



MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

Rely on us.

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

FROM: Frank Lawson, CEO and General Manager; Rod Price, Assistant General Manager, Utility Operations; Deborah Hart, Assistant General Manager/CFO; Karen Kelley, Chief Operations Officer

DATE: July 1, 2024

SUBJECT: 2025 Integrated Capital & Financial Plans

OBJECTIVE: Direction on 2025 Integrated Capital & Financial Plans

Issue

Board Policy SD6, Financial Policies, and Oregon Statutes require staff to prepare balanced Water and Electric Utility budgets for Board approval by the end of the calendar year. To prepare budgets, Management is seeking Board direction on the strategic and operational priorities, business and economic forecast assumptions, Capital Improvement Plans (CIPs), and Long-Term Financial Plans (LTFPs) used to guide the proposed budgets and customer pricing schedules (rates).

Background

Through a variety of means, Management receives direction consistent with Board Policy BL4 Delegation to the General Manager, which states the *“Board shall identify and define those results or conditions that are acceptable and not acceptable to the Board and communicate them in the form of establishing policy and approval of Strategic Plans, Long-Term Financial Plans, Capital Improvement Plans, annual budgets and goals”*.

At the July Meeting, Management will collaborate with the Board to ensure a common understanding of desired operational and strategic outcomes, the economic assumptions, and proposed capital investments used to forecast the long-term financial results. If the assumptions and plans are consistent with Board direction and maintaining financial forecasts within Board policy, Management will use the information to develop the following year’s budgets.

Prior to year-end, as budgets are developed consistent with the Board direction received, Management will analyze customer rates, including the total revenue requirement to develop and propose customer rates. In November and December EWEB will provide at least two public Rate Hearings prior to the implementation of new customer rates. Typically, final budgets and rates are approved by the Board at the December Board Meeting.

Discussion

Management herein presents the strategic and operational guidance, business and economic forecast assumptions, proposed capital improvement plans, and resulting long-term financial and rate impacts for both the Water and Electric Utilities for Board consideration, feedback, and

direction. Through previous policies and direction, Management considers the following as prerequisites to the development of strategic guidance, assumptions, and plans.

- Investments shall be consistent with EWEB's strategic plan, including the specific actions associated with the fulfillment of the plan. Actions and results shall support the values of safety, reliability, affordability, environmental stewardship, and community.
- Financial policies, including key metrics of Working Capital Days Cash and Debt Service Coverage shall remain within Board policy.
- Financial reserves levels and replenishment requirements, including Capital Reserves and Rate Stabilization Reserves, shall remain within Board Policy.
- EWEB shall mitigate against Electric Utility wholesale market risk, weather fluctuations, and consumption pattern changes using conservative budget assumptions, establishing Contribution Margin Risk Factors, and adherence to Board Policy SD8, Power Risk Management Policies.

Strategic and Operational Guidance

Over the past several years, Commissioners have provided direction on the strategic and operational priorities. As a basis for this year's investment and financial planning, Management needs Board concurrence to use the following strategic and operational priorities and/or outcomes as guidance:

- Water Utility Investment Priorities - For reliability and resiliency, EWEB needs to scope and construct a water treatment plant on the Willamette River as a second source of supply anticipating capital investment of \$97 million. EWEB takes a comprehensive "source to tap" approach to water quality and reliability. Given significant investments have been made over the past decade at the Hayden Bridge Treatment Plant, EWEB's infrastructure replacement priority is strengthening base-level water storage and transmission. The Water Utility capital plan includes investments of approximately \$85 million in base-level reservoirs and transmission intended to rehabilitate an aging storage system.
- Electric Utility Investment Priorities - With significant electricity delivery infrastructure installed in the 1960s and 1970s, EWEB needs to attenuate and manage the ballooning need to replace this concurrently aging equipment while maintaining reliability and increasing resiliency to potentially disruptive events. EWEB will target yearly investment rates of 2.0 to 2.5 times the annual depreciation rate to maintain the Electric Utility's Age of System, the percentage of fully depreciated Electric Utility assets, below the Board target of 60%. As of Q1 2024, the Age of System metric was 59%. The first half of the Electric Utility investments are focused on the highest community and system resiliency impact work that is needed to ensure critical services, generation, and areas of highest risk outage are renewed first. This includes targeting improvements to the Hayden Bridge, Thurston, and IP substations, as well as reconfiguration of the Walterville substation for the east side of the service territory. For 2025, 2026, and 2027 Delta, Jessen and Cal Young substation rebuilds are planned to maintain reliability and allow for future capacity needs. The last half of the plan and beyond is focused on substation rebuilds and other replacement work that is prioritized by customer impact considering residential customer count, age/condition of

equipment, and commercial/industrial impact. Additionally, ongoing investment in upgrading equipment and structures as well as meeting license requirements for Carmen-Smith operations remain a priority. Investment begins for Leaburg canal near-term risk reduction measures as required by FERC and the pre-funding of Leaburg decommissioning. AMI deployment for the upriver territory is in planning with installation of communications infrastructure and meters represented in 2025 and 2026.

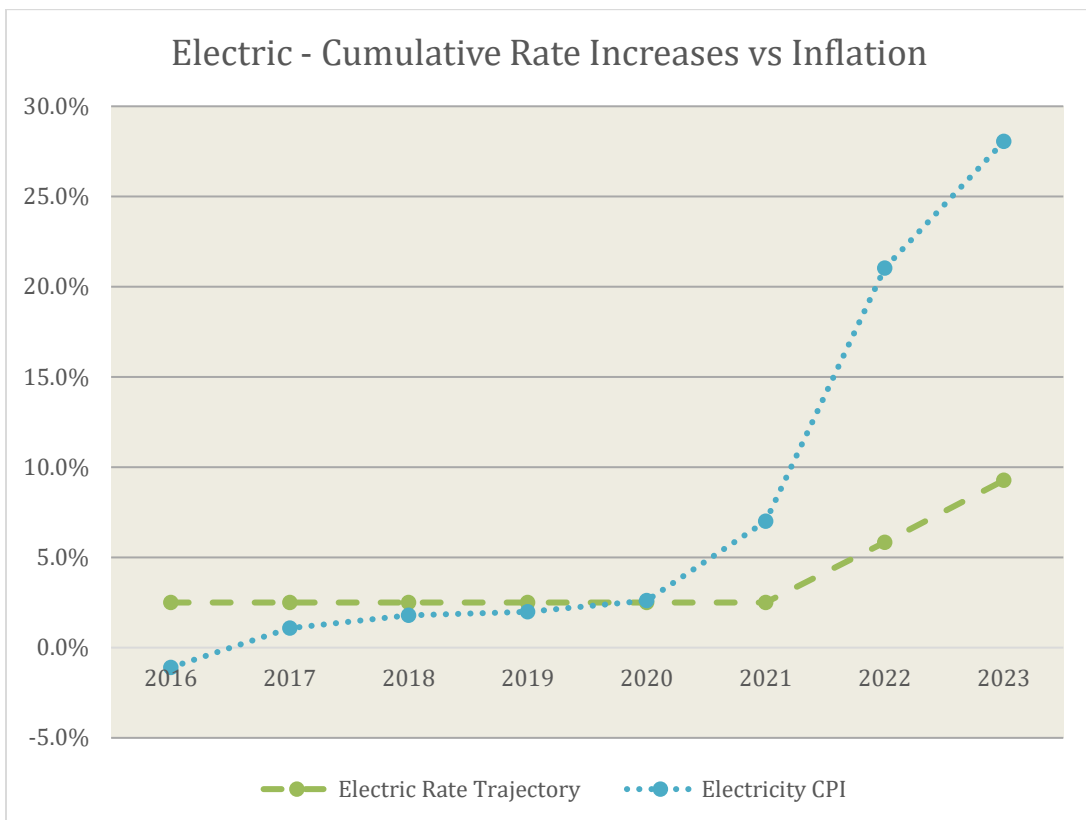
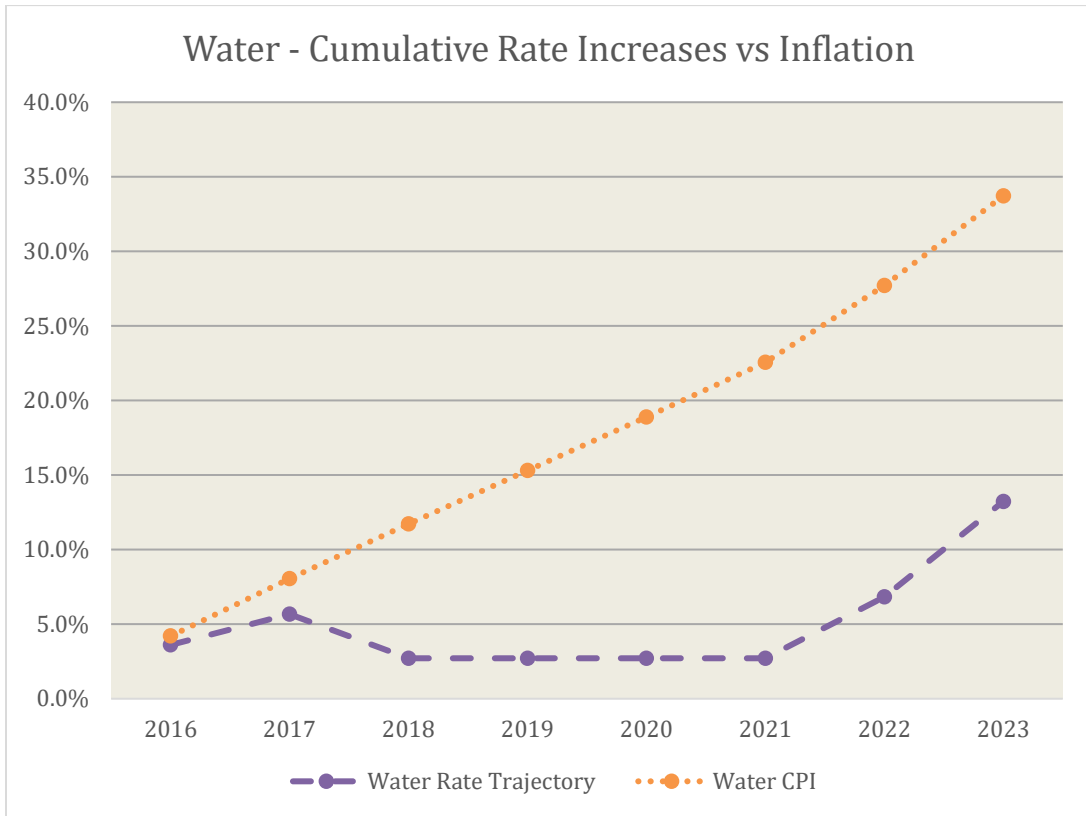
- Shared Organizational Investment Priorities – EWEB is replacing legacy information systems through the EWEB Enterprise Solutions (EES) project with Finance and Customer system replacements underway. EES efforts in 2025 are intended to fine-tune new processes related to the Finance and Customer systems and position the organization for the replacement of WAM beginning in 2026. Additionally, with the purchase of the property on Bertelsen, EWEB will invest in developing this property in phases to expand our equipment and materials storage and construct secondary access to the Roosevelt Operations Center.
- Customer Care Program – The methodology provides financial assistance to move limited-income households below the threshold of utility burdened which is defined as those spending 6% or more of household income on EWEB services. EWEB currently reaches approximately 5% of the customer base, which is consistent with a survey of other utilities. The methodology and estimated budget are updated annually with the average bill amount to ensure that customer assistance funds are pacing with rate increases.

