



# MEMORANDUM

EUGENE WATER & ELECTRIC BOARD



TO: Commissioners Carlson, Mital, Helgeson, Schlossberg and Brown  
 FROM: Sue Fahey, Assistant General Manager/CFO; Deborah Hart, Financial Services Manager  
 DATE: October 28, 2019  
 SUBJECT: Electric and Water Budget Amendments  
 OBJECTIVE: Information only

**Issue**

Per Board Policy EL-1, the approved budgets are the maximum level of expenditure authorized by the Board. As noted in the second quarter report, management is projecting costs will exceed budget for both utilities this year. Management will request Board approval of budget amendments at the December 3, 2019 meeting, and this memo provides additional information in advance of the requested approval.

**Discussion**

Both the Water and Electric Utilities are anticipating exceeding their O & M budgets and the variances have been outlined in the table below. Staff will be monitoring October and November financial performance and will refine the year end projections. More detail on the drivers of those variances follows the table.

	<u>Electric</u>	<u>Water</u>
Approved Operations & Maintenance Budgets	\$212,200,000	\$19,900,000
<i><u>Operational Changes:</u></i>		
Purchased Power	41,000,000	
Storm and Other Costs (net of projected turnover savings)	2,700,000	
<i><u>Changes Required by Generally Accepted Accounting Principles (GAAP):</u></i>		
PERS Side Account Deposit	16,700,000	5,300,000
Total Projected O&M Budget Amendment	60,400,000	5,300,000
<b>Total Projected O&amp;M Budgets</b>	<b>\$272,600,000</b>	<b>\$25,200,000</b>

## **Electric Operations & Maintenance**

### *Operational Changes*

Purchased power costs exceeded budget by over \$35 million as of September 30, the majority of which is offset by higher wholesale revenue due to a change in accounting for certain power transactions and portfolio balancing activity. Approximately \$4 million is not offset by higher revenue primarily due to purchases as a result of poor hydro conditions and plant outages. The conservative projection for Q4 is a \$6 million impact, which is also anticipated to be offset by wholesale revenue. Other expenses are higher than anticipated due to storm related expenses and emergent dam safety, canal inspection and maintenance costs.

## **Water and Electric Operations & Maintenance – Changes Required by GAAP**

### *PERS Side Account Deposit*

GAAP require that the deposit be recorded as a one-time non-operating expense. Payment and expense allocations are based on the Utilities' payroll expense as a percentage of total payroll.

## **Capital Budgets**

The Electric Utility is anticipating a \$3.6 million overage in Type 1 capital spending, and a \$3.9 million overage in Type 2. This is partially offset by decreased spending on projects that have been deferred to 2020, and the net overage for 2019 is expected to be \$4.5 million. Electric System Infrastructure work increased as a result of risk based replacement work and strategic work related to improving operational efficiencies (ROC Consolidation). Specific work to maintain reliability for electric customers include the IP Substation 3 Transformer replacement and Downtown Network Cable Replacement. Resilience upgrades to allow for more flexible outage mitigation include the Holden Creek Redundant Transformer Addition and the Downtown Network Tie Switch Upgrades. Approximately \$1 million of the overage is due to customer reimbursable work associated with customer requested distribution projects (new projects and reconfigurations). Management is reviewing the Capital Improvement Plan for opportunity to smooth financial impacts resulting from the additional capital spending.

The Water Utility is anticipating a \$500,000 overage in capital spending. The primary drivers for the increase are higher than budgeted costs for the Hayden Bridge Disinfection System and main replacements. 2018 delays in equipment procurement and construction at Hayden Bridge pushed costs from 2018 to 2019. Main replacement spending is near average levels however when the 2019 budget was created, resources were directed to meter replacements. The meter replacement spending has been lower than anticipated though and those resources have shifted back to main replacement.

	<b><u>Electric</u></b>	<b><u>Water</u></b>
Approved Capital Budget	\$37,300,000	\$15,400,000
Higher Than Estimated Costs	4,500,000	500,000
<b>Total Amended Capital Budget</b>	<b>\$41,800,000</b>	<b>\$15,900,000</b>

## **Requested Board Action**

No action at this time. Staff will be tracking spending closely, and Management plans to bring a resolution authorizing an increase to the 2019 Electric and Water O&M and Capital budgets in December.