



MEMORANDUM

EUGENE WATER & ELECTRIC BOARD



TO: Commissioners Simpson, Helgeson, Manning, Mital and Brown
 FROM: Sue Fahey, Chief Financial Officer; Susan Eicher, Accounting & Treasury Supervisor
 DATE: October 21, 2016
 SUBJECT: Electric Utility September 2016 Financial Statements
 OBJECTIVE: Information Only

Schedule of Revenues, Expenses, and Changes in Net Position (Income Statement)–Page 4

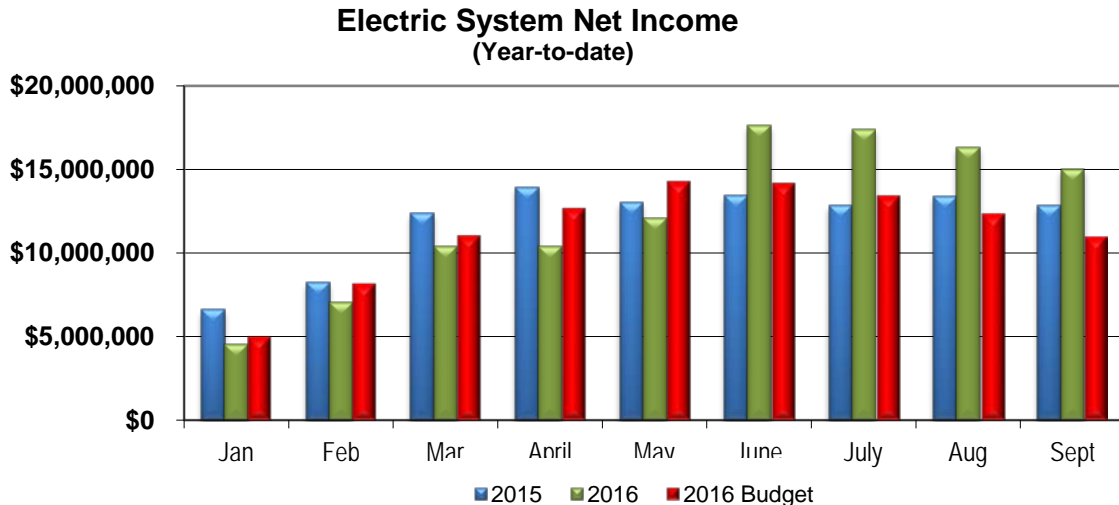
Income before capital contributions (Net Income)

Net income for the Electric Utility is \$15 million. The variance of Net Income to the Year to Date (YTD) seasonally shaped budget is a favorable \$4 million.

The variance breakdown compared to budget is as follows (unfavorable)/favorable:

	Millions
• Retail Revenue	\$ (9.3)
• Wholesale and Other revenue	11.9
• Purchased Power	(9.5)
• Non-power Operating Expenses	4.3
• Other Non-operating revenues	8.1
• Other Non-operating expenses	(1.4)
	\$ 4.1

For purposes of analysis, the budget has been modified to reflect seasonal fluctuations in revenue and purchased power.



Operating Revenues

Sales to electric **Residential** customers are \$7.5 million lower than the seasonally shaped budget. For the first half of 2016, retail revenue and consumption was unfavorable to budget by as much as 20%. Based on an average 4th quarter weather forecast and the remaining budget targets **Residential** sales will likely remain near this deficit for the year.

Compared to 2015, residential revenue is \$1.1 million higher and consumption is virtually the same.

Commercial and industrial sales are not as subject to variation due to weather conditions. They are \$1.8 lower than the seasonal budget and \$1.2 million higher than 2015. This budget shortfall is due to lower consumption in large general service sales.

Sales for resale and other includes sales of power in excess of our need for load and some sales related to hedging activity and system balancing. With hedging activities and more power available for resale due to lower retail consumption, sales for resale are \$11.9 million above the YTD seasonally shaped budget. Currently, wholesale market prices per MWH and volume sold are both approximately 17% higher as compared to budget. Contributing to the variance is the re-sale of one-half of the WGA load to Clatskanie. This re-sale was not included in the budget.

Other operating revenue includes customer account related fees, conservation reimbursements, billable operations & maintenance (O&M) work, and Renewable Energy Credit sales (RECs). Currently, other operating revenue is \$1.2 million favorable to the seasonal budget. Customer account revenue is \$300 thousand above budget and conservation reimbursement is \$275 thousand above budget. Revenue from transmission sold to others and REC revenue also has a positive variance.

Operating expenses are \$5.2 million over the YTD seasonally shaped budget. **Purchased power** expense is over the YTD seasonally shaped budget by \$9.5 million. This increase is primarily due to additional market purchases for hedging. Also contributing to the variance is purchasing the entire Western Generation Agency (WGA) load and re-selling one-half to Clatskanie PUD, EWEB's partner in ownership of WGA. In the budget, only EWEB's portion of load was included. Through September the variance between budget and actuals totals \$1.4 million. Purchased power includes all purchases from BPA, other contracted resources and market purchases. Market purchases include purchases to serve load, and purchases related to the hedging program.

Overall, non-power operating expenses are under the YTD seasonally shaped budget by a favorable \$4.2 million. **Generation** is under budget by \$426 thousand, in part due to lower fuel costs for International Paper (IP) generation and lower cost for wind operations. **System control** is under budget by \$486 thousand due to lower costs in market compliance by power planning, specifically labor and professional & technical services. **Administrative and general expense (A&G)** budgeted amounts include the amount budgeted for utility wide contingency expenses. When the contingency budget of \$3.0 million is factored out, **A&G** is tracking in line with budget.

Year over year, with the exception of **A&G** expense (\$1.2 million more), non-power operating expenses combined are \$400 thousand higher compared to 2015. The increase is due to hardware and software license costs now being incurred in the Information Services department, rather than charged out to individual departments.

Contribution margin (CM) is a measure of the amount power activity contributes to the fixed costs of the utility. **CM** is made up of retail, wholesale and other sales, net of the cost of purchased power, transmission and fuel. The **CM** revenues and expenses are shaped seasonally based upon forecasts and historical experience. At this time, the **CM** is forecasted to be \$4.9 million under budget at year end. The **CM** variance realized to date is \$5 million. The lower than budget retail sales is the primary driver of the variance. The Board approved \$5 million above target for the Power Reserve fund to help mitigate the impact of lower sales.

Non-operating Revenues consist of **investment earnings** and miscellaneous revenues not related to the core business of the utility, such as rental income and sale of assets. Within **non-operating revenue**, a \$4.9 million gain was recognized on the sale of Smith Creek Hydro facility. **Investment earnings** include interest on investments and changes in fair market value of investments, as well as changes in the fair value of investment derivatives. Investment derivatives are a type of hedging trade. The fair market value change of investment derivatives year to date is a positive \$1.5 million. For other securities, investment market yields have slowly improved over the past three years, and investment earnings are above the budgeted assumption.

Other Non-operating Expenses

Other expenses include non-debt related amortization, donations, the costs of environmental remediation at the former coal/gas site, and ongoing work at the riverfront property. Also included is the non-cash, accounting difference of \$1.4 million between funds provided by EWEB to pay off Smith Creek Project bonds and the carrying value of the debt. Because this debt was paid off, rather than refunded with new debt, all of the difference is recognized as expense in year 2016.

Interest expense and related amortization includes interest expense on bonds and amortization of other bond costs: premium received at the time of sale, issuance costs, and deferred accounting losses on refundings. Actual expenses are expected to be close to budget at year-end.

Contributions in Aid of Construction (CIA)/ Contributed plant assets

CIA is higher than prior year primarily due to the EmX project. The utility also recognized \$695 thousand in **contributed plant assets** by developers, for which there is no budget due to the variable nature of this item.

**Eugene Water and Electric Board
Electric Utility
Schedule of Revenues, Expenses, and Changes in Net Position
for the nine months ended September 2016**

	Prior Year Comparison		YTD Budget Comparison			
	2016	2015	Annual Working Budget	Seasonal Budget \$	Seasonal Budget %	Seasonal Budget Variance
Residential	\$ 67,442,414	\$ 66,387,277	\$ 103,236,829	\$ 74,919,000	¹ 90.02%	\$ (7,477,000)
Commercial and industrial	74,892,813	73,647,357	102,528,476	76,712,000	¹ 97.63%	(1,819,000)
Sale for resale and other	39,955,977	39,142,031	35,070,774	28,059,000	¹ 142.40%	11,897,000
Operating revenues	182,291,204	179,176,665	240,836,079	179,690,000	101.45%	2,601,000
Purchased power	88,900,470	81,423,257	106,407,402	79,442,000	² 111.91%	(9,458,000)
System control	4,417,306	4,398,453	6,537,435	4,903,000	90.09%	486,000
Wheeling	9,260,453	9,431,961	12,761,904	9,571,000	96.76%	311,000
Generation	8,660,124	8,755,932	12,114,059	9,086,000	95.31%	426,000
Transmission and distribution	15,122,986	15,435,781	20,745,063	15,559,000	97.20%	436,000
Customer accounting	5,817,286	5,673,822	7,482,153	5,612,000	103.66%	(205,000)
Conservation expenses	3,113,688	2,570,986	4,425,040	3,319,000	93.81%	205,000
Administrative and general	15,805,281	14,576,562	25,206,069	18,905,000	83.60%	3,100,000
Depreciation on utility plant	18,043,034	17,604,415	23,345,307	17,509,000	103.05%	(534,000)
Operating expenses	169,140,628	159,871,169	219,024,432	163,906,000	103.19%	(5,233,000)
Net Operating Income	13,150,576	19,305,496	21,811,647	15,784,000	83.32%	(2,632,000)
Investment earnings	3,047,855	651,628	861,695	646,000	471.80%	2,402,000
Interest earnings, Water	796,457	841,347	1,097,691	823,000	96.77%	(27,000)
Other non-operating revenue	7,799,155	1,444,780	2,911,855	2,184,000	357.10%	5,615,000
Non-operating Revenues	11,643,467	2,937,755	4,871,241	3,653,000	318.74%	7,990,000
Other expenses	2,190,298	894,361	1,847,645	1,386,000	158.03%	(804,000)
Interest expense and related amortization	7,619,474	8,487,405	9,430,063	7,073,000	107.73%	(546,000)
Other Non-operating Expenses	9,809,772	9,381,766	11,277,708	8,459,000	115.97%	(1,350,000)
Income before capital contributions	14,984,271	12,861,485	15,405,181	10,978,000	136.49%	4,006,000
Contributions in aid of construction	6,620,660	2,738,511	10,125,000	7,594,000	87.18%	(973,000)
Contributed plant assets	695,137	150,000	-	-		695,000
Increase in Net Position	\$ 22,300,068	\$ 15,749,996	\$ 25,530,181	\$ 18,572,000	120.07%	\$ 3,728,000

Notes to the Financial Statements:

¹ Seasonal budget figure based on PPM forecast used for budgeting.

² Seasonal budget figure based on cyclical account activity averaged from the past four years.

Unmarked seasonal budget figures are not shaped and are allocated using a straight-line method

Net utility plant in service

The removal of the Smith Creek Hydro facility from plant in service made up the decrease in capital assets. A total of \$30 million of historical costs and associated accumulated depreciation was removed.

Cash and cash equivalents and Short-term investments

Working cash balances include cash in the bank and investments. The balances in working cash are available for the day-to-day operating expenses of the utility. Balances are lower compared to last year. In April, the Board approved transfers based on 2015 activity which allocated \$4.7 million to other designated reserves. In August, \$5 million was used to defease debt related to Smith Creek. Short –term investments also include those classified as long-term at year end as noted below.

Restricted cash and investments

This category includes investments for debt service accumulated to pay interest and principal to bondholders. For 2016, the required payments of interest and principal to bondholders have been made. During September, a significant amount of Electric’s debt was refunded or defeased which lowered the required debt services reserve balance by \$2.9 million. The balance held for interest and principal payments is also lower by \$1.8 million. Moving forward, cash held for interest and principal payments will increase monthly until the next required interest payment in February 2017. **Restricted cash and investments** also includes unspent bond proceeds restricted for capital improvements used to fund work for the Carmen Smith Relicensing. Year over year, bond funded capital spending is responsible for \$5.8 million of the decrease.

Designated cash and investments

All reserves with a Board approved performance standard are at, or above, their performance standard. The Board approved the transfer of an additional \$5.0 million above the performance standard to the power reserve, in anticipation of lower than expected operating results. Also, \$8.7 million was transferred to the Rate Stabilization Fund from Working Cash in accordance to the 2016 budget. In 2017, Finance will be discussing with the Board ways to pursue the highest and best use of funds above Board targets.

Long-term investments

At the end of the year, any investments that have a maturity beyond one year are reclassified as long-term investments, in conformity to Generally Accepted Accounting Principles. During the year, these investment balances are shown as **cash and cash equivalents** or within the **designated cash and investments** category. All securities held are highly marketable and could be liquidated if a need arose. Finance believes presentation of the entire balance within current assets is clearer for internal reporting purposes. The December 2015 **long-term investments** balance was \$9.3 million from **cash and cash equivalents** and \$34.3 million from **designated cash and investments**.

Investment in WGA

Investment in WGA represents EWEB’s 50% ownership of Western Generation Agency, an intergovernmental agency with Clatskanie PUD. The balance of EWEB’s investment in WGA increases when EWEB records a 50% share of WGA’s net income, and decreases when receiving distributions of cash or recognizes a 50% share of net loss for a year. As of April, 2016 EWEB became an off-taker of WGA’s power output. EWEB purchase of WGA’s power output, which is included with Electric’s **purchased power** expense, is not part of the investment balance.