The Board has previously provided guidance on rates as follows:

“Acceptable long-term “Revenue Requirement” increases (excluding Type 3 Major Strategic Programs) shall be benchmarked to inflationary forecasts. Where possible, rate increases are smoothed over multi-year periods. The smoothing of rates mitigates a single-year rate impact by pre-funding and/or utilizing reserves to fund large capital projects while minimizing impacts to customers.”

Since 2016, the water specific Consumer Price Index (CPI) measure has risen 34%, and electric specific CPI measure has risen by 28%. EWEB rate increases over the same period were 13% for water services, and 9% for electric services. Prior to 2020, EWEB was able to manage rate increases through prudent use of reserves, debt restructuring, and finding efficiencies in operations. Inflationary pressures rose sharply beginning in 2020, and the Fed continues to stabilize inflation measures to their 2% target. EWEB’s rate increases in this period did not keep pace with inflation, and EWEB cannot execute the strategic plan based on the conventional inflationary forecast. EWEB’s comparator utilities are experiencing the same pressures with several implementing double digit rate increases in recent years.

The charts below demonstrate the significant disparity between EWEB rate increases and utility specific inflation, approximately 21% in Water and 19% in Electric at end of 2023:



Contributing drivers of rate pressure include the following:

- The Water Utility’s “once in a generation” type of capital investments more than double the existing debt and debt service levels over the span of the 10-year plan.
- The Electric Utility type 2 and 3 capital infrastructure investments are approximately \$248 million over the next five years, straining cash positions and increasing debt burden.
- The Electric Utility Q1 2024 financial performance was poor due to storm related energy market exposure and lighter load than budgeted due to overall warmer weather. Fiscal year 2024 has also been a poorly performing year for hydro resources.
 - To partially address the poor financial performance at the beginning of 2024, the Utility is committed to finding \$3 million of savings before year end. The short-term reductions targeted for this year are not sustainable throughout the LTFP.
- Bonneville Power Administration (BPA) rate increases of 13-14% are anticipated for power and transmission services, respectively, beginning in October 2025.
- Both plans model incremental increases in reserve targets designed to mitigate and pace with growing risks for each utility.
- Scarcity pressures within the utility sector are more severe than in the general economy. Though pressure from supply chain disruptions has been gradually easing, the economy is still experiencing upward price pressures.
- The labor markets, particularly utility specific positions, continue to remain tight with high demand for specialty-skilled workers putting pressure on wages.

Conventional utility inflation forecast constraints are intended to cover routine utility operations. In order to fulfill the strategic and operational priorities outlined above, both Utilities will need rate increases to adjust to the disparity from historic inflation.

Business and Economic Forecast Assumptions

The assumptions used to create forecasts and budgets influence the overall outlook of the financial plans. As a basis for this year’s investment and financial planning, Management needs Board concurrence to use the following economic assumptions and/or outcomes as guidance:

General Assumptions

- Labor Cost Escalation – Fully loaded costs are indexed to a combination of inflation factors and expected labor market comparators.
- Non-Labor Operations and Maintenance (O&M) Escalation – 2025 is escalated at 3.0%, and 2% thereafter.
- Capital Escalation – 2025 and 2026 are escalated at 5.0%, and 3.0% thereafter.

Water-Specific Assumptions

- The Water Utility consumption forecast is conservatively planned at 95% of the five-year average to account for year-by-year variability.
- Modeled increases in reserve targets to mitigate growing risks.

Electric-Specific Assumptions

- BPA power costs are a significant portion of the Electric Utility’s budget and therefore are separately identified in the rate trajectory. Based on initial publications from BPA the LTFP assumes a 13% increase in 2025, which corresponds to a 5.25% rate increase.

- Capital and O&M costs for Leaburg decommissioning are included in the Capital and Long-term Financial Plans. Following Board direction received in 2023, prefunding for Leaburg decommissioning costs is modeled in the LTFP summary presentation.
- The Electric Utility scenario assumes base retail load levels as well as growth at pre-pandemic levels. Through 2030, the plan assumes any growth is offset with conservation. Electrification is modeled to outpace conservation beginning in 2031. Results of the electrification analysis indicate future load growth from the transportation sector.
- Modeled increases in reserve targets to mitigate growing risks, including a new reserve for emergent regulatory mitigation.

Complete rosters of assumptions for both the Water and Electric Utilities' Long-Term Financial Plans are included on Attachments 1 and 2.

Capital Improvement Plans (CIPs)

Based on the strategic and operational guidance, and general business and economic forecast assumptions highlighted above, the Water and Electric Utilities' CIPs are presented for the Board's consideration, feedback, and potential concurrence.

As presented in previous Board Meetings, projects within the Water and Electric CIPs can be categorized into *Compulsory, Strategic Projects/Programs, or Risk-Based/Opportunity Improvement Projects*.

