

# Budget to Actual – Q1 2018

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# Topics Covered

1. Process Defined

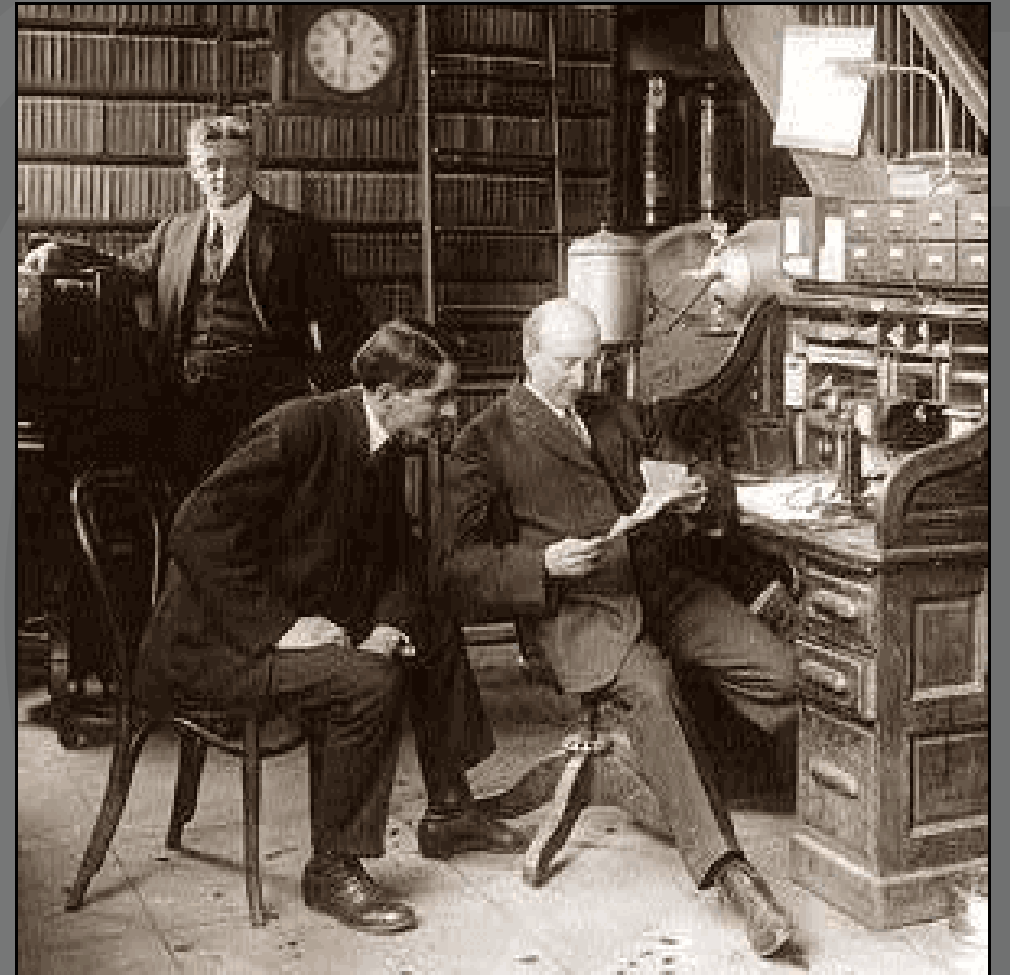
2. Preliminary 2017 Results



# 01

## Budget to Actual – Process Defined

*A budget is the primary tool in business for planning, tracking, and controlling spending*



# Budget to Actual - Process Defined

- **What Is the Purpose of Budgeting?**
  - **Plan, track, and control spending.**
    - The purpose is to ensure that spending follows a plan, supports business objectives, stays within preset limits, and does not exceed available funds.
    - This is achieved by implementing an effective cost control system based on budgetary controls and responsibility centers.

