



# MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

*Rely on us.*

TO: Commissioners Mital, Simpson, Helgeson, Manning and Brown

FROM: Sue Fahey, Finance Manager; Harvey Hall, Deborah Hart & Edward Yan, Senior Financial Analysts

DATE: July 13, 2015

SUBJECT: Long-Term Financial Plan Update and 2016 Budget Assumptions

OBJECTIVE: Direction on 2016 Budget Assumptions

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## **Issue**

Board Policy SD6 requires that management annually prepare balanced budgets for the Electric and Water Utilities for Board approval by the end of the calendar year. Each summer the Board provides direction to management on the assumptions used to develop the following year's budget.

## **Background**

Over the last several years, both the Water and Electric Utilities have been facing financial challenges. Those challenges have been managed by strategically reducing operations & maintenance and capital costs, designing rates that increase fixed cost recovery, and prudently using reserves to strengthen financial metrics. These, along with stronger water sales, have helped stabilize the Water Utility. Reserve accounts are at or above minimum targets for the Water Utility for the first time in several years. While Electric loads have seen recent decreases due to an unusually warm winter, there is evidence of customer count growth for residential customers and load growth in general service. Power sales revenue has been relatively flat for the last few years.

## **Discussion**

The Strategic Plan continues to build on the three cornerstone concepts approved last year by the Board to prepare EWEB for the future: Be Flexible and Resilient, Enhance Customer Value, and Focus on People – both Customers and Employees. This includes the ongoing effort to improve the Electric Utility average bill competitiveness as well as securing an alternative water source (AWS). Average bill comparisons and bill affordability information based on the assumptions in this document are included in Attachment 3. The Strategic Plan also discusses trade-offs that are often required in order to achieve EWEB's core mission to enhance our community's vitality by providing water and electric services consistent with the values of our customer-owners. Management believes that the assumptions used to develop the long-term financial plans (LTFP) address those trade-offs.

## **Overarching Forecast Assumptions**

The assumptions used in creating forecasts and budgets greatly influence the results. The following assumptions have been used in developing the current forecasts and are anticipated to be used in creating the 2016 budget.

## Both Utilities

- 2.4% non-labor CPI increase as per the US Bureau Labor and Statistics, Portland/Salem 10-year average
- Labor/Benefits increases:
  - 2.4% salary escalation based on an average of the Portland/Salem CPI for All Urban Consumers (CPI-U) and Wages (CPI-W)
  - PERS increase – 3 percentage points on July 1, 2019, 2021, 2023 and 2025
    - \$45 million payment to reduce PERS unfunded actuarial liability in 2017 which results in projected total operations & maintenance (O&M) savings of over \$2.5 million starting in 2018
  - Health insurance increase – 20% in 2016, 10% in subsequent years
  - Financial Initiative Adjustments – Electric: \$1.6 million decrease in 2016 and an additional \$400K decrease in 2017. Water : \$177K decrease in 2016 and an additional \$173K decrease in 2017
- Rate changes effective February

## Electric

- Retail load approximately the same as 2015 budget – 2.5 million MWh that includes a 1% load increase for residential and general service customers in 2016 and 2017. 2016 load growth is offset by an extended outage of a large usage customer
- 90% generation
- \$27 melded mid-market price curve increasing to \$37 in 2025
- Sale of Smith Creek and 3<sup>rd</sup> Street property
- Partial year Carmen-Smith generation outages in 2017, 2018, and 2021
- Increase in capital expenses reflecting accelerated work on Carmen-Smith
- BPA rate increases of 6% in October of odd-numbered years which represents approximately a 2.5% rate impact to EWEB customers
  - BPA rate increases are assumed to be incorporated into February rate proposals
- Bond issuances of \$76 million and \$52.5 million in 2017 and 2022, respectively, funding capital work on Carmen-Smith

## Water

- Consumption: 7.6 million kgals, approximately the same as 2015 budget
- AWS major work begins in 2019
- Bond issuances of \$11 million in 2016; \$47 million in 2018; and \$25 million in 2021
- \$850K in additional O & M costs beginning in 2022 to operate AWS

## **Long-term Financial Plan Rate Assumptions and Outcomes**

### Electric

For the Electric Utility, a 2.5% overall average February 2016 rate change is needed to cover the projected 6% BPA power and transmission rate increases that go in to effect in October 2015. While a rate increase is necessary due to BPA rate increases the good news is that for the second year in a row, the revenue requirement does not include a general rate increase for EWEB costs. EWEB costs are being managed and controlled carefully to help achieve the goal of moving our rates toward

“middle-of-the-pack.” Customers that rely on BPA for 100% of their power supply likely will have higher rate increases than EWEB since the BPA rate increase impacts those utilities more than EWEB. Revenue requirement changes in the out years range from 0% to 3.5% in order to make progress towards bringing EWEB’s average residential bill closer to the middle of our comparator utilities. With the assumed rate trajectory, approximately \$3.4 million of additional financial improvements would need to occur by 2021 to meet Board financial metrics. The Electric LTFP outcomes are included in Attachment 1.

