



MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

Rely on us.

TO: Commissioners Mital, Simpson, Helgeson, Manning and Brown
FROM: Sue Fahey, Finance Manager; Harvey Hall, Deborah Hart and Edward Yan, Senior Financial Analysts
DATE: September 28, 2015
SUBJECT: 2016 Draft Budget and Long-Term Financial Plans Update
OBJECTIVE: Direction on 2016 Budget and Price Changes

Issue

Board Policy SD6 requires that staff prepare balanced budgets for the Electric and Water Utilities on an annual basis and that the Board approve those budgets by the end of the preceding calendar year. The foundation of the Operations & Maintenance (O&M) budgets is the Electric and Water Utilities' long-term financial plans which help ensure that the budgets approved provide longer term financial stability for both utilities. Staff has prepared draft balanced 2016 budgets and updated long-term financial plans for the Board's consideration. The draft O&M budgets include embedded price change assumptions to support revenue requirements. Based on Board direction provided at the October 6th meeting, staff will develop budgets and price proposals for consideration at the November 3th Board meeting.

Background

Over the last several years, both the Water and Electric Utilities have been facing financial challenges. Those challenges have been managed by strategically reducing operations & maintenance and capital costs, designing price structures that increase fixed cost recovery, and prudently using reserves to strengthen financial metrics. These, along with stronger water sales, have helped stabilize the Water Utility. Reserve accounts are at or above minimum targets for the Water Utility for the first time in several years and a rate stabilization fund has been created. While Electric loads have seen recent decreases due to an unusually warm winter, there is evidence of customer count growth for residential customers and load growth in general service. Power sales revenue has been relatively flat for the last few years.

In developing the 2013 and 2014 budgets, EWEB reduced more than 70 positions and \$7.7 million O&M dollars. Over the same time period, capital budgets were reduced or deferred by approximately \$80 million as EWEB prioritized spending and focused strategic investment on the resilient "core". Continuing that work, in the spring and summer of 2015 management identified more than \$2 million in additional O & M expenditure reductions.

At the July 21, 2015 meeting, the Board directed staff to prepare a draft 2016 budget based on the assumptions presented. Since July, certain assumptions have changed. Employee health insurance increases are lower than initially forecasted, an additional \$2.1 million in LTD reimbursable work was added to the Electric capital budget due to delayed 2015 work, and the assumed PERS rate change for 2019 was increased from three percentage points to five given preliminary information from PERS that some of the legislative changes will be deferred from 2017 to 2019.

Both Utilities

- 2.4% non-labor CPI increase as per the US Bureau Labor and Statistics, Portland/Salem 10-year average
- Labor/Benefits increases:
 - 2.4% 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, 2019, and 3 percentage points in 2021, 2023 and 2025
 - \$45 million payment to reduce PERS unfunded actuarial liability in 2017 which results in projected total operations & maintenance (O&M) savings of over \$2.5 million starting in 2018
 - Non-retirement related benefits increase – 8% in 2016, 9% in subsequent years
 - Financial Initiative Adjustments, including savings in health insurance for 2016 – Electric: approximately \$2.5 million decrease. Water: approximately \$380,000 decrease.
- Rate changes effective February

Electric

- Retail load approximately the same as 2015 budget – 2.5 million MWh that includes a 1% load increase for residential and general service customers in 2016 and 2017. 2016 load growth is offset by an extended outage of a large usage customer
- Budget vs. expected risk tolerance of \$3.6 million
 - Tolerance reflects: 90% water, 97% forecasted load. Prices already hedged to budget.
- \$25 melled mid-market price curve increasing to \$39 in 2025
- Partial year Carmen-Smith generation outages in 2017, 2018, and 2021
- BPA price increases of 6.3% in October of odd-numbered years which represents approximately a 2.5% price impact to EWEB customers
 - BPA price increases are assumed to be incorporated into February price proposals
- Bond issuances of \$76 million and \$52.5 million in 2017 and 2022, respectively, funding capital work on Carmen-Smith and other capital projects.