Investment in Harvest Wind

EWEB is a 20% owner in Harvest Wind. This investment balance changes with EWEB's 20% share of Harvest Wind net income or net loss annually, and decreases for distributions to EWEB of excess cash from Harvest Wind. Electric's share of Harvest Wind's net income is typically \$300 thousand per year and distributions average \$1.7 million per year. EWEB purchases 20% of Harvest Wind's power output, which is included with Electric's **purchased power** expense and is not part of the investment balance.

Deferred outflows of resources

Some costs that will not be recognized until future periods are considered **deferred outflows of resources**. These costs include the fair value changes in derivatives, certain PERS costs, and some costs related to refunding of debt. The balance was up by \$9.4 million in September due to bond refunding. The change represents the difference in total new debt, less the total of all outstanding balances pertaining to the old debt. Reporting of **deferred outflows of resources** for refunding of debt results in gradual recognition as **interest expense and related amortization** from the time the refunding is entered into until the new debt is paid off.

Net pension asset or Net pension liability

The **net pension asset** or **net pension liability** represent EWEB's proportionate share of PERS system net pension liability or asset. The 2014, PERS system actuarial valuation resulted in a **net pension asset**. The 2014 valuation included cost saving changes to the PERS system subsequently overturned by the Oregon Supreme Court. As a consequence of the court decision, and other changes in actuarial assumptions, the 2015 PERS valuation resulted in a **net pension liability**.

Other assets

Other assets include \$41 million for Carmen-Smith relicensing, and the EWEB share of certain non-cash pension expenses relating to changes in the actuarial valuation of the PERS System. EWEB has elected to use regulatory accounting to defer non-cash pension expenses, and will recognize pension expense as required employer contributions are paid.

Long-term debt

Long-term debt has decreased due to the defeasance of \$23.8 million in bond principal from the sale of the Smith Creek Project plus some cash reserves. In September, \$126.1 million of bonds was refinanced which also resulted in lower long-term debt obligations. Cash flow savings from these two transactions will be approximately \$48 million, with most of the savings recognized over the next ten years. During the rating process for the bond refunding, Moody's upgraded all of the Electric outstanding bonds to Aa2 from Aa3, and Fitch issued an upgrade from A- to AA-.

Deferred inflows of resources

Year over year changes in **deferred inflows of resources** are primarily due to the deferral of non-cash pension expenses, as discussed above.

Recommendation/Requested Board Action

None at this time. This information is provided for informational purposes only.

**Eugene Water and Electric Board
Electric System
Statement of Net Position
September, 2016 and 2015**

	<u>2016</u>	<u>2015</u>	<u>December 2015</u>
Assets			
Capital assets			
Utility plant in service	\$ 725,536,859	\$ 733,959,377	\$ 752,863,250
Less - Accumulated depreciation	(398,253,695)	(389,324,352)	(393,797,388)
Net utility plant in service	<u>327,283,164</u>	<u>344,635,025</u>	<u>359,065,862</u>
Property held for future use	827,449	827,449	827,449
Construction work in progress	19,739,348	18,525,506	5,505,140
Net utility plant	<u>347,849,961</u>	<u>363,987,980</u>	<u>365,398,451</u>
Current assets			
Cash and cash equivalents	3,220,008	8,079,345	7,239,776
Short-term investments	23,009,600	26,502,425	16,165,484
Restricted cash and investments	26,030,051	37,321,189	42,121,803
Designated cash and investments	112,384,297	93,376,097	58,915,274
Receivables, less allowances	26,604,239	28,722,770	31,603,034
Due from Water System	774,331	788,488	887,148
Materials and supplies, at average cost	3,694,277	4,908,830	4,286,899
Prepays	6,597,330	7,158,550	6,931,033
Total current assets	<u>202,314,133</u>	<u>206,857,694</u>	<u>168,150,451</u>
Non-current assets			
Long-term receivable, conservation and other	4,861,698	4,895,382	5,160,480
Due from Water System	16,784,045	17,436,013	17,266,499
Long-term investments	-	-	43,657,619
Investment in WGA	3,258,130	1,368,010	2,786,808
Investment in Harvest Wind	24,006,340	25,314,834	25,067,481
Nonutility Property	7,830,500	7,939,893	7,830,500
Net pension asset	-	16,010,707	-
Other assets	63,142,261	57,426,310	64,320,426
Total non-current assets	<u>119,882,974</u>	<u>130,391,149</u>	<u>166,089,813</u>
Deferred Outflows			
Deferred outflows of resources	<u>17,082,812</u>	<u>6,813,365</u>	<u>8,936,627</u>
Total Assets and Deferred Outflows	<u>\$ 687,129,880</u>	<u>\$ 708,050,188</u>	<u>\$ 708,575,342</u>
Liabilities			
Current liabilities			
Payables	\$ 17,825,553	\$ 16,564,844	\$ 18,892,593
Accrued payroll and benefits	4,087,219	4,927,853	4,909,776
Accrued interest on long-term debt	1,222,483	1,846,634	4,616,586
Long-term debt due within one year	11,165,000	13,510,000	13,510,000
Total current liabilities	<u>34,300,255</u>	<u>36,849,331</u>	<u>41,928,955</u>
Non-current liabilities			
Long-term debt	200,644,622	233,197,855	232,865,868
Net pension liability	37,311,057	-	37,311,057
Other liabilities	9,960,982	10,003,595	10,339,481
Total liabilities	<u>282,216,916</u>	<u>280,050,781</u>	<u>322,445,361</u>
Deferred Inflows			
Deferred Inflows of resources	<u>10,215,116</u>	<u>59,590,685</u>	<u>13,732,200</u>
Net Position			
Net investment in capital assets	167,564,380	169,006,798	169,832,994
Restricted	9,692,937	15,030,194	17,528,492
Unrestricted	217,440,531	213,990,093	185,036,295
Total net position	<u>394,697,848</u>	<u>368,408,722</u>	<u>372,397,781</u>
Total Liabilities, Deferred Inflows, and Net Position	<u>\$ 687,129,880</u>	<u>\$ 708,050,188</u>	<u>\$ 708,575,342</u>

Capital Budget Comparison

The electric utility has spent \$10.4 million or 36% of budget, net of contributions in aid, on capital work, compared to \$11.2 million in 2015. The largest balances were expended for improvements to the distribution system, AMI, Carmen Smith relicensing, and work for the EmX project. The Type 1 Distribution Projects are at 60% of their annual budget.

Note: the capital budget is approved by the Board as the maximum amount allowed for all capital work. Annual budgets by type and by individual projects are prepared for planning and reporting purposes, but overall budget accountability to the board remains at the total capital level.








Eugene Water and Electric Board Electric Utility Capital Budget Comparison for the nine months ended September 2016

	<u>Current Month</u>	<u>Year to Date</u>	<u>Annual Working Budget w/Amendment</u>	<u>% of Budget</u>
Type 1 Capital				
Building & Land	263	226,565	510,720	44.4%
Distribution	443,767	5,143,141	8,200,000	62.7%
Electric Fleet	-	456,644	1,227,148	37.2%
Generation	56,551	444,178	915,999	48.5%
Information Technology	10,518	266,602	1,130,001	23.6%
Substation	225,354	1,474,470	1,650,001	89.4%
Transmission	34,315	207,911	150,001	138.6%
Total Type 1 Capital	<u>770,768</u>	<u>8,219,511</u>	<u>13,783,870</u>	59.6%
Type 2 Capital				
AMI	179,847	1,251,179	2,527,001	49.5%
CIS	-	-	1,230,001	0.0%
Downtown Network	3,428	24,549	2,000,000	1.2%
Holden Creek Substation	78,443	332,320	1,500,000	22.2%
Leaburg Dam Rollgate #2	32,562	281,368	1,570,000	17.9%
LTD West Side EMX	265,860	3,647,091	6,175,093	59.1%
Total Type 2 Capital	<u>560,140</u>	<u>5,536,507</u>	<u>15,002,095</u>	36.9%
Type 3 Capital				
Carmen Smith Relicensing	1,144,594	3,239,476	10,590,000	30.6%
Total Type 3 Capital	<u>1,144,594</u>	<u>3,239,476</u>	<u>10,590,000</u>	30.6%
Total Capital before CIA	<u>2,475,502</u>	<u>16,995,494</u>	<u>39,375,965</u>	43.2%
Contributions in aid	<u>(701,527)</u>	<u>(6,620,660)</u>	<u>(10,125,000)</u>	65.4%
Grand Total	<u>\$ 1,773,975</u>	<u>10,374,834</u>	<u>\$ 29,250,965</u>	35.5%

Ratios

The current ratio, a measure of current assets compared to current liabilities, increased significantly after the payoff of the Harvest Wind note in 2015, and is well above the board target. The current ratio at December 31 is net of long-term investments for purposes of external reporting. The annualized debt service coverage ratio is above performance standards at 2.17. This ratio should continue to improve in the coming years with the defeasance and refunding of bonds as mentioned on Page 5. All ratios are performing better than the board targeted levels.

**Electric System
Financial Ratios
September 30, 2016**

	<u>YTD</u> <u>2016</u>	<u>Status</u>	<u>December</u> <u>2015</u>	<u>Performance</u> <u>Standard</u>
Current Ratio	5.90		4.01	≥ 3.25
Debt to Total Assets	0.43		0.47	≤ 0.60
Debt Service Coverage	2.17		2.05	≥ 1.75
Operating Ratio	0.83		0.81	
Days Unrestricted Cash	259		237	
Days Available Cash	159		148	≥ 90
Debt to Equity	60%		73%	≤ 91%

Notes:

Effective, 9/30/2015 - Rate Stabilization Fund was added to the calculation for Days Available Cash. While Board approval is required - this fund would be available for use in an emergency.

See next page for Ratio definitions and benchmark sources

Current Ratio

Total current assets to total current liabilities.

This ratio measures the utility's short-term liquidity (ability to pay bills).

Debt to Total Assets

Long-term debt plus current liabilities to total assets.

This ratio measures a utility's ability to meet its current and long-term liabilities based on the availability of assets.

Debt Service Coverage

Ratio of annualized net revenues available for debt service to total long-term debt service for the year. This ratio measures the utility's ability to meet its annual long-term debt obligation.

Operating Ratio

Total electric operation and maintenance expenses to total electric operating revenues.

This ratio measures the proportion of revenues received from electric sales and other electric activities required to cover operation and maintenance costs associated with producing and selling electricity.

Days Unrestricted Cash (Rating Agency Model)

Ratio of total unrestricted cash and cash equivalents

to average daily cash requirements for operating expenses (defined as yearly budgeted operating expenses net of depreciation divided by 365 days in the year).

This figure measures the length of time the utility can carry on normal operations with available unrestricted cash not otherwise designated for future capital needs.

Days Available Cash (EWEB Internal Model)

Ratio of total available cash (defined as working cash and equivalents plus general operating reserves) to adjusted average daily cash requirements for operating and other non-capital expenses (defined as actual YTD expenditures plus remaining pro-rated budget expenses for the year divided by 365 days in the year). This is a modification of Days Unrestricted Cash measuring the length of time (in calendar days) the utility can carry on projected non-capital related operations with readily available cash (defined as working cash and equivalents plus general operating reserves, including the power and rate stabilization reserves).

Debt to Equity

Ratio of total liabilities, net of current liabilities, to total equity (net assets), expressed as a percentage.

If the ratio exceeds 100% it means that outside borrowing (liabilities) exceeds the utility's own equity (net assets).

Benchmark Derived From

APPA - American Public Power Association Financial Ratios. The ratio information is taken from the most current report on standard utility ratios (2003 data, published May 2005).

