



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 and Ben Sachdeva, Senior Financial Analysts
DATE: September 30, 2020
SUBJECT: 2021 Draft Budgets, Long-Term Financial Plans Update, and Price Proposal
Overview
OBJECTIVE: Direction on 2021 Budget and Price Changes

Issue

Board Policy SD6 and Oregon Statutes require that staff annually prepare Electric and Water Utility balanced budgets for Board approval by the end of the preceding calendar year. The foundation of the Electric and Water Utilities' budgets are the long-term financial plans (LTFP), which help ensure that the budgets approved provide long-term financial stability for both utilities, and EWEB's strategic plan, which drives organizational initiatives and objectives. Staff has prepared draft 2021 budgets and updated LTFPs for the Board's consideration.

Based on Board direction provided at the October 6th meeting, staff will develop budgets and price proposals for consideration at the November 3rd Board meeting and approval at the December 1st meeting.

Background

In recent years, actions have been taken that have improved both the Water and Electric Utilities' financial resiliency. Those efforts provided both Utilities with much needed financial headroom in these challenging economic times, as businesses, residential customers, and government agencies all face financial pressures related to the pandemic and high levels of unemployment. Recent efforts to reduce pension costs, refinance debt, and lower operating costs have allowed both Utilities to increase capital investment without an increase in overall customer rates.

EWEB annually prepares organizational budgets and uses this information for each Utility's Cost of Service Analysis (COSA). The results of this analysis can be recommendations to modify pricing among or within customer classes for retail water and power supply service. Although EWEB does not require an overall increase in revenue collected, the COSA provides guidance to inform decisions to allocate costs more equitably among customers as usage patterns and operating budgets shift over the years. The COSA will be presented at the November board meeting.

Discussion

A primary focus for 2021 and beyond is updating infrastructure that supports EWEB's strategic direction in *Improving Resiliency* and *Fostering Customer Confidence*, as well as the core values of Safety, Reliability, Responsibility and Community. The current financial plans incorporate the

level of capital spending, recommended at the July 7th Board meeting, which will support these values and organizational priorities.

Since July, however, events of 2020 have highlighted the need to re-engage in the discussion of appropriate future levels of capital investment. In addition to the recommended capital plan, the July presentation of the Financial Plans and the Capital Improvement Plans (CIP) referenced scenarios with higher capital investment for both utilities. Those scenarios have been refreshed and are included as attachments. Fire in the McKenzie Valley (Holiday Farm Fire) has underscored the need for a second source of drinking water, as well as an opportunity to better secure the health of the watershed. The damage to EWEB's electric infrastructure as a result of the fire has also created an opportunity to optimize EWEB's assets to better serve the customer. Finally, both the fire and COVID19 have challenged management to better understand which investments today would improve EWEB's response to a future disaster. Any further direction on capital spending, would be incorporated into plans going forward.

Overarching Forecast Assumptions

The assumptions used in creating forecasts and budgets influence the results. The following assumptions have been used in developing the current forecasts and are anticipated to be used in creating the 2021 budget. Utility specific assumptions are noted on the Attachments.

At the July Meeting, the Board directed staff to prepare the draft 2021 budgets based on the assumptions presented. Since July, the following assumptions have been incorporated into the 2021 base year:

Both Utilities

- Updated base year from 2020 approved budget to 2021 draft budget, incorporating Board directions:
 - Conservative revenue assumptions related to COVID-19 and associated economic conditions
 - Capital improvement plans generally as presented in July
 - Reductions in travel and training costs
- Updated benefits costs, and direct labor and overhead budgeted shifts due to capital
- Updated accounting guidance on treatment of software costs

Long-term Financial Plan Price Assumptions and Outcomes

Electric

As drafted, the Electric Utility LTFP indicates no overall average revenue requirement change in 2021. This will be six out of the seven most recent years, the Electric Utility would have no overall increase in the overall revenue requirement. The Electric LTFP outcome is included in Attachment 1. With the price assumptions noted, financial metrics are within Board targets for all years of the plan. For reference, Attachment 2 provides financial metric information if wholesale prices decreased by 20%. Management is recommending that the Board consider a more robust capital investment plan, represented in Attachment 3, as the basis for fiscal planning going forward. Should the board agree with this recommendation, Attachment 3 demonstrates the ability of the electric utility to increase capital investment by \$100 million over ten years, while maintaining the present rate trajectory and meeting Board financial policy metrics.

Water

In the absence of additional McKenzie Watershed recovery funding, the Water Utility is forecasting no additional revenue requirement through 2021. This will be the fourth consecutive year the water utility has no increase in overall revenue requirement. All Board approved financial metrics remain within target across the ten year plan. The Water LTFP outcome is included in Attachment 4, and Attachment 5 shows the Water LTFP with an additional \$50 million in capital investment, mostly driven by additional funding for a second treatment plant. At Management's request, the board may also wish to consider a surcharge to cover costs associated with watershed restoration and preservation. Initial estimates indicate that a "McKenzie Watershed Recovery Surcharge" in the range of 3%-5% for 3-5 years supports the non-capital recovery efforts needed.