Water

- Consumption: 7.6 million kgals, approximately the same as 2015 budget
- Alternate Water Supply (AWS) major work begins in 2019
- Bond issuances of \$15 million in 2016; \$47 million in 2018; and \$25 million in 2021
- \$850K in additional O & M costs beginning in 2022 to operate AWS

Revenue Requirements, Price Change Assumptions, and Outcomes

Electric

For the Electric Utility, a 2.5% overall average February 2016 revenue requirement price change is needed to cover the projected 6.3% BPA power and transmission rate increases. For the second year in a row, the revenue requirement does not include a general price increase. Price changes in most years range from 2.5% to 3.5% and should continue the improvement of EWEB's position relative to its comparator utilities. With the assumed price trajectory, approximately \$3.5 million of additional financial improvements would need to occur by 2021 to meet Board financial metrics. The Electric LTFP outcomes are included in **Attachment 1**.

Water

The Water Utility revenue requirements are calculated using a smoothing strategy and result in a 3.62% overall average price increase for 2016 and each subsequent year through 2025. Based on the Board's strategic planning work and direction provided at the July 21st meeting, major AWS capital construction work is scheduled to start in 2019, and the LTFP assumes building reserves to reduce future bond issuances.

The Water long-term financial plan outcomes are included in **Attachment 2**.

NOTE: The Average Bill Comparison will be included in the presentation to the Board on October 6th.

Recommendation

Management recommends that the Board direct staff to prepare the 2015 budget using the assumptions set forth in this document, a 2.5% overall average February 2016 Electric price change and a 3.62% overall average February 2016 Water price change.

Requested Board Action

Management is not requesting Board action at the October 6th meeting; however, staff is requesting that the Board provide clear direction on budget assumptions as well as the prices to support the revenue requirements included in the draft budget. At the November 3rd Board meeting, Management will present the budget and price change proposals which are scheduled to be approved at the December 1st meeting.

Attachment 1-Summary of Electric LTFP Revenue Requirements Price Assumptions and Outcomes
Attachment 2 - Summary of Water LTFP Revenue Requirements Price Assumptions and Outcomes
Attachment 3 - Average Revenue per kWh

2016 Electric Long Term Financial Plan Summary

Assumptions and Outcomes (\$000's omitted)

	Target	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Reserves and Cash	\$69,820	\$112,307	\$82,127	\$88,795	\$92,725	\$96,042	\$97,282	\$103,786	\$107,665	\$112,502	\$120,325
Debt Service Coverage Ratio	1.75	2.14	1.79	1.80	1.78	1.69	1.62	1.85	1.73	1.79	1.98
Avg Price Change		3.50%	3.00%	3.50%	3.50%	3.50%	3.50%	0.00%	2.50%	0.00%	28.52%
Budget to Expected Risk Tolerance		\$ 3,600	\$ 3,600	\$ 4,100	\$ 4,600	\$ 5,100	\$ 5,500	\$ 6,300	\$ 6,400	\$ 6,600	\$ 6,600
O&M improvements to support 1.75 DSC						\$1,800	\$1,800				
Total O&M improvements to support 1.75 DSC						\$1,800	\$3,600	\$3,600	\$3,600	\$3,600	\$3,600

Price Schedule	Revenue Price Assumptions										Compounded 10 Yr Total
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	
General Price Increase		0.50%	0.50%	3.50%	1.00%	3.50%					9.28%
BPA Increase	2.50%		2.50%		2.50%		2.50%		2.50%		13.14%
Carmen/Smith Debt		3.00%					1.00%				4.03%
Avg Price Change	2.50%	3.50%	3.00%	3.50%	3.50%	3.50%	3.50%	0.00%	2.50%	0.00%	28.52%

Electric LTFP - 20% FPC Decrease	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	
Reserves and Cash	\$69,820	\$111,807	\$80,127	\$85,495	\$86,125	\$85,442	\$83,482	\$85,886	\$86,065	\$87,002	\$91,725
Debt Service Coverage Ratio	1.75	2.12	1.74	1.76	1.67	1.55	1.51	1.70	1.58	1.64	1.85
Days Cash		170	114	121	121	115	107	107	104	102	111
Average Price Change		2.50%	3.50%	3.00%	3.50%	3.50%	3.50%	3.50%	0.00%	2.50%	0.00%
O&M improvements to support 1.75 DSC			\$300		\$2,100	\$3,400	\$1,000				
Total O&M improvements to support 1.75 DSC			\$300	\$300	\$2,400	\$5,800	\$6,800	\$6,800	\$6,800	\$6,800	\$6,800

Major Assumptions:

