



TO: Commissioners Carlson, Barofsky, McRae, Schlossberg, and Brown

FROM: Deborah Hart, CFO; Aaron Balmer, AIC Financial Services Manager; Alicia Voorhees, Interim Budgets & Rates Supervisor; Janice Lee, Interim Senior Financial Analyst; Daniel Davidson, Senior Financial Analyst

DATE: September 27, 2023

SUBJECT: 2024 Draft Budgets, Long-Term Financial Plan Update, and Price Proposal Overview

OBJECTIVE: Direction on 2024 Budget and Price Changes

Issue

Board Policy SD6 and Oregon Statutes require staff to prepare Electric and Water Utility balanced budgets for Board approval prior to the beginning of the next fiscal year. The foundations of the Electric and Water Utilities' budgets are the long-term financial plans (LTFP), which help ensure financial stability for both utilities to accomplish organizational goals and objectives in line with EWEB's strategic plan. Staff have prepared draft 2024 budgets and updated LTFPs for the Board's consideration.

Based on Board direction provided at the October 3rd meeting, staff will develop budgets and price proposals for consideration at the November 7th Board meeting and request approval at the December 5th meeting. Public hearings specific to budget proceedings will present the opportunity for community members to provide testimony as well.

Background

Financial planning is a means of targeting EWEB's strategic direction to *Foster Customer Confidence, Position for Flexibility, and Resilient Delivery*. Organizational values of Safe, Reliable, Affordable, Environmental, and Community are also modeled through the allocation of resources in the planning process.

At the July Board meeting, the 2024 Integrated Capital and Financial Plan provided an update of the strategic and operational priorities and the capital plans required to meet those objectives. This included an overview of the assumptions and the financial and rate impacts of those decisions. The plan includes funding for key strategic priorities, such as Leaburg decommissioning, Carmen-Smith Relicensing, Advanced Meter Infrastructure (AMI), transmission and distribution system enhancement to the electric system, as well as Second Source and base level storage for the water system. Any further direction on capital spending, will be incorporated into plans going forward.

As a public utility, EWEB sets pricing based on the cost to serve each customer class. Budgets inform each Utility's Cost of Service Analysis (COSA). The results of this analysis can include proposals to modify pricing among or within customer classes for retail water and electricity service. The COSA will be presented at the November board meeting.

Discussion

Draft and Prior Year Changes in Revenue Requirement and Budgets:

	\$ (000s)	
	2024 (Draft)	2023
Electric		
Change in Revenue Requirement	5.70%	3.25%
Capital Budget (includes debt service)	\$85,650	\$91,430
O&M Budget	\$314,329	\$307,744
Electric Total	\$399,979	\$399,174
Water		
Change in Revenue Requirement	7.80%	6.00%
Capital Budget (includes debt service)	\$38,903	\$37,543
O&M Budget	\$32,211	\$36,765
Water Total	\$71,114	\$74,308
Total Electric & Water Budgets	\$471,093	\$473,482

Total budgets are comparable to 2023 with an increase in the overall revenue requirement for both Utilities.

Overarching Forecast Assumptions and Outcomes

Though inflation continues to be a headwind in planning, it is easing from uncomfortable highs a year ago and showing signs of moderating. Annual inflation as measured by the Consumer Price Index in August was 3.7%, and the Personal Consumption Expenditures Price Index, favored for monetary policy decision making at the Federal Reserve, is estimated at 3.4% for August. Accordingly, EWEB's 2024 budgets provide a milder approach to inflationary pressure in the next couple of years, and project that in the long run, inflation will normalize around the Federal Reserve's target of 2.0%.

The following assumptions have been used in developing the current forecasts and are anticipated to be used in creating the 2024 budget. Utility specific assumptions are noted on the Attachments.

Both Utilities

- Conservative revenue assumptions of:
 - 95% of historical 5-year average Water consumption for the first five years, resulting in a contribution margin risk tolerance of approximately \$1.2 million in 2024
 - 90% of expected surplus hydro for Electric, resulting in a contribution margin risk tolerance of approximately \$14.3 million per year for the first five years
- Labor Cost Escalation – fully loaded costs are indexed to a combination of inflation factors and expected labor market comparators and benefit cost escalations. IBEW employee wages are escalated according to the Collective Bargaining Agreement
- Non-Labor O&M Escalation – 2024 is escalated at 3.0%, 2025 and beyond modeled at 2.0%
- 5% inflation in capital plan through 2025 (3% thereafter), and a contingency is included on a project-by-project basis based on the specific nature and risks for the project
- 5% interest rates on future borrowing

- Capital improvement plans generally as presented in July
- Updated reserves, bond, and rate funding assumptions for Capital Improvement Plan (CIP)
- Customer Care funding of \$1.3 million, an increase of \$100,000 from 2023 budget levels based on EWEB’s Utility-Burden Assistance Calculation

Since July, the financial plans have been updated to reflect more current information for both utilities:

- Reflect a base year of 2024 preliminary budget instead of 2023 budget
- Revised reserves balances based on projected 2023 year-end balances
- Updated revenue forecasts

LTFP Update

Electric

In July, the Electric Utility was anticipating an overall average revenue requirement increase of 7.75% in 2024 and a 10-year compound growth rate of 49.61%. The current projections are 5.7% and 40.85% respectively, approximately 3.48% per year compounded over the ten-year period.

