



MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

Rely on us.

TO: Commissioners Carlson, Mital, Helgeson, Schlossberg, and Brown
FROM: Sue Fahey, Assistant General Manager/CFO; Deborah Hart, Financial Services Manager
DATE: November 22, 2019
SUBJECT: Electric and Water O&M and Capital Budget Amendments
OBJECTIVE: Approval of Resolution No. 1943

Issue

Per Board Policy EL-1, the approved budgets are the maximum level of expenditure authorized by the Board. As noted in the second quarter report, Management is projecting costs will exceed budget for both Utilities this year. Management will request Board approval of budget amendments at the December 3, 2019 meeting, and this memo provides additional information in advance of the requested approval.

Discussion

Both the Water and Electric Utilities 2019 actual costs will exceed the O & M budgets and the variances have been outlined in the table below. More detail on the drivers of those variances follows the table.

	<u>Electric</u>	<u>Water</u>
Approved Operations & Maintenance Budgets	\$212,200,000	\$19,900,000
<u>Operational Changes:</u>		
Purchased Power	43,000,000	
Storm and Other Costs (net of projected turnover savings)	2,700,000	
<u>Changes Required by Generally Accepted Accounting Principles (GAAP):</u>		
PERS Side Account Deposit	16,700,000	5,300,000
Total Projected O&M Budget Amendment	62,400,000	5,300,000
Total Projected O&M Budgets	\$274,600,000	\$25,200,000

Electric Operations & Maintenance

Operational Changes

Purchased power costs exceeded budget by nearly \$37 million as of October 31, the majority of which is offset by higher wholesale revenue due to a change in accounting for certain power transactions and portfolio balancing activity. Of the \$37 million, approximately \$6 million is not offset by higher revenue primarily due to purchases as a result of poor hydro conditions and plant outages. In addition to the year to date, staff conservatively projects an additional \$6 million unfavorable purchased power variance for the remainder of the fourth quarter. The unfavorable purchased power expense through the end of the fourth quarter is also expected to be largely offset by wholesale revenue. Other expenses are higher than anticipated due to storm related expenses and emergent dam safety, canal inspection and maintenance costs.

Water and Electric Operations & Maintenance – Changes Required by GAAP

PERS Side Account Deposit

GAAP requires that the deposit be recorded as a one-time non-operating expense. Payment and expense allocations are based on each Utility's proportional payroll expense.

Capital Budgets

The Electric Utility is anticipating a net \$4.5 million over budget on capital projects as a result of higher Type 1 and Type 2 costs partially offset by lower than budgeted Carmen-Smith work. The primary drivers for the increase are Electric System Infrastructure renovation work and higher than budgeted costs for the Downtown Network, Consolidation of Operations, and Upriver Reconfiguration/Holden Creek projects.

The Water Utility is anticipating a \$500,000 overage in capital spending. The primary drivers for the increase are higher than budgeted costs for the Hayden Bridge Disinfection System and main replacements.

	<u>Electric</u>	<u>Water</u>
Approved Capital Budget	\$37,300,000	\$15,400,000
Higher Than Estimated Costs	4,500,000	500,000
Total Amended Capital Budget	\$41,800,000	\$15,900,000

Requested Board Action

Management recommends and requests that the Board approve Resolution No. 1943 to increase the 2019 Electric O&M budget by \$62.4 million, Water O&M budget by \$5.3 million, Electric Capital budget by \$4.5 million and Water Capital budget by \$500,000.

**RESOLUTION NO. 1943
DECEMBER 2019**

**EUGENE WATER & ELECTRIC BOARD
2019 BUDGET AMENDMENT**

WHEREAS, the Eugene Water & Electric Board (EWEB) is the body designated by the City of Eugene Charter and Code to administer the Eugene Electric and Water Utilities;

WHEREAS, Oregon Revised Statute 225.230 requires municipal utilities to make an annual written estimate of probable expenses to establish spending authority;

WHEREAS, the Eugene Water & Electric Board anticipates expenditures in excess of that authority;

NOW, THEREFORE, BE IT RESOLVED that the Board hereby approves an increase to the Electric Utility Operations & Maintenance budget of \$62.4 million, an increase to the Water Utility Operations & Maintenance budget of \$5.3 million, an increase in the Electric Utility Capital budget of \$4.5 million, and an increase in the Water Utility Capital budget of \$0.5 million.

Dated this 3rd day of December 2019.

THE CITY OF EUGENE, OREGON
Acting by and through the
Eugene Water & Electric Board

President

I, ANNE M. KAH, the duly appointed, qualified, and acting Assistant Secretary of the Eugene Water & Electric Board, do hereby certify that the above is a true and exact copy of the Resolution adopted by the Board at its December 3, 2019 Board meeting.

Assistant Secretary