u></b>	<b><u>Current Prices</u></b>
Monthly water & electric bills at overall average residential consumption (Overall average residential : water consumption 7 kgal; electric consumption 1050 kWh)	\$126.32
Annual bill at same level of use	\$1,516
Median Household Income (MHI) in 2016 for Vancouver, Washington	\$52,004
<b>Water &amp; Electric % MHI</b>	<b>2.91%</b>

<b><u>Tacoma, Washington</u></b>	<b><u>Current Prices</u></b>
Monthly water & electric bills at overall average residential consumption (Overall average residential : water consumption 7 kgal; electric consumption 1050 kWh)	\$140.75
Annual bill at same level of use	\$1,689
Median Household Income (MHI) in 2016 for Tacoma, Washington	\$53,553
<b>Water &amp; Electric % MHI</b>	<b>3.15%</b>

<b><u>Seattle, Washington</u></b>	<b><u>Current Prices</u></b>
Monthly water & electric bills at overall average residential consumption (Overall average residential : water consumption 7 kgal; electric consumption 1050 kWh)	\$188.13
Annual bill at same level of use	\$2,258
Median Household Income (MHI) in 2016 for Seattle, Washington	\$74,458
<b>Water &amp; Electric % MHI</b>	<b>3.03%</b>

<b><u>Everett, Washington</u></b>	<b><u>Current Prices</u></b>
Monthly water & electric bills at overall average residential consumption (Overall average residential : water consumption 7 kgal; electric consumption 1050 kWh)	\$150.55
Annual bill at same level of use	\$1,807
Median Household Income (MHI) in 2016 for Everett, Washington	\$50,933
<b>Water &amp; Electric % MHI</b>	<b>3.55%</b>

References: Assessment of Affordability of Residential Rates (Glenn Barnes and Shadi Eskaf; Environmental Finance Center at the University of North Carolina, Chapel Hill; 2016)