



MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

Rely on us.

TO: Commissioners Simpson, Brown, Helgeson, Manning and Mital
FROM: Cathy Bloom, Finance Manager; Sue Fahey, Fiscal Services Supervisor;
Harvey Hall, Deborah Hart and Edward Yan, Senior Financial Analysts
DATE: September 24, 2013
SUBJECT: 2014 Draft Budget and Long-Term Financial Plans Update
OBJECTIVE: Direction on 2014 Budget and Rates

Issue

Board Policy SD6 requires that staff prepare an annual balanced budget that the Board approves by the end of the calendar year. The foundation of the annual budget is the Electric and Water Utilities' long-term financial plans to ensure that the budget approved provides longer term financial stability for both utilities. Staff has prepared a draft balanced 2014 budget and updated the long-term financial plans for the Board's consideration. The draft budget includes embedded rate assumptions. Based on Board direction for the 2014 budget, staff will develop budget and rate proposals for consideration at the November 5th Board meeting.

Background

Beginning with the 2012 budget development, EWEB management and staff utilized a different approach starting with scenario based budgeting for 2012 and moving to a priority based budgeting (PBB) approach for subsequent budget development. Given the financial challenges facing both the Electric and Water Utilities, this approach has served EWEB well in its effort to align budgets with EWEB's mission and strategic plan. For your information, **Attachment 1** includes the reductions made to the 2013 budget.

Recognizing that EWEB's financial challenges had not been completely addressed by the 2013 budget work, in September 2012 the Leadership Team began identifying strategic financial initiatives and using the PBB process to enhance financial stability. At that time, in order to meet financial targets, "business as usual" was projected to result in 2014 rate increases of approximately 20% for Electric and 15% for Water partly due to reducing the 2013 Water rate increase from 30% to 20% with a plan to "add" the 10% reduction to the 2014 Water rate increase.

At your March 19, 2013 meeting, leadership team members presented their recommendations for a path forward. In response to that information and prior information provided by EWEB's financial advisor, the Board approved financial policies that align with an "A" bond rating for the Electric Utility at the June 4, 2013 meeting. Based on that work, financial targets are able to be achieved with lower rate increases than the 20% Electric and 15% Water previously projected.

At the July 16, 2013 meeting, the Board directed staff to prepare a draft budget based on the following assumptions:

Both Utilities

- 2.3% non-labor CPI increase as per the US Bureau Labor and Statistics, Portland/Salem 10 year average
- Labor/Benefits increases:
 - 2.1% salary escalation based on an average of the Portland/Salem CPI for All Urban Consumers (CPI-U) and Wages (CPI-W)
 - Health insurance increase – 7.5%
- PBB Related O&M Net Change – Electric: \$5 million decrease (includes \$1.4 million reduction in conservation expenses), Water: \$200,000 increase due to the net effect of reductions and a \$600,000 addition for development of water master plan.
 - 11.4 FTE reduction, net.
 - 20 positions eliminated, almost entirely managed through vacancies and retirements
 - Addition of 8.6 FTE primarily for customer service and in-sourcing foresters (corresponding non-labor reduction)
 - PBB changes by department are provided in **Attachment 2**

Electric

- Flat retail load – 2.5 million mWh
- 90% generation
- Wholesale prices based on melded mid-market price curve
- 4% rate increase which represents a \$2.38/month increase for the average residential apartment using 570 kWh and \$6.48/mo for the average residential house using 1600 kWh if applied equally to all rate components

Water

- Flat consumption – 7.4 million kgals
- 3% rate increase which represents a \$.81/month increase for the average customer consuming 7 kgals

Discussion

The following items represent the more significant changes to the July assumptions:

Both Utilities

- Health insurance rebate used to offset 2014 7.5% health insurance increase (total \$700,000)
- Employee benefits split between Electric and Water changed from 81%/19% to 82%/18% to align with administrative and general cost split (\$200,000 shift to Electric)

Electric

- A change in the slice forecast and lower BPA entitlement resulted in \$1.2 million reduced revenue
- Capital labor shift to operation & maintenance expenses (\$700,000)
- \$1.7 million of reserves held for Harvest Wind used to offset portion of Harvest Wind debt

- Use of \$640,000 reserves primarily for one-time legal and regional organization membership expenses
- Increased customer capital work (both expense and revenue) by \$1.2 million to reflect current trends

