



# MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

*Rely on us.*

TO: Commissioners McRae, Barofsky, Schlossberg, Brown, and Carlson  
FROM: Deborah Hart, Assistant General Manager/CFO; Aaron Balmer, Acting Financial Services Manager; Rob Freytag, General Accounting & Treasury Supervisor  
DATE: August 28, 2024  
SUBJECT: 2023 Audit Management Letter Update  
OBJECTIVE: Information Only

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Attached is the 2023 Audit Management Letter, which includes updates by Management outlining the progress made since the letter was presented to the Board in April. **August 2024 updates are provided on Page 6.**



Communications with Those Charged with Governance

**Eugene Water & Electric Board**

December 31, 2023



## **Communications with Those Charged with Governance and Internal Control Related Matters**

To the Board of Commissioners  
Eugene Water & Electric Board

We have audited the financial statements of Eugene Water & Electric Board (EWEB or the Board) as of and for the year ended December 31, 2023 and have issued our report thereon dated March 19, 2024. Professional standards require that we provide you with the following information related to our audit.

### **Our Responsibility under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards**

As stated in our engagement letter dated August 16, 2023, we are responsible for forming and expressing an opinion about whether the financial statements that have been prepared by management, with your oversight, are prepared, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (U.S. GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. As part of an audit conducted in accordance with U.S. GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit.

An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control over financial reporting. Accordingly, we considered the Board's internal control solely for the purposes of determining our audit procedures and not to provide assurance concerning such internal control.

The supplementary information was subject to certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves.

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our planning communication letter dated August 16, 2023.

### **Significant Audit Findings and Issues**

#### ***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Board are described in Note 1 to the financial statements.

In May 2020, GASB issued statement no. 96, *Subscription Based Information Technology Arrangements*. The Statement defines a subscription-based information technology arrangement (SBITA); establishes that a SBITA results in a right-to-use, intangible, subscription asset and a corresponding subscription liability, and provides capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA. Adoption of this provision required certain restatement to the financial statements as of and for the year ended December 31, 2022.

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. The Statement was effective for fiscal years beginning after June 15, 2022 and the Board adopted the provisions for the year ended December 31, 2023, resulting in no impact to the December 31, 2023 and 2022 financial statements.

No other new accounting policies were adopted and there were no changes in the application of existing policies during 2023. We noted no transactions entered into by the Board during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

### ***Significant Accounting Estimates***

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

**Unbilled Revenue** – Unbilled revenue is a measure of revenue earned through the end of the reporting period that has yet to be billed. This generally represents accounts with billing cycles that start in the reporting year and end in the subsequent year. We have evaluated the key factors and assumptions used to develop unbilled revenue in determining that it is reasonable in relation to the financial statements taken as a whole.

**Allowance for Doubtful Accounts** – This represents an estimate of the amount of accounts receivable that will not be collected. We have evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.

**Recovery Periods for the Cost of Plant** – This represents the depreciation of plant assets. Management's estimate of the recovery periods for the cost of plant is based on regulatory-prescribed depreciation recovery periods. We have evaluated the key factors and assumptions used to develop the recovery periods in determining that they are reasonable in relation to the financial statements taken as a whole.

**Other Post-Employment Benefit Obligations** – This represents the amount of annual expense recognized for post-employment benefits. The amount is actuarially determined, with management input. We have evaluated the key factors and assumptions used to develop the annual expense in determining that it is reasonable in relation to the financial statements taken as a whole.

**Mark-to-Market Adjustment** – Certain derivative instruments are marked to market at year end. However, the impact to the statements of revenues, expenses, and changes in net position is deferred in accordance with GAAP. We have evaluated the key factors and assumptions used to develop year-end amounts and have determined that they are reasonable in relation to the financial statements taken as a whole.

**Net Pension Liability** – This represents the amount of pension liability. The amount is actuarially determined, with OPERS management input. We have evaluated the key factors and assumptions used to develop the annual expense in determining that it is reasonable in relation to the financial statements taken as a whole.

**Valuation of Investments** – Management’s estimate of investments is based on current market rates and conditions. We evaluated the key factors and assumptions used to develop the valuation of investments and determined that they are reasonable in relation to the financial statements taken as a whole.