- *Compulsory*: compliance required work, obligation to serve (new connections) and emergent/emergency replacements to maintain or restore service. This work typically has a definite timeline or schedule need.
- *Strategic*: work that is driven by board or GM direction to meet an emerging risk, or opportunity for the future. This work is typically high community, resource or regional/industry trend driven and is transformative in nature. Examples are AMI, EES, Carmen-Smith, and Second Source.
- *Risk-Based*: planned work driven by equipment condition or opportunity for efficiency with coincident projects with other agencies. Work that does not have a definite timeline, however in general the longer it is delayed the higher the risk of failure or that it will become compulsory. This work is prioritized around Strategic and Compulsory initiatives and generally exceeds funding and resource capability on a yearly basis.

Additionally, Board Policy also defines different categories of Capital work into *Type 1, 2, and 3*. These categories define scale of work scope, schedule, and budget to ensure that reporting requirements to the board are meant for higher cost and impact projects.

- *Type 1*: typically comprised of Compulsory and Risk-Based work and budgets are made from many smaller to medium sized projects to make a program. Targeted for maintaining the age of system and meeting customer and compliance obligations as well as funding shared (IT) and support functions (Fleet, Facilities) to ensure business continuity.
- *Type 2*: projects with a defined start and end that are strategic in nature that typically are larger than \$1 million. Board Policy EL1 Financial Controls requires staff to report project progress to the board on a quarterly basis.
- *Type 3*: multi-year large construction projects that are discretely funded (generally pre-funded or bond funded) and involve large scale multimillion dollar supply or rehabilitation.

By collaborating with the Board on strategic issues and values, along with developing mutual understanding of assumptions, goals, and performance metrics, the following Water and Electric Utilities' Capital Improvement Plans are presented to achieve EWEB's strategic and operational priorities as presented earlier.

Water Utility Capital Improvement Plan (CIP)

The 2025-2034 Water Utility Capital Improvement Plan is included as Attachment 5. The Water Utility 10-year CIP totals approximately \$358 million and is categorized as shown in the figure below for next year's budget, the next five years, and the full 10-year perspective. The proposed CIP includes higher rates of inflation for the first two years to reflect the current construction climate. The water investments are similar to prior year plans with respect to projects.

While the proposed 10-year CIP's projects are similar, the total cost has increased with the first five years approximately \$12 million higher and the second five years \$5 million higher than the plan submitted last year.

The increased costs are due to changes in Type 1 spending, much of which is compulsory, including:

- Hayden Bridge (\$2.8 million higher): Emergent projects and revised estimates caused these projected costs to increase.
- Main Replacements/Improvements (\$17.9 million higher): This is the bulk of the increase in the 10-year CIP. Over the last few years, the Water Utility has experienced significant cost increases associated with our distribution pipeline work, primarily due to inflationary pressures on all the heavy-raw materials used from piping to asphalt. In addition, increased complexities and administrative burdens have added to the costs of performing work in the right of way. Examples include:
 - Additional restrictions on work hours and traffic control that extend the duration of projects.
 - New and revised standards from jurisdictions that increase restoration and construction costs.
 - Additional work to plan, maintain, and replace pedestrian infrastructure to ADA standards and maintain bicycle traffic.
 - Ongoing labor shortages and limited competition for contracted work.
 - Increasing coordination with city of Eugene roadwork and utility construction.
 - Increased requirements to perform historical, environmental, geotechnical, and other specialty investigations.

The costs included in the proposed CIP are based on our actual spending in this area for the last several years.

- Information Technology (\$2.3 million lower): The above increases were offset by a reduction in planned Type 1 IT work over the 10-year CIP period.

With respect to our Risk-Based Type 2 work, total costs over the 10-year CIP period are the same as the plan presented last year with about a \$4 million shift from the second five years to the first five years due to project scheduling. While total costs were the same, there were several changes including:

- Base Level Reservoirs (\$10 million lower): With the majority of the E. 40th project complete, projected costs were reduced in this area compared to last year.

- Transmission Mains (\$5 million higher): Inflationary cost increases hit this area hard resulting in revised estimates for the proposed projects.
- Buildings and Land (\$4.3 million higher): Increases in this area are primarily associated with inclusion of all costs for the Bertelsen property improvements.

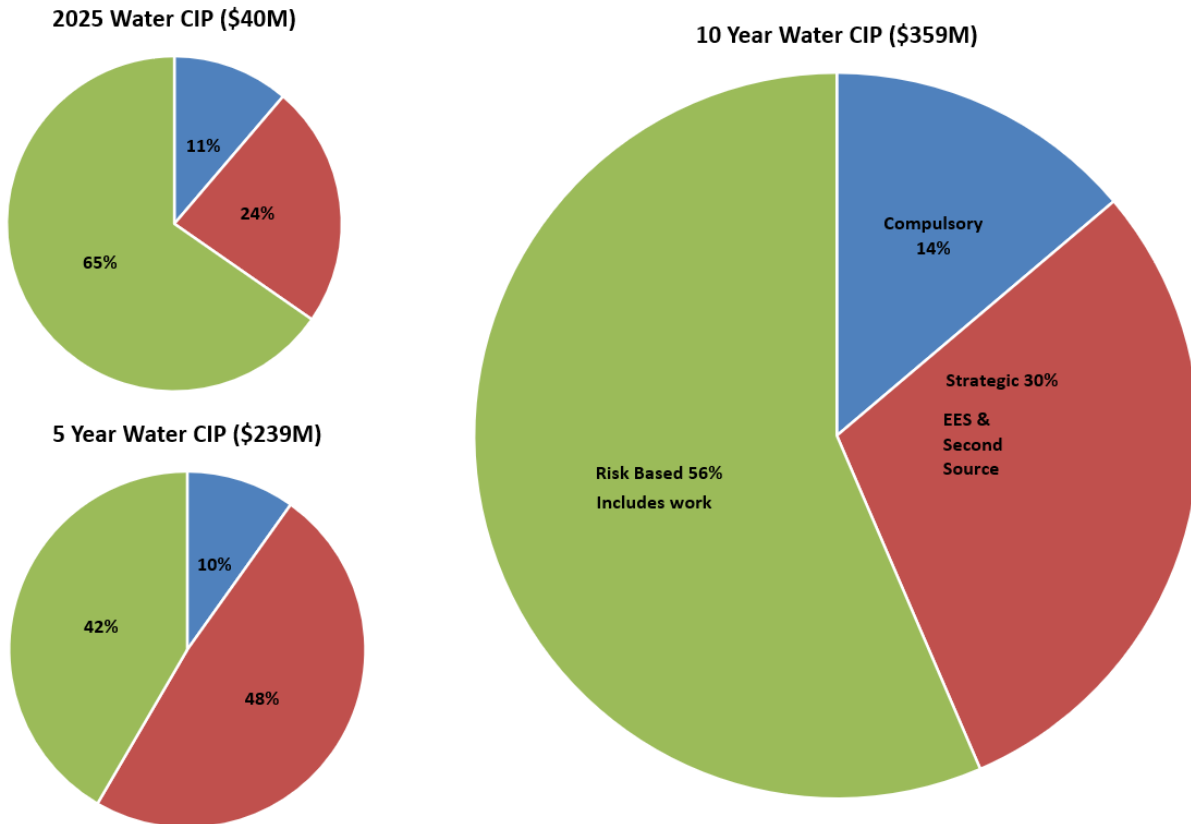


Figure: Water CIP Spending by Category (2025, First 5 years, 10 years)

A summary of planned projects/programs in each of the three categories is presented below followed by specifics on what is included in the five-year and 2025 CIPs.

Water Utility - Compulsory

The Water Utility CIP includes the following Compulsory work:

- Customer work for new services and development.
- Pipeline replacements where conflicts exist with City of Eugene street projects.
- Replacement of failed critical infrastructure.
- Projects necessary to meet regulatory requirements or to maintain compliance.

Over the course of the 10-year CIP, compulsory work remains relatively stable at 10-14% of the CIP.

Water Utility - Strategic Projects

With the planned completion of the Emergency Water Supply capital work in 2024, Water Utility's sole strategic project in the CIP is the Willamette treatment plant. This project is anticipated to be under construction by the end of 2026. The project includes a new water treatment plant and river intake on the Willamette River with a capacity to meet our current minimum demand. The plant will be robust with features to allow daily operations and continue operations following a seismic event. Transmission main work to connect to the EWEB distribution system is included in the project scope. Approximately \$97 million is associated with this project in the capital plan.

Water Utility - Risk-Based/Opportunity Projects

More than half of the projects in the 10-year CIP are considered Risk-Based, typically associated with reliability and resiliency enhancements.

