



MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

Rely on us.

TO: Commissioners Helgeson, Brown, Mital, Simpson and Carlson
FROM: Sue Fahey, Chief Financial Officer; Deborah Hart, Fiscal Services Supervisor;
Jerry Reller and Nate Schultz, Senior Financial Analysts
DATE: June 27, 2017
SUBJECT: Long-Term Financial Plan (LTFP) Update and 2018 Budget Assumptions
OBJECTIVE: Direction on 2018 Budget Assumptions

Issue

Board Policy SD6 and Oregon Statutes require that staff 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 staff on the assumptions used to develop the following year's budget.

Background

Over the last several years, both the Water and Electric Utilities have faced financial challenges. Those challenges have been managed by strategically reducing operation & maintenance (O&M) and capital costs, reducing debt service obligations, and prudently using reserves to strengthen financial metrics. In 2017, the Water Utility reduced its obligation to the Electric Utility by \$11 million. Strong water sales, cost controls, and debt reduction have greatly improved the financial stability of the Water Utility. The Electric Utility has used reserves to defease debt and reduce borrowing for the Carmen-Smith relicensing capital project. These actions coupled with cost containment have resulted in significant improvement to the debt service coverage ratio (DSC) which historically has been the Electric Utility's biggest financial challenge.

Discussion

To continue to foster customer confidence, EWEB has undertaken affordability initiatives which will align sustainable spending levels to what our customer-owners expect. Using community data for Eugene and the Northwest, EWEB has developed an affordability target (percentage of utility cost to median household income) of 3.2%. EWEB customers currently spend about 4.0% of median household income on their electric and water bills. Within the framework of delivering safe and reliable water and electricity, Management is committed to prudent stewardship of our customer-owners' financial and natural resources. Management believes the assumptions used to develop the LTFP enhance financial resiliency and affordability.

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 2018 budget.

Both Utilities

- 2.0% non-labor CPI increase
- Labor/benefit increases:
 - 2.4% salary escalation
 - PERS increase – 7 percentage points in 2019, 5 percentage points in July 2021, 2023 and 2025
 - Health insurance increase – 8% in 2018 and then 10% in subsequent years
- 2018 workforce transition reductions
 - Electric: \$5.9 million
 - Water: \$1.3 million
- 2018 ROC move/remodel O&M costs
 - Electric: \$1.8 million
 - Water: \$600,000
- Capital Improvement Plans as presented at the July 11, 2017 Board Meeting

Electric:

- Retail load approximately the same as 2017 budget – 2.4 million MWh
- Contribution margin risk tolerance of \$2.7 million which represents 90% generation, 2.1% load reduction or 55% wholesale price reduction
 - Similar contribution margin risk tolerance through 2022, expected conditions 2023-2027
- \$21.79 melded mid-market price curve increasing to \$32.55 in 2027
- Partial year Carmen-Smith generation outages in 2018, 2019, and 2021
- Bond issuance: \$40 million in 2017, \$36 million in 2021 and \$17 million in 2024 for funding capital work on Carmen-Smith
- \$5 million dividend returned to residential customer-owners in 2018
- \$4.1million October 2017 BPA pass-through absorbed
- \$1 million reduction in contingency funds

Water:

- Consumption: 7.8 million KGAL
 - 200,000 KGAL greater than 2017 budget
 - 8 year average¹, 8.1 million KGAL
- Return of 3% 2014 price increase dedicated to AWS
- Contribution margin risk tolerance of \$750 thousand
 - Represents the difference between budgeted consumption and the 8 year average
 - 100 thousand KGAL represents approximately \$250 thousand

¹ Hynix Plant closed in 2008; average based on 2009-2016.

Long-term Financial Plan Price Assumptions and Outcomes

Electric

The Electric Utility LTFP indicates no overall average price change is needed in 2018. This is the fourth year in a row that the revenue requirement does not include a general price increase. Last year's LTFP indicated a 2018 price increase of 2.5%. Through debt reduction and cost-saving initiatives, the projected overall average increase has been eliminated. Management developed a workforce transition plan that, over the next 3 years, will reduce the workforce by approximately 100 budgeted positions. The 2018 reduction is 55 full-time equivalent positions. For the Electric Utility this results in a \$5.9 million savings which has been captured in the LTFP. Planned reductions for 2019 and 2020 would result in an additional \$5.4 million in savings. The Electric LTFP outcomes are included in Attachment 1.