# Budget to Actual - Process Defined

## Budgetary control:

- A control technique whereby actual results are compared with budgets.
- Any differences (variances) are made the responsibility of key individuals who can exercise control action – CXOs, MDs, Senior Mgrs, Mgrs and SMEs

## **Budgetary control and responsibility centers** - Enable managers to monitor organizational functions.

- **Today**
  - **Revenue centers** - Organizational units in which outputs are measured in monetary terms but are not directly compared to input costs. Example - Retail Revenue/Contributions in aid of Construction
  - **Cost centers** - Units where inputs are measured in monetary terms but outputs are not.
- **In the Future**
  - **Profit centers** - Where performance is measured by the difference between revenues (outputs) and expenditure (inputs). Inter-departmental sales are often made using "transfer prices"
  - **Investment centers** - Where outputs are compared with the assets employed in producing them, i.e. ROI

# Budget to Actual - Process Defined

## ✓ Advantages to budgeting and budgetary control:

- ✓ Compels management to look ahead, to set out detailed plans for achieving the targets for each department, operation and each manager, to anticipate and give the organization purpose and direction.
- ✓ Promotes coordination and communication.
- ✓ Clearly defines areas of responsibility. Requires managers of budget centers to be made responsible for the achievement of budget targets for the operations under their personal control.
- ✓ Provides a basis for performance appraisal (variance analysis). A yardstick against which actual performance is measured and assessed.
  - ✓ Control is provided by comparisons of actual results against budget plan. Departures from budget can then be investigated and the reasons for the differences can be divided into controllable and non-controllable factors.

# Budget to Actual - Process Defined

- ✓ **Advantages to budgeting and budgetary control (Continued):**
  - ✓ Enables remedial action to be taken as variances emerge.
  - ✓ Motivates employees by participating in the setting of budgets.
  - ✓ Improves the allocation of scarce resources.
  - ✓ Economizes management time by using the management by exception principle.

# Budget to Actual - Process Defined

## Five components to an effective cost control system:

1. Preparation of annual budget
2. Formation and communication of budgets with all concerned
3. An accounting system that will record all actual costs
4. Preparing statements that will compare actual costs with budgets, showing any variances and disclosing the reasons for them, and
5. Taking any appropriate action based on the analysis of the variances

***Components 1-3 completed***

***Components 4 and 5 are the focus of this effort***



# Budget to Actual - Process Defined

## ✓ Reporting and Explanation of Results:

### ✓ Frequency

- ✓ Quarterly reporting of last reporting period results (Feb 2018 report – Q4 2017 Results)

### ✓ Method

- ✓ Quarter Business Review – Departmental reports will include both budget to actual and forecasted year-end results with major variances explained.
- ✓ Quarterly Consolidated Budget to Actual Report – District wide performance will be provided and variances explained by Management to Commission.

### ✓ Other

- ✓ Process to report and consolidate will involve all levels of management. To ensure accurate explanations and a thorough understanding.
- ✓ Materiality will be based on both absolute \$ variance and % of total budget
- ✓ Internal frequency to increase to monthly once process and systems efficiency is increased / completed

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# Budget to Actual – Preliminary 2017 Results



# Results – Preliminary 2017 Results

*Figures in millions of dollars*

	Capital			Labor			O&M		
	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance
<b>CEO</b>	0.0	0.0	0.0	1.2	1.3	0.1	1.7	1.4	-0.3
<b>CCO</b>	0.1	4.3	4.2	5.3	5.4	0.1	5.7	4.2	-1.5
<b>COO</b>	158.7	128.4	-30.3	48.3	50.2	1.8	28.8	31.1	2.3
<b>CFO</b>	5.8	4.4	-1.4	11.7	10.8	-0.9	12.2	12.2	0.1
<b>Total</b>	<b>164.6</b>	<b>137.1</b>	<b>-27.5</b>	<b>66.5</b>	<b>67.6</b>	<b>1.1</b>	<b>48.4</b>	<b>48.9</b>	<b>0.5</b>