2021 Budgets

Draft budgets were developed in alignment with EWEB's strategic priorities and total \$331 million for water and electric utilities. Some of the high priority capital projects include resiliency work, advance metering and other modernization upgrades, as well as continued Carmen-Smith relicensing work.

Staff from across the utility are actively working on assessment of damage to EWEB's infrastructure and the watershed as a result of the Holiday Farm Fire. Those costs remain largely unknown at this point as do the reimbursement possibilities through both insurance and FEMA. Accordingly, they are not included in the draft budgets as presented. As EWEB obtains better access to the area and more information becomes available, the impact will be incorporated into the financial planning.

The total draft budget is \$2 million (0.9%) higher than 2020. The increase is due to the following net changes:

- Higher Water and Electric capital investment by \$3.1 million and \$2.2 million, respectively
- Higher debt service of \$0.6 million for the combined utilities, due to 2020 debt issuances
- Offset by lower operations and maintenance costs of \$3.8 million due to lower purchase power costs and the shift of labor and overhead due to higher capital spending.

Although the total budgets are higher in 2021 as compared to 2020, there is no change in the overall revenue requirement for either utility. As a public utility, EWEB sets pricing based on the cost to serve each customer class. At the November Board meeting, staff will present the results of the cost of service analysis which may result in recommended price changes within customer classes.

Recommendation

Management recommends the Board direct staff to prepare the 2021 proposed budgets using the assumptions set forth in this document. Management also recommends the board direct staff to develop future capital plans consistent with the higher levels of investment incorporated in Attachments 3 and 5.

Requested Board Action

Management is not requesting Board action at the October 6th meeting; however, staff is requesting that the Board provide direction on the assumptions included in the draft budget. In addition, staff is requesting direction on investment levels for future capital plans. At the November 3rd Board meeting, Management will present the budgets and price change proposals

which are scheduled to be approved at the December 1st Board meeting.

Attachment 1 - Summary of Electric LTFP Price Assumptions and Outcomes

Attachment 2 - Summary of Electric LTFP Outcomes with 20% Wholesale Price Decrease

Attachment 3 – Summary of Electric LTFP Outcomes with Additional \$100 million in Capital Investment

Attachment 4 - Summary of Water LTFP Price Assumptions and Outcomes

Attachment 5 - Summary of Water LTFP Outcomes with Additional \$50 million in Capital Investment

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

Yellow = within 10% of target

Red = below target

Key Metrics	Current Target	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Reserves and Cash	\$85,720	\$104,400	\$100,400	\$97,000	\$96,200	\$96,200	\$99,100	\$102,900	\$105,300	\$102,700	\$94,400
Debt Service Coverage Ratio	1.75	2.01	2.20	1.75	1.75	2.19	2.35	2.33	2.18	1.98	1.92
Days Cash	>150 Days	192	192	178	174	173	178	189	190	183	164

Revenue Requirement Assumptions:

Price Schedule	<u>10 Year Compound Growth</u>										<u>2030</u>
	2021	2022	2023	2024	2025	2026	2027	2028	2029		
General Rate Increase			2.50%	2.00%	1.00%						
Carmen-Smith Debt		1.75%									
BPA Increase		2.50%		2.50%		2.50%		2.50%		2.50%	
Average overall price impact	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 2.2 million MWh's, roughly 6% below 2020 budget due to reduced commercial demand as a result of the economic impacts from COVID-19, as well as due to a 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
- Melded mid-market price curve increasing from \$29/MWH in 2021 to \$37/MWH in 2030, which is consistent with the July financial plan's

wholesale market prices

- Environmental Commodities represent roughly \$2.0 million of wholesale revenue
- Full-year Leaburg generation outage in 2021, normal production for other McKenzie projects
- Bond issuance: \$46.3 million in 2023 funding capital work
- Reserves assumptions:
 - Draw of \$10.0 million of Rate Stabilization Reserve funds for capital work over the years of 2022, 2023, 2024, and 2030
 - \$1.0 million per year contribution to meter replacement reserve starting 2021 based on 12-year estimated life

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

20% Wholesale Price Reduction

Yellow = within 10% of target

Red = below target

<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 and Cash	\$85,720	\$100,600	\$93,000	\$85,800	\$80,300	\$74,800	\$72,500	\$71,700	\$69,700	\$62,700	\$50,400
Debt Service Coverage Ratio	1.75	1.76	1.98	1.53	1.50	1.90	2.06	2.09	1.95	1.75	1.71
Days Cash	>150 Days	185	178	158	146	136	133	136	131	117	95

