The following questions have been posed by Commissioners prior to the scheduled Board Meeting on November 1, 2022. Staff responses are included below and are sorted by Agenda topic.

<u>Upcoming-Year (2023) Proposed Budgets and Prices (HART/KELLEY)</u>
In the O&M budget we have an increase of 30% from the 2022 actual to 2023 budget, and an increase of approximately 22% from 2022 to 2023 in budgets. Are there any specific items that create such a large increase?

RESPONSE: *The overall increase in O&M budgets from '22 to '23 is $63.0 million. The overarching driver is an increase to purchased power expense of $44.6 million. This is due to increased wholesale market prices and budgeted volumes of wholesale activity and is offset by increases in wholesale sales. Watershed Recovery efforts contribute another $6.1 million to the increase. It is anticipated the increased scale of efforts in Watershed Recovery will be funded by grant revenues.*

The overall increase from '21 actuals to '23 budgets is $80.6 million. Again, purchased power expense is the primary driver and accounts for $44.0 million of the difference and is offset by increasing wholesale sales revenue. Similarly, the Watershed Recovery effort from '21 actuals to '23 budgets increased by $7.9 million.

On page 25 of the budget proposal, we only have $350,000 budgeted for post-retirement contribution (OPEB), and after looking at the dismal performance of our portfolio shouldn't we anticipate a much larger contribution to keep within our metrics?

RESPONSE: *Financial policies consider larger contributions if/when the OPEB plan funded status falls to 70% or less. The OPEB plan started the year in an overfunded status, and the actuarial valuation as of 8/31/22 indicated the funded status was 91.9%. 2023 budgeted levels are above the current actuarially recommended contribution of $296,000.*

Water Budget: It appears there is a $5 million increase for watershed conservation and restoration. Is this part of the work we already approved earlier this year or is this in addition to that work?

RESPONSE: *Yes, this is consistent with the original guidance provided with the approval of the Watershed Recovery Fee. Regarding the Watershed Restoration budget comparison from 2022 to 2023, below is a break-down of the 2022 projected year-end actuals and the budget request for 2023. For 2022, the Board will see a budget amendment in December to approve increased expenditures above the approved budget of $4,275,000 due to grant funded/reimbursable work ($1.2 million budget increase request). This aligns with the Board update provided in July that showed an approximately $200,000 budget increase outside of grant funded work for 2022. For 2023, the total watershed restoration budget of $10.4 million includes $3.3 million of EWEB surcharge fees + $7.1 million in outside funded work that is included in the budget packet for Board approval in December.*

<u>Watershed Restoration Expense Funding Update</u>

Year	2022 (YE Forecast)		2023	
Funding Source	EWEB Surcharge	Outside Funding	EWEB Surcharge	Outside Funding
Risk-Based	$3,250,000	$300,000 (ODF)	$2,000,000	$3,600,000 (ODF, OWEB, USDA)
Resiliency	$1,055,000	$750,000 (OWEB)	$1,150,000	$3,500,000 (OWEB, USFS)
Strategic	$120,000	$0	$150,000	$0

Total Budget Expenditures	$4,275,000 (2022 Approved)	$0	*$3,300,000 (2023 Proposed)*	*$7,100,000 (2023 Proposed)*
2022 Budget Amendment Request	*$150,000*	*$1,050,000*	*N/A*	*N/A*

Italics reflect Board action still needed to approve 2022 budget amendment and 2023 proposed budget expenditures.

Grants totaling approximately $4 million have been awarded but not yet received and therefore are not included in revenue. Grant funded work will draw on reserves if we are not reimbursed in the same budget year.
Likewise, receipt of those funds would reduce the overall draw from reserves. Additionally, spending in the early years of the restoration will outpace the collection of the watershed recovery fee and those expenses will come out of working cash/reserves until we collect those fees.

In Q1/Q2 2023, management will solicit direction from the Board to determine whether to expand the scope of work going forward or use external funds (e.g. grants) to reduce EWEB customer's contribution (i.e. fee).

Electric Budget: Assuming this budget doesn't include rate impacts from Leaburg, what will the process be? Will we have to vote on another rate hike after we decide the course of action on Leaburg? Or will the cost of Leaburg not hit the rates until 2024?

RESPONSE: *Because large scale expenditures for Leaburg are not expected to begin for several years, we do not anticipate a need for a mid-year rate action. As a part of the 2024 planning process, Finance will bring to the Board options that would include pre-funding (potentially as early as 2024), timing rate impacts to align with borrowing for the project, trajectory smoothing, and/or a combination of the above funding strategies.*

Topic: Rates - What is the main driver leading to a 4% increase for residential and small customers but only a 1.6% increase for large general customers?