The Risk-Based category includes the Water Utility projects to improve its "Resilient Spine". This work, largely driven by Master Planning efforts, in the last five years has transitioned from work at the Hayden Bridge Intakes and Filtration Plant to base level reservoirs and transmission system upgrades. The storage tanks at East 40th became operational earlier this year and in the next 10 years the CIP includes new seismically robust water reservoirs at College Hill and Hawkins, new transmission lines in South Eugene and interconnecting our river crossings, and improvements to the Knickerbocker Bridge pipe river crossing.

Water main replacement work, discussed previously, has a risk-based component and this area of work has increased significantly in CIP. While much of this increase can be attributed to higher costs to complete the work, the work is projected to increase as well in terms of linear feet of pipe installed.

Over the last fifteen years EWEB has focused on our resilient spine (treatment plant moving to reservoirs and transmission pipelines), keeping main replacement work at a modest level. To keep pace with national benchmarks for main renewal and replacement as well as frequency and duration of outages due to main breaks, EWEB is increasing planned expenditures on main replacement work over the next ten years. Approximately \$87 million is associated with this effort in the 10-year capital plan. The effect this increased spending will have on the length of pipe replaced will depend much on whether the inflationary pressures continue to increase for this work.

Consistent with past/present practice, this main replacement work will be coordinated with the City of Eugene street work to the extent possible.

2025-2029 Water Utility Projects

The 2025-2034 Water Utility CIP includes a forecasted 2025 budget of \$40 million. In the first five years of the CIP, Water Utility investments total \$239 million, or 66% of the total plan. The higher first five years is due to the Second Source Project occurring within this time frame and the inflationary increases mentioned. A roster of noteworthy projects is presented below.

Table: Noteworthy Near-Term Water Investments

Year (Start)	Project	Driver/Reason/Outcome	CIP Cost
2019	Advanced Metering Infrastructure & Systems	System Optimization	\$1.8MM
2022	Second Source Water Treatment Plant	Reliability/Resiliency	\$97MM
2023	HQ to I5 Transmission Main	Reliability/Resiliency	\$4.5MM
2023	Shasta 975 Reservoir Replacement	Reliability/Resiliency	\$2MM
2024	HQ-Knickerbocker Transmission Main Phase 3	Resiliency	\$6.6MM
2024	College Hill Reservoir Replacement	Reliability/Resiliency	\$31MM
2026	Alder Street Transmission Main Upgrade	System Optimization	\$4.2MM
2027	Hayden Bridge Transmission Main Replacements	Reliability/Resiliency	\$3MM

Electric Utility Capital Improvement Plan (CIP)

The 2025-2034 Electric Utility Capital Improvement Plan is included as Attachment 6. The Electric Utility 10-year CIP totals approximately \$634 million and is categorized as shown in the figure below for next year’s budget, the next five years, and the full 10-year perspective. The Electric Utility investments are focused on the renewal and replacement of aged infrastructure as well as strategic modernization and resiliency related work. The goals of the capital programs within the plan are to maintain reliability and limit customer impacts for long lead time substation and underground feeder cable failures in future years, to execute emergency preparedness initiatives related to seismic events and wildfires, and leverage new technologies to reduce system downtime for outages through modernization and automation.

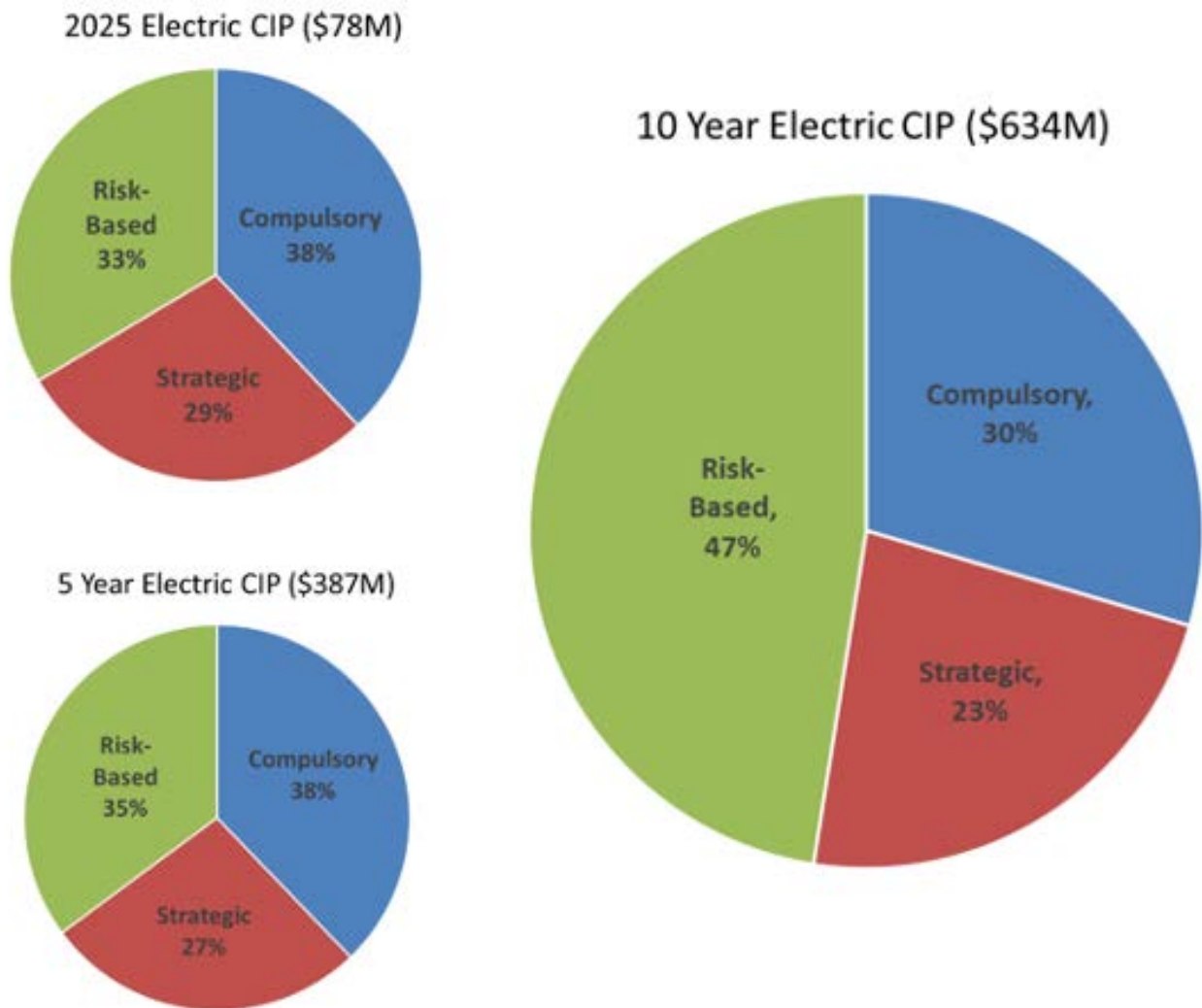


Figure: Electric CIP Spending by Category (2025, First 5 years, 10 years)

Electric Utility - Compulsory Work

The Electric Utility CIP includes the following Compulsory work:

- Customer work for new services and development.
- Powerline replacements where conflicts exist with City of Eugene street projects.
- Replacement of failed critical infrastructure on an emergent basis or as found via inspections and per historical trends.
- Projects necessary to meet regulatory requirements or to maintain compliance such as PUC (poles, cross arms, clearances, etc.).
- Generation project improvements required by the Federal Energy Regulatory Commission (FERC) including Carmen-Smith and Leaburg Canal Mitigation.

The compulsory component of the plan is larger in the first five years than the latter due to a focus on near term regulatory driven projects. The main drivers are FERC initiatives for Carmen-Smith and Leaburg Canal Mitigation as well as an increased spending on PUC required corrections to allow for catch up on a backlog of work.

Electric Utility - Strategic Projects

Electric Utility strategic projects are focused on Maintaining Reliability and Increasing Resiliency of the power supply and delivery customers rely on. With substantial completion of the AMI deployment in 2024 for the urban territory, this budget includes work in 2025 and 2026 to deploy for the McKenzie River territory. In the later years of the plan, budget is allotted for beginning deployment of replacement AMI meters due to anticipated end of life and obsolescence.