- ✓ Capital variance primarily from delayed/cancelled projects and schedule slippage
- ✓ Labor overages primarily from overtime
- ✓ O&M overage mostly from apron repairs less conservation savings

# Presentation Takeaways - That Which Is Measured Get's Tracked

- ✓ Refined and Improved Process
  - ✓ Granularity
  - ✓ Nimbleness
  - ✓ Accountability
- ✓ Better Outcomes Short-term and Long-term
  - ✓ Financial
  - ✓ Operations
  - ✓ More robust long-range planning



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# Information Technology

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Commission Update – Q1 2018



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# Departmental Purpose and Goal

**Purpose:** The mission of the Information Technology (IT) organizational unit is to deliver strategic advantage to Grant PUD through the innovative use of technology, software, data, analytics, business intelligence, and automation.

**Goal:** To directly support the Grant PUD strategic plan as a means to reduce business risk and operating costs, improve efficiency and safety, derive valuable business insights from data, and support a culture of safety and compliance.

# Major Accomplishments for 2017

- Reduced short-term and long-term costs without sacrificing quality or system performance.
- 2017 Reorganization – IT now reports directly to the CFO and is functioning as a standalone business unit. Facilitated a clean transition from the Internal Services business unit.
- IT Project Management Office (PMO) launched as a standalone entity. This is a paradigm shift for Grant PUD, and the PMO will focus on maximizing value by creating positive project outcomes and effective portfolio management.
- Corporate financial system upgraded successfully.
- Significant increase in use of automation to improve efficiency and reduce errors.
- Technology and Cyber Security steering committees launched.



# KPI Dashboard - 2017

Key Result Area	KPI	KPI Measure	Quarterly Scores			
			Q1	Q2	Q3	Q4
Financial	F-1	<b>O&amp;M Budget to Actuals</b> (On Track=Green, Over but may recover=Yellow, Over will not recover=Red)	▲	▲	▲	▲
	F-2	<b>Capital Budget to Actuals</b> (On Track=Green, Over but may recover=Yellow, Over will not recover=Red)	▲	●	▲	▲
	F-3	<b>Labor Budget to Actuals</b> (On Track=Green, Over but may recover=Yellow, Over will not recover=Red)	▲	▲	▲	▲
Operational	O-1	<b>Customer Satisfaction</b> (>80% is Green, 65-79% = Yellow, <65% = Red)				▲
	O-3	<b>Help Desk First Contact Resolution</b> (>65% is Green, 50-64% = Yellow, <50% = Red)	●	●	▲	▲
Compliance	C-1	<b>CIP Compliance</b> (No self-reports or audit findings = green, self-reports but no audit findings = Yellow, audit findings = Red)	▲	▲	▲	▲
	C-2	<b>Annual State Audit</b> (No findings = Green, audit findings = Red)				▲
	C-3	<b>Annual Independent Audit (PWC)</b> (No findings = Green, audit findings = Red)				▲
Workforce	W-3	<b>Safety Culture</b>				▲

## Notes

- Identified many opportunities to streamline the IT O&M Direct spending to align with Vision 2021 objectives.
- Labor Budget was under-budget for 2017 due to 3 open positions Overtime was also under-budget.
- Capital Budget is under for the year. Capital projects came in under initial estimates due to improvements in underlying technology platforms and strategic shifts in approach.
- Customer Satisfaction is a measure of Help Desk performance only at this time.
- Help Desk was at 50-75% capacity for 2017 which put pressure on key Help Desk metrics, but lifecycle project load on resources for 2017 was favorable for these conditions.
- IT continues to perform well in compliance and development of a strong safety culture.

\*CIP, Annual State Audit, and Independent Audit indicators reflect last fully completed audits.

\*\*Safety Culture indicator based upon no recordable safety incidents or days away from work for safety reasons in 2017.

