



MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

Rely on us.

TO: Commissioners Mital, Schlossberg, Helgeson, Brown, and Carlson
FROM: Deborah Hart, CFO; Adam Rue, Fiscal Services Supervisor; and Alicia Voorhees,
Senior Financial Analyst
DATE: July 7, 2020
SUBJECT: Long-Term Financial Plan (LTFP) Update and 2021 Budget Assumptions
OBJECTIVE: Direction on 2021 Budget Assumptions

Issue

Board Policy SD6 and Oregon Statutes require that staff annually prepare balanced Electric and Water Utilities budgets 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

In recent years both the Water and Electric Utilities have taken actions that have improved their financial resiliency. Those efforts included strategically reducing costs, joining the state and local government rate pool, reducing debt service obligations, strategic sales of assets, and prudently using reserves to strengthen financial metrics. These measures to improve financial resiliency and maintain low rates, position both utilities well to weather the impacts of the COVID-19 pandemic and economic uncertainty.

Discussion

In preparation of the LTFP, Management has performed financial stress tests including rate, borrowing, and capital investment capacity and evaluated multiple scenarios to address financial challenges caused by uncertain economic conditions partially as a result of the COVID-19 pandemic, while also balancing longer term strategic capital investments. The scenarios are labeled "As-Planned", "Constrained", and "Expanded" where the naming of these scenarios pertain to varying levels of capital investment. Each of these scenarios reflect lower near-term retail demand for electricity and lower retail consumption for water where the financial impacts are managed through cost containment.

All of the financial planning scenarios assume an approximate 5% reduction in near-term consumption (retail sales), which for the Electric Utility is consistent with recent experience throughout the last several months, as well as consistent with the 2008-2010 recession. The Water Utility has not experienced reduced demand to date during our low-consumption part of the year, however, given the adverse economic conditions Management believes it prudent to forecast lower consumption. The Finance Division is closely monitoring trends in the industry, external factors such as unemployment, and demand for water and electric, and will propose mitigation measures should conditions worsen. Potential mitigation measures include further cost reductions and use of reserves. Additionally, some upside potential exists due to consumption patterns such as electrification.

Details of the infrastructure investments proposed are included in the capital plan and will be presented by Electric and Water Operations staff at the July 7th Board meeting. In order to meet the impact of financial uncertainty and the capital needs of each utility, Management is including a number of O&M cost savings measures in the financial plans. Management believes the assumptions used to develop the LTFP prudently balance EWEB's core values and strategic priorities.

The financial plans, as presented, address the assumed near-term economic conditions as well as the capital requirements to continue to meet EWEB's safety and reliability standards. Additionally, scenarios have been included to illustrate the impact of a reduced capital plan, as well as to address potential long-term strategic needs of the Utilities related to financing significant capital projects, such as hydroelectric facilities decommissioning and second source treatment plans.

Overarching Forecast Assumptions

The assumptions used in creating forecasts and budgets influence the results. The following major assumptions have been used in developing the current forecasts and Management proposes using them in creating the 2021 Budget. Utility specific assumptions are noted on Attachments 1 and 3.

Both Utilities

- Reduced consumption of roughly 5% in 2021 and 2022 and 2% in 2023 and 2024 due to economic impacts of COVID-19
- Non-labor cost escalation of 1.1% in 2021-2023, and 2.0% in subsequent years
- Labor/benefit increases:
 - 2.0% wage escalation in 2021-2022 and 3.1% in remaining years
 - Health insurance increase – 8% for 2021 and thereafter
- Reduced travel expense by 80% in 2021 and 50% in remaining years
- Reduced training expense by 50% in 2021
- Capital improvement plans as presented at the July 7, 2020 Board meeting

Long-term Financial Plan Revenue Requirement Assumptions, Scenarios, and Outcomes

Electric

The Electric Utility is anticipating potentially significant financial stress due to expected reduced demand and depressed wholesale power markets in the near future, as well as significant capital investment needs in the longer term. In spite of these challenges, the Electric Utility is managing labor and non-labor expenses in order to present a financial plan with no overall average revenue requirement change in 2021. This represents six out of the seven most recent years, the Electric Utility has not needed an overall increase in the residential revenue requirement, while still affording significant investments. Through debt reduction and restructuring, as well as cost-saving initiatives, the Electric Utility achieves its debt service coverage and cash targets. The Electric LTFP outcome is included in Attachment 1.