#### Water

The Water Utility LTFP includes an overall average 4.7% change in the 2016 revenue requirement. Revenue requirement changes in the out years range from 1.1% to 4.7%. The 4.7% projected increase continues the rate smoothing strategy that the Board adopted to plan for AWS. This maintains Board targets for financial metrics for the length of the financial plan. The Water LTFP outcomes are included in Attachment 2.

#### **Recommendation**

Management recommends that the Board direct staff to prepare the 2016 budget using the assumptions set forth in this document, a 2.5% February 2016 overall average Electric revenue requirement increase and a 4.7% overall average Water revenue requirement increase for the Water Utility.

#### **Requested Board Action**

Management is not requesting Board action at the July 21<sup>nd</sup> meeting; however, management is requesting that the Board provide clear direction on the assumptions to be used in developing the 2016 budget.

Attachment 1 – Summary of Electric LTFP Rate Assumptions and Outcomes

Attachment 2 – Summary of Water LTFP Rate Assumptions and Outcomes

Attachment 3 – Average Bill Comparison and Affordability

2016 Electric Long Term Financial Plan Summary  
Assumptions and Outcomes (\$000's omitted)

	Target	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Reserves and Cash	\$69,820	\$116,644	\$87,916	\$100,406	\$105,151	\$108,483	\$114,939	\$122,659	\$127,554	\$133,107	\$140,446
Debt Service Coverage Ratio	1.75	2.05	1.75	1.82	1.79	1.70	1.63	1.83	1.70	1.75	1.89
Avg Rev Requirement Change		2.50%	3.50%	3.00%	3.50%	3.50%	3.50%	3.50%	0.00%	2.50%	0.00%
O&M improvements to support 1.75 DSC						\$1,400	\$2,000				
Total O&M improvements to support 1.75 DSC						\$1,400	\$3,400	\$3,400	\$3,400	\$3,400	\$3,400
DSC Ratio with O&M Improvements		2.05	1.75	1.82	1.79	1.75	1.75	1.95	1.83	1.89	2.02

	Revenue Requirement Rate Assumptions										Compounded
Rate Schedule	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	10 Yr Total
General Rate Increase		0.50%	0.50%	3.50%	1.00%	3.50%					9.28%
BPA Increase	2.50%		2.50%		2.50%		2.50%		2.50%		13.14%
Carmen/Smith Debt		3.00%					1.00%				4.03%
Avg Rev Requirement Change	2.50%	3.50%	3.00%	3.50%	3.50%	3.50%	3.50%	0.00%	2.50%	0.00%	28.52%

Electric LTFP - 20% FPC Decrease

		2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Reserves and Cash	\$69,820	\$116,444	\$86,816	\$98,206	\$99,951	\$99,683	\$103,439	\$107,759	\$109,654	\$112,107	\$117,146
Debt Service Coverage Ratio	1.75	2.04	1.71	1.78	1.68	1.58	1.53	1.71	1.58	1.63	1.80
Average Rev Requirement Change		2.50%	3.50%	3.00%	3.50%	3.50%	3.50%	3.50%	0.00%	2.50%	0.00%
O&M improvements to support 1.75 DSC				\$900	\$1,000	\$3,100	\$1,100				
Total O&M improvements to support 1.75 DSC				\$900	\$900	\$1,900	\$5,000	\$6,100	\$6,100	\$6,100	\$6,100

Major Assumptions:

- \* Retail load approximately the same as 2015 budget – 2.5 million MWh that includes a 1% load increase for residential and general service customers in 2016 and 2017. 2016 load growth is offset by an extended outage of a large usage customer
- \* 90% Hydro Generation
- \* \$27 melded mid-market price curve increasing to \$37 in 2025
- \* Partial year Carmen-Smith generation outages in 2017, 2018, and 2021
- \* BPA rate increases of 6% in October of odd-numbered years which represents approximately a 2.5% rate impact to EWEB customers
- \* Sale of Smith Creek Hydro operation and 3<sup>rd</sup> Street Property by end of 2015.
- \* Bond issuances of \$76 million and \$52.5 million in 2017 and 2022, respectively, funding capital work on Carmen Smith

Attachment 2

Summary of Water LTFP Rate Assumptions and Outcomes (000s omitted)

	<u>Current Target</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
Reserves & Cash	\$11,400	\$15,387	\$11,746	\$11,885	\$15,797	\$13,851	\$15,240	\$14,916	\$12,587	\$14,044	\$15,018
AWS Reserve Balance <sup>1</sup>		\$3,928	\$4,972	\$6,055							
DSC	2.00-2.50	2.80	2.87	2.57	2.26	2.39	2.31	2.15	2.27	2.57	2.59
Feb Rate Action		4.7%	4.7%	4.7%	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%	1.1%