Water

- Reduction of expenses by \$600,000 due to budget refinement by water engineering and water operations
- Increase contingency to \$500,000 (\$280,000 change)
- \$10,000 increase in septic maintenance cost share program to meet anticipated demand

Long-Term Financial Plan Rate Assumptions and Outcomes

Electric

For the Electric Utility, options for an overall average 4% May 2014 or a 4% February rate increase are presented along with the resulting projected financial metrics and change in reserves. Due to the changes in the 2014 draft budget noted above, a 4% May rate increase indicates that debt service coverage will be below or near Board targets for the first six forecast years. In order to maintain financial metrics at or above Board targets with a May rate increase, an overall average rate increase of 5.8% would be required.

Applying the rate increase in February allows financial metrics to be met in all years except 2019 which is due to the anticipated Carmen-Smith outage. If the Board decides to adopt the February rate increase option, in the future all Electric rate increases will take place in February including the Bonneville Power Administration (BPA) pass-through. An Electric February rate increase aligns with the Water rate increase providing customers a more predictable view of EWEB rate changes and their total bill impact. In BPA pass through years like 2013, under current rate change timing customers experience four rate changes from a total bill perspective – Water in February, Electric in May, City charges in July, and BPA pass-through in November. Management recommends that all EWEB rate increases be consolidated into one single implementation date (February) that closely follows the Board’s action. This will reduce confusion and perception of constant rate increases.

The Electric long-term financial plan option outcomes are included in **Attachment 3**.

Water

Water Utility options all include an overall average 3% February 2014 rate increase. Option 1, assumes no Water Reliability Initiative/Alternative Water Source (AWS) capital costs, an additional \$20 million of Type I/II capital costs for capital maintenance and rehabilitation in the absence of the AWS work, and rate increases to maintain financial metrics. Options 2 and 3 assume \$50 million in AWS capital expenses as provided in the capital improvement plan approved on July 16th. Option 2 rate increases for AWS are concentrated during the higher expense years of 2017-2020, and Option 3 smoothes the rate increases starting in 2015.

The Water long-term financial plan outcomes are included in **Attachment 4**.

Recommendation

Management recommends that the Board direct staff to prepare the 2014 budget using the assumptions set forth in this document, a 4% overall average February 2014 Electric increase and a 3% February 2014 Water increase.

Requested Board Action

Management is not requesting Board action at the October 1st meeting; however, staff is requesting that the Board provide clear direction on budget assumptions as well as rate increase timing and percentages. At the November 5th Board meeting, Management will present the budget and rate proposals which are scheduled to be approved at the December 3rd meeting.

Attachment 1 – 2013 Budget Reductions and Changes

Attachment 2 – 2014 budget Reductions and Changes

Attachment 3 – Summary of Electric LTFP Rate Assumptions and Outcomes

Attachment 4 – Summary of Water LTFP Rate Assumptions and Outcomes

Attachment 1 – 2013 Budget Reductions and Changes

Positions

To present a balanced 2013 budget, several positions were reduced and a few additions were included using the PBB process for decision-making. Approximately 40 net positions were eliminated including 2 director, 4 manager and 4 supervisor positions. Reductions represented about 9% of EWEB's positions.

Department Reductions	
General Manager (includes 2 director positions)	-3.00
Electric (includes warehouse, facilities and steam)	-10.50
Water (includes new Utility Support Services section)	-1.00
Customer Service	-6.00
Energy Management Services	-11.00
Engineering	-9.50
Generation and Fleet	-3.25
Information Technology	-1.00
Strategic and Power Planning	-2.00
Power Operations	-2.00
Finance	-1.00
Environmental	-1.00
Human Resources	-2.30
Public Affairs	-2.00
Total Reductions	-55.55
Priority-based FTE Additions	
Utility Support Services in-sourcing	11.00
Information Technology FTE Approved in 2011	2.00
Water Operations	2.00
Fleet Operations	1.00
Net Reductions	-39.55

Non-labor Operation & Maintenance

Department Reductions	
General Manager	\$ 25,000
Electric (includes warehouse and facilities)	\$ 114,000
Water	\$ 222,000
Customer Service	\$ 168,000
Energy Management Services	\$1,616,000
Engineering	\$ 329,000
Generation and Fleet	\$ 48,000
Information Technology	\$ 218,000
Strategic and Power Planning	\$ 142,000
Power Operations	\$ 456,000
Finance	\$ 19,000
Environmental	\$ 190,000
Human Resources	\$ 343,000
Public Affairs	\$ 239,000
Total	\$4,129,000

Non-labor increases totaled approximately \$1.1 million. Significant changes include \$600,000 in information technology software, maintenance and supplies with over half of the increase supporting the Metro-Ethernet project which will help ensure backup control facilities are NERC compliant. Other increases include funding for critical water supplies, and SCADA software services, maintenance and training (\$175,000); increased costs for fuel and vehicle supplies (\$100,000); and increased costs for credit card processing and collection agency fees (\$100,000).