# Financial Performance, FY 2017

## Budget

O&M Directs - \$3,393,256

Labor - \$ 2,693,321

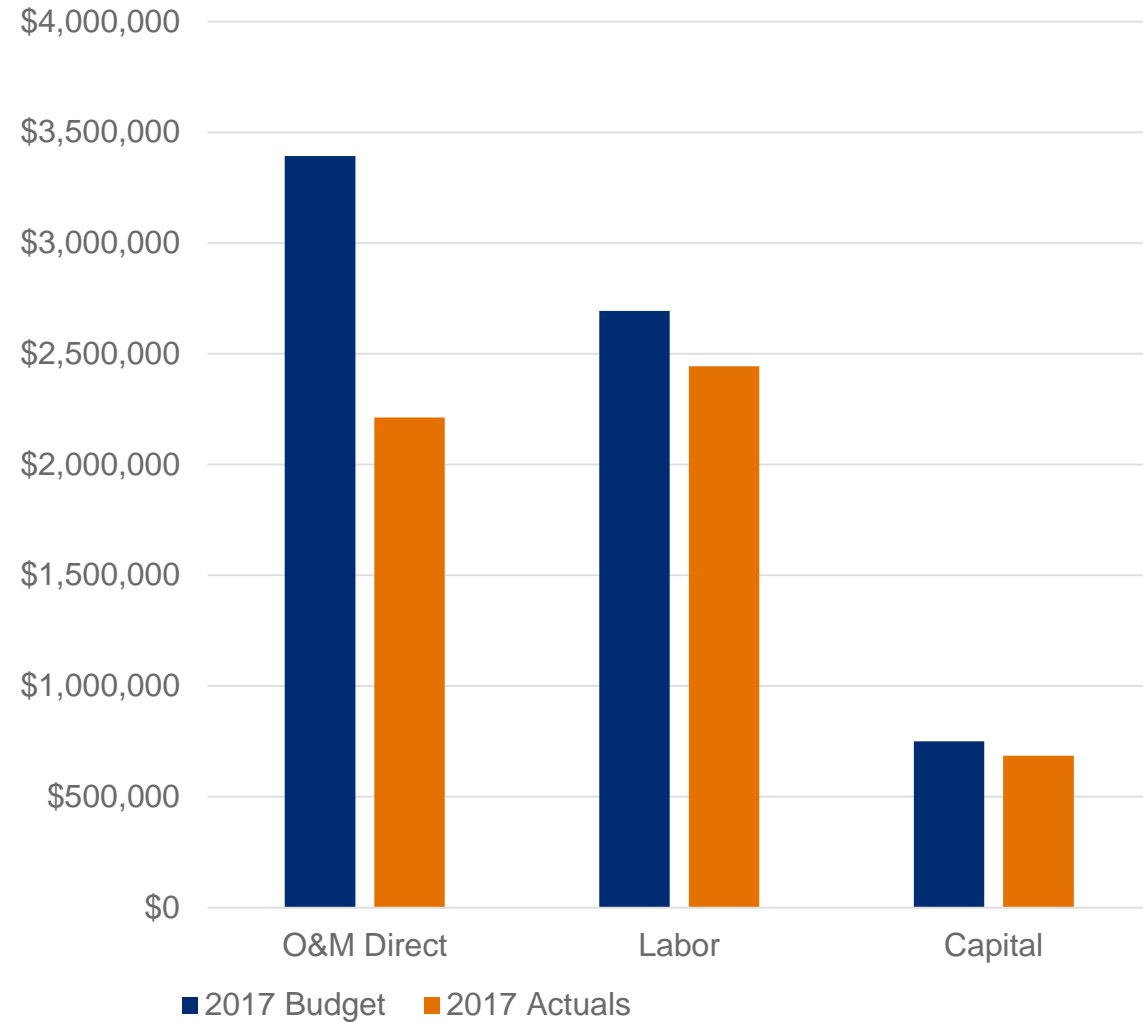
Capital - \$751,000

## Actuals

O&M Directs - \$2,212,246

Labor - \$2,443,522

Capital - \$686,020



# Financial Forecast, FY 2018

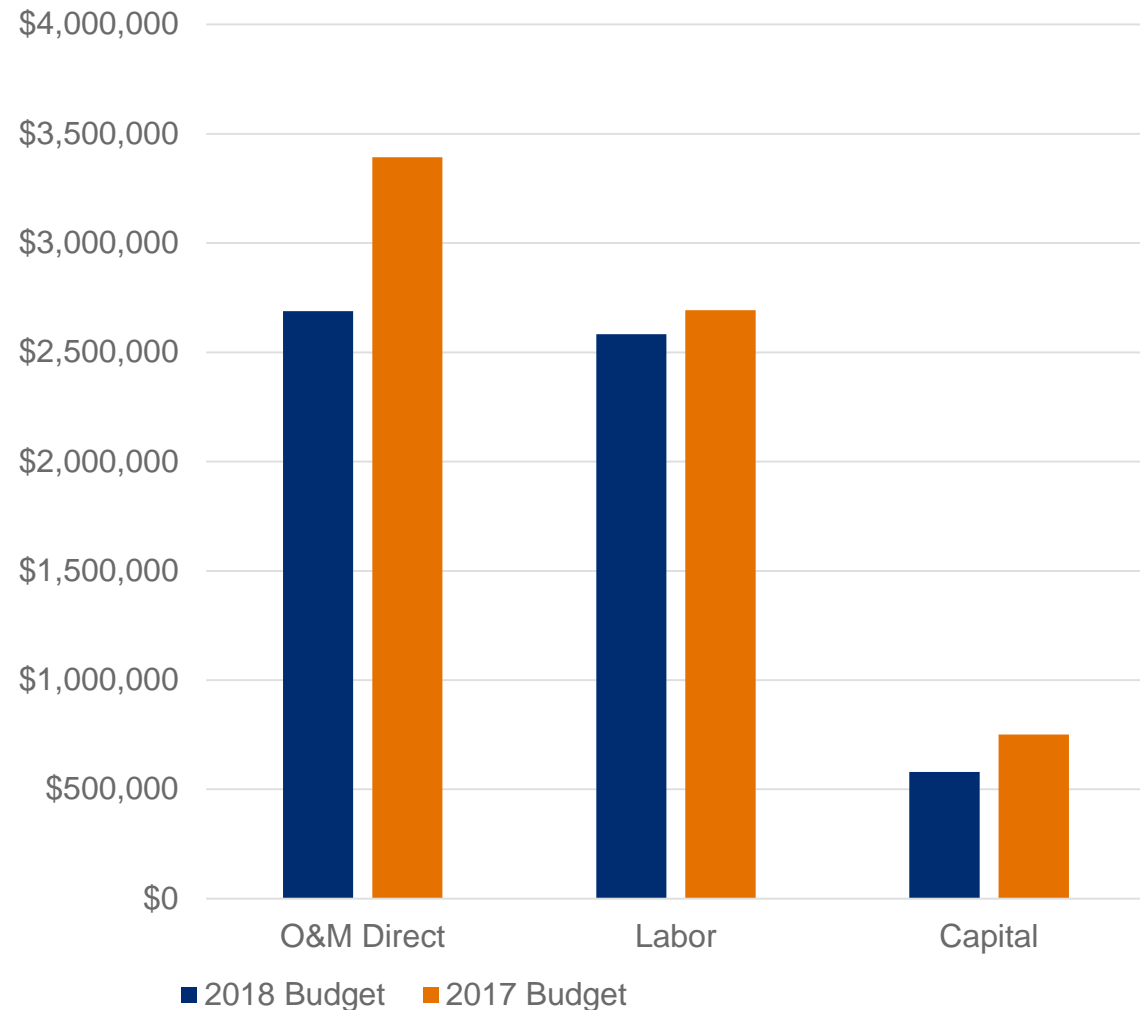
## 2018 Budget

O&M Direct - \$2,687,706 (-21%)

Labor - \$2,582,674 (-4%)

Capital - \$580,000 (-23%)

- 2018 Budget O&M direct budget derived 2017 actuals, licensing optimization, and functional area budget targets.
- Labor Budget reduced in lieu of open FTR positions.
- Capital budget aligns with 2018 project schedule.
- Reductions report well financially, but may lead to lost opportunities due to under-investment in technology.