Days Unrestricted Cash

Standard and Poor's Industry Standards for Investment Grade ratings

(Investment Grade Standard is 60 to 90 days unrestricted cash)

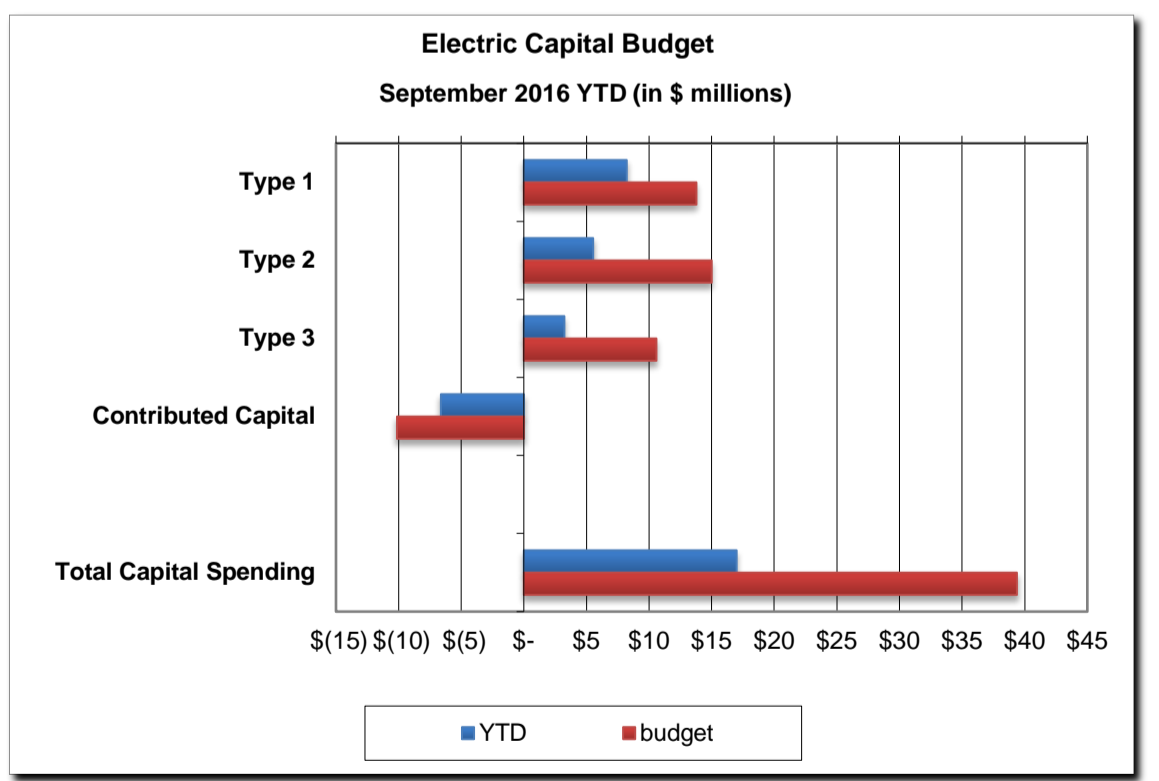
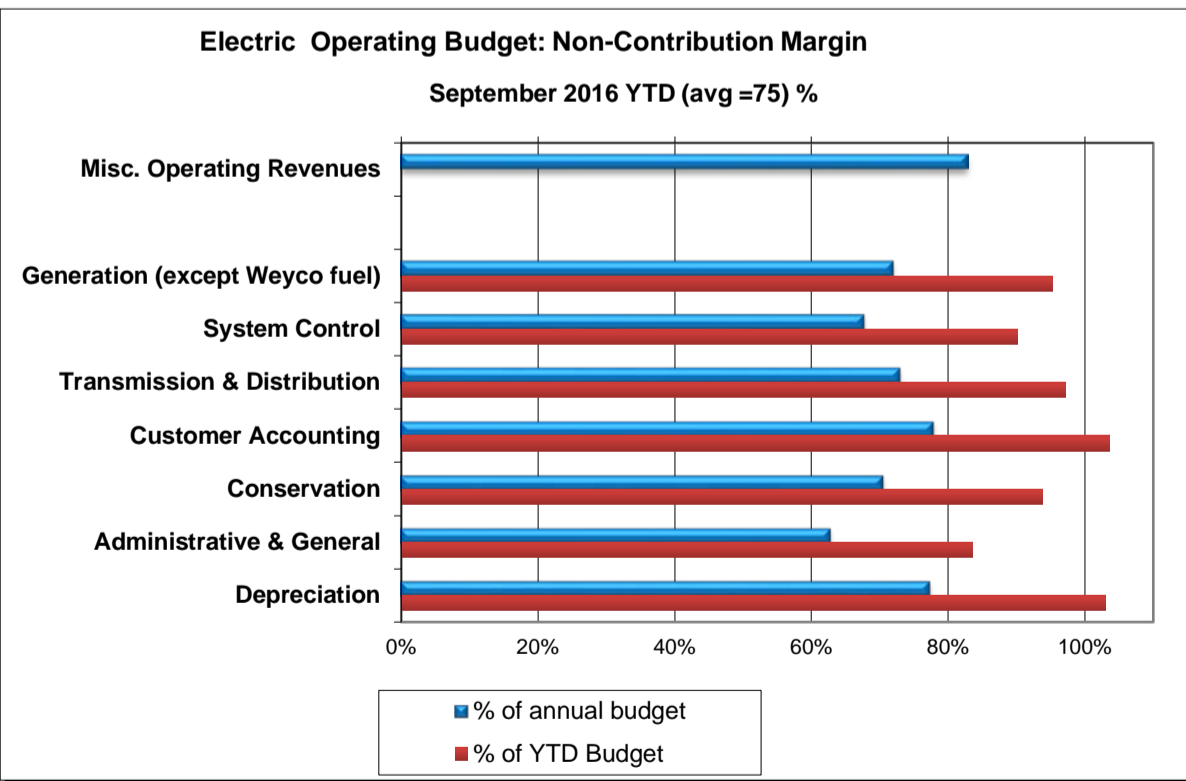
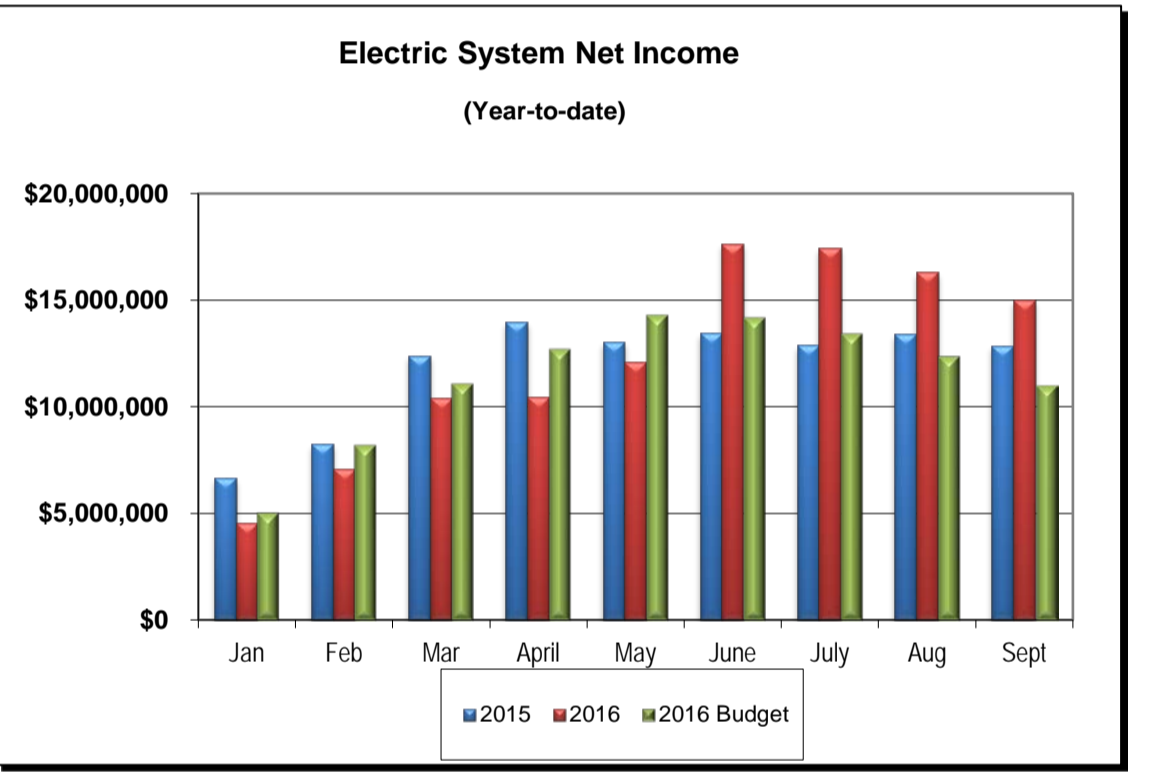
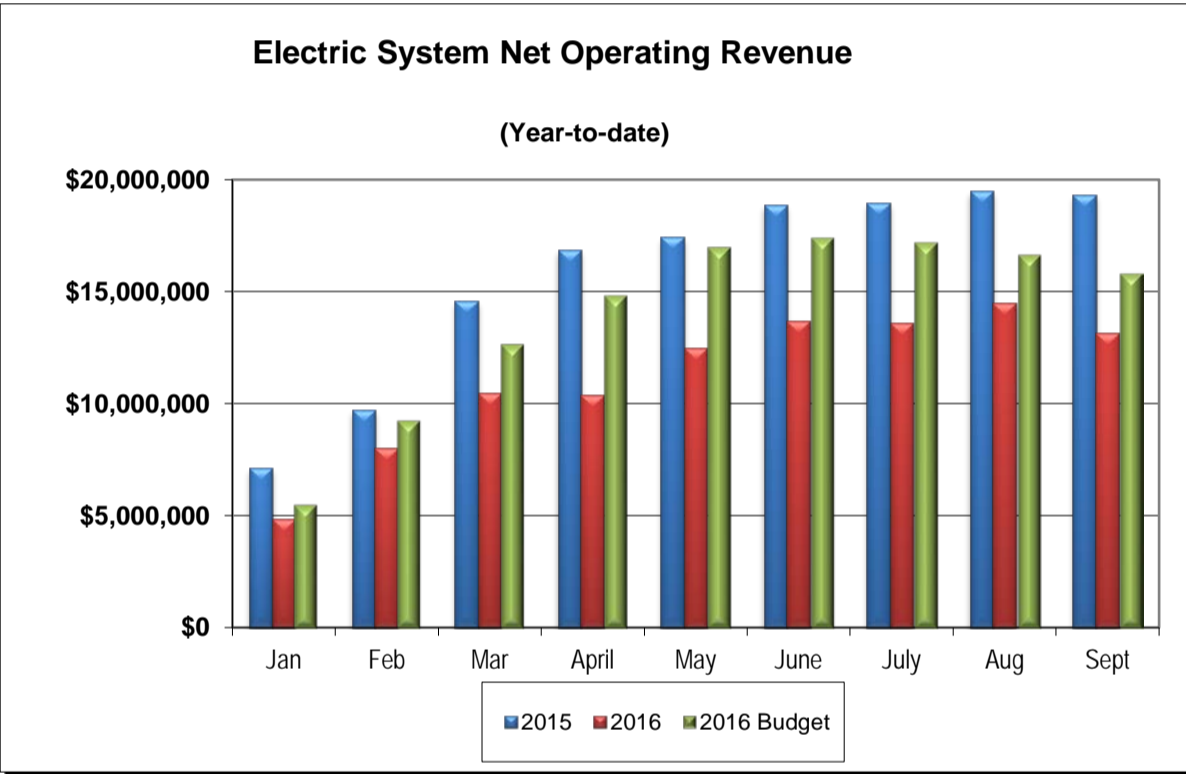
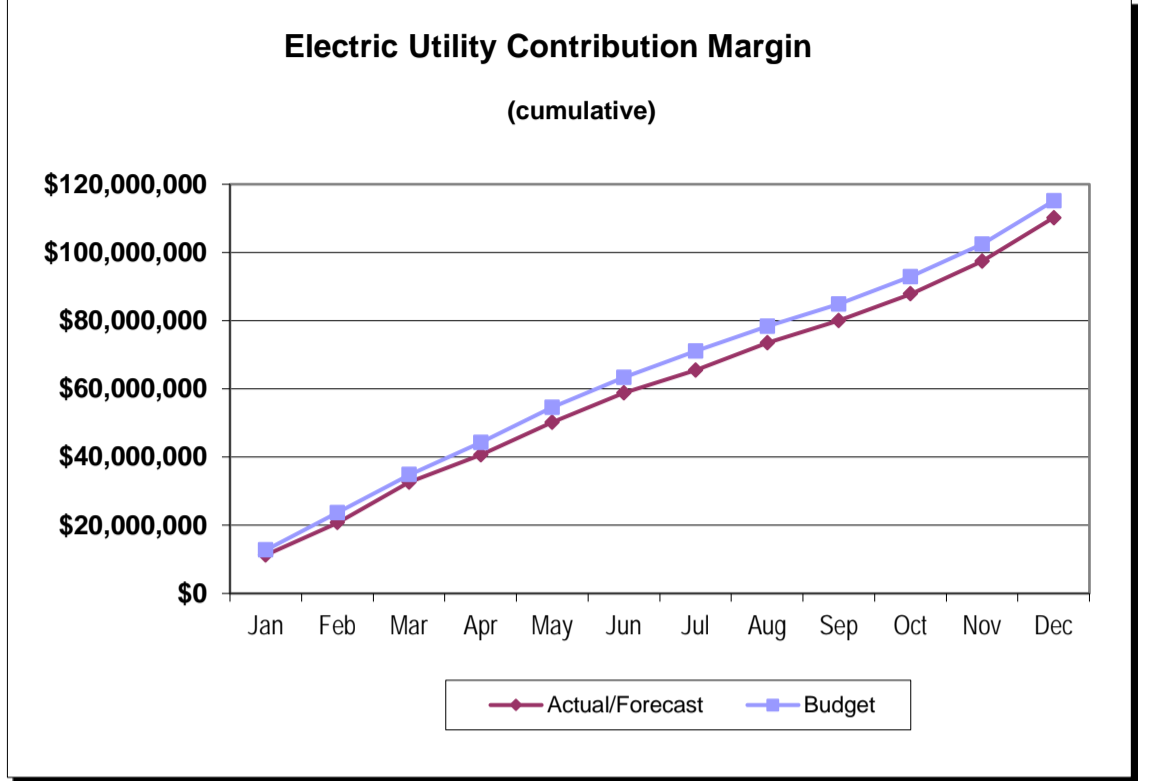
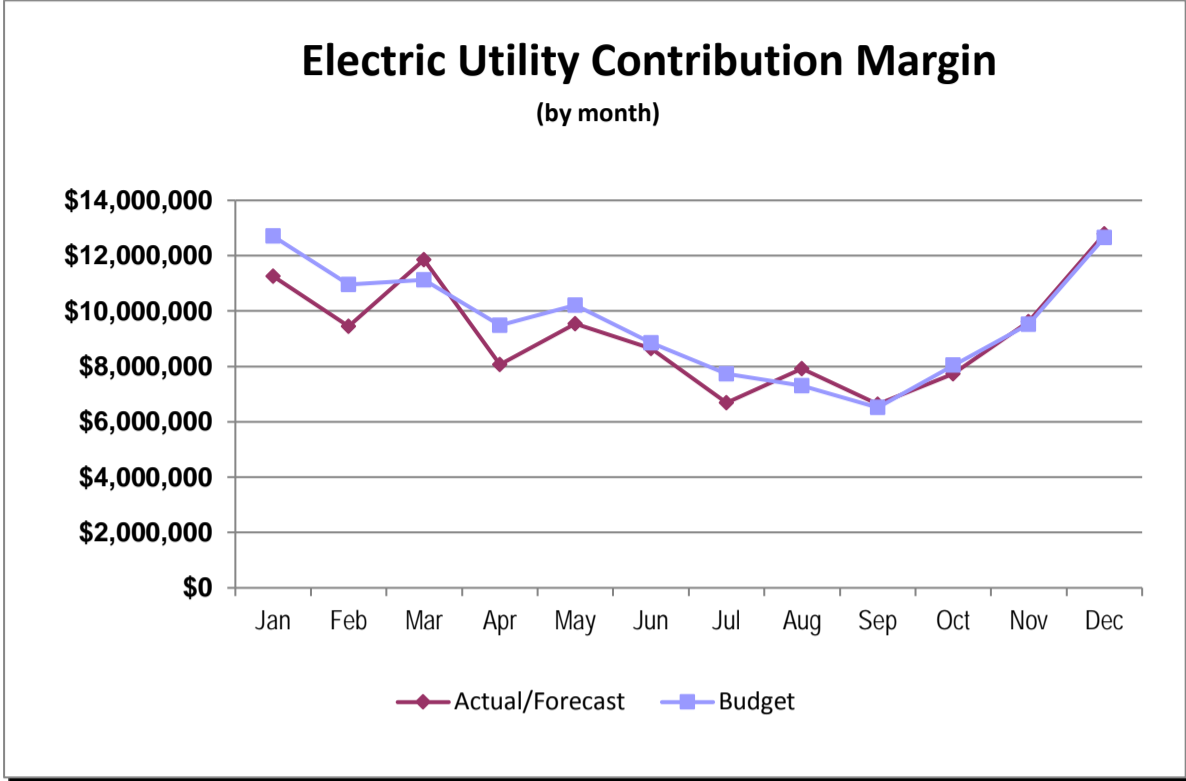
Days Available Cash