- * Retail load approximately the same as 2015 budget – 2.5 million MWh that includes a 1% load increase for residential and general service customers in 2016 and 2017. 2016 load growth is offset by an extended outage of a large usage customer
- * Budget vs. Expected Risk Tolerance is \$3.6M (Based on 90% Hydro Generation)
- * \$25 melled mid-market price curve increasing to \$39 in 2025
- * Partial year Carmen-Smith generation outages in 2017, 2018, and 2021
- * BPA price increases of 6.3% in October of odd-numbered years which represents approximately a 2.5% price impact to EWEB customers
- * Bond issuances of \$76 million and \$52.5 million in 2017 and 2022, respectively, funding capital work on Carmen Smith and other capital projects

Attachment 2

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

	<u>Current Target</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
Reserves & Cash	\$11,400	\$14,337	\$17,731	\$16,854	\$20,279	\$17,620	\$18,049	\$16,698	\$13,063	\$12,853	\$13,191
AWS Reserve Balance ¹		\$3,928	\$4,972	\$6,055							
DSC	2.00-2.50	2.65	2.77	2.79	2.16	2.26	2.17	2.02	2.11	2.35	2.47
February Overall Average Price Increase		3.62%	3.62%	3.62%	3.62%	3.62%	3.62%	3.62%	3.62%	3.62%	3.62%

Note 1: AWS reserve balances subject to change based on Board approved transfers each spring

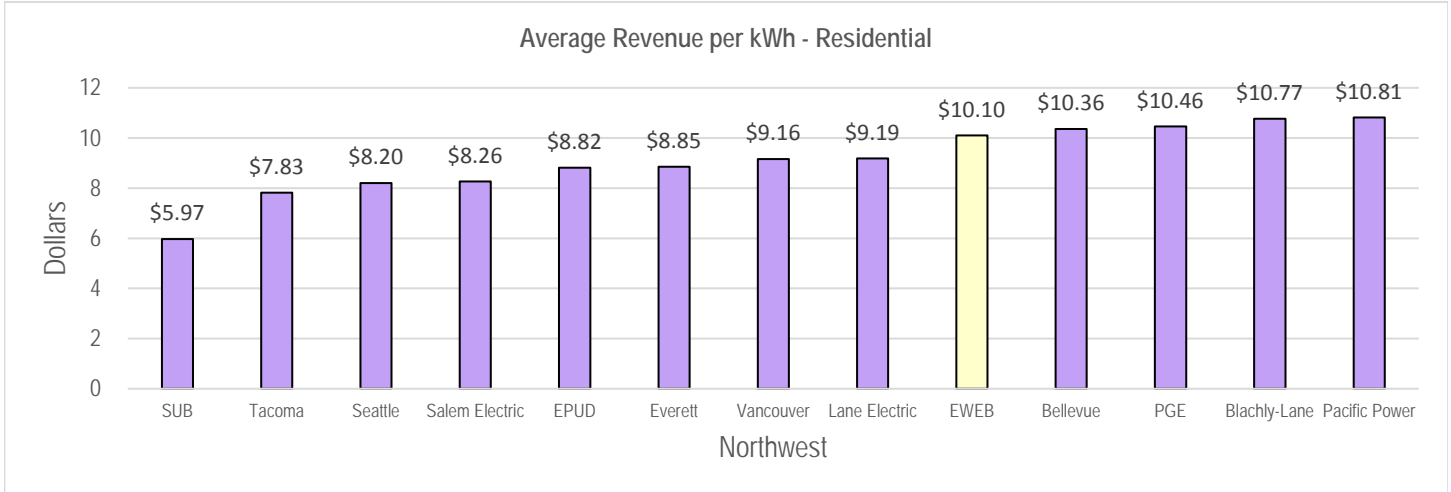
Major Assumptions

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 - Non-retirement related benefits increase – 8% in the current year and 9% thereafter
- Financial Initiative Reductions of \$380K
- Major work for AWS begins in 2019
- Bond issuances of \$15 million in 2016; \$47 million in 2018; and \$25 million in 2021
- Additional \$850K in O & M costs beginning in 2022 for the operation of AWS