Water

The Board is currently discussing alternatives for water emergency responsiveness and resiliency which may change the timing of the Willamette filtration plant. Assuming that the new filtration plant is delayed, the Water Utility LTFP includes a 3% price reduction for 2018. The assumption is based on returning the 3% 2014 price action dedicated to AWS in the event the Board chooses to delay the plant construction. At the end of 2016, the AWS reserve had \$5.2 million. The Capital Improvement Plan presented to the Board at the July 11, 2017 meeting included \$1 million per year for emergency water/resiliency efforts. Using that assumption, the LTFP indicates no projected price changes. This maintains Board targets for financial metrics through the duration of the financial plan. The 2016 LTFP indicated a 2018 price increase of 3%. The Water LTFP outcomes are included in Attachment 2.

Recommendation

Management recommends that the Board direct staff to prepare the 2018 budget using the assumptions set forth in this document which include:

- 3% overall average revenue requirement decrease for the Water Utility
- 0% overall average revenue requirement change for the Electric Utility
 - \$5 million residential customer-owner dividend

Requested Board Action

Management is not requesting Board action at the July 11th meeting; however, Management is requesting that the Board provide clear direction on the assumptions to be used in developing the 2018 budget.

Attachment 1 -Summary of Electric LTFP Price Assumptions and Outcomes

Attachment 2 -Summary of Water LTFP Price Assumptions and Outcomes

Attachment 3 -Average Bill Comparison

Attachment 4 -Median Household Income (MHI) %

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

	Target	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Reserves and Cash	\$71,720	\$123,800	\$109,700	\$111,300	\$117,000	\$115,700	\$114,600	\$111,200	\$108,000	\$112,000	\$120,000
Debt Service Coverage Ratio	1.75	2.24	1.89	1.90	1.89	1.56	1.53	1.34	1.28	1.67	1.93
Days Cash	>150 Days	233	209	212	212	196	186	173	165	171	187
Average Revenue Requirement Change*		0.00%	0.00%	2.50%	2.00%	3.75%	2.00%	2.50%	2.75%	2.50%	0.00%
Workforce transition reductions		\$0	\$2,400	\$3,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Additional O&M improvements to support Board Targets		\$0	\$0	\$0	\$0	\$0	\$0	\$1,500	\$1,000	\$0	\$0
Total Cumulative O&M improvements		\$0	\$2,400	\$5,400	\$5,400	\$5,400	\$5,400	\$6,900	\$7,900	\$7,900	\$7,900
DSC Ratio with O&M Improvements		2.24	2.04	2.23	2.26	1.87	1.84	1.75	1.75	2.16	2.41

*19.44% compounded 10 year total

Key Assumptions

- Retail load approximately the same as 2017 budget – 2.4 million MWh
- Contribution margin risk tolerance of \$2.7 million which represents 90% generation, 2.1% load reduction or 55% wholesale price reduction
- Similar contribution margin risk tolerance through 2022, expected conditions 2023-2027
- Partial year Carmen-Smith generation outages in 2018, 2019, and 2021
- \$5 million dividend to customer-owners in 2018
- \$4.1 million 2017 BPA pass-through absorbed
- \$1 million reduction in contingency funds
- 2017 \$40 million bond issuance, \$36 million in 2021 and \$17 million in 2024 for funding capital work on Carmen-Smith
- 2.0% non-labor CPI increase
- Labor/benefit increases:
 - 2.4% salary escalation
 - PERS increase – 7 percentage points in 2019, 5 percentage points in July 2021, 2023 and 2025.
 - Health insurance increase – 8% in 2018 and then 10% in subsequent years
- \$5.9 million reduction for 2018 workforce transition reduction
- \$1.8 million 2018 ROC move/remodel O&M costs