Set by management as minimum desirable level of available cash reserves

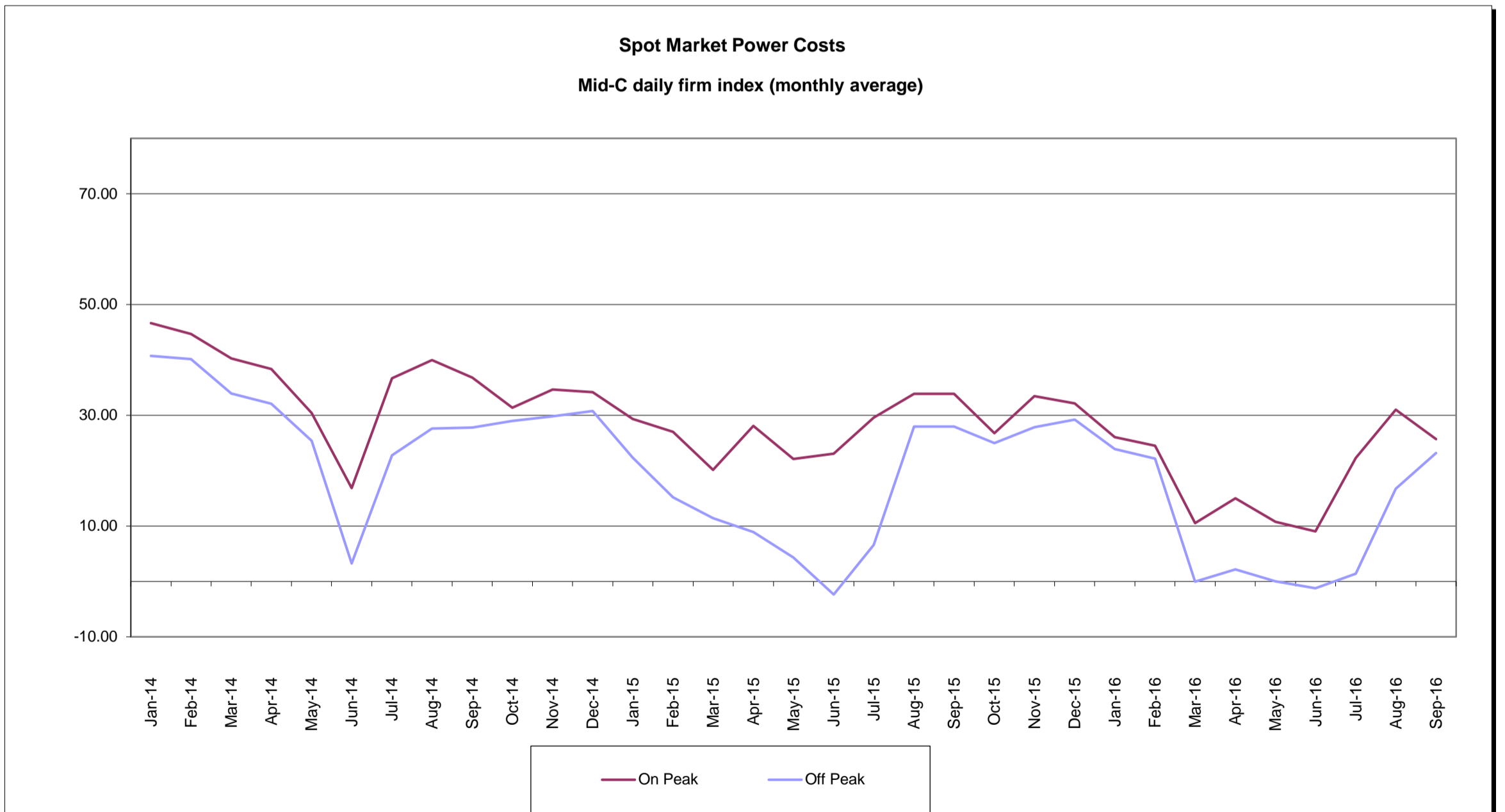
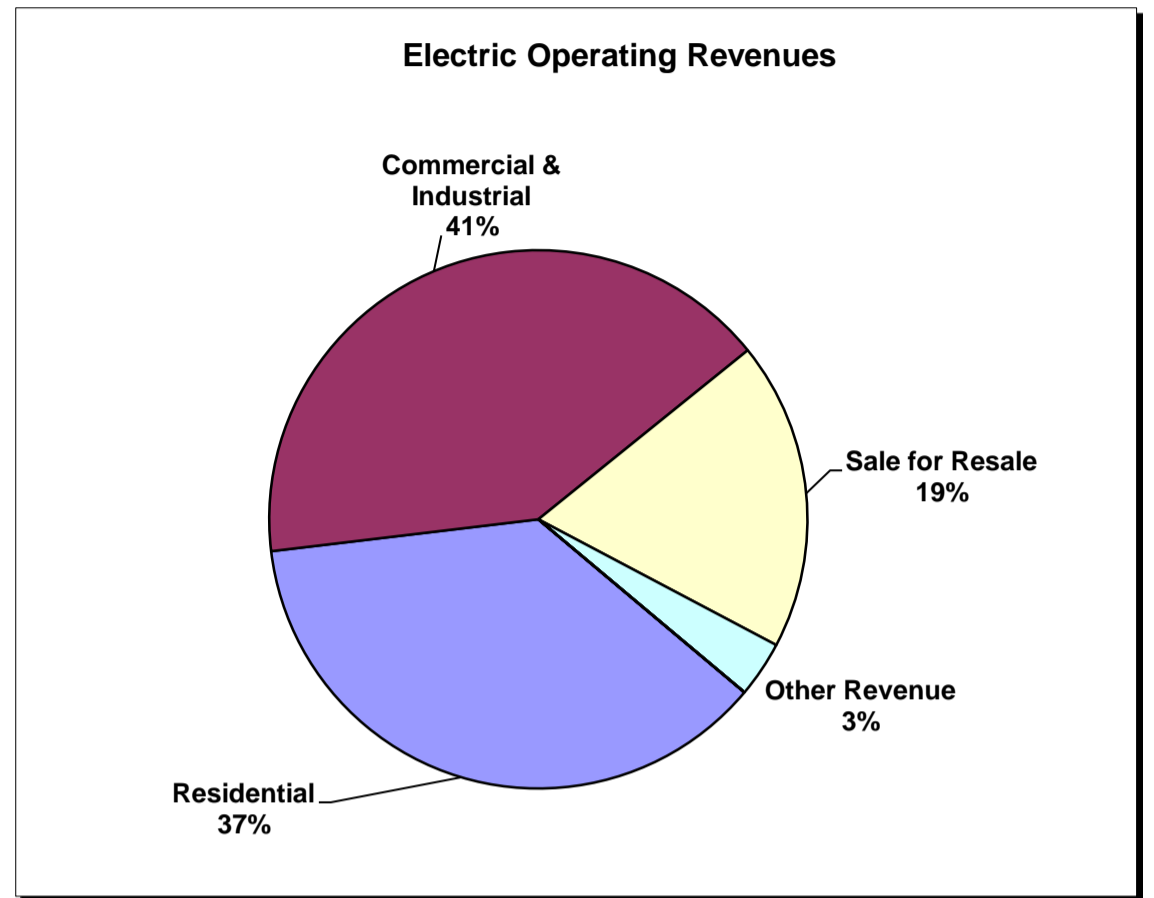
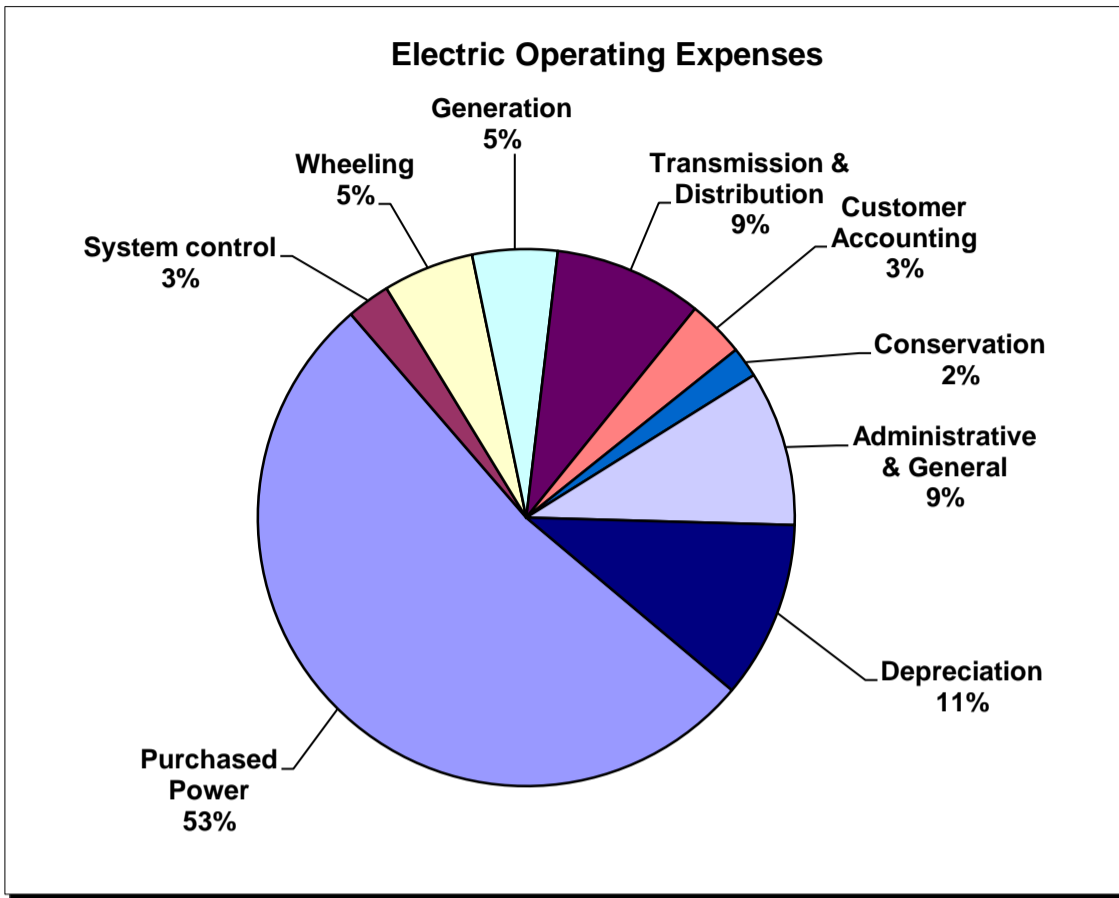
Eugene Water & Electric Board