RESPONSE: *The main driver for a comparatively smaller increase for Large General Service Customers is a result of a reduced energy and demand forecast for that customer class. A customer class audit revealed a shift for several Large General Service customers to the Medium General Service class. Residential, Small General Service, and Medium General Service energy and demand is expected to increase and are allocated a larger portion of the cost pie.*

Topic: Table 8 Rate Design Study - Why are the costs of service referred to as tariffs?

RESPONSE: *Tariff is a utility industry term inclusive of rates. Internally, we use the term interchangeably with rates and prices. We intend to update for consistent terminology in future price proposals.*

What part of the $900,000 increase in CILT is attributed to the rate increase?

RESPONSE: *Approximately $335K of the increase in CILT is attributed to the rate increase, while the remainder is due to an increase in budgeted retail sales.*

Page 18 of the Budget document, titled General Manager Operations & Maintenance Budget, please explain the 60% increase in insurance cost.

RESPONSE: *The 60% increase in insurance cost is based on increasing premiums and adjustments after an appraisal on our Property Policy. The industry is signaling a 10-12.5% increase for non-wildfire liability premium costs. Wildfire liability coverage costs have increased substantially and our Insurance carriers have provided a stepped approach to the increased premiums spreading it out over several years. Wildfire premium costs have escalated from $250K to $605K. We completed an appraisal to verify that we have sufficient coverage and the increased value of our Property Portfolio further drove up our premiums. Our broker helped us negotiate a stepped plan with our three property insurers to spread that increase over three years, in 2022, 2023, and 2024. Property values are expected to continue to increase an* *additional 18% in 2023 due to inflation and supply chain challenges. The total budgeted amount during the 2021 budget cycle was $1.18 million, actual costs for 2022 insurance renewals are $1.6 million, 2023 is projected at $2.1 million.*

(Phone in from Commissioner) Why is the Electrification budget increasing from $600k to $1.25m and what is included in the line item (page 24 of board memo)?

RESPONSE: *The Electrification budget houses the transportation and building electrification budgets. The transportation electrification (TE) budget is funded by the monetization of credits from the Clean Fuels Program (CFP), which continues to increase year after year and is projected to continue to do so in the future. The building electrification (BE) budget is funded by rate paying customers.*

The increase of the Electrification budget is a reflection of the forecasted increase in revenues of the CFP that funds the transportation electrification portion of the budget. Although it may seem like a big jump from 2022 to 2023, CFP revenue also increased based on the 2021 year actuals, which will require a budget amendment for the 2022 electrification budget.

(Phone in from Commissioner) What amount of electrification is economical in EWEB's service territory and how much will the 2023 budget achieve? Are we leaving any potential EWEB service territory on the table?

RESPONSE: *Using EWEB's present rate levels and structure, expanding rate-based electrification is difficult to economically justify, as increased electrification revenue typically doesn't offset the level of incentive needed to sway behavior. The utility's (and customer's) economics could be enhanced if a financial value were placed on carbon emissions improvements of which the utility could capture the monetary value (similar to the Clean Fuels Program mentioned above). Customer costs to electrify are high and incentives that could influence that behavior may have a long payback in consideration to the load they bring; this is even more of a case with providing equitable access to electrification through incentive efforts. New Federal and State programs are coming in 2023 that may help with these costs. Although an evaluation of our current programs was not included in our 2020 or 2021 Electrification Studies, program staff have been studying the data and trends.*

<u>Consent Calendar</u>

CONTRACTS

<u>Pacific Excavation, Inc. – for additional funds for the Construction of Pipeline Improvements to Support Pump Station Construction. (MASTERS/KELLEY)</u>
Are these costs coming out of SDC fees, and if not, why not?

RESPONSE: *This project is set to be funded by rates, not System Development Charges (SDC). SDC funding is directed toward projects included on an SDC project list developed in conjunction with the Water Master Plan. EWEB staff typically work with an SDC consultant to identify which projects qualify for SDC funding in compliance with EWEB's approved methodology and State Administrative Rules.*

While the expanded scope of this project does bring added capacity to the system, it does not qualify for SDC funding because, as emergent work, it was not identified in the current Project List. Staff are currently in the process of updating the SDC methodology and a new SDC project list which will capture all development driven projects known at this time.

The original consent request approved in August 2022 included $842,000 to build the pump station. Since the existing pump station does not meet current requirements to provide sufficient fire flow to the area, let alone the new development, the Developer contributed approximately 28% of the funds for the pump station project as their proportional share.

Does the contract amount include the costs of a new street that will be required as a result of the construction?

RESPONSE: *The costs in this consent request do include restoring the road to the City of Eugene's standards as determined by our Utility Right of Way permit. Given the narrow width of the road in the project area, the road will essentially be fully rebuilt at the end of the pipeline project.*