



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
DATE: November 25, 2020
SUBJECT: Electric O&M and Capital and Water Capital Budget Amendments
OBJECTIVE: Approval of Resolution No. 2019

Issue

Per Board Policy EL-1, the approved budgets are the maximum level of expenditure authorized by the Board. Management is projecting costs will exceed budget for the Electric Utility this year due to higher purchase power costs, fire restoration, a shift of costs from Capital to O&M, as well as a shift in overhead from capital to O&M due to lower capital spending. The Water Utility is also projecting Capital costs to exceed budget to take advantage of an emergent IT opportunity. Management is requesting Board approval of budget amendment.

Discussion

Annually the finance staff project year end variances to budget. Similar to prior years, certain Electric Utility actual costs are expected to exceed the O&M budgets and some have shifted between the capital and O & M budgets. The variances have been outlined in the table below. There are three operational changes impacting the budget amendment request. First, purchase power costs are expected to exceed budget by \$8.8 million, primarily due to lower EWEB-owned hydro generation from poor water conditions on the McKenzie River and unplanned operational outages related to the wildfires. The increased purchased power costs though are largely offset by higher wholesale revenue. Second, the Utility is expected to have increased costs due to the wildfires. Request for FEMA reimbursement for the Holiday Farm Fire is underway, however any grant awarded would not be anticipated until late 2021. Lastly, lower projected capital spending and accounting guidance for software capitalization both shifted costs from capital to O&M. The overall net impact of the amendments to reserves, after additional wholesale revenue and any FEMA grants will be under \$2.5 million, less than 1% of the annual budget.

The Water Utility O&M expenses are running very close to budget and are anticipated to fall within a 0.5% range, either over or under the approved budget. Higher labor costs related to the Holiday Farm Fire and an increase in maintenance and construction expense for asphalt and street repair are variables being monitored.

	<u>Electric</u>
Approved Operations & Maintenance Budgets	\$221,000,000
<i><u>Operational Changes:</u></i>	
Purchase Power	\$8,800,000
Wildfire Damage	\$2,800,000
Software shift from Capital to O&M	\$1,200,000
Shift of Labor and Overhead from Capital to O&M	\$1,500,000
Total Projected O&M Budget Amendment	\$14,300,000
Total Projected O&M Budgets	\$235,300,000

Capital Budget

The shift from Capital to O&M for the Electric Utility is anticipated to increase O&M by \$2,700,000 and therefore lower the budget capital spending. The primary drivers for the decrease include a shift in software costs from Capital to O&M as discussed above, as well as a shift of Capital Overhead and Labor costs to O&M as a result of deferred work due to the COVID-19 pandemic.

Additionally, towards the end of 2020 there was an emergent opportunity to pull forward the scheduled IT technology hardware replacements already budgeted and scheduled for future periods. Timing aligned for our vendors such that we're able to extend warranty services beyond the standard three years to include year's four and five. This will result in a favorable impact to our O&M budget in future years. In addition to budgetary benefits, the IS team consolidated disparate systems to reduce complexity and management overhead. This work also aligned well with preparations for re-locating the backup datacenter out of HQ.

The Water Utility Budget Amendment approved in October to reduce the capital budget did not include the opportunity to re-invest in the core computing infrastructure mentioned above. The Electric Utility has budget available to cover the investment, however the Water Utility will need an increase to the amended capital budget to cover their portion, offsetting future years.

	<u>Electric</u>	<u>Water</u>
Approved Capital Budget	\$49,100,000	\$17,100,000
Software shift from Capital to O&M	(\$1,200,000)	-
Shift from Capital to O&M	(\$1,500,000)	-
Higher than Estimated Costs	-	\$600,000
Total Amended Capital Budget	\$46,400,000	\$17,700,000

Requested Board Action

Management recommends and requests that the Board approve Resolution No. 2019 to increase the Electric O&M budget by \$14.3 million, reduce Electric Capital budget by \$2.7 million, and increase the Water Capital budget by \$600,000.

**RESOLUTION NO. 2019
DECEMBER 2020**

**EUGENE WATER & ELECTRIC BOARD
2020 BUDGET AMENDMENTS**

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 \$14.3 million, a decrease in the Electric Utility Capital Budget of \$2.7 million, and an increase in the Water Utility Capital budget of \$0.6 million.

Dated this 1st day of December 2020.

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 1, 2020 Regular Board meeting.

Assistant Secretary