



Jefferson PUD to Begin Electric Service By 2013

(Issued: May 3, 2010)

In November 2008, the citizens of Jefferson County voted to approve Proposition 1, authorizing Public Utility District No. 1 of Jefferson County (PUD) to provide electric service to Jefferson County.

The Board of Commissioners of Public Utility District No. 1 of Jefferson County (PUD) unanimously approved a non-binding letter of intent (LOI) with Puget Sound Energy (PSE) May 3, 2010, for the PUD to purchase all of the electric utility assets of PSE in Jefferson County for \$103 million.

The PUD will begin providing electric utility service to Jefferson County citizens after a transition period.

FREQUENTLY ASKED QUESTIONS

When will the PUD start running the local electric utility?

The transition to public power will be occurring over the next 18 to 36 months, and is scheduled to be fully implemented no later than June 1, 2013.

To ensure a smooth transition, PSE will continue to maintain the local electric system and handle all billing, repair, and other operations of the utility, as it does now, until the PUD is staffed and ready to operate the system. Once a date is set for the PUD to take over day-to-day operations, PSE and the PUD will inform customers of that date. The accounts of existing PSE customers will be transferred to the PUD, and customers will automatically get their next bill from the PUD without having to sign up as PUD customers.

Customers in Brinnon will continue to receive electric service from Mason County PUD No. 1. Customers in the West End of Jefferson County will continue to be served by the Clallam County and Grays Harbor PUDs.

How will the change affect my electric bill?

Until the PUD begins to operate the system, customers in Jefferson County will continue to pay rates that are approved for all of PSE customers by the Washington Utilities and Transportation Commission. As of April 2010, PSE's rate for electric service is set at 9.8 cents per kilowatt hour (kWh) for residential customers; that rate could increase prior to the transition to the PUD. The PUD has done an in-depth financial and engineering analysis, and believes that its initial rate will be at or below the rate being charged at that time by PSE.

Will my rates change once the PUD begins service to Jefferson County?

It is more than likely that the PUD will be charging less than the PSE rate when the transition is complete. While there is no guarantee, that is the goal of the PUD. The PUD has prepared the attached chart comparing estimated future power rates of PSE to estimated future power rates of the PUD.

The primary benefit of starting a public power utility is that publicly-owned (as opposed to investor-owned) utilities have access to low-cost hydro power from the Bonneville Power Administration (BPA). However, the cost of power is just one component of electric rates for PUDs or any other electric utility. The purchase price paid for the facilities, cost of financing the acquisition, and starting the electric utility operations, as well as operating and maintenance costs, all affect the cost paid by utility customers.

How will the purchase of PSE's system be financed?

The key to financing the PUD's power utility is access to funds from the Rural Utility Service (RUS), a program of the US Department of Agriculture

(USDA). RUS offers low-interest, long-term loans for rural public power utilities.

In addition, the PUD will be using a combination of private financing through bonds and/or local banks for the initial purchase and some of the start-up cost components. The PUD will be financing both the \$103 million purchase price for PSE's electric facilities as well as the working capital for the initial start-up of the system.

How many local jobs will be created?

The PUD currently employs nine people to operate its water and sewer systems. Operating an electric utility would require perhaps another 25 to 35 employees, including linemen, engineers and office staff. Plans for the new operation are still being formulated, but the PUD Commissioners ultimately intend to use PUD employees, not contractors, to operate and manage the electric utility system. Hiring local employees will provide a boost to the local economy by adding family wage jobs as well as the PUD's commitment to purchase of supplies locally whenever possible. Local hiring also means a faster response time for customers experiencing outages and other emergencies, as linemen would no longer be based in Kitsap County.

What about green power?

One of the advantages of public power is that the public (i.e., the customers) can participate in deciding what combination of power sources should be purchased and used by the community-based utility. The PUD is committed to keeping a community-based perspective on the generation and use of energy. The PUD is planning to set up an advisory committee to develop ideas related to energy conservation and "green" power (wind, solar, and other renewable sources of energy). PUD commissioners will have to evaluate the committee's recommendations regarding those alternatives on the basis of costs and benefits. The good news is that as the PUD begins meeting Jefferson County's power supply needs, it will be using mostly BPA hydro power, which is significantly less expensive than virtually all other alternatives.