Financial Graphs - Electric Utility

September 2016



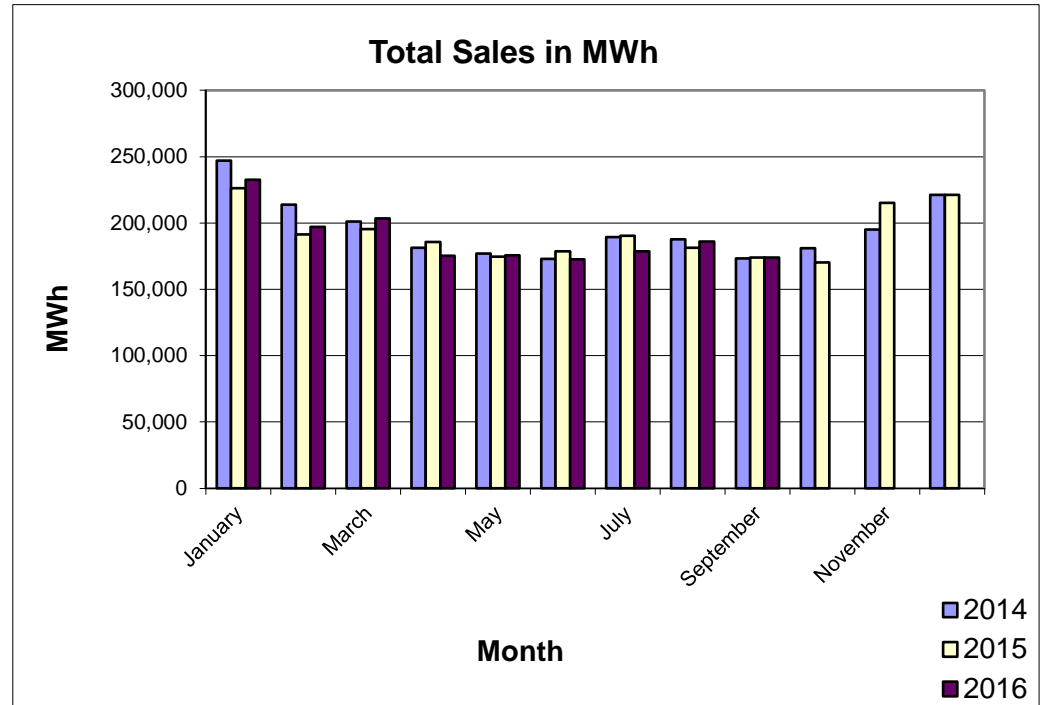
**Eugene Water & Electric Board
Financial Graphs-Electric Utility
September 2016**



Electric Utility Sales in MWh September 2016

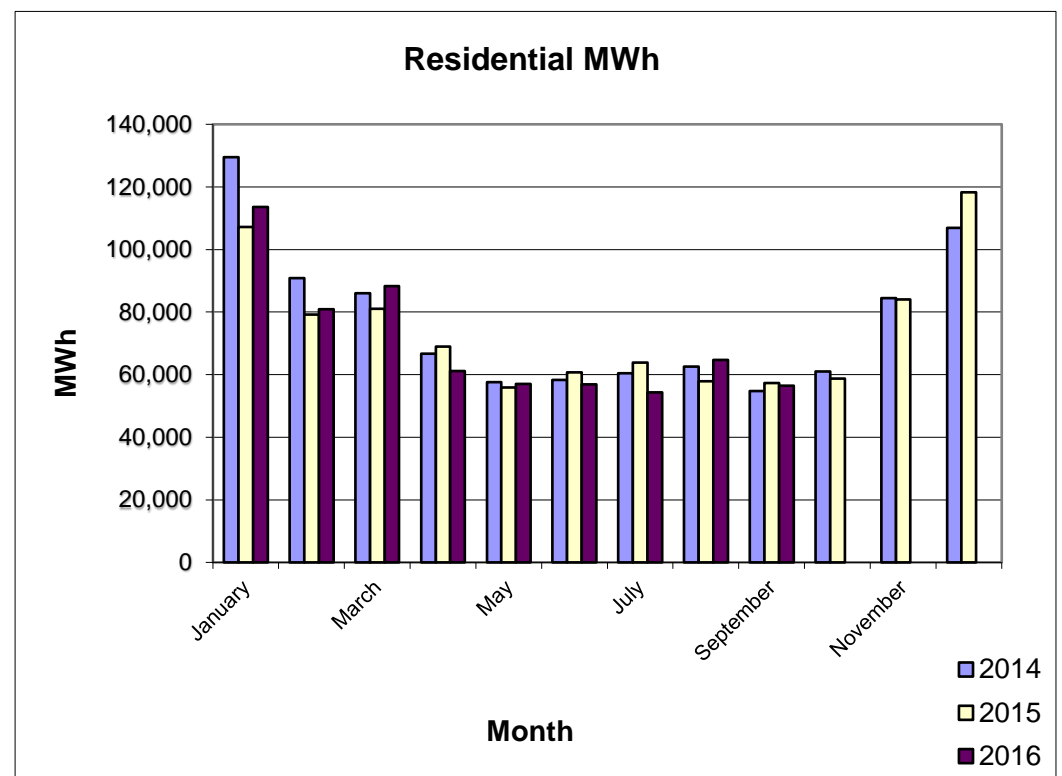
Total Electric Utility Sales in MWh

	2014	2015	2016
January	246,897	226,208	232,720
February	213,721	191,281	197,213
March	201,085	195,492	203,425
Q1 total	661,703	612,981	633,357
April	181,338	185,698	175,157
May	176,849	174,491	175,703
June	172,861	178,629	172,650
Q2 total	531,048	538,818	523,510
July	189,368	190,535	178,658
August	187,651	181,414	186,064
September	173,396	173,902	173,917
Q3 total	550,415	545,851	538,639
October	180,848	170,136	0
November	194,991	215,218	0
December	221,321	221,322	0
Q4 total	597,160	606,676	0
Annual total	<u>2,340,326</u>	<u>2,304,326</u>	<u>1,695,506</u>



Residential Sales in MWh

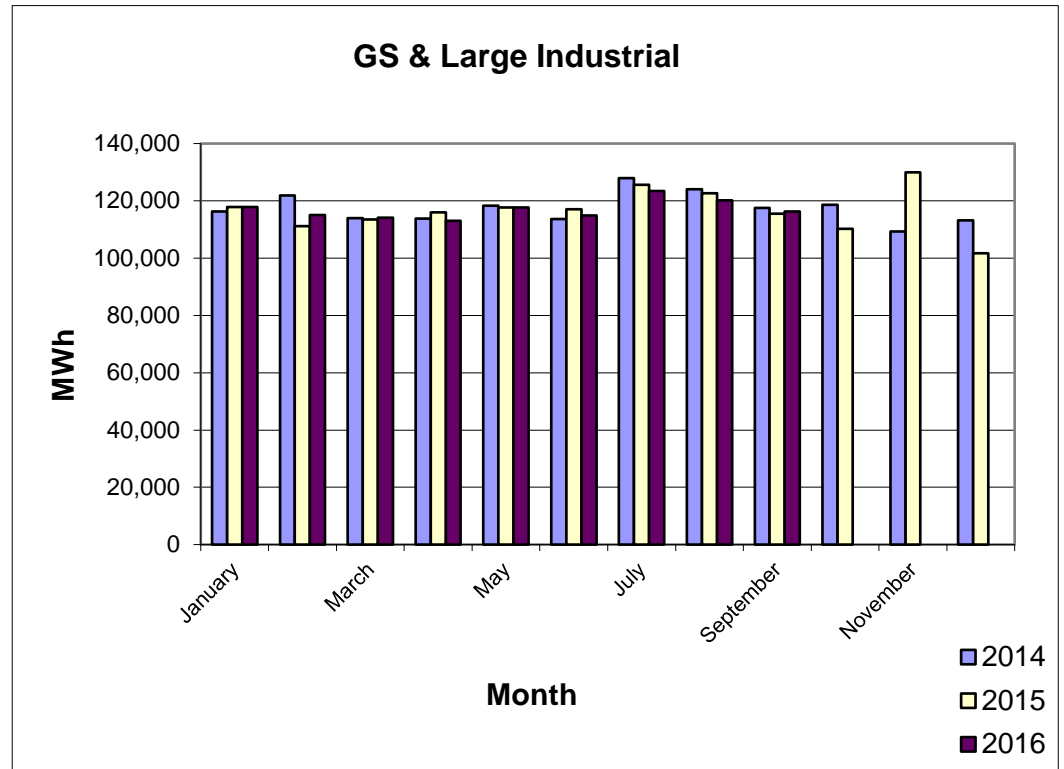
	2014	2015	2016
January	129,434	107,136	113,589
February	90,865	79,168	80,958
March	86,008	81,006	88,256
Q1 total	306,307	267,310	282,803
April	66,739	69,023	61,190
May	57,652	55,898	57,055
June	58,311	60,721	56,918
Q2 total	182,702	185,642	175,163
July	60,462	63,866	54,329
August	62,552	57,890	64,718
September	54,751	57,313	56,523
Q3 total	177,765	179,069	175,570
October	61,020	58,717	0
November	84,506	84,028	0
December	106,876	118,236	0
Total	<u>919,176</u>	<u>893,002</u>	<u>633,535</u>



Electric Utility Sales in MWh September 2016

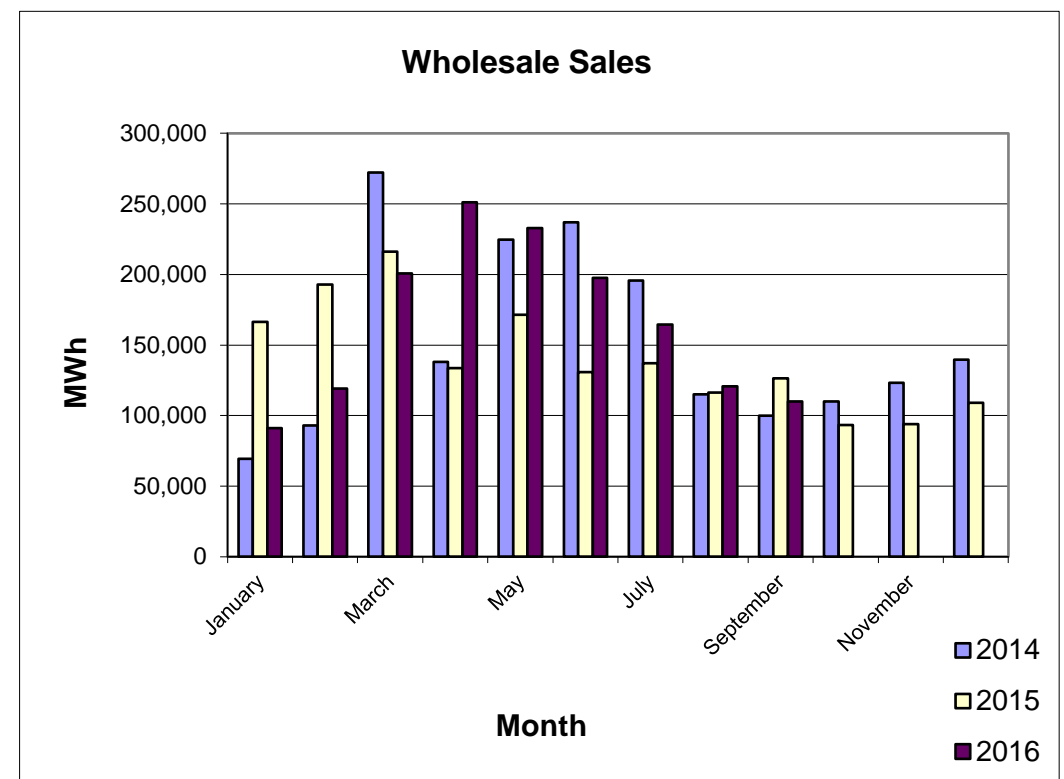
General Service & Large Industrial Sales in MWh

	2014	2015	2016
January	116,239	117,866	117,905
February	121,842	111,091	114,969
March	114,007	113,463	114,088
	<u>352,088</u>	<u>342,420</u>	<u>346,962</u>
April	113,740	116,038	112,987
May	118,322	117,742	117,677
June	113,703	117,015	114,827
	<u>345,765</u>	<u>350,795</u>	<u>345,491</u>
July	127,947	125,672	123,364
August	124,008	122,673	120,117
September	117,531	115,459	116,236
	<u>369,486</u>	<u>363,804</u>	<u>359,717</u>
October	118,635	110,229	0
November	109,278	130,010	0
December	113,195	101,752	0
	<u>341,108</u>	<u>341,991</u>	<u>0</u>
Total	<u><u>1,408,447</u></u>	<u><u>1,399,010</u></u>	<u><u>1,052,170</u></u>



Total Wholesale Sales in MWh

	2014	2015	2016
January	69,372	166,562	91,229
February	93,166	192,878	119,306
March	272,177	216,315	200,903
	<u>434,715</u>	<u>575,755</u>	<u>411,438</u>
April	137,930	133,635	251,173
May	224,853	171,384	233,001
June	237,088	130,835	197,619
	<u>599,871</u>	<u>435,854</u>	<u>681,793</u>
July	195,718	136,993	164,635
August	115,137	116,194	120,758
September	99,891	126,384	110,175
	<u>410,746</u>	<u>379,571</u>	<u>395,568</u>
October	110,036	93,491	0
November	123,128	94,117	0
December	139,559	109,166	0
	<u>372,723</u>	<u>296,774</u>	<u>0</u>
Total	<u><u>1,818,055</u></u>	<u><u>1,687,954</u></u>	<u><u>1,488,799</u></u>



Average Price Per MWh	\$ 31.75	\$ 22.96	\$ 22.33	
Generation %	97%	85.5%	95.0%	YTD
			89.0%	Current Month - September



MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

Rely on us.