A major portion of the plan includes replacement of aging critical infrastructure across the system as well as reconfiguration of supply systems to EWEB's most critical loads. This includes a program of projects in the first five years of the plan to reconfigure EWEB's connection to East of I-5 system which supplies the McKenzie River service territory, International Paper (IP) Plant, Hayden Bridge Water Plant, and tie-in of Carmen-Smith with the EWEB system. An options analysis study was completed in 2024 and preliminary design efforts will be completed in late 2024 to drive 2025 detailed designs contract scopes. Also included is the rehabilitation of the IP Cogeneration generator and turbine. This section of the system also includes multiple connections to BPA which will ensure robust supply paths from the bulk electric system.

A major driver to the overall 10-year expenditures are the Leaburg Canal Repair alternatives that are in the development phase. The plan has accounted for interim risk reduction measures that are needed to ensure safe conveyance of stormwater until the overall decommissioning work is fully designed and executed. Currently, \$3.6 million is planned for 2025 and an additional \$55 million over the 10-year period. The plan will be updated as the alternatives are refined.

Electric Utility - Risk-Based/Opportunity Projects

Just under half of the projects in the 2025-2034 CIP are considered risk-based, associated with reliability and resiliency enhancements due to the age of system and emerging risks to the electric system such as the Subduction Zone Earthquake and Wildfire.

The risk-based category includes the Electric Utility projects to improve its Resilient Spine as well as replacements due to end of life of equipment based on condition, age, and customer impact. The CIP reflects the investments needed to address the aging bubble of infrastructure installed in the 1960s and 1970s. This work is largely driven by reliability impacts trending towards unfavorable as seen by an increase in equipment failures, including transmission, distribution, substation, and communications assets. As electric system asset age increases and likelihood of failure and end-of life increases, the proposed level of investment is required to renew these assets to avoid customer impact in the form of unplanned outages.

The risk-based category within the capital plan focuses on age of system replacement and new technology modernization mainly in the form of equipment replacement for cable, breakers, transformers, and other critical equipment. Substation rebuilds over the course of the plan ensures reliable delivery of power for substations that are nearing end of life. These substation projects are prioritized with a risk-based method which considers probability of failure (equipment condition, age), customer impact (number of customers and criticality of load – system, community, restoration) and considers known constraints to complete the work (permits, system outage limitations, environmental/property issues, etc.).

Electric Utility - 2025-2029 Projects

The Electric 2025-2034 CIP includes a forecasted 2025 budget of \$78 million. In the first five years of the CIP, electric investments total \$387 million, or 61% of the total plan, including the following roster of noteworthy projects.

Table: Noteworthy Near-Term Electric Investments

Year (Start)	Project	Driver/Reason/Outcome	CIP Cost
2025-2026	Upriver Advanced Metering Deployment	Resiliency/Modernization	\$2.5MM
2025	Delta Substation Rebuild	Reliability/Resiliency	\$10MM
2026	Jessen Substation Rebuild	Reliability/Resiliency	\$8MM
2025-2029	Thurston Substation Expansion and Waltherville Substation Reconfiguration	Resiliency	\$16.8MM
2029	IP Plant Renewal Start Design (major rebuild work 2030-2031)	Reliability	\$5MM (design only)
2025-2029	Leaburg Canal Risk Mitigation (first five years)	Compulsory/Strategic	\$40.6MM
2025-2029	Carmen-Smith Project	Compulsory/Reliability	\$73MM
2027	Cal Young Substation Rebuild	Reliability	\$5MM
2027-2028	Hayden Bridge Substation Rebuild	Reliability	\$6MM

EWEB Shared Services Capital Improvement Plan (CIP)

The proposed capital plan contains investments in several services used across both the Water and Electric Utilities. Shared Services Strategic investments include EWEB Enterprise Solutions (EES), the upgrades to our Information Technology infrastructure and software to replace our current business systems. Also included are Risk-Based investments to maintain our vehicle fleet including allotted budget for electrification of the fleet and ROC equipment yard. Investments in our communications infrastructure to maintain radio and fiber communication paths and electronics are ongoing. Phased development of the Bertelsen Property Operations expansion is included in years 2025-2029 for development of the site for use in storage and additional operational functions.

Budget and Long-Term Financial Outcomes

Consistent with the strategic and operational guidance, and business and economic forecast assumptions, EWEB Management has presented the resulting investment plan totaling approximately \$993 million over 10 years. The Water and Electric Utilities' plans include bond funding throughout the planning horizon of \$169 million and \$154 million, respectively.

Water Utility

Based on the previously stated strategic and operational guidance along with the business and economic forecast assumptions, and a ten-year capital investment plan of \$359 million, including a second water treatment plant, key Water Utility financial metrics remain within board policy through 2034 with a 10-year compounded rate increase of 82.44%, equivalent to 6.20% per year. The initial six annual rate increases are steeper than the latter four years of the plan to support near term infrastructure investments in reservoirs and the second water treatment plant, including 9.00-9.50% in 2025-2029.

The Water Utility Long-Term Financial Plan outcome is included in Attachment 1, with water comparator position table shown in Attachment 3.

Electric Utility

Based on the previously stated strategic and operational guidance along with business, and economic forecast assumptions, and a ten-year capital investment plan of \$634 million, key Electric Utility financial metrics remain within board policy through 2034 with a 10-year compounded rate increase of 48.23%, equivalent to 4.02% per year. The 2025 rate increase of 15.00% builds reserve balances that mitigate emerging risks and supports increased operating costs realized throughout the plan. The remaining nine years have a compounded rate increase of 28.90%, equivalent to 2.86% per year. Included in those rate increases and overall trajectory is pre-funding for Leaburg decommissioning in years 2026 and 2027, compounding to 6.35%.

The Electric Utility Long-Term Financial Plan outcome is included in Attachment 2, with electric comparator position table shown in Attachment 3.

Recommendation

Management recommends the Board direct staff to prepare the 2025 budgets for O&M and Capital using the assumptions set forth herein, which includes an overall 2025 revenue requirement increase of 15.00% for the Electric Utility and 9.0% for the Water Utility.

Requested Board Action

Management is not requesting Board action at the July 9th meeting. However, Management is requesting that the Board provide direction on the strategic and operational guidance, business and economic forecast assumptions, and ten-year capital investment plans to be used in the development of the 2025 Budget and resulting upcoming rate proposals.

Attachments

- Attachment 1 – Summary of Water Utility LTFP Revenue Requirement Assumptions and Outcomes
- Attachment 2 – Summary of Electric Utility LTFP Revenue Requirement Assumptions and Outcomes
- Attachment 3 – Average Bill Comparison
- Attachment 4 – Median Household Income (MHI) %
- Attachment 5 – Water Utility CIP 2025-2034
- Attachment 6 – Electric Utility CIP 2025-2034

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

Yellow = within 10% of target

Key Metrics (Dollars in \$000,s)	Target	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	
Reserves & Cash		\$13,920	\$13,720	\$13,720	\$15,520	\$17,620	\$19,520	\$20,720	\$24,320	\$26,220	\$27,000	
AWS Reserve Balance		\$1,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
Rate Stabilization Fund Balance		\$7,980	\$6,980	\$3,980	\$3,980	\$2,480	\$2,480	\$4,780	\$2,780	\$1,580	\$1,000	
Total Cash Reserves	\$14,680	\$22,900	\$20,700	\$17,700	\$19,500	\$20,100	\$22,000	\$25,500	\$27,100	\$27,800	\$28,000	
Days Cash	> 150 days	243	231	188	197	185	189	212	216	215	206	
												10 yr Total
Annual Capital Investment		\$39,700	\$63,800	\$51,800	\$50,200	\$33,200	\$20,400	\$26,500	\$27,600	\$27,500	\$18,000	\$358,700
Use of Rate Stabilization Funding			\$1,000	\$3,000		\$1,500			\$2,000	\$1,200	\$580	
Bond Funding			\$78,720		\$57,400			\$33,230				\$169,350
Total Debt		\$94,800	\$170,100	\$166,500	\$220,200	\$216,300	\$212,300	\$242,100	\$238,600	\$234,900	\$231,100	
Annual Debt Service		\$6,700	\$6,800	\$11,900	\$11,900	\$15,600	\$15,600	\$14,800	\$17,000	\$17,000	\$16,900	
Debt Service Coverage Ratio	2.00-2.50	2.51	3.37	2.17	2.26	2.00	2.01	2.00	2.00	2.00	2.01	
Revenue Requirement Assumptions	10 Year Compound	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	
General Rate Increase		6.50%	7.00%	7.00%	6.50%	6.50%	6.00%	2.00%	2.00%	2.00%	3.50%	
Second Source Increase		2.50%	2.50%	2.50%	3.00%	3.00%						
Average Impact Resulting from Change in Revenue Requirement	82.44%	9.00%	9.50%	9.50%	9.50%	9.50%	6.00%	2.00%	2.00%	2.00%	3.50%	