Revenue Requirement Assumptions:

<u>Price Schedule</u>	<u>10 Year Total</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>
General Rate Increase				2.50%	2.00%	1.00%					
Carmen-Smith Debt			1.75%								
BPA Increase			2.50%		2.50%		2.50%		2.50%		2.50%
Average overall price impact	21.45%	0.00%	4.25%	2.50%	4.50%	1.00%	2.50%	0.00%	2.50%	0.00%	2.50%

**Summary of Electric LTFP Revenue Requirement Assumptions and Outcomes (000's omitted)
Additional \$100 million in Capital**

Yellow = within 10% of target

Red = below target

<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 and Cash	\$85,720	\$104,400	\$94,500	\$94,500	\$94,500	\$94,500	\$94,500	\$94,500	\$94,500	\$94,500	\$88,300
Debt Service Coverage Ratio	1.75	2.01	2.69	1.95	1.89	2.43	2.22	2.35	1.89	1.85	1.87
Days Cash	>150 Days	192	183	180	178	178	172	180	175	174	157

Revenue Requirement Assumptions:

<u>Price Schedule</u>	<u>10 Year Total</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>
General Rate Increase				2.50%	2.00%	1.00%					
Carmen-Smith Debt			1.75%								
BPA Increase			2.50%		2.50%		2.50%		2.50%		2.50%
Average overall price impact	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: \$81.4 million in 2023 and \$33.6 million in 2027 funding capital work
- Draw of \$16.1 million of Rate Stabilization Reserve funds for capital work over the years of 2022 and 2030

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

Yellow = within 10% of target

Red = below target

<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	\$36,000	\$34,800	\$33,700	\$40,700	\$41,000	\$33,000	\$19,600	\$22,700	\$24,400	\$29,000
AWS Reserve Balance		\$5,100	\$4,800	\$4,400	\$4,000	\$100	\$3,100	\$0	\$0	\$0	\$0
AMI Reserve		\$0	\$0	\$0	300	800	\$1,400	\$2,000	\$2,600	\$3,100	\$3,700
Total Cash Reserves	\$12,680	\$41,100	\$39,600	\$38,100	\$46,700	\$45,000	\$34,500	\$21,700	\$25,400	\$27,600	\$32,800
Bond Funding					\$35M			\$24M			\$28M
DSC	2.00-2.50	17.06	5.05	4.63	4.02	3.34	3.93	4.03	3.38	3.94	3.61
Days Cash	> 150 days	750	698	636	709	641	500	305	336	351	398
Average impact resulting from change in revenue requirement	21.41%	0.00%	0.00%	3.33%	6.00%	5.50%	0.00%	0.00%	2.50%	2.50%	0.00%

Key Assumptions

- 7.4 million KGAL consumption
 - Current revenue scenario assumes 5% reduction in consumption 2020-2021 (from 2019) with 2% recovery in 2022, held flat through 2024
- Contribution margin risk tolerance of \$1 million in 2021 (95%) and reduced sales impact of 5% of \$1 million
 - Risk tolerance then decreases to an average of \$1.5 million from 2022-2025 (93%), and returns to expected conditions thereafter (95%)
- Contributions to meter reserve starting 2025 based on 20 year estimated life
- \$87 million total bond issue, funding second filtration plant (2025-2027 placeholder of \$55 million) and other capital work
- \$3 million System Development Charge reserve draw for debt service payments in 2021

Expanded Water LTFP with \$50 Million Additional Capital for Second Source Capital (000's omitted)

*Yellow = within 10% of target**Red = below target*

<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	\$36,000	\$34,800	\$34,000	\$40,000	\$39,300	\$38,200	\$22,900	\$22,400	\$20,300	\$21,400
AWS Reserve Balance		\$5,100	\$4,800	\$4,400	\$4,000	\$0	\$0	\$0	\$0	\$0	\$0
AMI Reserve		\$0	\$0	\$0	\$300	\$800	\$1,400	\$2,000	\$2,600	\$3,100	\$3,700
Total Cash Reserves	\$12,680	\$41,100	\$39,600	\$38,400	\$44,300	\$40,100	\$39,600	\$24,900	\$25,000	\$23,400	\$25,100
Bond Funding					\$85M			\$24M			\$28M
DSC	2.00-2.50	17.06	5.06	4.69	3.08	2.17	2.61	2.60	2.44	2.67	2.51
Days Cash	> 150 days	750	700	649	711	600	585	354	341	299	307
Average impact resulting from change in revenue requirement	28.71%	0.00%	0.00%	3.33%	6.00%	6.00%	2.50%	0.00%	4.00%	4.00%	0.00%

Key Assumptions (same as above with the following exception)

- Bond issuance: \$137 million to fund second source and other capital work