Attachment 2 provides the Electric Utility LTFP results under two different scenarios. Scenario A assumes a constrained capital plan with a \$25 million reduction in capital expenditure over the 10-year capital plan. This represents a tradeoff in risk related to aging assets for the utility. Scenario B assumes an expanded capital plan with an additional \$100 million in capital over the 10-year plan.

Water

Similar to the Electric Utility, the Water Utility is facing potential financial stress from an expected reduction in demand, in addition to longer term capital investment needs. The Water Utility is also managing labor and non-labor expenses in order to present a financial plan with no overall change in average revenue requirement in 2021. This represents the fifth consecutive year the Water Utility has had no residential rate increase. The Water LTFP outcome is included in Attachment 3.

Attachment 4 provides the Water Utility LTFP results under two different scenarios. Scenario A is a constrained capital plan with a \$55 million reduction in capital expenditure, specifically the Alternative Water Source, over the 10-year capital plan. This represents a tradeoff in risk related to aging assets for the utility. Scenario B includes an expanded capital plan with an additional \$50 million in capital over the 10-year period.

Recommendation

Management recommends that the Board direct staff to prepare the 2021 budgets using the assumptions set forth in this document, which include no change in overall revenue requirement for the Electric and Water Utilities.

Requested Board Action

Management is not requesting Board action at the July 7th meeting; however, Management is requesting that the Board provide direction on the assumptions to be used in developing the 2021 budget.

Attachment 1 - Summary of Electric Utility LTFP Revenue Requirement Assumptions and Outcomes

Attachment 2 - Electric Utility LTFP Scenario A and B

Attachment 3 - Summary of Water Utility LTFP Revenue Requirement Assumptions and Outcomes

Attachment 4 – Water Utility LTFP Scenario A and B

Attachment 5 - Average Bill Comparison

Attachment 6 - Median Household Income (MHI) %

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

(Yellow = Within 10% of Board-Established Target)

(Red = Does Not Meet Board-Established Target)

	<u>Target</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>
Reserves and Cash	\$85,720	\$109,000	\$102,000	\$98,000	\$96,000	\$96,000	\$97,000	\$96,000	\$96,000	\$93,000	\$90,000
Debt Service Coverage Ratio	1.75	1.75	2.02	1.75	1.76	2.17	2.25	2.06	1.81	1.83	1.75
Days Cash	>150 Days	208	198	180	174	174	174	176	173	165	158
Average Rev Requirement Change		0.00%	4.25%	2.50%	4.50%	1.00%	2.50%	0.00%	2.50%	0.00%	2.50%
Revenue Requirement Assumptions	Compounded										
Price Schedule	10 Yr Total	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>
General Rate Increase	5.60%			2.50%	2.00%	1.00%					
Carmen/Smith Debt	1.75%		1.75%								
BPA Increase	13.14%		2.50%		2.50%		2.50%		2.50%		2.50%
Avg Rev Requirement Change	21.45%	0.00%	4.25%	2.50%	4.50%	1.00%	2.50%	0.00%	2.50%	0.00%	2.50%

Key Assumptions

- Retail load approximately 2.3 million MWh's, roughly 6% below 2020 budget, due to reduced commercial demand and large industrial customer departure
- Contribution margin risk tolerance of \$4.9 million which represents 90% generation or a 4.5% load reduction
- Similar contribution margin risk tolerance through 2024, expected conditions 2025-2030
- BPA rate increase of 6% assumed in October of 2021, 2023, 2025, 2027, and 2029 which translates to 2.5% for EWEB customer-owners.
- \$30/MW melded mid-market price curve in 2021 increasing to \$34/MW in 2029
- Environmental Commodities represent roughly \$2.2 million of wholesale revenue
- Full-year Leaburg generation outage in 2021
- Bond issuance: \$37.8 million in 2023 and \$23.5 million in 2027 funding capital work
- Use of \$19.5 million of Rate Stabilization Reserve funds for capital work
- \$1.0 million per year contribution to meter replacement reserve starting 2021 based on 12-year estimated life

Scenario A – Constrained Electric LTFP with \$25 Million Capital Reduction (000’s omitted)

(Yellow = Within 10% of Board-Established Target)

(Red = Does Not Meet Board-Established Target)