TO: Commissioners Simpson, Helgeson, Manning, Mital and Brown
FROM: Sue Fahey, Chief Financial Officer; Susan Eicher, Accounting & Treasury Supervisor
DATE: October 21, 2016
SUBJECT: Water Utility September 2016 Financial Statements
OBJECTIVE: Information Only

Schedule of Revenues, Expenses, and Changes in Net Position (Income Statement)–Page 4

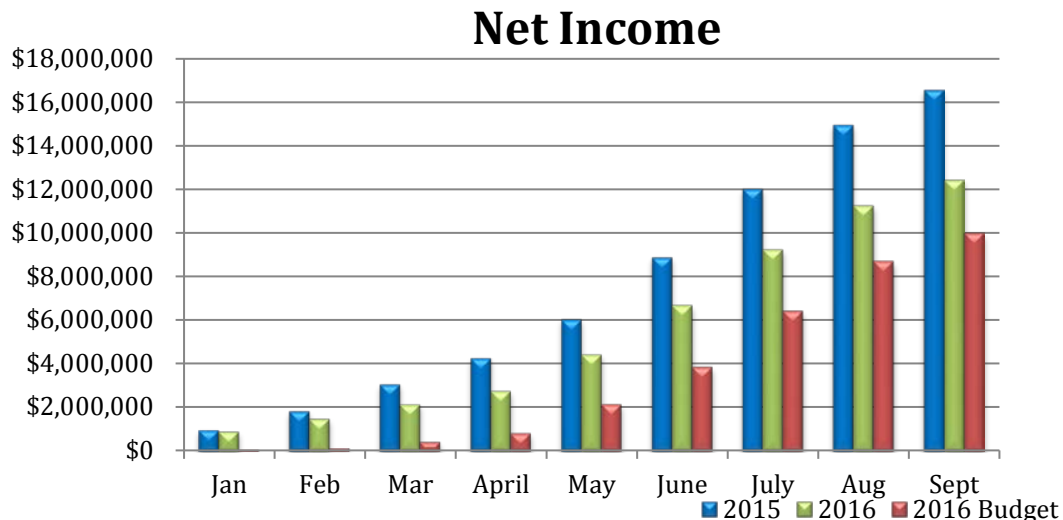
Income before capital contributions (Net Income)

Net income for the Water Utility as of September is \$10.2 million and is favorable to the seasonally shaped budget by \$2.7 million. This is due to a combination of higher than budgeted revenues and lower than budgeted expenses for this point in the year.

The variance from budget breakdown is as follows: (in thousands)

- Retail Revenue over budget \$ 77
- Wholesale and Other revenue over budget 614
- Operating Expenses under budget 1,760
- Non-operating revenues over budget 50
- Non-operating expenses under budget 232
- \$2,733

For purposes of analysis, the budget has been modified to reflect seasonal revenue fluctuations. The comparison to annual budget in the chart below is seasonally shaped.



Operating Revenues

Residential and Commercial and industrial sales to water customers are in line with the YTD seasonally shaped budget, but are below prior year levels. Consumption is slightly lower than last year due to the milder weather experienced in June and July of 2016.

Sales for resale and other includes sales to Water Districts and the Willamette Water Company, as well as sales to the City of Veneta. Other operating revenue includes revenues from customer account related fees and reimbursements for billable O&M work. Revenues from billable work related to capital activity are recorded as **contributions in aid of construction**, and are mentioned below. **Sales for resale and other** is currently 28%, or \$614 thousand above the seasonally shaped budget. This is due to larger amounts of billable O&M work being performed. Some of the budget for billable O&M is currently in non-operating revenue and \$219 thousand will be transferred to operating revenue in Q4.

Operating expenses are 91% of the seasonally shaped budget. However, they have increased compared to 2015, reflecting a shift in work from capital to O&M. At this time last year, the Water Utility was performing significant amounts of billable transmission and distribution capital work for the EmX project.

Source of supply, pumping and purification is below seasonally shaped budget by \$265 thousand, primarily due to lower salaries and wages expense than budgeted. Charges related to maintenance and construction services are also below budget for this point in the year.

Transmission and distribution is below seasonally shaped budget by \$1.5 million due in part to lower salaries and wages expense, and lower equipment usage than was budgeted. The lower salaries and wages are partly from vacant positions compared to initial budget assumptions (\$170k variance). The budget for transmission and distribution also includes \$530 thousand of contingency funds for the Water Utility which have not yet been used and allocated for spending. Also contributing to the positive variance are lower equipment use charges (\$300k variance). Charges related to maintenance and construction services (\$180k variance) and professional and technical services (\$150k variance) are also below budget for this point in the year.

Administration and general expense is slightly below the seasonally shaped budget, but increased year over year. A primary driver of the difference from prior year is a significant decrease in overhead credit transfers due to less capital work performed this year compared to last year. Another reason costs are up is the implementation of a new hosted HRIS system.

Non-operating revenue and expenses

Non-operating revenues consist of investment earnings and other revenue. **Investment earnings** are \$206 thousand over the seasonally shaped budget. Market yields have slowly improved over the past three years, and investment earnings are above the budgeted assumptions. The budget for **other revenue** includes \$219 thousand that will be transferred to other operating income.

Contributions in Aid of Construction (CIA) and System Development Charges (SDCs)

CIA is 104% of seasonally shaped budget. **CIA** is lower than 2015, primarily due to EmX work winding down.

System development charges (SDCs) are collected and revenue is recognized for qualifying work. As capital projects requiring **SDCs** are completed, cash collected for **SDC** is released from restriction, and transferred to working cash. At this time, **SDC** revenue is \$1.1 million, which is 357% of the seasonal adjusted budget.

**Eugene Water & Electric Board
Water System
Schedule of Revenues, Expenses and Changes in Net Position
for the nine months ended September 30, 2016**

	<u>Prior Year Comparison</u>		<u>YTD Budget Comparison</u>			
	<u>2016</u>	<u>2015</u>	<u>Annual Working Budget</u>	<u>Seasonal Budget \$</u>	<u>Seasonal Budget %</u>	<u>Seasonal Budget Variance</u>
Residential	\$ 16,200,666	\$ 17,016,409	\$ 20,218,693	\$ 16,541,000 ¹	97.9%	\$ (340,000)
Commercial and industrial	10,973,921	11,223,592	13,288,646	10,557,000 ¹	103.9%	417,000
Sale for resale and other	2,788,460	2,496,287	3,019,313	2,174,000 ¹	128.3%	614,000
Operating revenues	<u>29,963,047</u>	<u>30,736,288</u>	<u>36,526,652</u>	<u>29,272,000</u>	102.4%	<u>691,000</u>
Source of supply, pumping and purification	4,143,793	4,613,161	5,878,221	4,409,000	94.0%	265,000
Transmission and distribution	4,436,586	2,535,283	7,866,569	5,900,000	75.2%	1,463,000
Customer accounting	1,153,156	658,728	1,622,256	1,217,000	94.8%	64,000
Conservation expenses	179,539	110,021	250,793	188,000	95.5%	8,000
Administrative and general	3,034,111	1,980,302	4,269,094	3,202,000	94.8%	168,000
Depreciation on utility plant	4,578,489	4,267,618	5,827,124	4,370,000	104.8%	(208,000)
Operating expenses	<u>17,525,674</u>	<u>14,165,113</u>	<u>25,714,057</u>	<u>19,286,000</u>	90.9%	<u>1,760,000</u>
Net operating income	<u>12,437,373</u>	<u>16,571,175</u>	<u>10,812,595</u>	<u>9,986,000</u>	124.5%	<u>2,451,000</u>
Investment earnings	281,495	79,496	99,522	75,000	375.3%	206,000
Other revenue	79,207	82,878	315,200	236,000	33.6%	(157,000)
Non-operating revenues	<u>360,702</u>	<u>162,374</u>	<u>414,722</u>	<u>311,000</u>	116.0%	<u>50,000</u>
Other revenue deductions	192,645	205,104	207,277	155,000	124.3%	(38,000)
Interest expense and related amortization	1,605,873	1,492,746	2,465,265	1,849,000	86.9%	243,000
Interest expense, Electric	796,457	841,347	1,097,691	823,000	96.8%	27,000
Non-operating expenses	<u>2,594,975</u>	<u>2,539,197</u>	<u>3,770,233</u>	<u>2,827,000</u>	91.8%	<u>232,000</u>
Income before capital contributions	10,203,100	14,194,352	7,457,084	7,470,000	136.6%	2,733,000
Contribution in aid of construction	991,867	3,118,352	1,273,000	955,000	103.9%	37,000
Contributed plant assets	273,633	993,478	-	-	0.0%	274,000
System development charges	1,104,218	1,149,686	412,000	309,000	357.4%	795,000
Increase in net position	<u>\$ 12,572,818</u>	<u>\$ 19,455,868</u>	<u>\$ 9,142,084</u>	<u>\$ 8,734,000</u>	144.0%	<u>\$ 3,839,000</u>

Notes:

¹ Seasonal budget figure based on cyclical account activity averaged from the past four years. Unmarked seasonal budget figures are not shaped and are allocated using a straight-line method.

Cash and reserve balances

Cash and cash equivalents of \$4.8 million are above the Board target of \$3.4 million. Cash levels returned to the performance standard in August, and will level off with summer coming to an end.

Restricted cash has increased by \$11.9 million from the beginning of the year, including \$11.2 million of bond proceeds from the new issuance earlier this year. The bond funds will be used to fund capital work.

Designated cash balances are \$26.2 million, an increase of \$16 million from the beginning of the year. The changes are due to increases in the Alternative Water Supply fund, budgeted transfers to the Capital Improvement Reserve, and additions to the Rate Stabilization and Pension funds approved by the Board in May. Additionally, at year end certain designated cash was classified as a long-term investment as noted below. The Alternative Water Supply reserve increases monthly based on 3% of residential and commercial sales. The capital reserve is funded by monthly transfers from rate revenue, and is drawn down as qualifying project expenses are incurred.

Long-term investments

At the end of the year, any investments that have a maturity beyond one year are reclassified as long-term investments in conformity to Generally Accepted Accounting Principles. During the year, these investment balances are shown as cash and cash equivalents or within the designated cash and investments category. All securities held are highly marketable and could be liquidated if a need arose. Finance believes presentation of the entire balance within current assets is clearer for internal reporting purposes. The December 2015 **long-term investments** balance was \$1.1 million from **cash and cash equivalents** and \$5.6 million from **designated cash and investments**.

The **Net pension asset** or **Net pension liability** represents EWEB's proportionate share of PERS system **net pension liability or asset**. The 2014 PERS system actuarial valuation resulted in a **net pension asset** on the 2015 Statement of Net Position. The 2014 valuation included cost saving changes to the PERS system subsequently overturned by the Oregon Supreme Court. As a consequence of the court decision, and other changes in actuarial assumptions, the 2015 PERS valuation resulted in a **net pension liability**, as reported in the 2016 column.

Other assets

The **other assets** category shows an increase from the prior year. Regulatory accounting is used to recognize pension expense as contributions are due to PERS on a "pay as you go" basis. The increase in other assets from 2015 represents changes in the net pension liability EWEB would have otherwise had to recognize as an expense.

Deferred outflows of resources

Deferred outflows of resources have increased by \$1.5 million from the beginning of the year. The increase represents unamortized costs tied to the Water Utility's bond refunding and will be recognized over the life of the debt.

Long-term debt

The Water Utility issued bonds in May to fund ongoing capital work and to take advantage of the current interest rate environment to refinance bonds and achieve debt service savings. The bonds provided \$16

million in new money and refinanced \$29 million of existing debt. The refinancing resulted in future cash flow savings of approximately \$5.6 million. All three ratings agencies reviewed and affirmed their “double A” (AA) ratings of the Water Utility bonds.

Deferred inflows of resources

Deferred inflows of resources have decreased by \$10.1 million from last year. The decrease is related to PERS activity, as noted above.

Recommendation/Requested Board Action

None at this time. This information is provided for informational purposes only.