Capital

Over \$60 million of capital improvement work was deferred or eliminated.

Attachment 2 – 2014 Budget Reductions and Changes

Positions

To present a balanced 2014 budget, several positions were reduced and a few additions were included using the PBB process for decision-making.

Department	FTE Change
General Manager	(1.00)
Electric (includes warehouse and facilities)	(5.00)
Water	0.00
Customer Service	(1.00)
Energy Management Services	(5.00)
Engineering	(2.00)
Generation and Fleet	(2.00)
Information Technology	(1.00)
Strategic and Power Planning	(1.00)
Power Operations	(1.00)
Finance	(1.00)
Environmental	0.00
Human Resources	0.00
Public Affairs	0.00
Total	(20.00)
PBB increases primarily in Customer Service (4.35 FTE) and Electric (3 FTE offset by non-labor reductions)	8.60
Total Net FTE Reductions	(11.40)

Non-labor Operation & Maintenance

Department Non-labor O&M Reductions	
General Manager	\$ 110,000
Electric (includes warehouse and facilities)	\$ 235,000
Water	\$ 113,000
Customer Service	\$ 428,000
Energy Management Services	\$ 1,095,000
Engineering	\$ 636,000
Fleet	\$ 123,000
Information Technology	\$ 457,000
Strategic and Power Planning	\$ 66,000
Power Operations	\$ 20,000
Finance	\$ 62,000
Environmental	\$ 75,000
Human Resources	\$ 99,000
Public Affairs	\$ 53,000
Total	\$3,572,000

Non-labor PBB increases totaled approximately \$1.3 million the majority of which is for the Water and Electric master planning work.

Capital

Over \$20 million of capital improvement work was deferred or eliminated.

Attachment 3

			Summary of Electric LTFP Assumptions and Outcomes (\$000s omitted)										
		Current Target	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	
Option	2014 Assumptions												
1	4% May Rate Increase	Reserves & Cash Operating Reserve Change DSC	\$47,120 - \$57,620 1.75 - 2.0	\$94,000 \$4,500 1.67	\$98,900 \$4,000 1.69	\$103,400 \$2,400 1.78	\$110,000 \$7,700 1.78	\$97,300 \$5,700 1.75	\$93,200 -\$2,500 1.54	\$98,400 \$7,400 1.83	\$110,400 \$14,000 1.90	\$133,000 \$21,600 2.23	\$162,900 \$28,600 2.67
2	4% Feb Rate Increase	Reserves & Cash Operating Reserve Change DSC	\$47,120 - \$57,620 1.75 - 2.0	\$95,900 \$6,400 1.74	\$102,800 \$6,000 1.76	\$108,500 \$3,600 1.82	\$117,300 \$9,900 1.86	\$107,600 \$8,700 1.85	\$106,700 \$700 1.64	\$115,800 \$11,300 1.94	\$132,000 \$18,200 2.02	\$159,300 \$26,300 2.36	\$194,300 \$33,700 2.84

Note: Yellow highlight represents metric is close to target. Red highlight represents metric is below target.

Rate Schedule	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Base Rate Increase	4.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
BPA Increase		2.50%		2.50%		2.50%		2.50%		2.50%
Carmen-Smith Debt					1.75%		1.50%			
Total Rate Change	4.00%	5.50%	3.00%	5.50%	4.75%	5.50%	4.50%	5.50%	3.00%	5.50%

Retail Revenue Assumptions

- No material load growth

Power and Wholesale Sales Assumptions

- Assumes **90% generation** in all years

Operating and Maintenance Assumptions

O&M Non-Labor

- Non-labor escalation is 2.3% annually as per US Bureau of Labor Statistics Portland-Salem 10 year average

O&M Labor

- Salary escalation of 2.1% annually (2014-2023)
- Health Insurance increases 10% annually
- PERS increase of 5 percentage points in 2015, 2017 and 3 percentage points in 2019, 2021, and 2023

Capital and Debt Related

- Bonds issued for Carmen-Smith of \$65 million in 2018 and \$60 million in 2020.
- Bonds issued for AMI of \$17 million in 2016.