	<u>Target</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>
Reserves and Cash	\$85,720	\$110,000	\$102,000	\$96,000	\$96,000	\$96,000	\$99,000	\$99,000	\$99,000	\$94,000	\$87,000
Debt Service Coverage Ratio	1.75	1.75	1.97	1.75	1.83	2.16	2.22	2.01	1.92	1.75	2.02
Days Cash	>150 Days	208	197	176	173	173	176	180	176	165	152
Average Rev Requirement Change		0.00%	4.25%	2.50%	4.50%	1.00%	2.50%	0.00%	2.50%	0.00%	2.50%
Revenue Requirement Assumptions	Compounded										
Price Schedule	10 Yr Total	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>
General Rate Increase	5.60%			2.50%	2.00%	1.00%					
Carmen/Smith Debt	1.75%		1.75%								
BPA Increase	13.14%		2.50%		2.50%		2.50%		2.50%		2.50%
Avg Rev Requirement Change	21.45%	0.00%	4.25%	2.50%	4.50%	1.00%	2.50%	0.00%	2.50%	0.00%	2.50%

Key Assumptions (same as above with the following exception)

- Bond issuance: \$31.2 million in 2024 and \$5.6 million in 2029 funding capital work

Scenario B - Expanded Electric LTFP with \$100 Million in Additional Capital (000's omitted)

(Yellow = Within 10% of Board-Established Target)

(Red = Does Not Meet Board-Established Target)

(Green = Future Rate Change from Previous LTFP)

	<u>Target</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>
Reserves and Cash	\$85,720	\$107,000	\$104,000	\$104,000	\$92,000	\$92,000	\$93,000	\$94,000	\$97,000	\$100,000	\$86,000
Debt Service Coverage Ratio	1.75	1.75	2.16	1.91	2.44	2.40	2.13	2.11	1.77	1.78	1.94
Days Cash	>150 Days	206	203	197	172	175	170	178	177	180	154
Average Rev Requirement Change		0.00%	4.25%	2.50%	4.50%	1.00%	2.50%	0.00%	3.75%	1.50%	2.50%
Revenue Requirement Assumptions	Compounded										
Price Schedule	10 Yr Total	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>
General Rate Increase	10.14%			2.50%	2.00%	1.00%		0.00%	1.25%	1.50%	
Carmen/Smith Debt	1.75%		1.75%								
BPA Increase	13.14%		2.50%		2.50%		2.50%		2.50%		2.50%
Avg Rev Requirement Change	26.66%	0.00%	4.25%	2.50%	4.50%	1.00%	2.50%	0.00%	3.75%	1.50%	2.50%

Key Assumptions (same as above with the following exception)

- Bond issuance: \$73.3 million in 2023 and \$41 million in 2027 funding capital work
- General Rate Increase in 2028 and 2029 resulting in 3.3% cumulative increase to revenue requirement

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

(Yellow = Within 10% of Board-Established Target)

(Red = Does Not Meet Board-Established Target)

<u>Key Metrics</u> (Dollars in \$000,s)	<u>Target</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>
Reserves & Cash	\$12,680	\$29,000	\$29,000	\$28,000	\$34,000	\$33,000	\$26,000	\$13,000	\$17,000	\$20,000	\$25,000
AWS Reserve Balance		\$6,000	\$5,000	\$5,000	\$4,000	\$4,000	\$0	\$0	\$0	\$0	\$0
Meter Reserve		\$0	\$0	\$0	\$0	\$1,000	\$1,000	\$2,000	\$3,000	\$3,000	\$4,000
Total Cash Reserves	\$12,680	\$35,000	\$34,000	\$33,000	\$38,000	\$38,000	\$27,000	\$15,000	\$20,000	\$23,000	\$29,000

Bond Funding					\$35M			\$24M			\$28M
DSC	2.00-2.50	5.71	4.31	4.03	3.26	3.69	4.48	3.70	3.65	4.14	3.26
Days Cash	> 150 days	665	661	596	662	626	429	221	277	304	361

	<u>2021-2030</u> <u>Compounded</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>
Average Revenue Requirement Change	21.40%	0.00%	0.00%	3.33%	6.00%	5.50%	0.00%	0.00%	2.50%	2.50%	0.00%

Key Assumptions

- Consumption reduced approximately 5% compared to 2020 budget due to COVID-19 impact - 7.4 million kgal
- Contribution margin risk tolerance of \$750,000 which represents 95% of the 5-year consumption average
- Contributions of \$300,000 to AMI reserve starting 2024 based on 20-year estimated life

Bond issuance: \$35 million in 2024 for Type 2 capital and a second filtration plant, \$24 million in 2027 and \$28 million in 2030 for Type 2 capital