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

	<u>Target</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>	<u>2026</u>	<u>2027</u>
Reserves & Cash	\$11,680	\$28,500	\$33,000	\$35,500	\$36,600	\$37,700	\$37,900	\$37,600	\$34,600	\$29,100	\$22,300
AWS Reserve Balance		\$5,300	\$4,300	\$3,300	\$2,300	\$1,300	\$300	\$0	\$0	\$0	\$0
DSC	2.00-2.50	4.21	4.10	4.03	3.89	3.62	4.15	3.77	3.66	3.53	3.36
Feb Price Action		-3.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Key Assumptions

- 7.8 million KGAL consumption
- 2.0% non-labor CPI increase
- Labor/benefit increases:
 - 2.4% salary escalation
 - PERS increase – 7 percentage points in 2019, 5 percentage points in July 2021, 2023 and 2025.
 - Health insurance increase – 8% in 2018 and then 10% in subsequent years
- \$1.3 million reduction for 2018 Workforce transition reduction
- \$600 thousand ROC Move/Remodel
- Return of 3% 2014 price increase dedicated to AWS
- \$1 million per year in Emergency Water Supply costs
- Contribution margin risk tolerance of \$750 thousand

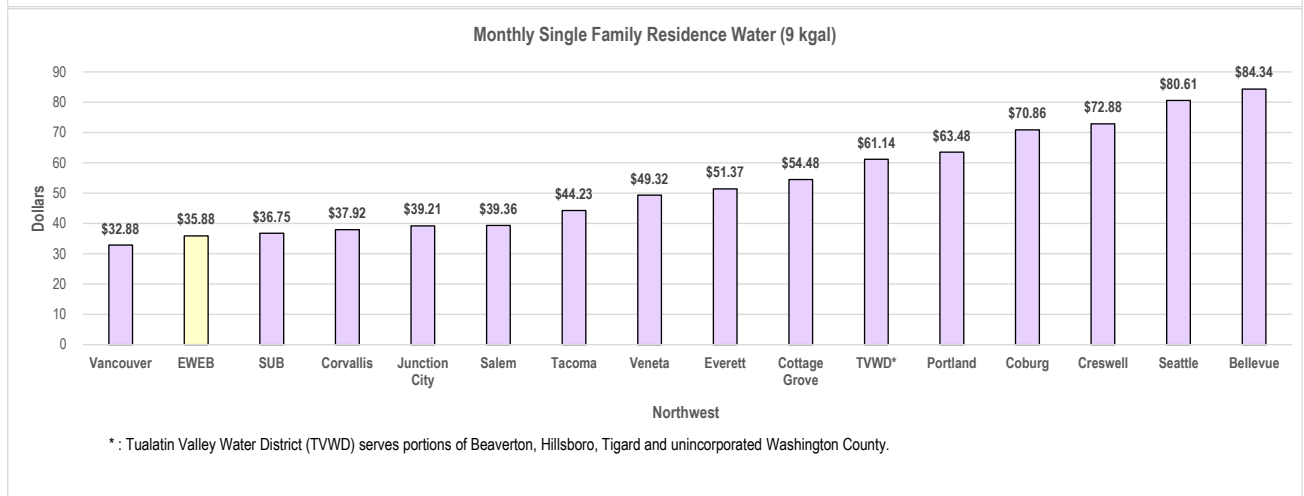
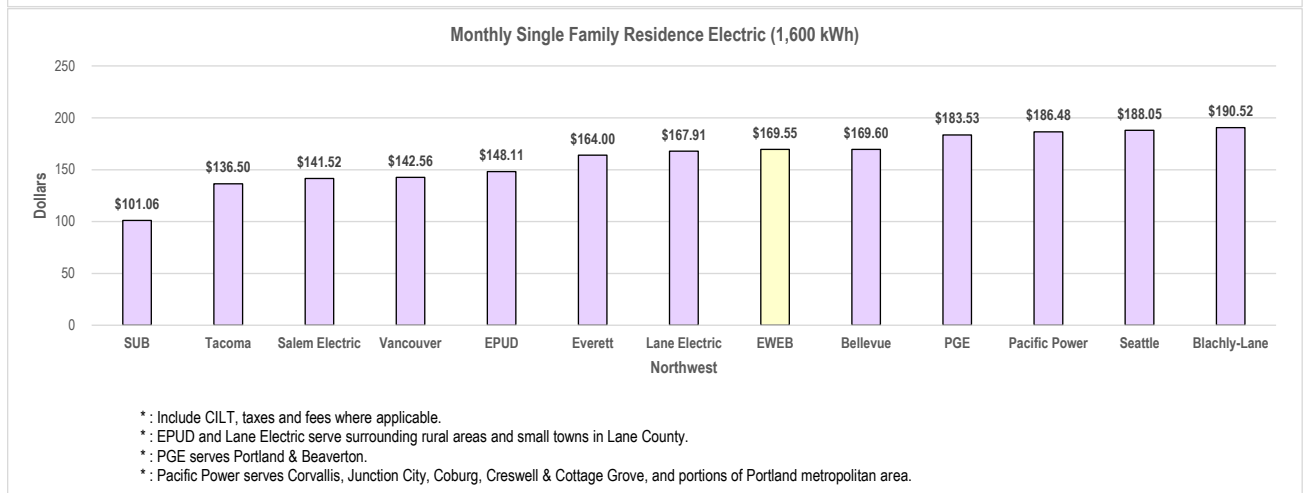
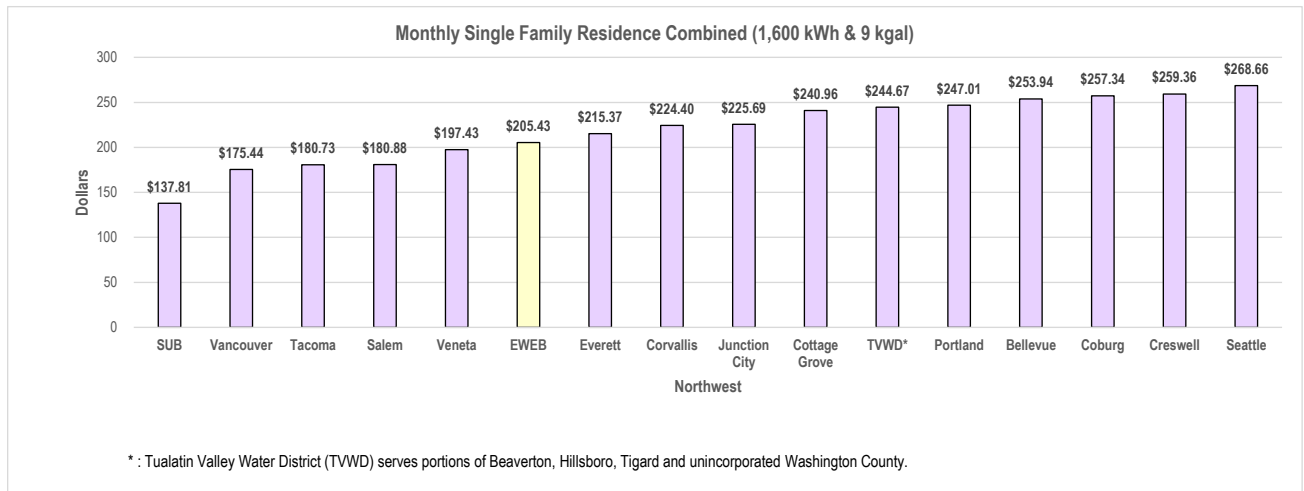
If the Board chooses to construct the Willamette Treatment Plant in the out years, the following table illustrates the financial outcomes:

	<u>Target</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>	<u>2026</u>	<u>2027</u>
Reserves & Cash	\$11,680	\$28,500	\$33,100	\$35,700	\$37,700	\$40,500	\$43,400	\$46,700	\$48,300	\$47,500	\$20,700
AWS Reserve Balance		\$5,300	\$4,300	\$3,300	\$2,300	\$1,300	\$300	\$0	\$0	\$0	\$0
Bond Funding		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$45M	\$0
DSC	2.00-2.50	4.21	4.10	4.03	4.04	3.94	4.74	4.57	4.68	3.54	2.83
Feb Price Action		-3.00%	0.00%	0.00%	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%