Key Assumptions

- Consumption approximately of 7.8 million kgal
- Contribution margin risk tolerance of \$1.3 million which represents 95% of the 5-year consumption average
- Annual revenue requirement without second source increases at 61.01% compounded over the next 10 years
- Bond issuance: \$79 million in 2026, \$57 million in 2028, and \$33 million in 2031
- Rate Stabilization Fund is expected to be drawn in 2026, 2027, 2029, and 2032 through 2034 to manage stressed debt service coverage

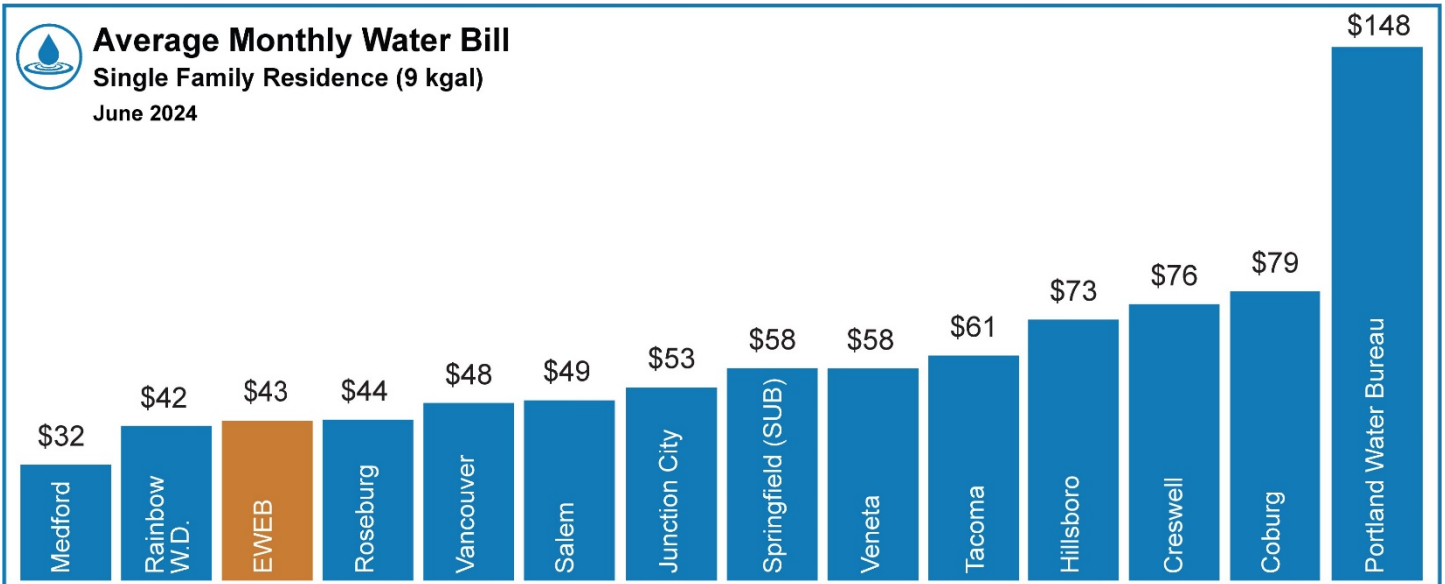
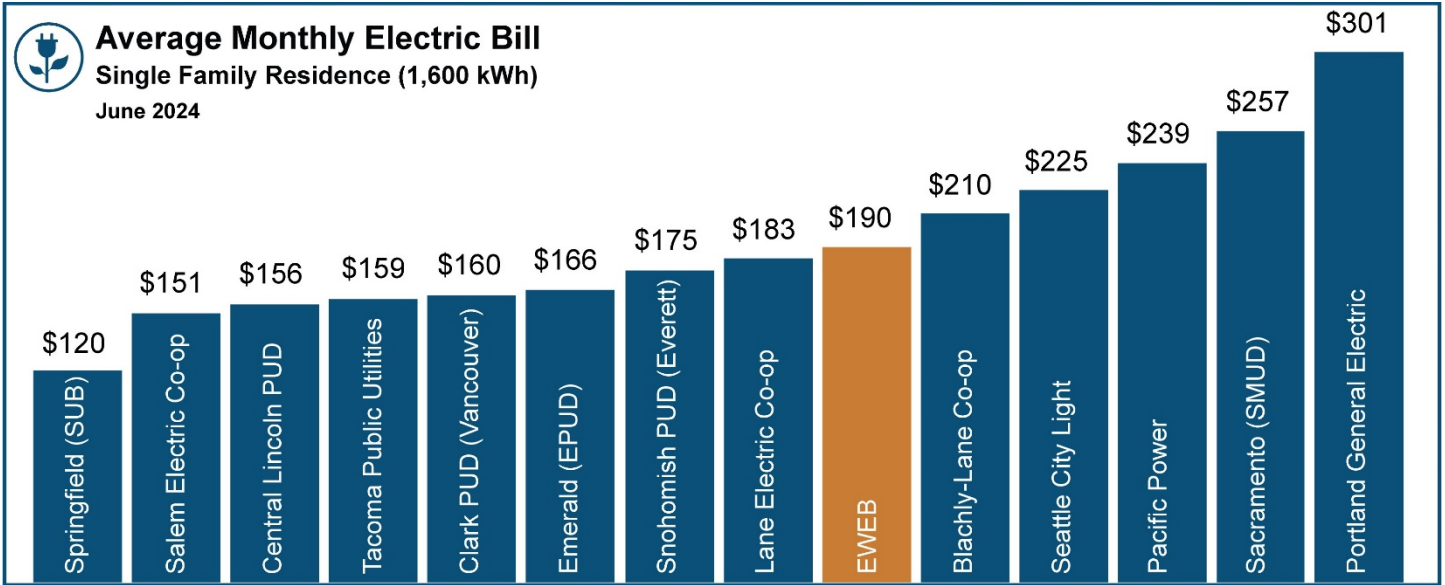
Summary of Electric Utility LTFP Revenue Requirement Assumptions and Outcomes (000's omitted)

Red = below target

Key Metrics (Dollars in \$000,s)	Target	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	
Reserves and Cash		\$107,000	\$109,900	\$116,900	\$118,900	\$117,000	\$125,800	\$123,200	\$124,900	\$118,500	\$127,600	
Leaburg Reserve Balance		\$7,400	\$4,300	\$2,600	\$10,700	\$18,500	\$20,300	\$19,100	\$19,000	\$18,400	\$18,600	
Rate Stabilization Fund Balance	\$5,000	\$5,000	\$6,000	\$7,000	\$8,000	\$9,000	\$10,000	\$15,000	\$20,000	\$30,000	\$30,000	
Total Cash Reserves	\$0	\$119,400	\$120,200	\$126,500	\$137,600	\$144,500	\$156,100	\$157,300	\$163,900	\$166,900	\$176,200	
Days Cash	>150 Days	142	176	191	204	203	209	198	195	188	191	
												Total
Annual Capital Investment		\$78,000	\$89,000	\$85,000	\$79,000	\$56,000	\$52,000	\$53,000	\$44,000	\$48,000	\$50,000	\$634,000
Bond Funding			\$88,500			\$37,000			\$28,000			
Total Debt		\$231,000	\$307,200	\$292,500	\$277,300	\$312,400	\$295,500	\$278,200	\$302,900	\$286,200	\$271,800	
Annual Debt Service		\$23,100	\$22,500	\$28,900	\$28,800	\$28,500	\$31,900	\$31,600	\$31,800	\$29,800	\$26,900	
Debt Service Coverage Ratio	1.75	3.41	3.84	3.05	2.97	2.63	2.64	2.45	2.43	2.31	2.83	
Revenue Requirement Assumptions	10 Year Compound	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	
General Rate Increase		9.75%	2.25%		0.50%	2.75%		2.75%	0.50%	2.50%	0.50%	
Leaburg Prefunding			1.00%	3.00%								
BPA Increase		5.25%			2.50%		2.50%		2.50%		2.50%	
Average Impact Resulting from Change in Revenue Requirement	48.23%	15.00%	3.25%	3.00%	3.00%	2.75%	2.50%	2.75%	3.00%	2.50%	3.00%	