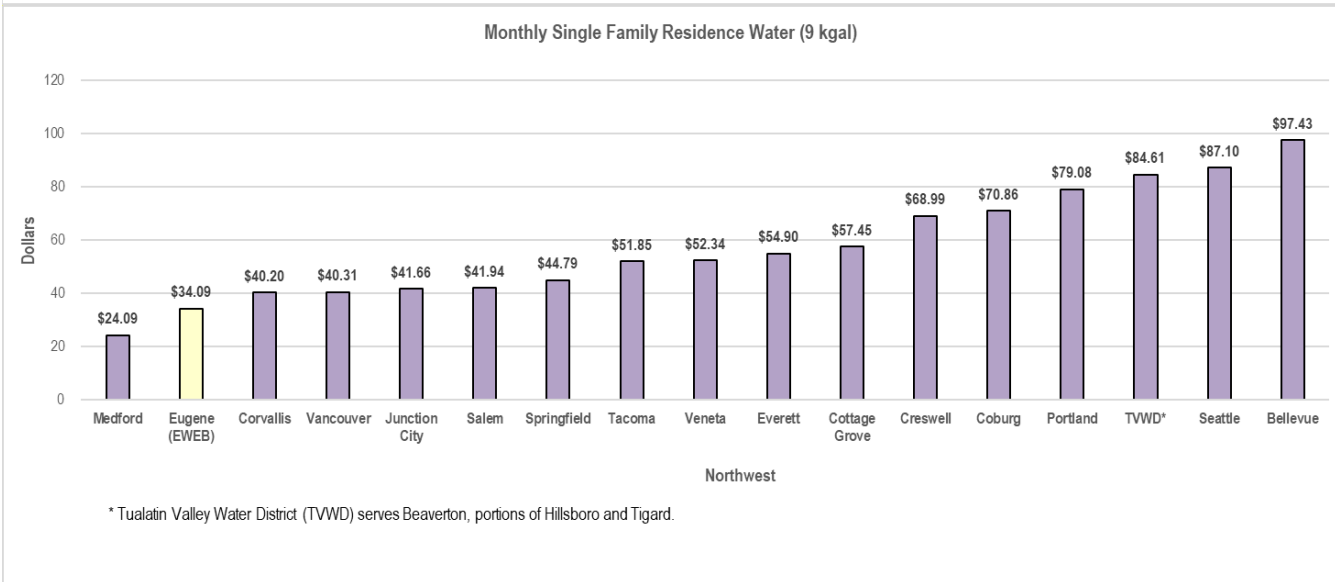
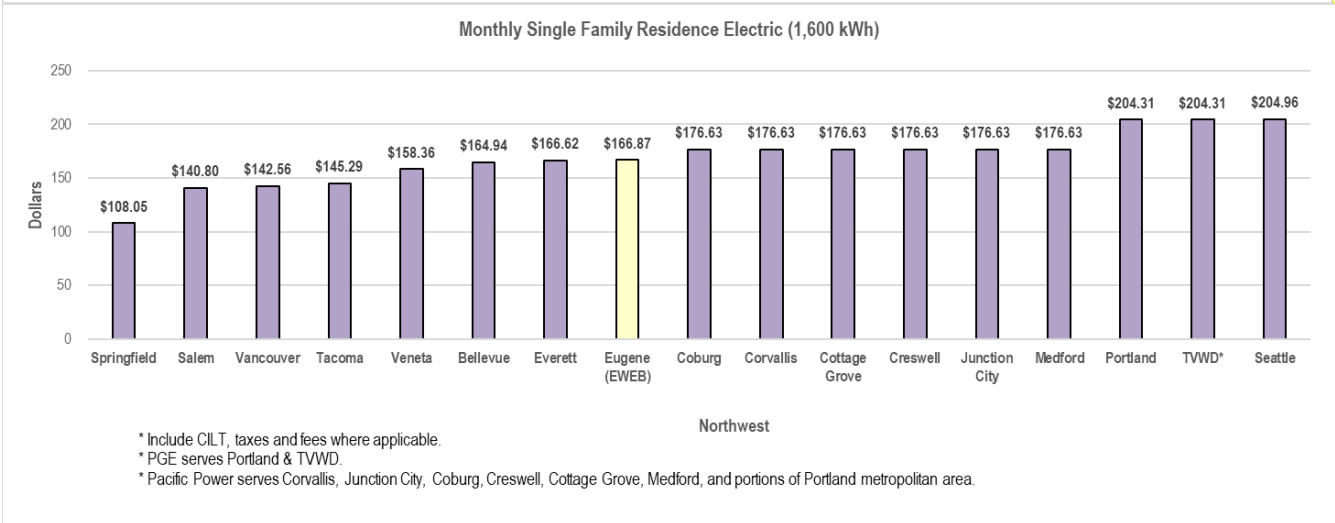
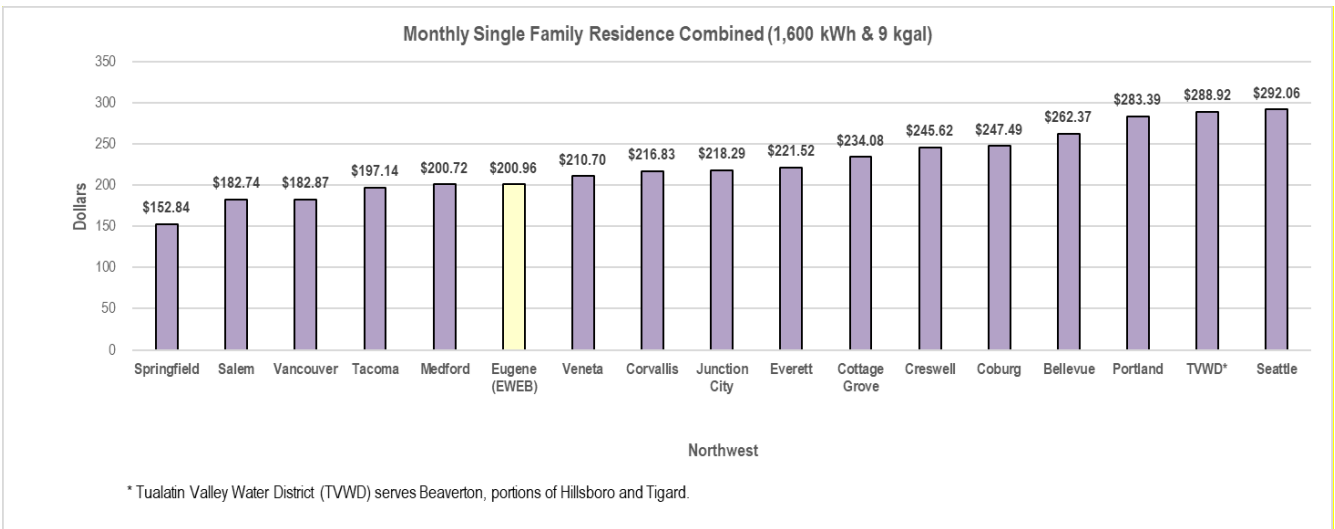
Scenario A – Constrained Water Utility LTFP with \$55 Million Second Source Capital Reduction (000’s omitted)

