



# MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

*Rely on us.*

TO: Commissioners Brown, Carlson, Mital, Simpson and Helgeson  
FROM: Deborah Hart, Interim Financial Services Manager  
DATE: October 31, 2018  
SUBJECT: Electric and Water Operations & Maintenance (O&M) Budget Amendment  
OBJECTIVE: Information Only

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## **Issue**

Per Board Policy EL-1, the approved budgets are the maximum level of expenditure authorized by the Board. Both the Electric and Water Utilities are projecting to end 2018 higher than budget in O & M, and Water is projecting to end higher than budget in Capital. Management anticipates requesting Board approval of budget amendments at the December 4, 2018 meeting.

## **Discussion**

### Operations and Maintenance

There are several key drivers impacting the Electric Utility. Purchased power and transmission costs are projected to exceed budget by approximately \$7 million. The primary driver for this variance is portfolio balancing activity which resulted in increased trading. This is offset by an increase in wholesale revenue and has no negative impact to the contribution margin. Year to date the contribution margin is favorable to budget by \$5.3 million. Additionally, the customer information system (CIS) project costs have moved from capital to Operations & Maintenance (O&M) expense. Net of the requested vendor reimbursement, this has an unfavorable impact of \$2.3 million. The estimate of impact to budget includes internal labor and overhead for project work that will remain in O & M. The Electric Utility also recorded a non-cash \$2.6 million loss on sale of the riverfront property. Some of these unfavorable variances may be offset by other savings, and Finance staff will be monitoring October and November financial performance and refining year end projections to determine the proposed amendment amount.

The Water Utility has also shifted costs due to the cancelation of the CIS project, unfavorably impacting O&M by \$500,000. Additionally, the postponement of the second source filtration plant may result in the expensing of previously capitalized costs. Finance staff are working toward resolving and quantifying the potential budget impact from these non-cash accounting transactions.

Finally, generally accepted accounting principles require that the transition liability that resulted from joining the state and local government rate pool be expensed in 2018, regardless if it is paid off or not. This will impact both the Electric and Water Utilities. Finance has conservatively estimated that the total impact will not exceed \$37 million.

### Capital

The Water Utility is anticipating a \$1.8 million overage in capital expenditures. There are three primary drivers of the anticipated overage, and the first of these is that several projects have come in higher than estimated costs. A robust economy, along with the impact of tariffs may be driving higher than expected bids from contractors. Key projects include several pump stations and the new disinfection system at Hayden Bridge which combined are driving approximately \$900,000 of the variance. Service work has exceed projections and by year end is expected to be approximately \$300,000 over budget. Service work is offset in part by revenue. Finally, meter costs are \$900,000 higher than projected at the spring true up due to implementation of route based deployment. Some of these budget variances are expected to be offset by savings in other areas.

### **Requested Board Action**

No action is requested at this time. Staff will be tracking spending closely, and Management plans to bring a resolution authorizing an increase to the 2018 Water and Electric O&M budgets, and the Water Capital budget in December.