



INTEROFFICE MEMO

EUGENE WATER & ELECTRIC BOARD
CORPORATE SERVICES DIVISION

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TO: Commissioners Farmer, Brown, Cassidy, Cunningham, and Ernst

FROM: Patty Boyle, Fiscal Services Supervisor

October 14, 2009

RE: 2010 Budget Assumptions and Discussion of the Electric Long-Term Financial Plan

ISSUE

The purpose of the meeting is to inform the Board of the status of the 2010 Budget and provide a brief update of the long-term financial plan. It would also be helpful to know of any information requests that would inform the budget presentation or provide needed information for future rate making processes.

BACKGROUND

In July of 2009 the Board was presented with two scenarios regarding the development of the 2010 Budget. At that time the Board directed staff to develop the budget assuming that the anticipated BPA rate increase be processed and passed through to customers in a rate increase scheduled for November 2009. Additionally, the Board directed that the 2010 Budget be developed including a scheduled rate increase of 2% in to be implemented in May of 2010.

At that meeting staff also provided information regarding the depressed condition of the wholesale power markets and the subsequent impact newly acquired resources and on the forecast. There was also discussion regarding the impact of the new BPA power contracts.

DISCUSSION

Attached to this memo is a comparison of the 2009 budget and the 2010 drafted budget as well as an updated long-term financial plan. It's important to note that staff are still in the process of reviewing the budget and there are likely to be some changes from these materials to the published document, but we expect that the overwhelming majority of the budget preparation is complete.

The long-term financial plan has been updated to include the 2010 Budget and extended to 2019. Although this meeting is primarily to review the budget information, there are a few updates to the long-term plan worth noting. We continue to see eroded wholesale power markets in the near term and anticipate significantly lower interest earnings. Both of these have significant impacts on 2010 and subsequent years. The impact is estimated to be \$5-\$10 million depending on the level of reserves and the amount of generation available.

While non-labor operation and maintenance costs are held to their 2009 level in 2010 and 2011 (net of increased customer care funding in 2010) it does appear as though a higher rate assumption than previously discussed will be required to cover EWEB costs in both 2011 and 2012. The previous version of the plan indicated a need for a 2% increase while at this time, resources required indicates a 3.5% need.

The 2011 BPA rate increase was reduced based on our more recent experience with Bonneville rate actions. As you know, Board policy is to pass through any increase or decrease in costs associated with BPA power. It will be some time before we have more specific information on exactly what BPA rates will be under the new contract.

The more substantive portion of the discussion is planned for the specifics of the 2010 Capital and Operating and Maintenance Budget. The Board essentially completed its work on the 2010 Capital Budget when it approved the Electric Capital Plan in September. The first year of that plan is presented in the budget and includes \$16 million in rate funding for capital as well as \$26 million for debt service. Also planned for 2010 are the completion of the Roosevelt Operations Center and the issuance of approximately \$31M in bonds. Lastly, the Carmen Smith license implementation effort will recognize just over \$5 million in 2006 revenue currently held in reserve for that use as well as use the interest earnings on the reserve for 2010 expenditures.

Comparing the 2010 operating budget to the 2009 operating budget there are several items to note.

1. **Total contribution margin revenue** is expected to be approximately \$20 million higher in 2010 than the previous year reflecting the full year implementation of the November 2009 rate increase, the May 2010 rate increase, the addition of Harvest Wind as a generating resource, renewable energy credit sales, and growth in retail and wholesale sales.
2. **Contribution margin expenses** are similarly up due to increased BPA costs, Harvest Wind costs and additional contribution in lieu of taxes on increased revenues. Production fuel associated with the co-generation facility at International Paper is reflected at current, lower natural gas costs. In total the net contribution margin is up slightly, \$3 million.
3. **Changes in the ‘Other Revenue’** Category are driven by much lower assumption for interest earnings, a \$500K increase in conservation reimbursements and higher repayment assumptions from the Steam utility.
4. **Non contribution Margin Expenses** is where the bulk of discretionary items are budgeted and are made up of both labor and non-labor items. Overall the category is up \$1.9 million. Of that amount approximately \$1.5 million represents the Board approved increase to Customer Care Programs. The following table provides detail on the title and organizational need for additional full time equivalents (fte) proposed for the budget. A total of 9.5 new O&M fte are included in the budget of which 7 fte are charged to the electric utility.