<u>Key Metrics</u>	<u>Current Target</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>
Reserves & Cash	\$12,680	\$29,000	\$29,000	\$28,000	\$33,000	\$44,000	\$53,000	\$57,000	\$60,000	\$62,000	\$66,000
AWS Reserve Balance		\$6,000	\$5,000	\$5,000	\$4,000	\$4,000	\$0	\$0	\$0	\$0	\$0
AMI Reserve		\$0	\$0	\$0	\$0	\$1,000	\$1,000	\$2,000	\$3,000	\$3,000	\$4,000
Total Cash Reserves	\$12,680	\$35,000	\$34,000	\$33,000	\$37,000	\$49,000	\$54,000	\$59,000	\$63,000	\$65,000	\$70,000
Bond Funding					\$35M			\$24M		\$28M	
DSC	2.00-2.50	5.71	4.31	4.20	3.11	3.40	4.12	3.39	3.40	3.85	3.01
Days Cash	> 150 days	665	661	599	649	796	839	857	879	859	869
	<u>Compounded</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>
Average impact resulting from change in revenue requirement	17.19%	0.00%	0.00%	3.33%	3.30%	4.50%	0.00%	0.00%	2.50%	2.50%	0.00%

Scenario B – Expanded Water Utility LTFP with \$50 Million Additional Cost for Second Source Capital (000’s omitted)

