M E M O R A N D U M

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

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.

M E M O R A N D U M

EUGENE WATER & ELECTRIC BOARD

Rely on us.

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.