



MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

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TO: Commissioners Brown, Carlson, Mital, Simpson and Helgeson
FROM: Deborah Hart, Interim Finance Manager; Ben Ulrich, Interim General Accounting Supervisor
DATE: October 26, 2018
SUBJECT: Regulatory Deferral of Other Postemployment Benefits (OPEB) Expense
OBJECTIVE: Information Only

Issue

EWEB is required to implement the Governmental Accounting Standard Board (GASB) Statement No. 75 relating to accounting for other postemployment benefits (OPEB) in order to comply with Generally Accepted Accounting Principles (GAAP). Based on current information, the implementation of GASB 75 will result in booking a significant non-cash expense. Rather than recording this expense all in 2018, staff intends to propose that it be treated as a regulatory deferral. The use of regulatory accounting requires Board approval by resolution or by inclusion in the annual budget per EWEB Financial Policies. For transparency, Board approval is requested when regulatory accounting is first used on a particular transaction type.

Background

Regulatory accounting is an accounting treatment where utilities with an independent rate-making body can time the recognition of expenses to match the timing of when those costs are included in the revenue requirements used in developing price proposals. In 2016, the Board approved regulatory accounting for the change required by GASB 68 in accounting for pension costs. GASB 68 also resulted in a material non-cash expense. The actual payment of the pension expense is made over time and is included in EWEB's PERS contribution rate. In addition to aligning the pension cash payments with the corresponding revenue, regulatory accounting for GASB 68 also avoided negative impacts to bond covenant compliance and financial metrics, such as debt service coverage.

Discussion

Like GASB 68 changed accounting for pension costs, GASB 75 is changing the accounting for OPEB costs and will result in a significant non-cash OPEB expense to EWEB. In 2018, the GASB released updated guidance for utilities and their application of regulatory accounting, which are directly applicable to EWEB. The guidance directs utilities who follow regulatory accounting to treat costs which are intended to be recovered through rates in the future, including post-employment benefits, as a regulatory deferral. The guidance further indicates that if EWEB intends to recover costs in future rates, those costs should be consistently treated as regulatory deferrals. Accordingly, the GASB 75 non-cash OPEB expense should be considered a regulatory deferral which is consistent with the GASB 68 non-cash pension expenses.

At the December 4, 2018 Board meeting, Management will be proposing that the Board authorize the treatment of OPEB expense as a deferral under regulatory accounting. EWEB's current OPEB costs are paid through the EWEB Retirement Benefits Trust (OPEB Trust) which was established as a legally separate fund to accumulate assets and pay EWEB's OPEB obligations. Payments for current obligations to the Trust are included in EWEB's revenue requirements. The Board's authorization to treat non-cash OPEB expense as a regulatory deferral would allow the significant non-cash OPEB costs to be deferred until they are paid to the OPEB Trust.

Recommendation and Requested Board Action

This memo is provided to give the Board background information on regulatory accounting before Management requests approval of a resolution authorizing treatment of the non-cash portion of OPEB expense as a regulatory deferral at the December 4, 2018 meeting.