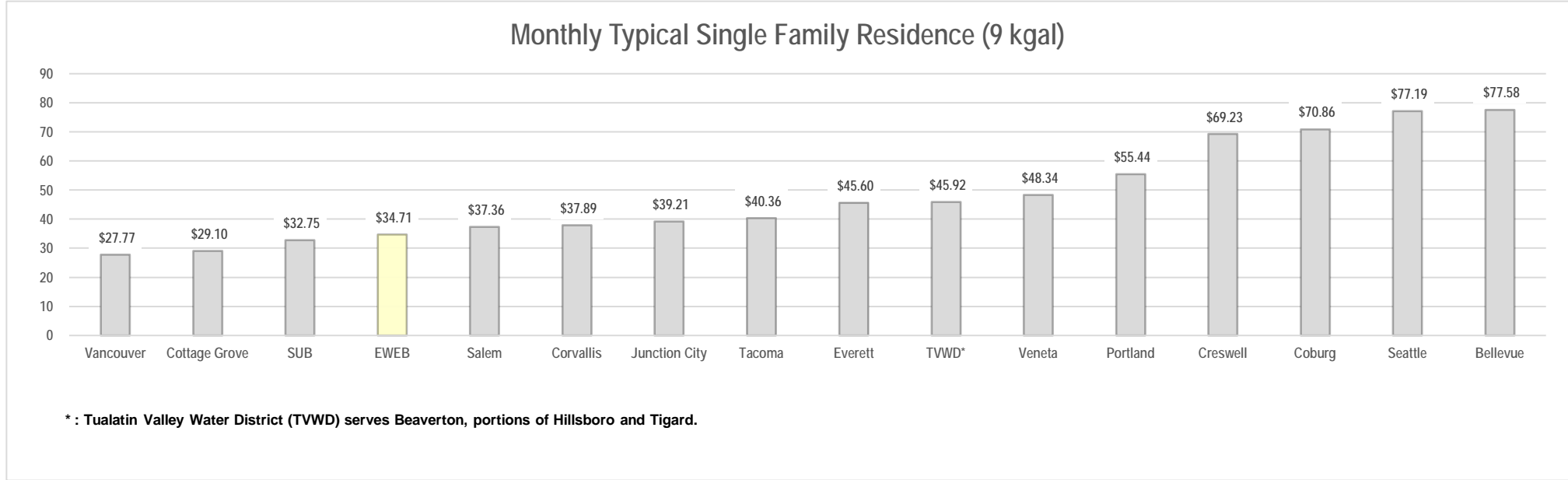
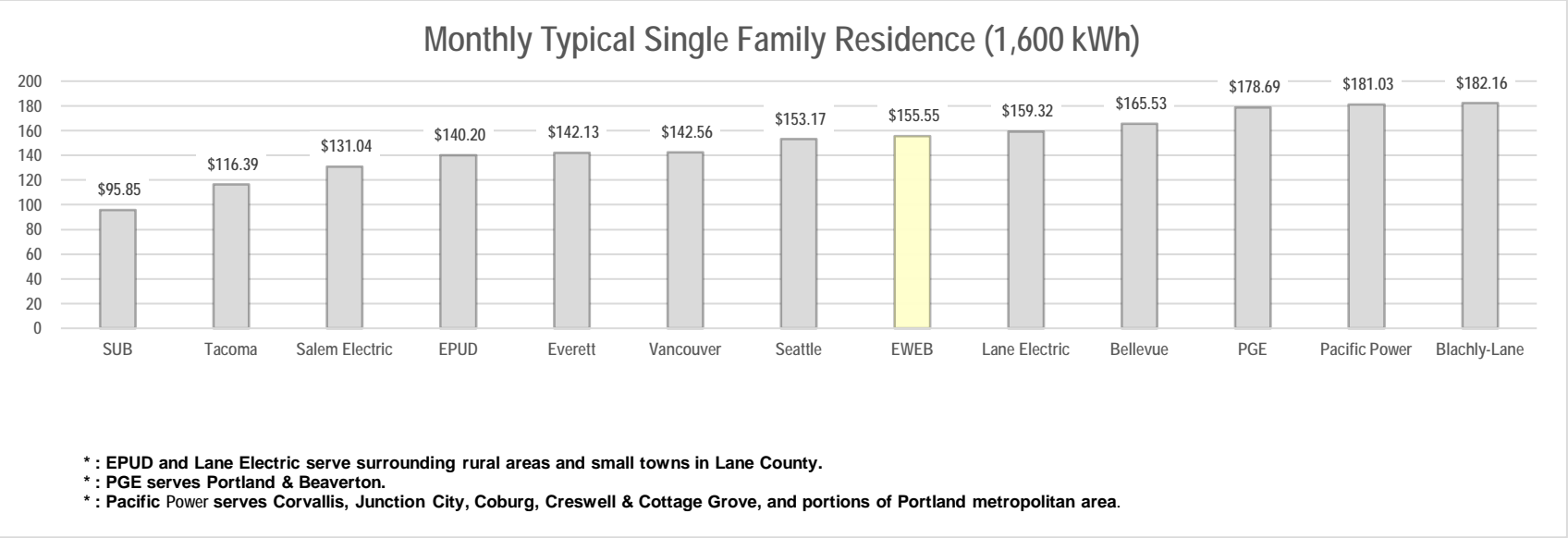
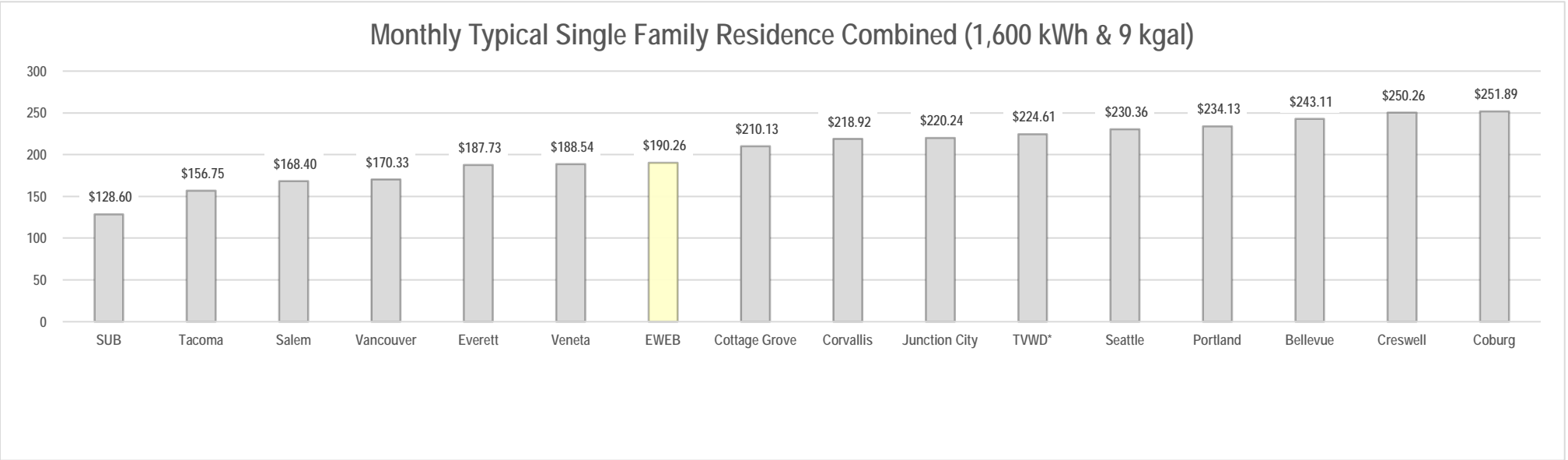
Note 1: AWS reserve balances subject to change based on board approved transfers each spring