# Major Projects and Initiatives for 2018

- Enterprise technology strategy and roadmap.
- Data Center upgrades to server and storage platforms.
- Cyber Security program.
- Disaster Recovery program.
- Microsoft Windows 10 rollout.

# Significant Challenges

- Managing high demand for IT talent and services within current resource constraints.
- Size of the IT application and service portfolio.
- Enterprise IT strategy and roadmap needed to align IT to business and clarify project priority.
- Acquisition and retention of IT resources.



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# 2018 State Legislative Update



**Feb. 13 Commission Presentation**

01

# 2018 Carbon / Energy Legislation

## Overview



# 2018 Carbon / Energy Legislation Overview

## Multi-State / Multi-Sector

- California cap and trade program / rule development is on-going. Also 50% RPS Standard.
- Oregon cap and trade legislation (modeled after CA) – status – not likely to pass in 2018.
- Oregon – phase out of coal by 2035 and 50% RPS by 2040 for IOUs. (OR SB 1547 2016)

## Multi-Sector Carbon Tax / GHG goals

- SB 6203 (Governor's) Carbon Tax Proposal (\$10/ton annual increase of \$2.00 /yr. up to \$30/ton. (Was \$20 / ton plus 3.5%/ yr. plus inflation) Up to 100% of tax revenues retained in clean energy investment fund approved by Board. Statute defines elements of an approvable plan. Certain large industries (and energy used) may be exempt by rulemaking or via specified NAISC code. NTIB
- Initiative – Climate Solutions (\$tax rate and rate of increase not specified yet), 70% tax revenues may be retained in a GHG reduction fund; more monies going to social justice and environmental concerns). (Initiative-2018 much better funded than before)
- HB 2294: Increase GHG reduction goals for WA state in 2035 and 2050 (80% below 1990 levels). DNP

## I-937 RPS / Distributed Generation / Net Metering

- HB 2283: (DeBolt) Transition I-937 to clean energy goals effective 2028; limitation on new NG.
- SB 6253: (Ranker) Requires all energy to use distributed energy and zero carbon resources by 2045; Tapers off NG use 25% by 2030, 50% by 2035, 75% by 2040 and 100% by 2045. Prohibits new hydro unless used for pumped storage. Penalties added. Exclusions removed.
- HB 2402: Modifies EIA to provide new load growth must be met with renewables (no coal, new hydro, NG, nuclear etc.), increases RPS to 50% by 2040; adds incremental federal hydro, includes small and NG utilities in conservation requirement; authorizes a market customer concept and a customer charge for conservation. DNP.
- HB 1233 / 2897: Optional DER planning and planning for EV infrastructure in IRP.
- HB 2510 / SB 6081: Increase net metering system limits from 100 kW to 1000 KW or 0.5% to 6% of 1996 retail load.

## EV Infrastructure / Solar / Low Carbon Fuel Standards

- HB 6187 EV Authority: Authorizes Cities and PUD's investment in EV infrastructure pursuant to a plan that shows such investments are cost-effective.
- Community Solar Gardens: Requires purchase of CS energy at retail rate plus any unsubscribed amount for 25 years at utilities avoided cost.
- HB 2328: (Morris) Reducing emissions by making changes to the clean car standards and clean car program by authorizing Ecology to adopt a zero emission program like the CA program.
- HB 2338: (Fitzgibbon) Requires Ecology to adopt rules to reduce carbon in fuels by 10% by 2028.