**Discount Rate for Leases and Subscription-Based IT Arrangements** – Management’s estimate of the discount rate utilized to calculate the present value of the future payment streams for leases and subscription-based IT arrangements is based on review of the underlying contract for explicit rates, or in absence of an explicit rate management estimates EWEB’s incremental borrowing rate. We have evaluated key factors and assumptions used to determine the discount rate of leases and SBITA arrangements in relation to the financial statements taken as a whole.

#### ***Financial Statement Disclosures***

The disclosures in the financial statements are consistent, clear, and understandable. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. Significant disclosures include Note 2 – Power Risk Management, Note 19 – Commitments and Contingencies, and Note 16 – Retirement Benefits.

#### ***Significant Unusual Transactions***

We encountered no significant unusual transactions during our audit of the EWEB’s financial statements.

#### ***Significant Difficulties Encountered in Performing the Audit***

Professional standards require us to inform you of any significant difficulties encountered in performing the audit. No significant difficulties were encountered during our audit of the Board’s financial statements.

#### ***Circumstances that Affect the Form and Content of the Auditor’s Report***

There may be circumstances in which we would consider it necessary to include additional information in the auditor’s report in accordance with U.S. GAAS and *Government Auditing Standards*. There were no circumstances that affected the form and content of the auditor’s report.

#### ***Disagreements with Management***

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor’s report. No such disagreements arose during the course of our audit.

### ***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all factual and judgmental misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has determined certain contracts which meet the definition of lease or SBITA arrangements in accordance with GASB 87 and GASB 96, that fall below a threshold determined by a management policy, and as such will not be recorded in the financial statements. We have evaluated the impact of these passed leases and SBITA arrangements and they are not material individually or in the aggregate. In addition, we noted a work order in commercial operations at year end was not properly closed, and as such proposed proper adjustment.

Uncorrected misstatements identified in the current year are summarized as follows:

- To record leases not capitalized - \$1,143,078 (Electric)
- To record SBITAs not capitalized - \$642,801 (Electric)
- To record leases not capitalized - \$105,391 (Water)
- To record SBITAs not capitalized - \$145,112 (Water)
- To close work orders in commercial operation at year end - \$145,127 (Water)

We noted no corrected misstatements as of and for the year ended December 31, 2023.

### ***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated March 19, 2024.

### ***Management Consultation with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Entity’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### ***Other Significant Audit Findings or Issues***

We are required to communicate to you other findings or issues arising from the audit that are, in our professional judgment, significant and relevant to your oversight of the financial reporting process. There were no such items identified.

This information is intended solely for the use of the Board and members of management and is not intended to be and should not be used by anyone other than these specified parties.

## Communication of Internal Control Related Matters

In planning and performing our audit of the financial statements of the Board as of and for the year ended December 31, 2023, in accordance with auditing standards generally accepted in the United States of America, we considered the Board's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Board's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

The following summarizes current year recommendations that we identified in the current year:

**Work Order Review:** During our testing over open work orders, we noted that one of the work orders selected for testing was in commercial operation at December 31, 2023 and had not been appropriately closed to assets in service. We recommend that all open work orders be reviewed at year end to determine if any are in fact completed and in service at year end so that such assets can be properly classified as assets in service and depreciated.

**Management Response: Mike Masters, Water Operations Manager** – Management agrees with the recommendation for additional review and will work in collaboration with Finance to perform quarterly analysis to properly classify assets in service.

This communication is intended solely for the information and use of management and the Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.



Portland, Oregon  
March 19, 2024

**2024 Update: Mike Masters, Water Operations Manager**

The Water Division has followed through on the collaboration with finance referenced above. Finance has spearheaded most of the work including:

- Running the last activity date work order report monthly, highlighting all work orders that are aged > 90 days, and those that are aged 31-90 days and distributing to the work order review group monthly to review for their areas of responsibilities.
- Accounting Analyst meets with the work order review group monthly to discuss work order hot topics and work order questions.
- Quarterly review of Work Order Closeout Compliance metrics.
- Quarterly review of high dollar work orders that closed in the current year for audit compliance and follow up with the work order requestors as needed.
- Quarterly review of high dollar open work orders that have not had recent activity and follow up with work order requestors for more information as needed.





# MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

*Rely on us.*

TO: Commissioners McRae, Barofsky, Schlossberg, Brown, and Carlson  
FROM: Jason Heuser, Public Policy and Government Affairs Program Manager  
DATE: August 23, 2024 (September 3, 2024 Board Meeting)  
SUBJECT: Current Year Legislative and Regional Policy Update & Upcoming Year Legislative Session  
Preview  
OBJECTIVE: Information

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## Issue

EWEB monitors, influences, and strategically plans around legislative and regional policy issues.

## Background

The Board adopts general policy directives for advocacy on legislation and other public policy matters, which guide the work of EWEB's lobbying activities. When political considerations test the applicability of those directives, the General Manager makes a determination as to whether a fundamental shift in direction is required. The Board may be asked to reaffirm policy directives or direct staff to make necessary adjustments.

## Discussion

### FEDERAL POLICY

#### *COLUMBIA RIVER TREATY MODERNIZATION AGREEMENT IN PRINCIPLE (AIP)*

On July 11th the U.S. and Canadian governments announced an Agreement in Principle (AIP) to modernize the Columbia River Treaty (CRT). The agreement covers aspects of power supply and flood risk management. Modernizing the CRT has been an area of focus for public power utilities in the Pacific Northwest and BPA customers, given that the power returned to Canada under the original treaty for sharing benefits of coordinated operations has been out of balance with the benefits received by the U.S. resulting in an overpayment of \$300 million or more to Canada in recent years. EWEB staff have been direct participants in "The Power Group" a coalition of 19 electric utilities or associations that have served as a steering group for public advocacy of treaty modernization. Key elements of the newly announced AIP include:

- **Canadian Entitlement Reduction and Transmission Connectivity.** Immediate 37% reduction in amount of hydropower returned to Canada, and incrementally a total 50% reduction in energy by 2031. Effective August 1 the Entitlement return will move to 660 MW of capacity and 305 aMW of energy (currently it is approximately 1100 MW of capacity and 450 aMW of energy). Power delivery will also be modernized to standard industry scheduling standards. The Agreement in Principle also

calls for development of greater transmission connectivity between the U.S. and Canada.

- **Flood Risk Management.** Access to preplanned flood control storage in Canada continues in the majority of years. Payment to Canada for flood control services from the Corps of Engineers would be funded by appropriations rather than electricity customers.

Background (Read Further): In the late 1950s, leaders in the U.S. and Canadian governments decided they wanted a treaty to facilitate the joint development of power generation and flood control in the Columbia River Basin. By 1964, the two countries had crafted the Columbia River Treaty, a 60-year agreement with flood control protection guaranteed through 2024. Critically important to the Treaty were power provisions to share the downstream power benefits, with the U.S. set to return hydropower capacity and energy to Canada for 60 years, after which there would be an opportunity to rebalance based on value to each country of coordination operations. Committing to a decades-long economic Treaty brought benefits and risks to both parties. Both countries wanted certainty for a lengthy period. This certainty allowed Canada to be assured of payments offsetting the large capital investment in new dams. It meant alternative investments in US flood control would not be necessary for an extended period. It also reduced the need to build other generation. But the negotiators recognized that factors impacting the value of the agreement would change over time. Flood control was only paid for through 2024.

The Agreement in Principle reduces the Canadian power entitlement to a more reasonable amount and places the responsibility for flood control on federal appropriations instead of electric ratepayers (consistent with flood control funding around the rest of the US). Generally, the AIP should be viewed by US utilities in cautiously optimistic terms, however, there are still many details to be worked out and questions remaining to be answered in the agreement's implementation, so it is too soon to grade the partially settled modernization of the treaty. Work to complete this decade long treaty modernization effort will continue for some time.

## STATE POLICY

### *Oregon Energy Strategy Development*

The Oregon Legislature enacted HB 3630 in 2023, directing ODOE to develop a State Energy Strategy. The report will be developed in consultation with relevant agencies, federally recognized Indian tribes, and stakeholders. It will examine and further build on state laws, policies, and targets regarding energy and greenhouse gas emissions; existing energy and integrated resource plans; and energy-related studies and data analysis.

The development of the Oregon Energy Strategy is a two-and-a-half-year project, which began initial steps in July 2023, with a final written report to the Governor and Legislature due by November 1, 2025. The Oregon Energy Strategy will be built through a step-by-step process that combines data gathering, technical analysis, scenario definition and modeling, and development of policy recommendations, integrated with an iterative stakeholder engagement process that ensures an inclusive and informed Strategy.