Additional Assumptions

- \$70 million capital expenditure for Willamette Treatment Plant
- \$45 million bond issuance in 2026

Average Bill Comparison – Current Rates



Attachment 4
Median Household Income (MHI) %

Background

The Board has requested staff provide bill affordability information. To prepare this information, *Assessment of Affordability of Residential Rates* (Glenn Barnes and Shadi Eskaf; Environmental Finance Center at the University of North Carolina, Chapel Hill; 2016) was used.

The approach uses the local community’s median household income (MHI) and is based on the following data:

1. Monthly water and electric bill at average residential consumption per month.
2. Annual bills at same level of use.
3. Median Household Income in 2015 for Eugene, OR.

Currently, there is no national standard for what affordable percent (%) of MHI value is or is not. When using this assessment, consideration must be given to financial sustainability of the utility as a whole in addition to affordability of price. Setting artificially low prices may produce financial constraints to reinvesting in the system and eventually harm public health through poor product quality and service.

To address the limited income customer-owner bill impact, EWEB has maintained a customer care program for many years that provides assistance for bill payment and weatherization programs.

Included below are the combined average water and electric bill for residential customers (water is 7 kgal and electric is 1050 kWh) in Eugene, Portland, Everett, Vancouver, Tacoma, and Seattle. This average is annualized and compared as a percentage of MHI.

Eugene, Oregon Consumption & MHI

Monthly water & electric bills at overall average residential consumption/month	<u>Current Prices</u> \$145.80
Overall average residential water consumption: 7 kgal; electric consumption: 1050 kWh	
Annual bills at same level of use	\$1,750
Median Household Income in 2015 for Eugene, OR	\$43,101
Water & Electric % MHI	4.06%

Portland, Oregon Consumption & MHI

Monthly water & electric bills at overall average residential consumption/month	<u>Current Prices</u> \$174.09
Overall average residential water consumption: 7 kgal; electric consumption: 1050 kWh	
Annual bills at same level of use	\$2,089
Median Household Income in 2015 for Portland, OR	\$55,003
Water & Electric % MHI	3.80%

Vancouver, Washington Consumption & MHI

Monthly water & electric bills at overall average residential consumption/month	<u>Current Prices</u>
Overall average residential water consumption: 7 kgal; electric consumption: 1050 kWh	\$124.92
Annual bills at same level of use	\$1,499
Median Household Income in 2015 for Vancouver, OR	\$50,626
Water & Electric % MHI	2.96%

Tacoma, Washington Consumption & MHI

Monthly water & electric bills at overall average residential consumption/month	<u>Current Prices</u>
Overall average residential water consumption: 7 kgal; electric consumption: 1050 kWh	\$133.16
Annual bills at same level of use	\$1,598
Median Household Income in 2015 for Tacoma, OR	\$52,042
Water & Electric % MHI	3.07%

Seattle, Washington Consumption & MHI

Monthly water & electric bills at overall average residential consumption/month	<u>Current Prices</u>
Overall average residential water consumption: 7 kgal; electric consumption: 1050 kWh	\$182.81
Annual bills at same level of use	\$2,194
Median Household Income in 2015 for Seattle, OR	\$70,594
Water & Electric % MHI	3.11%

Everett, Washington Consumption & MHI

Monthly water & electric bills at overall average residential consumption/month	<u>Current Prices</u>
Overall average residential water consumption: 7 kgal; electric consumption: 1050 kWh	\$147.58
Annual bills at same level of use	\$1,771
Median Household Income in 2015 for Everett, OR	\$49,578
Water & Electric % MHI	3.57%

References: Assessment of Affordability of Residential Rates (Glenn Barnes and Shadi Eskaf; Environmental Finance Center at the University of North Carolina, Chapel Hill; 2016)