Key Assumptions

- 2025 Working cash is modeled below target due to poor financial performance in 2024. Cash recovers in 2026 and thereafter
- 2025 Retail load approximately the same as 2024 budget - 2.4 million MWh's
- Electrification load approximately 22 thousand MWh's in 2025 increasing to 206 thousand MWh's in 2034
- Contribution margin risk tolerance of \$13.5 million which represents 90% generation. Similar contribution margin risk tolerance through 2029, expected conditions 2030-2034
- BPA rate increase of 13% assumed in October of 2025, which translates to 5.25% for EWEB customer-owners. BPA rate increase of 6% assumed in October of 2028, 2030, 2032, and 2034, which translates to 2.5% for EWEB customer-owners
- \$79/MWh melded mid-market price curve in 2025 decreasing to \$78/MWh in 2034
- Environmental Commodities represent roughly \$11 million of wholesale revenue
- Bond issuance: \$89 million in 2026, \$37 million in 2029, and \$28 million in 2032 to fund capital work
- Rate Stabilization Fund is expected to be drawn to the \$5 million target in 2025 with \$18.8 million used in 2024 and \$2.9 million used in 2025
- The Emerging Regulatory Fund is established in 2025 with an initial balance of \$5 million



Background

The source of each comparator’s Median Household Income (MHI) is from the United States Census Bureau website. The methodology uses the following data:

- Monthly water and electric bill at average residential consumption
- Annual bill at same level of use
- Median household income (in 2022 dollars)

Currently there is no national standard for what affordable percent (%) of MHI value is or is not.

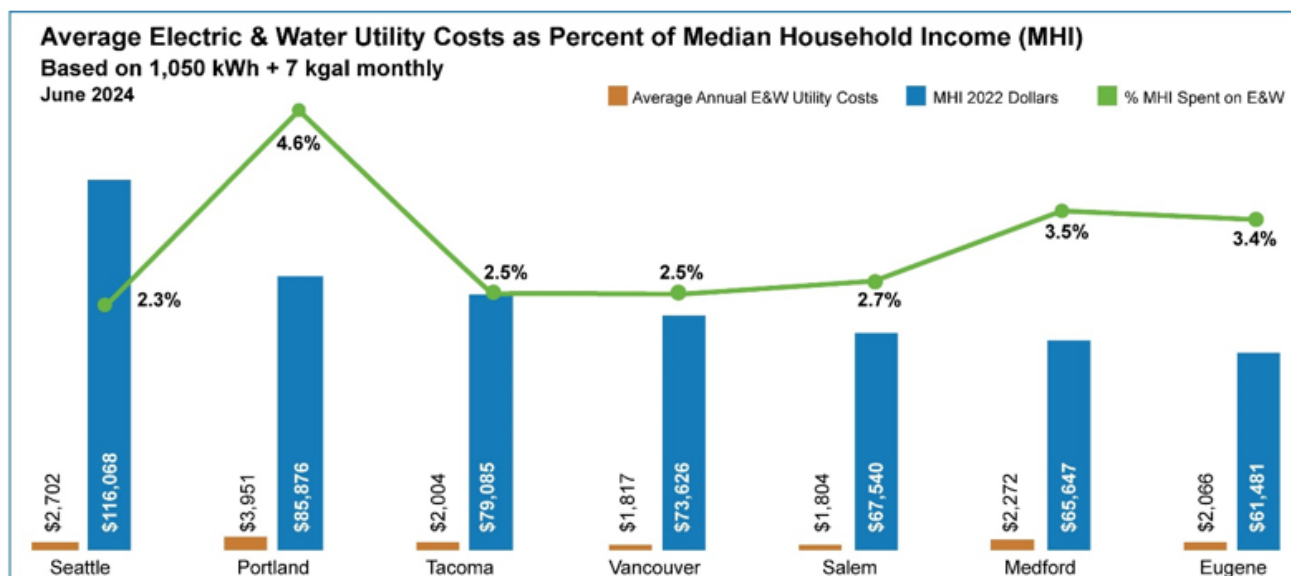
Consideration must be given to the financial sustainability of the utility as a whole in addition to affordability of price. Setting artificially lower prices may produce financial constraints to reinvesting in the system and eventually harm public health through poor product quality and service.

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 bills for residential customers in Eugene, Portland, Medford, Salem, Vancouver, Tacoma, and Seattle.

Average consumption is based on 7 kgal of water and 1,050 kWh of electricity respectively. The average is annualized and compared as a percentage of MHI.

Findings



Water Capital Improvement Plan: 2025-2034

	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	5 Year Total	5 Year Total	10 Year Total
Expenditures													
Type 1 - General Capital (rate funded)													
Source - Intake and Hayden Bridge	\$ 1,444,000	\$ 1,406,000	\$ 1,448,000	\$ 1,725,000	\$ 693,000	\$ 714,000	\$ 735,000	\$ 757,000	\$ 780,000	\$ 803,000	\$ 8,716,000	\$ 3,789,000	\$ 10,505,000
Distribution - Pump Stations & Reservoirs	\$ 1,107,000	\$ 706,000	\$ 727,000	\$ 749,000	\$ 771,000	\$ 794,000	\$ 818,000	\$ 843,000	\$ 868,000	\$ 894,000	\$ 4,150,000	\$ 4,217,000	\$ 8,367,000
Distribution - Pipelines	\$ 6,279,000	\$ 7,895,000	\$ 7,928,000	\$ 8,164,000	\$ 8,409,000	\$ 8,661,000	\$ 8,921,000	\$ 9,189,000	\$ 9,462,000	\$ 9,738,000	\$ 38,473,000	\$ 48,736,000	\$ 87,209,000
Distribution - Services & Meters	\$ 1,575,000	\$ 1,054,000	\$ 1,703,000	\$ 1,754,000	\$ 1,807,000	\$ 1,861,000	\$ 1,917,000	\$ 1,975,000	\$ 2,034,000	\$ 2,095,000	\$ 8,493,000	\$ 9,862,000	\$ 18,375,000
Distribution - Post AMI Meter Replacements/Upgrades	\$ 125,000	\$ 350,000	\$ 350,000	\$ 350,000	\$ 350,000	\$ 350,000	\$ 350,000	\$ 350,000	\$ 350,000	\$ 350,000	\$ 1,525,000	\$ 1,750,000	\$ 3,275,000
Information Technology	\$ 1,478,000	\$ 724,000	\$ 401,000	\$ 875,000	\$ 935,000	\$ 2,031,000	\$ 1,338,000	\$ 954,000	\$ 813,000	\$ 935,000	\$ 4,413,000	\$ 6,071,000	\$ 10,484,000
Buildings & Land	\$ 136,000	\$ 67,000	\$ 182,000	\$ 44,000	\$ 81,000	\$ 194,000	\$ 52,000	\$ 54,000	\$ 55,000	\$ 57,000	\$ 490,000	\$ 412,000	\$ 902,000
Fleet	\$ 705,000	\$ 735,000	\$ 760,000	\$ 790,000	\$ 826,000	\$ 865,000	\$ 910,000	\$ 960,000	\$ 910,000	\$ 960,000	\$ 3,816,000	\$ 4,605,000	\$ 8,421,000
Total Type 1 Expenditures	\$ 12,939,000	\$ 13,337,000	\$ 13,497,000	\$ 14,451,000	\$ 13,852,000	\$ 15,470,000	\$ 15,041,000	\$ 15,082,000	\$ 16,630,000	\$ 17,239,000	\$ 68,076,000	\$ 79,462,000	\$ 147,538,000
Type 2 - Rehabilitation & Expansion Projects (rate & bond funded)													
Rate Funded Type 2 Projects													
Information Technology	\$ 2,462,000	\$ 4,925,000	\$ 1,231,000	\$ -	\$ 739,000	\$ -	\$ -	\$ -	\$ -	\$ 739,000	\$ 9,357,000	\$ 739,000	\$ 10,096,000
	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Subtotal - Rate Funded Projects	\$ 2,462,000	\$ 4,925,000	\$ 1,231,000	\$ -	\$ 739,000	\$ -	\$ -	\$ -	\$ -	\$ 739,000	\$ 9,357,000	\$ 739,000	\$ 10,096,000
Bond Eligible Type 2 Projects													
Source - Intake and Hayden Bridge	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,356,000	\$ -	\$ -	\$ 1,356,000	\$ 1,356,000
Distribution - Pump Stations & Reservoirs	\$ 11,550,000	\$ 13,230,000	\$ 2,271,000	\$ -	\$ 943,000	\$ 4,963,000	\$ 11,503,000	\$ 9,215,000	\$ 9,492,000	\$ -	\$ 27,894,000	\$ 35,173,000	\$ 63,067,000
Distribution - Pipelines	\$ 4,200,000	\$ 12,679,000	\$ 7,381,000	\$ 2,339,000	\$ -	\$ -	\$ -	\$ 3,291,000	\$ -	\$ -	\$ 26,599,000	\$ 3,291,000	\$ 29,890,000
Advanced Meters (Water)	\$ 1,800,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,800,000	\$ -	\$ 1,800,000
Buildings and Land-Bertelsen Prop Exp	\$ 1,470,000	\$ 2,009,000	\$ 2,440,000	\$ 1,804,000	\$ 297,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,020,000	\$ -	\$ 8,020,000
Subtotal - Bond Eligible Projects	\$ 19,020,000	\$ 27,918,000	\$ 12,092,000	\$ 4,143,000	\$ 1,140,000	\$ 4,963,000	\$ 11,503,000	\$ 12,506,000	\$ 10,848,000	\$ -	\$ 64,313,000	\$ 39,820,000	\$ 104,133,000
Total Type 2 Expenditures	\$ 21,482,000	\$ 32,843,000	\$ 13,323,000	\$ 4,143,000	\$ 1,879,000	\$ 4,963,000	\$ 11,503,000	\$ 12,506,000	\$ 10,848,000	\$ 739,000	\$ 73,670,000	\$ 40,559,000	\$ 114,229,000
Type 3 - Strategic Projects & Programs (bond funded)													
Emergency Water Supply	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Second Source Treatment Plant	\$ 5,250,000	\$ 17,640,000	\$ 24,983,000	\$ 31,580,000	\$ 17,469,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 96,922,000	\$ -	\$ 96,922,000
Total Type 3 Expenditures	\$ 5,250,000	\$ 17,640,000	\$ 24,983,000	\$ 31,580,000	\$ 17,469,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 96,922,000	\$ -	\$ 96,922,000
Total Expenditures	\$ 39,671,000	\$ 63,820,000	\$ 51,803,000	\$ 50,174,000	\$ 33,200,000	\$ 20,433,000	\$ 26,544,000	\$ 27,588,000	\$ 27,478,000	\$ 17,978,000	\$ 238,668,000	\$ 120,021,000	\$ 368,689,000