EWEB staff have been appointed to the Oregon Energy Advisory Strategy Advisory Group, which held its second monthly meeting on August 14. Additionally, ODOE has conducted multiple public listening sessions prior to the kickoff of the process, as well as held technical work group meetings in August, which EWEB subject matter experts have participated in. Future board legislative/policy updates will summarize the ongoing progress of the Oregon Energy Strategy formulation.

## Possible 2025 Oregon Legislative Session Topics

### *Carbon Pricing Reconsideration*

There has been some discussion amongst legislators of a remote possibility that carbon cap and trade legislation like efforts in 2019 and 2020 might be considered by the legislature in 2025. After legislative walkouts in 2020 blocked the passage of carbon cap and trade legislation, Governor Kate Brown issued Executive Order 20-04, which included a directive to the Oregon Department of Environmental Quality to initiate rulemaking to create a carbon cap program, the Climate Protection Program (CPP). After adoption in 2021 the CPP was challenged in court -- Oregon Court of Appeals, and in December the court ruled the program was invalid for not complying with disclosure of the federal Clean Air Act, a procedural misstep in the state's rulemaking. DEQ decided not to appeal the court decision. Instead, the agency opted to restart and correct errors in the rulemaking process, delaying the implementation of the program by at least a year -- to 2025.

The possibility of a re-adopted CPP that could withstand future legal challenges has prompted some conversation in the Oregon business community as to whether it would be preferable to have the legislature instead enact market-based carbon cap and trade legislation which could link to existing programs in California and Washington, and repeal the CPP.

It should be stressed that while possible, it does not seem very likely that carbon cap and trade legislation will be seriously considered in Oregon. Another factor may be the outcome of Washington Ballot Initiative 2117 in November, which would repeal Washington's state carbon cap and trade program, which could shift the prospects for a West Coast linked regional carbon cap and trade program.

Historically, EWEB has supported market-based carbon management approaches if certain conditions are met.

### *Solar Consumer Protection*

In 2023 the Washington Legislature enacted, SB 2156, known as "the Washington Solar Consumer Protection Act." Preliminary conversations have begun in consideration of a similar approach in Oregon.

Washington Legislators, Consumer Protection Advocates, the Washington Solar Industries Association were responding to growing signs of out of state dubious sales lead generators and marketing companies responsible for misleading solar energy ads suggesting "free solar" was available, often citing the Inflation Reduction Act. High pressure and deceptive sales tactics, as well as subpar installation quality, are also a growing problem. While there are many good actors in the solar energy industry, the uptick in examples of bad actors is concerning especially as Inflation Reduction Act solar incentives are set to be deployed.

Washington's Solar Consumer Protection Act introduces new requirements that prohibit certain predatory tactics, outline precise directives for specific contractual language, reinforce current regulations regarding the licensing of solar installers, and grant increased authority to the WA Attorney General's office to impose penalties on non-compliant companies. The legislation also requires solar contracts to explicitly disclose certain costs and clearly state what to expect as far as system performance, using best practice methodology. Additionally, it facilitates an "apples to apples" comparison of competitive quotes and provides a clear explanation of consumer rights, including an opportunity to cancel a contract within the first 72 hours. The legislation also imposes penalties on companies that fail to adhere to these requirements.

Oregon will chart its own path on solar consumer protection, but Washington’s HB 2156 is a likely blueprint to start with.

### *Wildfire Policy*

The Oregon Wildfire Funding Strategies Advisory Group has been meeting for months and will soon narrow down a set of recommendations to the legislature for the 2025 session, aiming to address funding shortfalls, for Oregon to be capable to respond to larger and more expensive wildfires in recent years. This advisory group is striving to resolve disagreement as to whether additional funding should come from one or both existing sources: from the state general fund and/or from private property and business owners whose natural resource assets receive a greater share of state protection than public land. The committee could also consider new funding sources.

Wildfire liability changes could also be proposed in the 2025 session, in consideration that while utilities are operating under new and increasingly heightened safety standards and making robust investments in infrastructure designed to reduce the risk of utility related ignitions, it is not possible to guarantee that no ignition related to utility distribution and transmission lines might occur.

### **Recommendation/Requested Board Action**

These are informational updates, and no action is required at this time.