



INTEROFFICE MEMO

EUGENE WATER & ELECTRIC BOARD
CORPORATE SERVICES DIVISION



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

FROM: Patty Boyle, Fiscal Services Supervisor

October 14, 2009

RE: Electric Financial Planning Assumptions and Information

At our recent Budget Workshop, the Board requested information on the history of the financial planning assumptions, the impact of better than planned generation and to provide some options of what to do with better than expected financial results.

85% of Average Generation Assumption

Because one of the most impactful assumptions on the long-term financial planning practices of the electric utility is the use of the '85% of average generation' assumption it's always helpful to recall how that assumption was put in to place. During the five period of 2001-2005 the utility experienced some very dry years in addition to other financial strains caused by the wholesale power markets. In the fall of 2004 a review was conducted to find the worst 5year period of water flow and generation and plan future generation at that level. As it turns out the period of 1937-1941 resulted in water flow and generation that was 85% of the long term average. This assumption was then put into place and used in the development of the 2005 and subsequent budgets.

85% of Average Generation Assumption versus Actual Results

The 85% assumption is broadly acknowledged as a part of EWEB's conservative budgeting and planning practices. The following table provides a perspective of the past few years of actual experience on generation.

Year	2002	2003	2004	2005	2006	2007	2008	2009
% of Average	88%	87%	88%	86%	101%	93%	94%	88%

Financial Impact of the 85% of Average Assumption

As a result of this additional generation, the organization has also had the opportunity to fill its reserves to their targeted level, fund a number of projects and obligations, and provide benefits to the community. Some examples of these items are the creation and funding of Carmen Smith Reserve Fund (\$20 million), increasing and funding the power operating reserve (now \$25 million), paying down the PERS obligations, settling the retiree lawsuit, funding addition community care programs and providing the system-wide rebate in 2009.

In roughly five out of six years we can expect a better than 85% of average water year. When this occurs we would experience better than budgeted revenues. Although historically these surpluses have been

quite large, in some years more than \$20 million, the price of wholesale power and the time of year it's available will have a major impact on the amount of the surplus. Looking out over the next few year, for each 1% upward change in generation we would see about \$600,000 in additional revenue. Because we purchase hedging products, a decrease in generation would not have the same comparable downward impact unless it was an extremely dry year and generation fell below 85% of average.

In each spring, the Board reviews the financial results of the prior year and provides guidance on what the organization should put into place if there are excess reserves. Because excess reserves are one-time resources rather than on-going, staff will always recommend matching the revenue to a one-time expense.

Use of excess reserves generally falls in four general categories.

- **Additional Reserves** -- Allocating additional reserves for specific events or projects, for example adding to the Carmen Smith Reserve or creating a power credit reserve in the case of a major defaulting counterparty.
- **Pay Down Known Liabilities** --Providing Funds to pay Unfunded Actuarial Liabilities associated with PERS and post retirement medical liabilities. Currently the annual cost associated with these liabilities is embedded in rates. The water utility would also need to contribute if this option was implemented.
- **Rates** – Deferring, but not eliminating, the need for rate increases to a future year.
- **Funding specific projects or initiatives.** Recent examples of these include enhanced Customer Care Programs and additional funds for the headquarters refurbishment and the completion of information technology projects.

In 2009 the Board used excess reserves to increase the power operation and self insurance reserves and to fund additional customer care programs.

Please feel free to contact me with any questions regarding these materials. I can be reached at Patty.Boyle@EWEB.org or at 685-7406.