Attachment 6

Electric Capital Improvement Plan: 2025-2034

	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	5-Year Total 2025-2029	5-Year Total 2030-2034	10-Year Total
Type 1 - General Capital													
Electric Infrastructure - Generation	\$1,307,000	\$2,414,000	\$2,402,000	\$982,000	\$892,000	\$794,000	\$818,000	\$908,000	\$936,000	\$964,000	\$7,997,000	\$4,420,000	\$12,417,000
Customer-Driven Capital Expense	\$2,274,000	\$2,388,000	\$2,459,000	\$2,533,000	\$2,609,000	\$2,687,000	\$2,768,000	\$2,851,000	\$2,937,000	\$3,025,000	\$12,263,000	\$14,268,000	\$26,531,000
Electric Infrastructure - Transmission & Distribution	\$11,733,000	\$11,349,000	\$15,323,000	\$12,274,000	\$13,486,000	\$12,463,000	\$12,837,000	\$13,222,000	\$13,619,000	\$14,027,000	\$64,165,000	\$66,168,000	\$130,333,000
Downtown Distribution Network	\$1,179,000	\$1,003,000	\$1,033,000	\$1,064,000	\$1,096,000	\$974,000	\$1,118,000	\$1,066,000	\$1,098,000	\$1,131,000	\$5,375,000	\$5,387,000	\$10,762,000
Comm & Fiber	\$340,000	\$212,000	\$174,000	\$180,000	\$185,000	\$191,000	\$360,000	\$202,000	\$208,000	\$215,000	\$1,091,000	\$1,176,000	\$2,267,000
Precapitalized AMI Meter Capital subtotal (post-deployment. Doesn't get OH)	\$214,000	\$225,000	\$232,000	\$1,754,000	\$1,807,000	\$1,861,000	\$1,917,000	\$1,975,000	\$2,034,000	\$2,095,000	\$4,232,000	\$9,882,000	\$14,114,000
Information Services (IS) - Shared & Electric	\$6,632,000	\$3,304,000	\$2,328,000	\$4,261,000	\$4,113,000	\$9,511,000	\$6,366,000	\$5,004,000	\$4,676,000	\$4,768,000	\$20,638,000	\$30,325,000	\$50,963,000
Buildings & Land - ROC Capital	\$430,000	\$212,000	\$578,000	\$138,000	\$193,000	\$615,000	\$165,000	\$170,000	\$175,000	\$181,000	\$1,551,000	\$1,306,000	\$2,857,000
Electric Fleet Capital	\$3,127,000	\$2,687,000	\$2,850,000	\$3,024,000	\$3,208,000	\$3,404,000	\$3,611,000	\$3,831,000	\$4,068,000	\$4,311,000	\$14,896,000	\$19,225,000	\$34,121,000
Type 1 Expenditures	\$27,236,000	\$23,794,000	\$27,379,000	\$26,210,000	\$27,589,000	\$32,500,000	\$29,960,000	\$29,229,000	\$29,751,000	\$30,717,000	\$132,208,000	\$152,157,000	\$284,365,000
Type 2 - Rehabilitation & Expansion Projects													
Distribution Resiliency Upgrades	\$1,155,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$1,155,000	\$0	\$1,155,000
Advanced Meters (Electric)	\$2,236,000	\$223,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$2,459,000	\$0	\$2,459,000
Generation - Type 2 Strategic Project(s)	\$10,490,000	\$13,164,000	\$17,181,000	\$14,141,000	\$4,506,000	\$6,800,000	\$5,688,000	\$1,896,000	\$1,607,000	\$154,000	\$59,482,000	\$16,145,000	\$75,627,000
Electric T & D - Type 2 Strategic Project(s)	\$1,050,000	\$7,718,000	\$13,968,000	\$16,141,000	\$17,107,000	\$9,927,000	\$17,254,000	\$13,164,000	\$13,831,000	\$15,782,000	\$55,984,000	\$69,958,000	\$125,942,000
Information Technology - Type 2 Strategic Project(s)	\$8,187,000	\$17,194,000	\$4,427,000	\$2,400,000	\$2,818,000	\$0	\$0	\$0	\$2,782,000	\$3,267,000	\$35,026,000	\$6,049,000	\$41,075,000
Buildings & Land - Type 2 Strategic Project(s) Total	\$4,544,000	\$6,221,000	\$7,271,000	\$5,689,000	\$916,000	\$0	\$0	\$0	\$0	\$0	\$24,641,000	\$0	\$24,641,000
Type 2 Expenditures	\$27,662,000	\$44,520,000	\$42,847,000	\$38,371,000	\$25,347,000	\$16,727,000	\$22,942,000	\$15,060,000	\$18,220,000	\$19,203,000	\$178,747,000	\$92,152,000	\$270,899,000
Type 1 + Type 2 Expenditures	\$54,898,000	\$68,314,000	\$70,226,000	\$64,581,000	\$52,936,000	\$49,227,000	\$52,902,000	\$44,289,000	\$47,971,000	\$49,920,000	\$310,955,000	\$244,309,000	\$555,264,000
Type 3 - Strategic Projects & Programs													
Carmen-Smith Expenditures	\$22,617,000	\$20,815,000	\$14,308,000	\$14,410,000	\$3,012,000	\$3,226,000	\$0	\$0	\$0	\$0	\$75,162,000	\$3,226,000	\$78,388,000
Total Expenditures	\$77,515,000	\$89,129,000	\$84,534,000	\$78,991,000	\$55,948,000	\$52,453,000	\$52,902,000	\$44,289,000	\$47,971,000	\$49,920,000	\$386,117,000	\$247,535,000	\$633,652,000