<u>Key Metrics</u>	<u>Current Target</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>
Reserves & Cash	\$12,680	\$28,000	\$29,000	\$28,000	\$34,000	\$50,000	\$60,000	\$47,000	\$34,000	\$16,000	\$22,000
AWS Reserve Balance		\$6,000	\$5,000	\$5,000	\$4,000	\$4,000	\$0	\$0	\$0	\$0	\$0
AMI Reserve		\$0	\$0	\$0	\$0	\$1,000	\$1,000	\$2,000	\$3,000	\$3,000	\$4,000
Total Cash Reserves	\$12,680	\$34,000	\$34,000	\$33,000	\$38,000	\$55,000	\$61,000	\$49,000	\$37,000	\$19,000	\$26,000
Bond Funding					\$35M			\$74M			\$28M
DSC	2.00-2.50	5.71	4.31	4.20	3.25	3.65	4.43	3.00	2.55	2.84	2.37
Days Cash	> 150 days	597	621	571	651	900	974	731	510	242	314
	<u>Compounded</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>
Average impact resulting from change in revenue requirement	25.58%	0.00%	0.00%	3.33%	6.00%	6.00%	0.00%	0.00%	4.00%	4.00%	0.00%

Average Bill Comparison – Current Rates



Median Household Income (MHI) %

Background

The source of each comparator's median household income (MHI) is from the United States Census Bureau website. The approach bases on the following data:

1. Monthly water and electric bill at average residential consumption per month
2. Annual bill at same level of use
3. Median household income (in 2018 dollars)

Currently, there is no national standard for what affordable percent (%) of MHI value is or is not. Consideration must be given to financial sustainability of the utility, 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 in Eugene, Portland, Medford, Salem, Vancouver, Tacoma, Seattle and Everett. Average consumption is based on: water 7 kgal, electric 1,050 kWh. This average is annualized and compared as a percentage of MHI.

Eugene, Oregon

	<u>Current Prices</u>
Monthly water & electric bills at overall average residential consumption (Average : water consumption 7 kgal; electric consumption 1,050 kWh)	\$146.83
Annual bill at same level of use	\$1,762
Median Household Income (MHI) in 2018 for Eugene, Oregon	\$49,029
Water & Electric % MHI	3.59%

Portland, Oregon

	<u>Current Prices</u>
Monthly water & electric bills at overall average residential consumption (Average : water consumption 7 kgal; electric consumption 1,050 kWh)	\$197.97
Annual bill at same level of use	\$2,376
Median Household Income (MHI) in 2018 for Portland, Oregon	\$65,740
Water & Electric % MHI	3.61%

Medford, Oregon

	<u>Current Prices</u>
Monthly water & electric bills at overall average residential consumption (Average : water consumption 7 kgal; electric consumption 1,050 kWh)	\$130.58
Annual bill at same level of use	\$1,567
Median Household Income (MHI) in 2018 for Medford, Oregon	\$47,567
Water & Electric % MHI	3.29%

Salem, Oregon

	<u>Current Prices</u>
Monthly water & electric bills at overall average residential consumption (Average : water consumption 7 kgal; electric consumption 1,050 kWh)	\$134.43
Annual bill at same level of use	\$1,613
Median Household Income (MHI) in 2018 for Salem, Oregon	\$53,619

Water & Electric % MHI **3.01%**

Vancouver, Washington

Current Prices

Monthly water & electric bills at overall average residential consumption \$131.07
(Average : water consumption 7 kgal; electric consumption 1,050 kWh)

Annual bill at same level of use \$1,573

Median Household Income (MHI) in 2018 for Vancouver, Washington \$58,865

Water & Electric % MHI **2.67%**

Tacoma, Washington

Current Prices

Monthly water & electric bills at overall average residential consumption \$146.83
(Average : water consumption 7 kgal; electric consumption 1,050 kWh)

Annual bill at same level of use \$1,762

Median Household Income (MHI) in 2018 for Tacoma, Washington \$58,617

Water & Electric % MHI **3.01%**

Seattle, Washington

Current Prices

Monthly water & electric bills at overall average residential consumption \$203.39
(Average : water consumption 7 kgal; electric consumption 1,050 kWh)

Annual bill at same level of use \$2,441

Median Household Income (MHI) in 2018 for Seattle, Washington \$85,562

Water & Electric % MHI **2.85%**

Everett, Washington

Current Prices

Monthly water & electric bills at overall average residential consumption \$152.05
(Average : water consumption 7 kgal; electric consumption 1,050 kWh)

Annual bill at same level of use \$1,825

Median Household Income (MHI) in 2018 for Everett, Washington \$57,205

Water & Electric % MHI **3.19%**