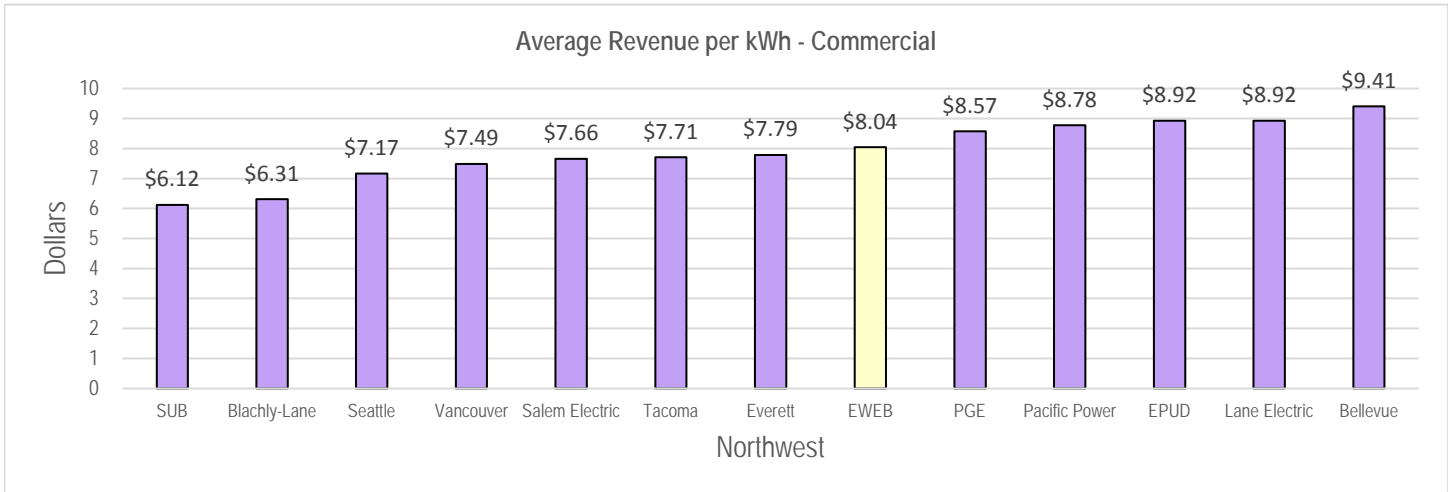
Attachment 3

Average Revenue per kWh, 2013

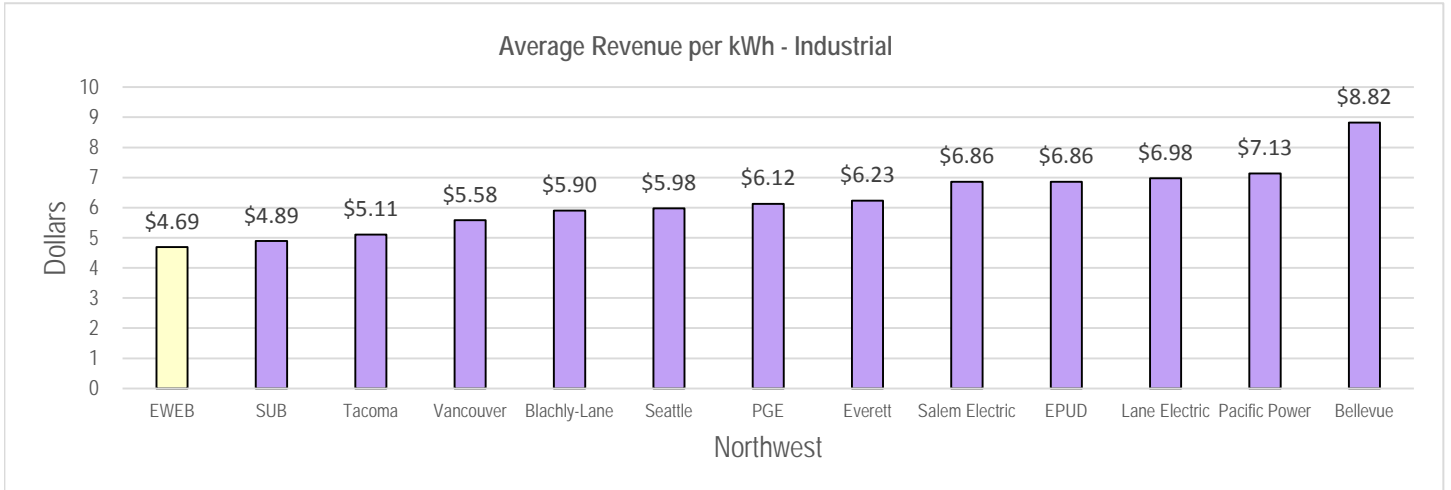
Residential



Commercial



Industrial



Source : U.S. Department of Energy, Energy Information Administration, Form EIA-861, 2013 data.