Generation Assumptions

- Assumes no Carmen generation during 2018: July-October and 2019: January-December

Attachment 4

Summary of Water LTFP Rate Assumptions and Outcomes (000s omitted)

Option	Assumption	Current Target	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	
1	3% Rate 2014; 5% Rate 2015-19; 4% 2020-2021; 3% 2022-2023*with draw down of reserves to fund capital in 2017, 2019, 2021	Reserves & Cash	\$7,900 - \$11,400	\$9,478	\$13,221	\$17,351	\$13,187	\$16,958	\$10,813	\$17,678	\$11,049	\$16,366	\$22,055
		Operating Reserve Change		\$2,704	\$2,590	\$3,009	\$3,243	\$3,569	\$ 3,886	\$ 6,922	\$ 4,600	\$ 4,958	\$ 5,410
		DSC	2.45	2.69	2.70	2.60	2.56	2.53	2.48	2.74	2.52	2.59	2.67
		Base Rate Action		3.0%	5.0%	5.0%	5.0%	5.0%	5.0%	4.0%	4.0%	3.0%	3.0%
2	3% Rate 2014; 5% Rate 2015-16 8% 2017-2020; 7% 2021 ; 3% 2022-2023 *with draw down of reserves to fund capital in 2017, 2019, 2021	Reserves & Cash	\$7,900 - \$11,400	\$9,478	\$13,125	\$17,334	\$17,085	\$23,932	\$15,831	\$26,231	\$28,765	\$38,596	\$49,034
		Operating Reserve Change		\$2,704	\$2,584	\$2,998	\$4,158	\$5,645	\$5,931	\$9,457	\$8,763	\$9,462	\$10,159
		DSC	2.45	2.69	2.70	2.59	2.68	2.80	2.49	2.56	2.53	2.61	2.69
		Base Rate Action		3.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	4.0%	3.0%	3.0%
		AWS Rate Action					3.0%	3.0%	3.0%	3.0%	3.0%		
		Total Rate Action		3.0%	5.0%	5.0%	8.0%	8.0%	8.0%	8.0%	7.0%	3.0%	3.0%
3	3% Rate 2014; 6% Rate 2015; 7% 2016-2021; 3% 2022-2023 *with draw down of reserves to fund capital in 2017, 2019, 2021	Reserves & Cash	\$7,900 - \$11,400	\$9,478	\$13,490	\$18,514	\$19,969	\$27,171	\$14,237	\$24,556	\$26,934	\$36,592	\$46,843
		Operating Reserve Change		\$2,704	\$2,859	\$3,903	\$4,861	\$6,001	\$6,098	\$9,376	\$8,607	\$9,290	\$9,971
		DSC	2.45	2.69	2.75	2.73	2.77	2.83	2.53	2.59	2.55	2.63	2.72
		Base Rate Action		3.0%	5.0%	5.0%	5.0%	5.0%	5.0%	4.0%	4.0%	3.0%	3.0%
		AWS Smoothing Rate Action			1.0%	2.0%	2.0%	2.0%	2.0%	3.0%	3.0%		
				Total Rate Action		3.0%	6.0%	7.0%	7.0%	7.0%	7.0%	7.0%	3.0%

Note: Yellow highlight represents metric is close to target. AWS is Alternative Water Source.

Major Assumptions:

- Flat consumption
- 2.3% non-labor CPI increase as per the US Bureau Labor and Statistics, Portland-Salem 10 year average
- Labor/Benefits increases:
 - 2.1% salary escalation based on an average of the Portland-Salem CPI for All Urban Consumers (CPI-U) and Wages (CPI-W)
 - PERS increase – 5 percentage points on July 1, 2015 and 2017; 3 percentage points on July 1, 2019, 2021, and 2023
 - Health insurance increase: 10%
- Scenario I- Bond issuances of \$18 million in 2015 (includes \$5.0 million for AMI and \$4.5 million for accelerated meter body replacement); \$14 million for Type II capital work in 2017; \$18 million for Type II work in 2019
- Rate increase effective February