Major Assumptions

- Consumption: 7.6 million kgals, approximately the same as the 2015 budget
- 2.4% non-labor CPI increase as per the US Bureau Labor and Statistics, Portland/Salem 10 year average
- Labor/Benefits increases:
  - 2.4% wage escalation based on an average of the Portland/Salem CPI for All Urban Consumers (CPI-U) and Wages (CPI-W)
  - Health insurance increase – 20% in the current year and 10% thereafter
- Financial Initiative Reductions of \$177K in 2016, and an additional \$173K in 2017
- Major work for AWS begins in 2019
- Bond issuances of \$11 million in 2016; \$47 million in 2018; and \$25 million in 2021
- Additional \$850K in O & M costs beginning in 2022 for the operation of AWS

Attachment 3

Average Bill Comparison and Affordability



Single Family Residence			
	Electric	Water	Total
Average Household Income*			\$ 3,716
Usage	1,600 kWh	9 kgal	
Utility Bill	\$ 155.55	\$ 34.71	\$ 190.26
Utility Bill as a Percent of Income	4.19%	0.93%	5.12%

Figures are in monthly averages.

\* 2015 estimate represents an average household income for Eugene.  
Based on the U.S. Census Bureau 2010 data, escalated by the average of  
Portland/Salem CPI-U and CPI-W to 2015.

Source : Average Household Income based on U.S. Census Bureau median income.  
[http://factfinder2.census.gov/faces/nav/jsf/pages/community\\_facts.xhtml](http://factfinder2.census.gov/faces/nav/jsf/pages/community_facts.xhtml)