Eugene Water and Electric Board
Water System
Statement of Net Position
September 30, 2016

	<u>2016</u>	<u>2015</u>	<u>December 2015</u>
Assets			
<u>Capital assets</u>			
Utility plant in service	\$ 255,900,680	\$ 238,874,444	\$ 254,512,937
Less - Accumulated depreciation	(110,183,778)	(104,875,679)	(105,624,389)
Net utility plant in service	145,716,902	133,998,765	148,888,548
Property held for future use	1,174,768	968,578	1,137,570
Construction work in progress	12,540,544	17,580,890	4,040,590
Net Utility Plant	<u>159,432,214</u>	<u>152,548,233</u>	<u>154,066,708</u>
<u>Current assets</u>			
Cash and cash equivalents	4,812,682	8,639,218	8,357,179
Restricted cash and investments	19,017,034	6,017,266	7,142,756
Designated cash and investments	26,166,941	14,112,771	9,702,084
Receivables, less allowances	4,519,715	6,531,297	3,353,602
Material and supplies, at average cost	850,163	858,080	1,011,704
Prepayments and special deposits	1,369,462	1,454,695	1,340,697
Total current assets	<u>56,735,997</u>	<u>37,613,327</u>	<u>30,908,022</u>
<u>Non-current assets</u>			
Long-term investments	-	-	6,735,916
Long-term receivables, conservation and other	157,718	200,493	196,101
Net pension asset	-	3,514,544	-
Other assets	2,279,461	856,696	2,145,501
Total non-current assets	<u>2,437,179</u>	<u>4,571,733</u>	<u>9,077,518</u>
Deferred Outflows of Resources			
Deferred Outflows of Resources	<u>3,689,086</u>	<u>1,853,744</u>	<u>2,237,313</u>
Total Assets & Deferred Outflows	<u>\$ 222,294,476</u>	<u>\$ 196,587,037</u>	<u>\$ 196,289,561</u>
Liabilities			
<u>Current liabilities</u>			
Payables	\$ 587,259	\$ 526,969	\$ 1,200,732
Accrued payroll and benefits	1,016,124	1,172,556	1,181,216
Accrued interest on long-term debt	386,508	336,097	840,235
Long-term debt due within one year	1,840,000	1,920,000	1,920,000
Due to Electric System	774,331	788,488	887,148
Total current liabilities	<u>4,604,222</u>	<u>4,744,110</u>	<u>6,029,331</u>
<u>Non-current liabilities</u>			
Long term debt			
-note and bonds payable	59,405,314	43,930,716	43,925,956
Due to Electric System	16,784,045	17,436,013	17,266,499
Net pension liability	8,190,233	-	8,190,233
Other liabilities	263,647	376,057	385,843
Total liabilities	<u>89,247,461</u>	<u>66,486,896</u>	<u>75,797,862</u>
Deferred Inflows of Resources			
Deferred inflows of resources	1,929,745	12,041,796	1,947,248
Net Position			
Net invested in capital assets	95,324,507	89,733,357	90,478,405
Restricted	6,676,573	5,123,802	6,142,255
Unrestricted	29,116,190	23,201,186	21,923,791
Total net position	<u>131,117,270</u>	<u>118,058,345</u>	<u>118,544,451</u>
Total Liabilities, Deferred Inflows & Net Position	<u>\$ 222,294,476</u>	<u>\$ 196,587,037</u>	<u>\$ 196,289,561</u>

Capital

The capital budget is approved by the Board as the maximum amount allowable for all capital work. Annual budgets by type and by individual project are prepared for planning and reporting purposes, but overall budget accountability to the board remains at the total capital spending level. Year-to-date, the water utility has spent \$8.75 million, net of contributions in aid, on capital work. The largest amounts were expended for improvements to the distribution system, distribution facilities, and source of supply. As of September, total capital spending, before CIA, is 64.7% of the annual capital budget.

**Eugene Water and Electric Board
Water Utility
Capital Budget Comparison**
for the nine months ending September 30, 2016

	<u>Current Month</u>	<u>Year to Date</u>	<u>Annual Working Budget</u>	<u>% of Budget</u>
Type 1 Capital				
Buildings & Land	58	49,121	49,024	100.2%
Distribution Facilities □	16,271	852,675	1,355,056	62.9%
Distribution Pipe & Services □	404,894	4,342,760	5,916,000	73.4%
Information Technology	2,309	68,494	198,912	34.4%
Source Of Supply	3,233	26,634	312,032	8.5%
Water Fleet	-	59,816	494,976	12.1%
Total Type 1 Capital	<u>426,765</u>	<u>5,399,500</u>	<u>8,326,000</u>	64.9%
Type 2 Capital				
AMI	39,479	274,650	450,004	61.0%
CIS	-	-	270,048	0.0%
Distribution Facilities □	9,611	134,248	308,992	43.4%
Distribution Pipe & Services □	1,903	35,353	-	0.0%
LTD EMX - Water	21,208	351,761	140,000	251.3%
Source Of Supply	175,319	3,188,891	3,746,949	85.1%
Total Type 2 Capital	<u>247,520</u>	<u>3,984,903</u>	<u>4,915,993</u>	81.1%
Type 3 Capital				
Source Of Supply	52,263	361,075	1,814,949	19.9%
Total Type 3 Capital	<u>52,263</u>	<u>361,075</u>	<u>1,814,949</u>	19.9%
Total Capital before CIA	726,548	9,745,478	15,056,942	64.7%
Contributions in aid	<u>(106,653)</u>	<u>(991,867)</u>	<u>(1,273,000)</u>	77.9%
Grand Total	<u>\$ 619,895</u>	<u>8,753,611</u>	<u>\$ 13,783,942</u>	63.5%

Ratios

The current ratio, a measure of current assets compared to current liabilities, is well above the board performance target of 3.25, due primarily to the deposit of water bond proceeds in May. The measurement of days available cash is also very strong for this reason. Strong sales and lower expenses from prior years, as well as the adoption of a smoothing strategy to build funds for a second water source, are allowing the utility to accumulate cash and reserves. The debt service ratio continues to be well above the target of 2.0. All other ratios are performing better than the board performance standards.

Eugene Water and Electric Board Water Utility Financial Ratios September 30, 2016

	<u>September</u> <u>2016</u>	<u>Status</u>	<u>December</u> <u>2015</u>	<u>PERFORMANCE</u> <u>STANDARD</u>
Current Ratio	12.32	●	6.24	≥ 3.25
Debt to Total Assets	0.41	●	0.40	≤ 0.60
Debt Service Coverage - Annualized	5.23	●	5.34	≥ 2.00
Operating Ratio	0.43	●	0.41	≤ 0.57
Days Unrestricted Cash	563	●	581	
Days Available Cash	237	●	306	≥ 90
Debt to Equity	58%	●	46%	≤ 89%

Notes:

Effective 9/30/15, the Rate Stabilization Fund was added to the calculation for Days Available Cash. While board approval is required, this fund is available for use in an emergency.

See next page for Ratio definitions

Definitions

Current Ratio

Ratio of current assets to total current liabilities. Measures the utility's short-term liquidity (ability to pay bills).

Debt to Total Assets

Ratio of long-term debt plus current liabilities to total assets. Measures a utility's ability to meet its current and long-term liabilities based on the availability of assets.

Debt Service Coverage

Ratio of annualized net revenues available for debt service to total long-term debt service for the year. This ratio measures the utility's ability to meet its annual long-term debt obligation.

Operating Ratio

Ratio of total water operation and maintenance expenses to total water operating revenues. This ratio measures the proportion of revenues received from water sales and other water activities required to cover operation and maintenance costs associated with producing and selling water.

Days Unrestricted Cash (Rating Agency Model)

Ratio of total unrestricted cash and cash equivalents, net of designated SDC reserves, to average daily cash requirements for operating expenses (defined as yearly budgeted operating expenses net of depreciation divided by 365 days in the year). This figure measures the length of time the utility can carry on normal operations with available unrestricted cash not otherwise designated for future capital needs (ie SDC reserves)

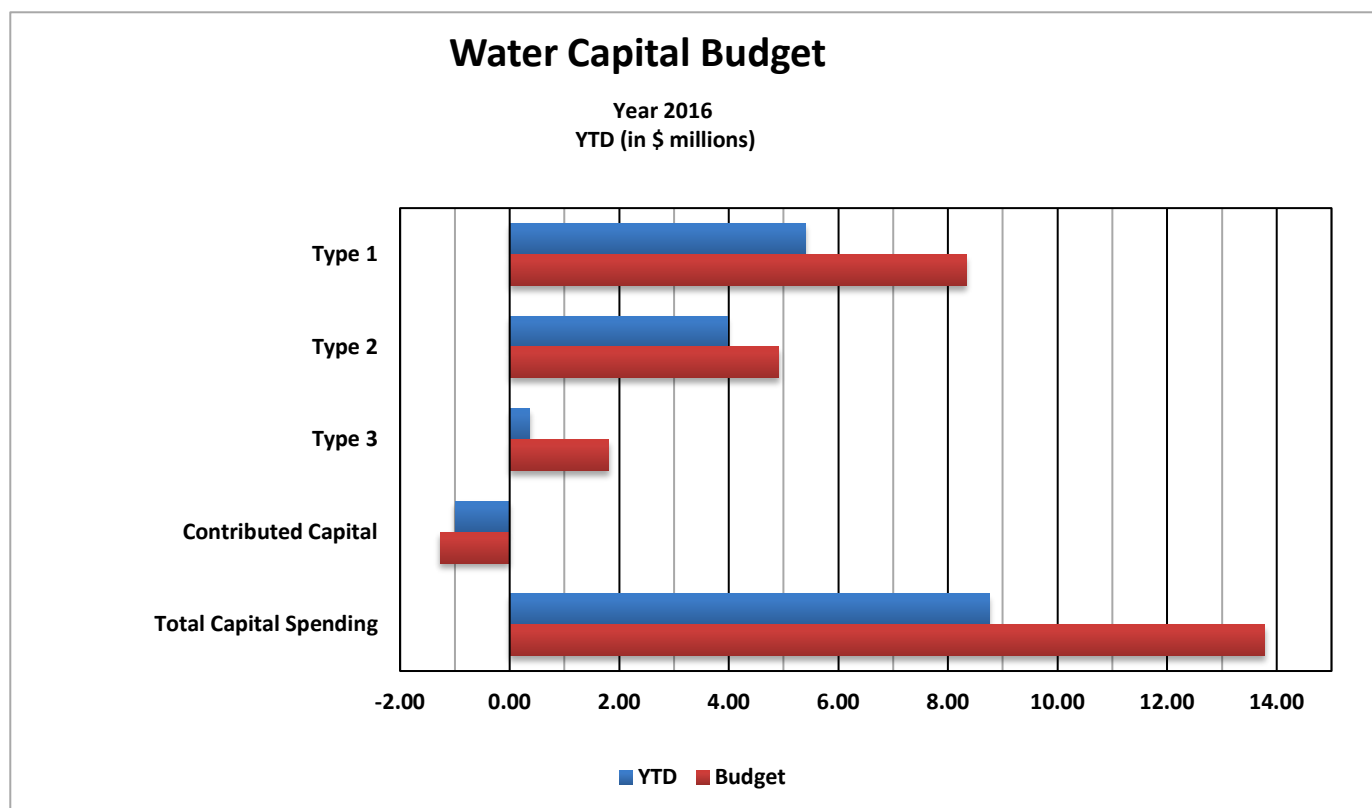
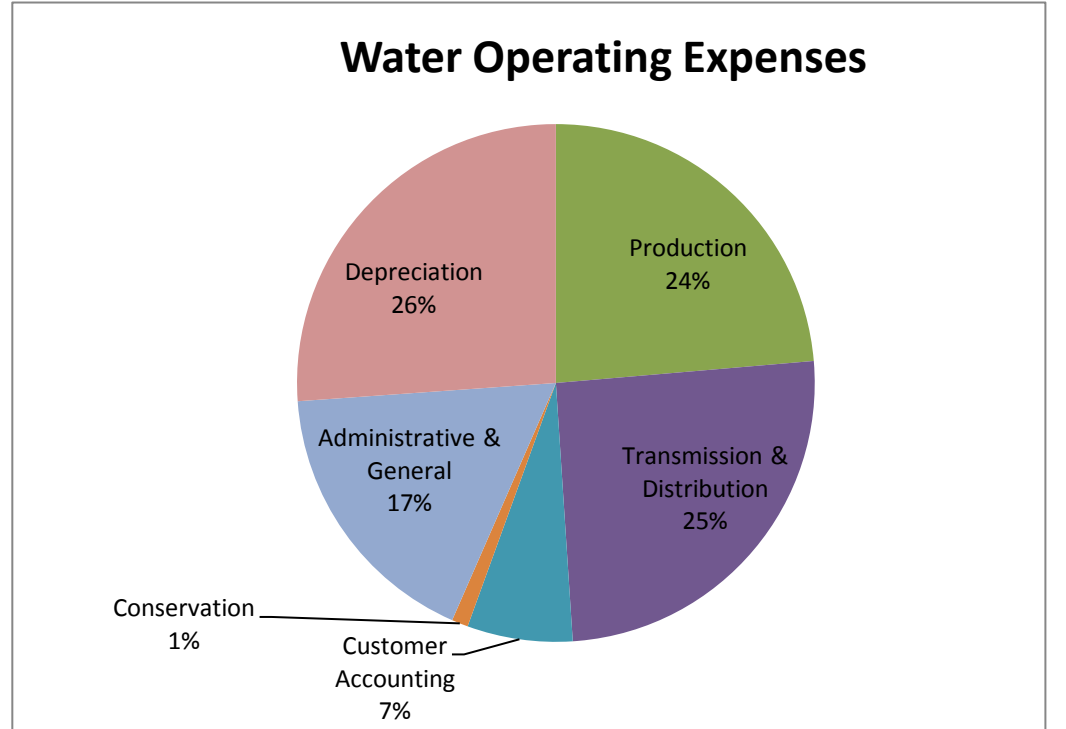
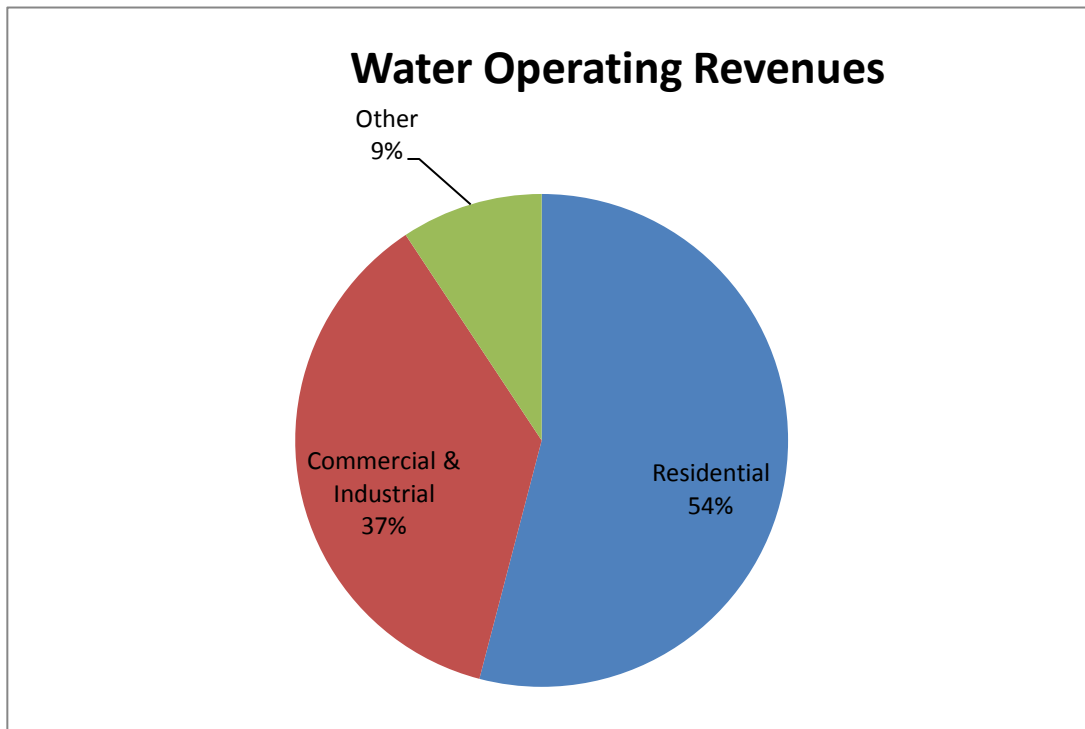
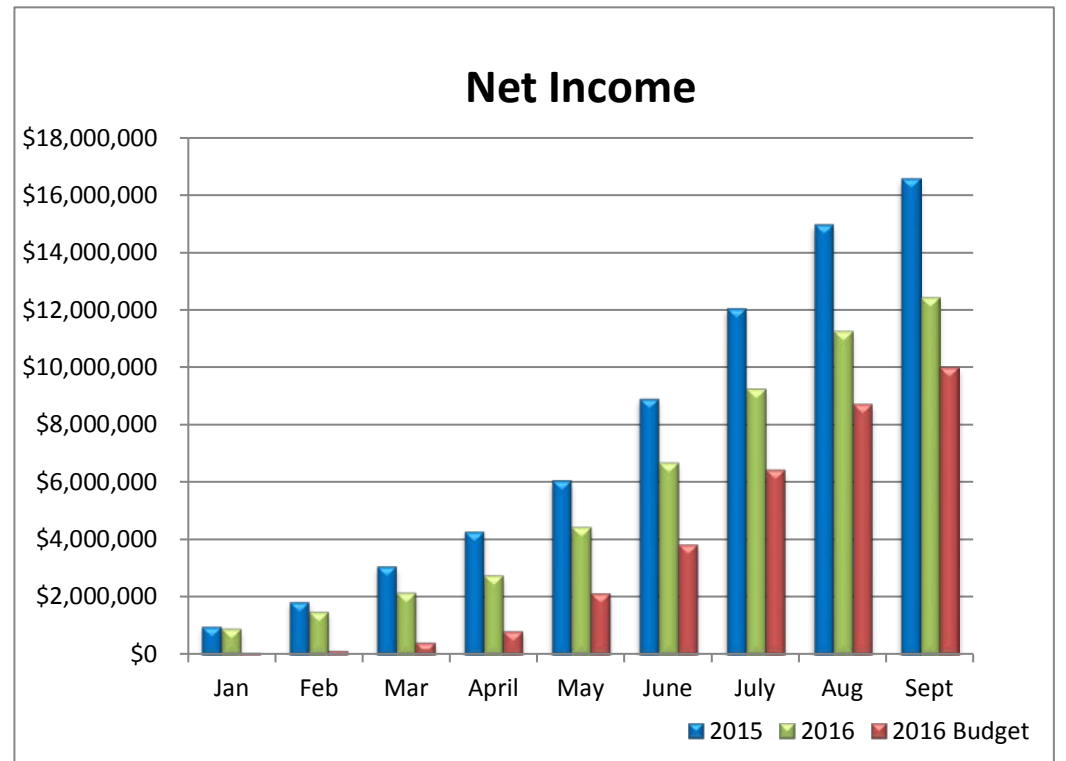
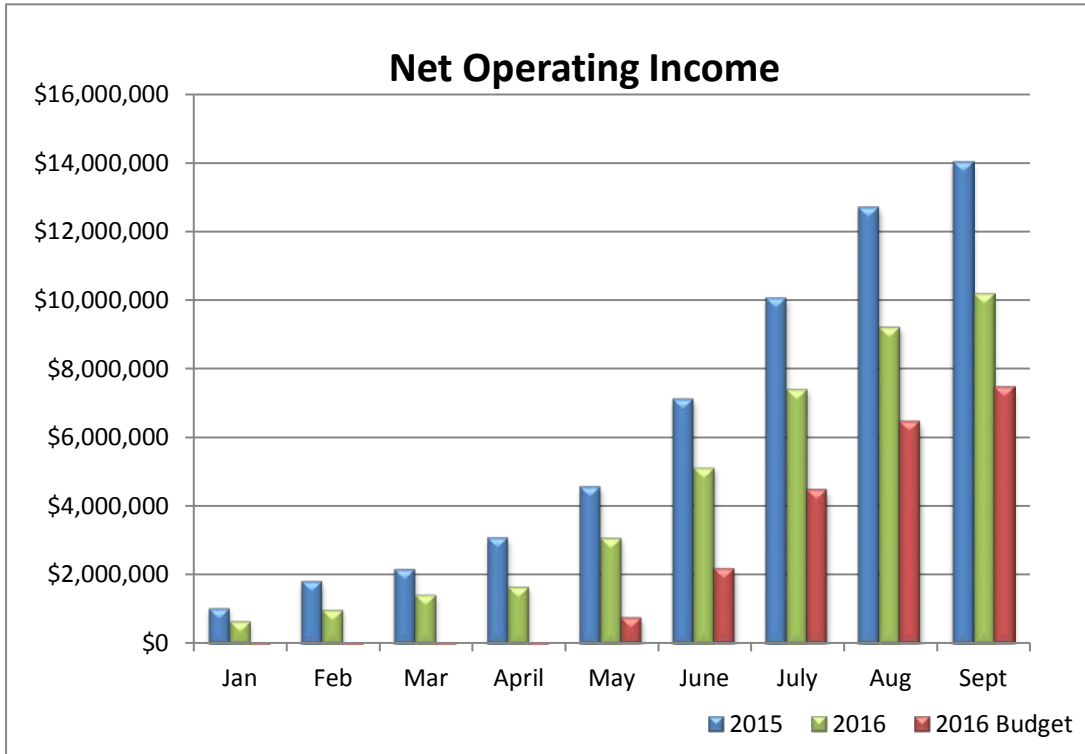
Days Available Cash (EWEB Internal Model)

