



# MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

*Rely on us.*

TO: Commissioners Brown, Carlson, Mital, Simpson and Helgeson  
FROM: Deborah Hart, Interim Financial Services Manager  
DATE: November 21, 2018  
SUBJECT: Electric and Water Budget Amendments  
OBJECTIVE: Board Action – Approval of Electric and Water O&M and Water Capital Budget Amendments

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## Issue

Per Board Policy EL-1, the approved budgets are the maximum level of expenditure authorized by the Board. As communicated previously to the Board in November, both the Electric and Water Utilities are projecting to end 2018 higher than budget in Operations and Maintenance (O&M), and the Water Utility is projecting to end higher than budget in Capital. Management is requesting that the Board approve an amendment to the 2018 Water and Electric O&M Budgets, and the Water Capital Budget.

## Discussion

Both the Water and Electric Utilities have had strong revenue, driving favorable variances to budget. Year-to-date, the Electric Utility contribution margin is favorable to budget by \$4.9 million. For the Water Utility, net operating income is \$2.9 million favorable to budget. However both utilities are anticipating exceeding their O & M expense budgets and the variances have been outlined in the table below. More detail on the drivers of those variances follows the table.

	<u>Electric</u>	<u>Water</u>
Approved Operations & Maintenance Budgets	\$212,749,000	\$18,896,000
<i><u>Operational Changes:</u></i>		
Purchased Power	12,000,000	-
<i><u>Changes Required by Generally Accepted Accounting Principles (GAAP):</u></i>		
Sale of Riverfront Property	4,100,000	-
CIS Expenses moved from Capital to O&M	2,800,000	600,000
Transition Liability & Other Post Employment Benefits (OPEB)	26,300,000	8,300,000
Total O&M Budget Additions	45,200,000	8,900,000
<b>Total Amended O&amp;M Budgets</b>	<b>\$257,949,000</b>	<b>\$27,796,000</b>

## **Electric Operations & Maintenance**

### *Operational Changes*

Purchased power and transmission costs are projected to exceed budget by approximately 10% and the primary driver for this variance is portfolio balancing activity which resulted in increased trading. Significant volatility in gas prices after the October pipeline explosion in British Columbia will also increase fuel costs by an anticipated \$1 million for one of EWEB's co-generation units. Increases in purchased power are offset by an increase in wholesale revenue and have no negative impact to the contribution margin.

### *Changes Required by Generally Accepted Accounting Principles (GAAP)*

The Electric Utility also recorded a loss on sale of the riverfront property that is due to the difference between the sales proceeds and the recorded value of the property. This is a non-cash transaction.

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

### *Customer Information System (CIS) costs*

GAAP require that CIS project costs be recorded as O&M instead of Capital due to cancellation of the contract. The majority of the costs, \$2.4 million, are for internal labor and overhead that shifted back to O&M work from capital, and are accounted for in the present year. Management is currently in contract termination discussions.

### *PERS Transition and Other Post Employment Benefit Liabilities*

At the November meeting, the Board approved using a combination of Pension Reserves and Working Cash as payment towards these liabilities. GAAP require that payments to the OPEB trust, and the booking of a transition liability be recorded as one-time non-operating expenses. Payment and expense allocations are based on the Utilities' payroll expense as a percentage of total payroll.

## **Water Capital**

In May, the Water Utility Capital true-up indicated that 2018 capital spending would decrease \$900,000 to \$13.7 million. The approved budget is the maximum approved spending authority and is typically only adjusted to increase authority. Accordingly, no budget amendment was requested. Three significant changes have resulted in the Water Utility projecting an overage of \$1.1 million, or 108% of the approved budget and \$2.0 million higher than the true-up. The \$1.4 million is roughly split between increases in construction bids, economically driven service work which is offset by increased revenue, and higher metering infrastructure upgrade costs. A portion of these increases have been absorbed elsewhere in the capital budget.

	<b><u>Water</u></b>
Approved Capital Budget	\$14,635,000
Higher Than Estimated Costs	1,100,000
<b>Total Amended Capital Budget</b>	<b>\$15,735,000</b>

## **Requested Board Action**

Management recommends and requests that the Board approve Resolution No. 1834 to increase the 2018 Electric O&M budget by \$45.2 million, Water O&M budget by \$8.9 million, and Water Capital budget by \$1.1 million.

**RESOLUTION NO. 1834  
DECEMBER 2018**

**EUGENE WATER & ELECTRIC BOARD  
2018 BUDGET AMENDMENT**

**WHEREAS**, the Eugene Water & Electric Board (EWEB) is the body designated by the City of Eugene Charter and Code to administer the Eugene Electric and Water Utilities;

**WHEREAS**, Oregon Revised Statute 225.230 requires municipal utilities to make an annual written estimate of probable expenses to establish spending authority;

**WHEREAS**, the Eugene Water & Electric Board anticipates expenditures in excess of that authority;

**NOW, THEREFORE, BE IT RESOLVED** that the Board hereby approves an increase to the Electric Utility Operations & Maintenance budget of \$45.2 million, an increase to the Water Utility Operations & Maintenance budget of \$8.9 million, and an increase in the Water Utility Capital budget of \$1,100,000.

Dated this 4<sup>th</sup> day of December 2018.

THE CITY OF EUGENE, OREGON  
Acting by and through the  
Eugene Water & Electric Board

\_\_\_\_\_  
President

I, ANNE M. KAH, the duly appointed, qualified, and acting Assistant Secretary of the Eugene Water & Electric Board, do hereby certify that the above is a true and exact copy of the Resolution adopted by the Board at its December 4, 2018 Board meeting.

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Assistant Secretary