Title	Classification
Senior HR Generalist (1.0 fte)	Human Resources Information Technology Management
Utility Mechanic (1.0 fte)	Aging Infrastructure Replacement
Facility Security Officers (2.0 fte)	Roosevelt Security of Property and Inventory
Building Maintenance Technician (.5 fte)	Roosevelt Security of Property and Inventory
Enterprise Architect (.75 fte)	Reengineer EWEB Information Technology
Project Office Manager (1.0 fte)	Improve Performance of IT projects; Implement Project Management Practices
Staff Engineer (water) (.75 fte)	Aging Infrastructure Replacement Design
Pump & Reservoir Technician (water) (.5 fte)	Increased Water Quality Standards Monitoring
Senior Energy Resource Analyst (1.0 fte)	Strategic Staffing, NERC Compliance & and BPA Contract Implementation
Electric Meter Technician (1.0 fte)	Aging Infrastructure Replacement

In order to fund these new fte and to be able to add funds to critical work such as tree trimming and costs associated with the move to Roosevelt, the organization went through an extensive prioritization process to add only those most critical items while eliminating or deferring other work. Items that were eliminated from the 2010 budget include construction & maintenance agreements, management consultants, travel and training, and various purchases of materials and supplies. Had these expenses been included, the electric O&M budget would have been just over \$1.2 million higher.

5. Balance Sheet Changes is significantly different from 2009 as it includes the transfer from reserves funding the additional money for the customer care programs. The long-term financial plan assumes this is a one-time increase in the program.

RECOMMENDATION/ACTION

No action is required at this time. The purpose of this discussion is to inform the Board of the status of the 2010 budget and hear any information requests prior to the official submission of the budget.

Please feel free to contact me ahead of the meeting to discuss any of the details included in these materials. I can be reached at Patty.Boyle@EWEB.org or at 685-7406.

ELECTRIC OPERATING BUDGET COMPARISON

15-Oct-2009

CATEGORY	2010 Total Budget	2009 Total Budget	2010 vs 2009 Budget Difference
Rate Increase	2%		
Contribution Margin Revenue			
Residential	85,934,398	80,368,946	5,565,452
Commercial & Industrial	90,557,264	85,685,066	4,872,198
Other Retail	943,606	939,494	4,112
Sales for Resale	63,169,571	53,568,900	9,600,671
Total Contribution Margin Revenue	240,604,839	220,562,406	20,042,433
Contribution Margin Expenses			
Purchased Power & Wheeling	113,072,670	95,719,962	17,352,708
Production Fuel	2,490,412	3,414,779	-924,367
Contributions in Lieu of Taxes	11,478,883	11,214,096	264,787
Total Contribution Margin Expense	127,041,965	110,348,837	16,693,128
Net Contribution Margin	113,562,874	110,213,569	3,349,305
Other Revenue			
Other Revenue	7,515,068	5,766,000	1,749,068
Interest	975,308	4,957,000	-3,981,692
Total Revenue for Operations	122,053,250	120,936,569	1,116,681
Non-Contribution Margin Expenses			
System Control	5,667,579	5,309,089	358,490
Production	9,186,206	8,960,568	225,638
Transmission & Distribution	19,363,470	19,403,404	-39,934
Customer Accounting	10,722,136	8,992,576	1,729,560
Conservation	8,555,638	8,568,088	-12,450
Administrative & General	23,196,046	23,166,384	29,662
Total Non-Contribution Margin Expenses	76,691,075	74,400,109	2,290,966
Other Expenses			
Rates for Capital and Debt Service	41,579,100	41,204,300	374,800
Balance Sheet Changes	(975,299)	831,000	-1,806,299
Total Other Expenses	40,603,801	42,035,300	-1,431,499
Total Expenditures	117,294,876	116,435,409	859,467
Net Effect on Working Capital	4,758,374	4,501,160	257,214
Target to Power Reserve			

ELECTRIC CAPITAL BUDGET COMPARISON

CATEGORY	2010 Total Budget	2009 Total Budget	2010 vs 2009 Budget Difference
Rate Increase	2%	0%	
Revenue			
Rate Revenue for Capital	15,700,000	18,544,300	-2,844,300
Rate Revenue for Conservation & Renewables			0
Rate Revenue for Debt Service	25,879,100	22,660,000	3,219,100
Extra Deposit to Capital Reserve for Water Loan	0	0	0
Telecom Construction Fund and Schools			0
Interest Income	260,000	215,000	45,000
Roosevelt Bonds	39,282,159	32,876,000	6,406,159
Harvest Wind Bonds		16,599,076	
Capital Reimbursements	4,074,527	4,136,874	-62,347
Repayments from Steam	271,795	143,173	128,622
Deferred Revenue & Interest for Carmen-Smith	6,789,639	0	6,789,639
Capital Reserve	2,209,864	6,383,577	-4,173,713
Total Revenue	94,467,084	101,558,000	-7,090,916
Capital			
Generation	1,927,369	3,334,000	-1,406,631
Transmission & Substations	7,525,282	5,967,000	1,558,282
Distribution	8,946,315	7,307,000	1,639,315
General Plant	4,219,363	7,628,000	-3,408,637
Total Capital	22,618,329	24,236,000	-1,617,671
Other Capital Expenditures			
Debt Service & Issue Costs	25,879,100	22,660,000	3,219,100
Telecommunications	209,048	2,230,000	-2,020,952
Roosevelt Project	39,282,159	32,876,000	6,406,159
Relicensing	4,397,304	1,526,000	2,871,304
Preliminary Surveys	2,081,144	18,030,000	-15,948,856
Total Expenditures	71,848,755	77,322,000	-7,090,916
Total Expenditures & Total Capital	94,467,084	101,558,000	
Net Effect on Capital Improvement Reserve Change	0	0	
NET EFFECT ON OPERATING & CAPITAL BUDGET	4,758,375	4,501,160	