Ratio of total available cash (defined as working cash and equivalents plus general operating reserves) to adjusted average daily cash requirements for operating and other non-capital expenses (defined as actual YTD expenditures plus remaining pro-rated budget expenses for the year divided by 365 days in the year). This is a modification of Days Unrestricted Cash measuring the length of time (in calendar days) the utility can carry on projected non-capital related operations with readily available cash (defined as working cash and equivalents plus general operating reserves, and the rate stabilization reserves)

Debt to Equity

Ratio of total liabilities, net of current liabilities, to total equity (net assets), expressed as a percentage. If the ratio exceeds 100% it means that outside borrowing (liabilities) exceeds the utility's own equity (net assets)

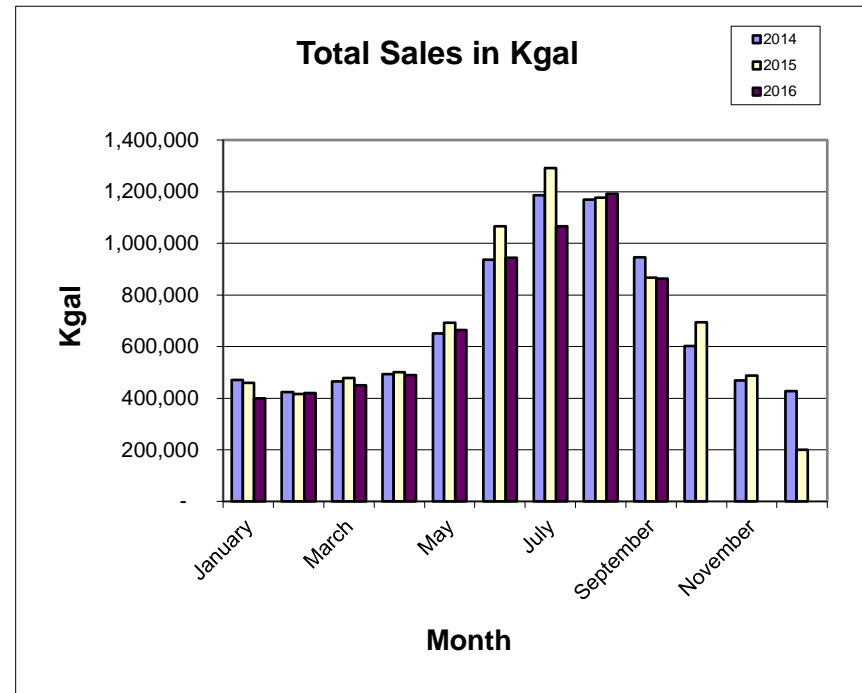
Eugene Water & Electric Board
Financial Graphs - Water Utility
SEPTEMBER 2016



Water Utility Sales in Kgal 2016

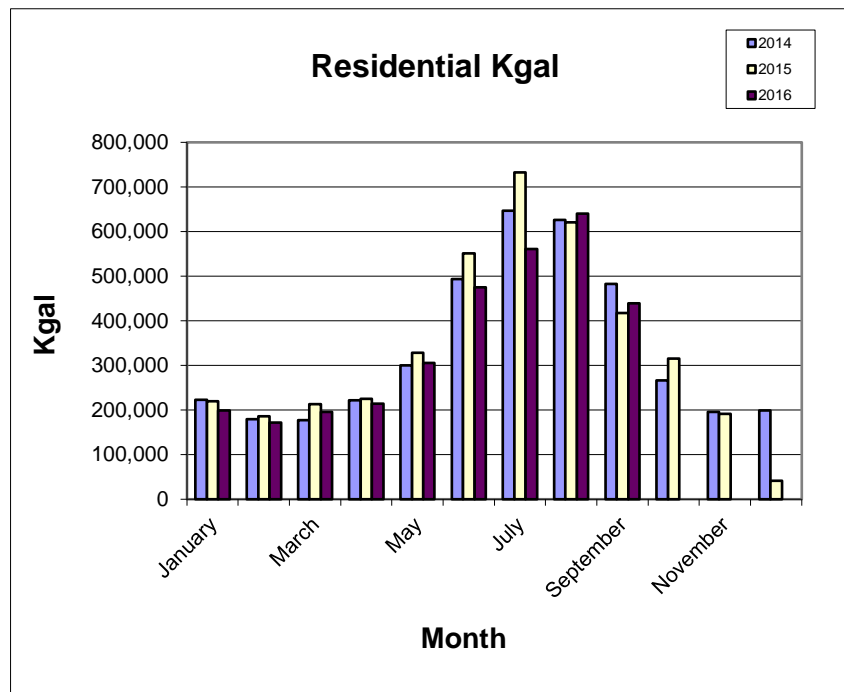
Total Water Sales in Kgal

	2014	2015	2016
January	469,967	459,108	399,369
February	424,408	404,303	419,161
March	463,973	467,462	450,547
Q1 total	1,358,348	1,330,873	1,269,077
April	493,852	487,636	488,756
May	650,078	679,838	662,977
June	935,507	1,051,349	942,995
Q2 total	2,079,437	2,218,823	2,094,728
July	1,185,522	1,255,528	1,066,322
August	1,168,830	1,145,986	1,190,789
September	946,113	840,585	863,372
Q3 total	3,300,465	3,242,099	3,120,483
October	601,568	674,261	0
November	468,583	473,737	0
December	427,484	187,717	0
Q4 total	1,497,635	1,335,715	0
Annual total	8,235,885	8,127,510	6,484,288



Residential Sales in Kgal

	2014	2015	2016
January	222,490	219,363	199,360
February	179,454	186,053	172,258
March	176,867	213,577	195,684
Q1 total	578,811	618,993	567,302
April	221,689	225,226	214,567
May	300,111	328,179	305,247
June	493,850	551,652	474,954
Q2 total	1,015,650	1,105,057	994,768
July	647,084	732,314	560,639
August	626,527	620,535	640,466
September	482,893	417,603	439,526
Q3 total	1,756,504	1,770,452	1,640,631
October	266,075	315,532	0
November	195,852	191,016	0
December	198,845	41,102	0
Q4 total	660,772	547,650	0
Total	4,011,737	4,042,152	3,202,701



General Service in Kgal

	2014	2015	2016
January	247,477	239,745	200,009
February	244,954	218,250	246,903
March	287,106	253,885	254,863
Q1 total	779,537	711,880	701,775
April	272,163	262,410	274,189
May	349,967	351,659	357,730
June	441,657	499,697	468,041
Q2 total	1,063,787	1,113,766	1,099,960
July	538,438	523,214	505,683
August	542,303	525,451	550,323
September	463,220	422,982	423,846
Q3 total	1,543,961	1,471,647	1,479,852
October	335,493	358,729	0
November	272,731	282,721	0
December	228,639	146,615	0
Q4 total	836,863	788,065	0
Total	4,224,148	4,085,358	3,281,587