Revenue requirement increases of 3.0% - 6.0% are modeled through the first five years of the LTFP and include substantive actions to address prefunding a reserve to decommission Leaburg. Specific rate actions to fund Leaburg in the LTFP include:

	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>
Leaburg rate actions	4.0%	2.0%	1.0%	1.0%

Other notable projects inclusive in the plan are continued Carmen-Smith Relicensing, Resilient Spine improvements, AMI, and EWEB Enterprise Solutions (EES). The BPA pass-through was lower than expected due to changes in entitlement and BPA rates. Electric rates will remain “mid-tier” among regional utility comparators given mutual pressures being experienced across the Northwest. With the price assumptions noted, financial metrics are within Board targets for all years of the plan. The Electric LTFP outcome is included in Attachment 1.

Water

In July, the Water Utility was anticipating an overall average revenue requirement increase of 8.25% in 2024 and a 10-year compound growth rate of 83.19%. The current projections are 7.8% and 75.25% respectively, approximately 5.77% per year compounded over the ten-year period. Rate increases for the Water Utility will fund capital investments for storage and transmission and include a new water treatment plant and river intake on the Willamette River with a capacity to meet our current minimum demand. The Water Utility LTFP assumes a substantial amount of conventional borrowing to fund the Water Treatment Plant, which puts pressure on financial targets and requires a higher rate trajectory in the early years of the LTFP. Water rates will remain comparatively low among regional utilities, even with significant investments and economic pressure. All Board approved financial metrics remain within target across the ten-year plan. The Water LTFP outcome is included in Attachment 2.

2024 Budgets

Draft budgets were developed in alignment with EWEB’s strategic priorities and total \$471 million for the Water and Electric Utilities. Some of the high priority capital projects include resiliency and reliability work, modernization projects, as well as continued Carmen-Smith relicensing work.

Significant changes from 2023 budget year:

- Leaburg prefunding – 4.0% revenue requirement increase in 2024 to begin building reserves for Leaburg decommissioning

- Electric O&M is \$6.5 million higher than 2023 due to higher labor costs
- Electric Capital investments are \$4.2 million lower than 2023. The Currin substation project is due to be completed in 2023. Upcoming major capital projects in 2024 include the EES program, AMI, Leaburg decommissioning risk mitigation, and Carmen-Smith Relicensing
- Electric Debt Service is \$1.5 million lower than 2023 as payments for 2011 issuance are complete
- Budgeted Watershed Recovery investments for 2024 amount to \$2.8 million. Of this budget, \$2.4 million is allocated for heightened watershed efforts, with the expectation of funding from fee revenue and grant revenue. It is important to note that not all identified grant sources have been awarded as of now, and therefore, they are not modeled as revenue for 2024
- Water Capital investments are \$1.5 million lower than 2023. The E 40th storage tanks and associated transmission line work are due to be completed in 2023 with final earthwork and landscaping continuing into 2024. Other upcoming capital projects include transmission mains and further base level storage projects at College Hill and Shasta, in addition to the EES project
- Water Debt Service is \$2.9 million higher following a bond issuance in 2023

Recommendation

Management recommends the Board direct staff to prepare the 2024 proposed budgets using the assumptions set forth in this document.

Requested Board Action

Management is not requesting Board action at the October 3rd meeting; however, staff are requesting the Board provide direction on the assumptions included in the draft budget. In addition, staff are requesting direction on investment levels for future capital plans. At the November 5th Board meeting, Management will present the budgets and price change proposals which are scheduled for Board action at the December 5th meeting.