02

# Governor's Carbon Tax Bill

## Overview

# Breakdown of Governor's Carbon Tax Bill

## Issues of Concern:

1. July 1, 2019 start does not give enough time to work out complicated tracking issues;
2. Impact on customers not well understood;
3. High cost to require only zero carbon resources by 2045;
4. Risk of veto by the Governor of key sections that we like;
5. Administrative costs of a clean energy investment plan remain uncertain
6. Risk of added requirements.

## Key Provisions:

1. Tax rate is \$10.00 / MT – down from \$20.00 / MT.
2. Tax is applied to in-state generation and first point of sale in Washington but excludes energy wheeled through the state and allows netting of imports and exports within the same hour;
3. Applies default emissions rate of 0.428/MWh consistent with western states (and CA).
4. Exempts tax on fossil fuels and electricity sold to or used by ag-food processors under RCW 82.04.260, off-road diesel for farmers, energy intensive trade-exposed (EITE) industries identified by criteria in the statute, and those with specified NAISC codes;
5. Up to 100% of the tax owed by a utility is exempt if the tax is invested in a Commission approved clean energy investment plan;
6. May aggregate clean energy investment plans with other utilities and JOA;
7. Investments must be additive to what is already required;
8. Rural economic development and rural broadband accounts are created;
9. Preemption language negates the tax if there is an expansion of the RPS; a law enacted that restricts fuel sources for meeting new load; or a law passed that imposes a cap on emissions within the state.

Note: Speaker Chopp has said that he does not want to push a carbon tax this year. May be a road block in the House even if the bill passes the Senate.

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# Carbon State Initiative Overview

# Compare with Possible “State Initiative”

1. Rate is not specified. Increase at rate of inflation. Has no cap like the Governor’s bill.
2. Up to 70% of tax may be retained by the utility under an approved GHG reduction plan.
3. Off road diesel for farmers and energy intensive trade exposed (EITE) companies identified by criteria and rulemaking.
4. 25% of retained revenues must go to low income customer assistance.
5. Tax revenues retained but not expended may be banked for up to 3 years.
6. Like the Governor’s bill, there is along list of approved expenditures.
7. In November of 2016, state voters rejected Initiative 732, a carbon tax, by 59 to 41%.
8. Polling and message-testing at the time by the Association of Washington Business (AWB) indicated that either side could have won. The backers of I-732 did not raise significant money and there was a decent opposition campaign, spearheaded by an offshoot of AWB.
9. The Pro-initiative campaign will be better funded with \$10 million and \$20 million. In comparison, AWB has told some of its members that they are likely to not have much of an opposition campaign this time around.
10. There is more uncertainty around whether certain ag-food processors will be exempt.
11. Initiatives can be amended in first two years by a 2/3 majority. After that, it takes a simple majority, although voter-approved initiatives are rarely changed significantly. For example, Initiative 937 was approved by only 52% in 2006, and even today it has been modified only slightly by legislative action.
12. Outreach to Initiative group is to work jointly on a bill for 2019.

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**Other Bills of Interest**

**Overview**

# Other Bills of Interest

1. **Wanapum Food Fish**: HB 2555 sponsored by Rep. Dent and SB 6384 sponsored by Sen. Warnick provides the WDFW Director authority to issue a permit for the Wanapum to catch sturgeon and other fresh water food fish (in addition to salmon) under such conditions as the Director may require. The bill is currently in Senate and House Rules. Floor action is anticipated in the House this week.
2. **Telecom Pole Attachment Legislation**: - SB 5935 sponsored by Senators Sheldon and Carlyle requires cities and towns to enact an ordinance for issuing master permits for siting and installing small cell facilities; creates the Governor's Office of Broadband Access; provides \$10M for rural broadband; authorizes Kitsap PUD to be retail; authorizes certain Port Districts to provide wholesale internet services. The pole attachment section has been removed.



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