Electric Long Term Forecast - October 2009 Budget Planning Worksession

Annual	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
85% Average Generation and May & November Rate Increases Most Likely Medium	Proj	Budget	Proj	Proj	Proj	Proj	Proj	Proj	Proj	Proj	Proj
General Rate Change	November	May 2.0%	May 3.5%	May 3.5%	May 4.0%	May 4.5%	May 3.0%	May 3.0%	May 2.0%	May 0.0%	May 2.0%
BPA Pass Through	5.0%	November 0.0%	November 3.5%	November 0.0%	November 3.0%	November 0.0%	November 3.0%	November 0.0%	November 3.0%	November 0.0%	November 3.0%
Net Change in Rates		2.0%	7.0%	3.5%	7.0%	4.5%	6.0%	3.0%	5.0%	0.0%	5.0%
Contribution Margin Revenue (\$000)											
Residential Retail Rates	74,517	85,755	89,062	96,386	104,527	111,828	119,500	126,200	133,300	137,700	143,700
Small/Medium General Service Rates	41,916	51,517	53,575	57,993	62,856	67,369	72,000	76,000	80,200	82,900	86,500
Large Comm and Industrial Rates	37,259	39,219	40,318	43,190	45,111	48,407	51,200	53,500	55,900	57,200	59,100
Other Retail (Street and Private Lights)	1,552	944	1,651	1,709	1,831	1,234	1,980	1,220	1,300	1,300	1,400
Wholesale Sales Revenue	77,697	63,170	68,400	44,500	46,900	42,800	42,900	46,200	46,800	46,900	43,700
Total Contribution Margin Revenue	232,941	240,605	253,006	243,778	261,225	271,638	287,580	303,120	317,500	326,000	334,400
Contribution Margin Expense (\$000)											
Purchased Power & Wheeling	111,803	113,073	131,000	119,900	129,200	132,900	137,200	148,600	153,800	159,300	158,100
Thermal Production (IP Fuel Costs)	1,273	2,490	3,135	3,212	3,239	3,277	1,400	0	0	0	0
Eugene & Springfield Contribution in Lieu of Taxes	13,596	11,479	12,253	13,095	14,008	14,600	15,500	16,200	17,100	17,600	18,300
Total Contribution Margin Expense	126,672	127,042	146,388	136,207	146,447	150,777	154,100	164,800	170,900	176,900	176,400
Net Contribution Margin	106,270	113,563	106,618	107,571	114,778	120,861	133,480	138,320	146,600	149,100	158,000
Other Revenue											
Miscellaneous Operating Revenue	6,760	7,683	8,400	10,200	8,400	8,400	8,400	8,400	8,400	8,400	8,400
Operating Interest Earnings	3,682	975	1,950	1,300	1,000	700	500	500	600	800	800
Total Other Revenue	10,442	8,658	10,350	11,500	9,400	9,100	8,900	8,900	9,000	9,200	9,200
Total Net CM Plus Other Revenue	116,712	122,221	116,968	119,071	124,178	129,961	142,380	147,220	155,600	158,300	167,200
Other Expenditures											
O&M Labor	33,400	36,462	39,000	40,900	43,000	45,100	47,300	49,600	52,100	53,500	55,000
O&M Other	29,420	31,673	30,000	31,200	32,400	33,600	35,400	36,700	38,100	39,500	41,000
Capital (Net of Bonds and Cust Paid)	18,179	15,849	16,171	16,656	17,155	17,640	18,257	18,896	19,558	20,242	20,951
Debt Service	22,009	25,879	26,800	27,900	30,600	31,200	32,200	32,500	32,800	33,200	33,600
Conservation Program	8,568	8,556	8,812	9,077	9,349	9,629	9,918	10,216	10,522	10,838	11,163
Balance Sheet Changes	1,337	-957	-200	-200	300	-800	-800	-2,300	-2,300	-2,300	-2,300
Total Expenditures	112,913	117,463	120,583	125,533	132,804	136,369	142,276	145,612	150,780	154,980	159,414
Addition to (Reduction of) Reserves	3,799	4,758	(3,615)	(6,461)	(8,626)	(6,408)	104	1,608	4,820	3,320	7,786
Total Fixed Costs (Tot exp. Net other Rev.)	102,471	108,804	110,233	114,033	123,404	127,269	133,376	136,712	141,780	145,780	
Equity Draw for Carmen Smith		5,144	14,000	2,456	-	-	-	-			