Attachments

Attachment 1 - Summary of Electric LTFP Price Assumptions and Outcomes

Attachment 2 - Summary of Water LTFP Price Assumptions and Outcomes

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

Yellow = within 10% of target

Key Metrics (Dollars in \$000,s)	Target	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	
Reserves and Cash		\$111,100	\$101,200	\$103,400	\$109,400	\$104,100	\$111,600	\$115,900	\$115,600	\$114,100	\$113,800	
Leaburg Reserve Balance		\$4,200	\$10,600	\$11,700	\$9,800	\$17,100	\$23,600	\$23,400	\$19,200	\$15,200	\$9,900	
Rate Stabilization Fund Balance	\$5,000	\$14,100	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000	
Total Cash Reserves	\$100,720	\$129,400	\$116,800	\$120,100	\$124,200	\$126,200	\$140,200	\$144,300	\$139,800	\$134,300	\$128,700	
Days Cash	>150 Days	159	185	196	204	200	213	204	189	167	152	
												Total
Annual Capital Investment		\$70,000	\$75,000	\$62,000	\$73,000	\$63,000	\$61,000	\$60,000	\$55,000	\$48,000	\$48,000	\$615,000
Use of Rate Stabilization Funding		\$9,000	\$9,000									
Bond Funding		\$64,000			\$64,000			\$69,000				
Total Debt		\$239,710	\$231,435	\$223,340	\$277,865	\$267,865	\$257,715	\$316,090	\$304,980	\$294,070	\$284,570	
Annual Debt Service		\$15,700	\$19,800	\$19,300	\$20,300	\$24,600	\$24,300	\$24,300	\$28,800	\$28,100	\$26,300	
Debt Service Coverage Ratio	1.75	3.95	3.19	3.24	3.38	2.64	2.99	2.61	2.06	1.78	1.75	
Revenue Requirement Assumptions	10 Year Compound	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	
General Rate Increase			4.00%	2.00%	2.00%	0.50%	2.50%		2.25%		2.00%	
Leaburg Prefunding		4.00%	2.00%	1.00%	1.00%							
BPA Increase		1.70%		2.50%		2.50%		2.50%		2.50%		
Average Impact Resulting from Change in Revenue Requirement	40.85%	5.70%	6.00%	5.50%	3.00%	3.00%	2.50%	2.50%	2.25%	2.50%	2.00%	

Key Assumptions

- 2024 Retail load approximately the same as 2023 budget – 2.4 million MWh
- Electrification load approximately 14 thousand MWh in 2024 increasing to 145 thousand MWh in 2033
- Contribution margin risk tolerance of \$14.3 million representing 90% of expected generation. Similar contribution margin risk tolerance is modeled through 2028, with 100% expected conditions 2029-2033
- BPA rate increase of 6% assumed in October 2025, 2027, 2029, 2031, and 2033, which translates to 2.5% for EWEB customer-owners
- Wholesale energy pricing - \$83/MWh melded mid-market price curve in 2024, with pricing stable through 2033
- Environmental Commodities represent roughly \$4 million of wholesale revenue in 2024
- Rate increases for Leaburg funding and project costs are included in the financial plan through 2033
- Bond issuance: \$64 million in 2024, \$64 million in 2027, and \$69 million in 2030 funding capital work
- Use of \$18.5 million of Rate Stabilization Reserve funds for capital work in years 2024 and 2025

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

Yellow = within 10% of target

<u>Key Metrics</u> (Dollars in \$000,s)	<u>Target</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>	<u>2031</u>	<u>2032</u>	<u>2033</u>	
Reserves & Cash		\$17,828	\$14,084	\$14,762	\$15,275	\$16,025	\$20,903	\$25,989	\$30,094	\$36,262	\$42,387	
AWS Reserve Balance		\$1,900	\$1,000	-	-	-	-	-	-	-	-	
Rate Stabilization Fund Balance	\$1,000	\$8,930	\$6,080	\$10,700	\$10,650	\$11,450	\$8,950	\$6,950	\$6,700	\$3,700	\$1,000	
Total Cash Reserves	\$13,680	\$28,658	\$21,164	\$25,462	\$25,925	\$27,475	\$29,853	\$32,939	\$36,794	\$39,962	\$43,387	
Days Cash	> 150 days	328	241	310	290	293	285	302	320	328	345	
Annual Capital Investment		\$31,000	\$39,000	\$60,000	\$48,000	\$49,000	\$24,000	\$24,000	\$24,000	\$19,000	\$24,000	\$342,000
Use of Rate Stabilization Funding		\$7,300	\$7,000									
Bond Funding				\$75,900		\$50,200			\$23,100			
Total Debt		\$94,970	\$91,670	\$164,150	\$160,580	\$207,060	\$203,185	\$199,140	\$218,835	\$215,300	\$211,620	
Annual Debt Service		\$7,407	\$7,406	\$7,402	\$12,490	\$12,487	\$15,843	\$15,844	\$15,046	\$16,588	\$16,593	
Debt Service Coverage Ratio	2.00-2.50	3.37	3.22	2.75	2.12	2.19	2.03	2.03	2.03	2.04	2.02	
<u>Revenue Requirement Assumptions</u>	<u>10 Year Compound</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>	<u>2031</u>	<u>2032</u>	<u>2033</u>	
General Rate Increase		5.30%	5.30%	5.30%	5.30%	4.80%	4.75%	3.25%	3.25%	3.00%	1.75%	
Second Source Increase		2.50%	2.50%	2.50%	2.50%	3.00%	3.00%					
Average Impact Resulting from Change in Revenue Requirement	75.25%	7.80%	7.80%	7.80%	7.80%	7.80%	7.75%	3.25%	3.25%	3.00%	1.75%	

Key Assumptions

- Consumption of approximately 7.8 million kgal
- Contribution margin risk tolerance of \$1.2 million in 2024, which represents 95% of 5-year average consumption
- Annual revenue requirement without second sources increases at 57.77%, compounded over the next 10 years
- System Development Charge reserve draw of \$910 thousand for debt service payments in 2024
- Includes watershed recovery fee funding and expenditure. Though grant revenues are anticipated to fund watershed efforts, grants not yet awarded are not modeled as revenue sources
- Bond issuance: \$76 million in 2026, \$50 million in 2028, and \$23 million in 2031