Will Jefferson PUD have to meet the requirements of I-937?

Initiative 937, passed by Washington voters in 2006, requires all power utilities with more than 25,000 customers to supply at least 15 percent of their service through renewable sources of power by 2020. Jefferson PUD expects to have about 18,000 customers when it begins its electric utility, and thus would not immediately be subject to I-937. And while hydro power from the BPA is clean and renewable, it is not considered “renewable” under I-937. Alternatives that meet the requirements of I-937 include conservation and renewables such as solar and wind.

Will PSE’s conservation programs continue to be available in Jefferson County during the transition period?

PSE will continue offering its energy conservation programs to Jefferson County residents up until the PUD begins its operations. The PUD has not made any decisions yet on what kinds of conservation programs it can and will offer. Many PUDs, through BPA, offer incentives such as rebates for energy-efficient appliances and home improvements that reduce power consumption. Incidentally, most private and public electric utilities have found that conservation is the most cost-effective way to meet the demand for more energy.

How will the PUD meet the growing demand for power in its service area?

As a BPA customer, the PUD will be eligible to receive an allocation of low-cost, “Tier 1” power equal to the current level of power consumption in the PUD service area. In the future, the PUD can purchase additional power at market rates from the BPA, or from other power suppliers. The PUD can also explore options for generating its own power and/or meeting demand through energy conservation.

The BPA markets the power from 31 multi-purpose dams known as the Columbia River Power System, which supplies the vast majority of its firm power needs. By federal law, publicly-owned utilities (including PUDs, municipal electric systems and electric cooperatives) have priority for allocation of BPA power.

The BPA is beginning a program whereby it allocates additional power every two years. The PUD will be applying for BPA power and hopes to be a recipient in the 2010 allocation, which is key to being able to deliver electricity to Jefferson County customers at the lowest possible rate. However, under BPA rules, an electric utility must wait for three years to qualify for BPA's lowest rate, known as the "Tier 1" rate, which is why the 18 to 36 month transition period the PUD negotiated with PSE is advantageous.

Could the PUD have gotten a better price by going to condemnation?

Under Washington law, a PUD has the power to acquire a private utility through condemnation (eminent domain). However, a condemnation trial and appeal would be lengthy and the results unpredictable.

The PUD commissioners believe that a condemnation lawsuit may have resulted in a lower purchase price than what was negotiated, but the cost of litigation and the likelihood of several years of appeals would have added significantly to that cost. There is no cost certainty when the condemnation process is used. The use of the condemnation process would have limited the ability of the PUD to take a close look at the condition of PSE's facilities and review its operations prior to the take-over.

In addition, the PUD is attempting to meet the July 2010 deadline to apply for the upcoming allocation of power from the BPA. The next allocation is two years away, and it's unknown whether other new utilities will also be seeking allocations in that cycle. If there are new utilities are seeking part of the allocation, then it may limit the PUD's access to BPA low cost power.

The goal of the PUD is to have an efficient and cost-effective transition of electric service for Jefferson County citizens.

Why did the PUD incorporate a transition period into the acquisition?

The 18 to 36 month transition timeframe of the PUD's negotiated agreement with PSE is designed to provide a smooth transition and help keep the PUD's electric rates as low as possible. Some of the benefits are:

- The PUD must wait three years to qualify for BPA's wholesale or "Tier 1" rates. By taking the system over from PSE in 2012 or 2013, the PUD expects that it will be able to pass on this discount to its customers sooner.
- The USDA's Rural Utilities Service has indicated that it could take as long as two years to get final approval and funding. Under the negotiated timeline, the PUD can better manage the timing of this key financing.
- The 18 to 36 month timeline also enables the PUD to secure the private financing that is needed in conjunction with RUS financing. In addition, the PUD has the option to negotiate the interest rate and other terms in advance of operating the system, which is important for obtaining capital in an evolving economy.
- The PUD will be able to perform an assessment of the environmental condition of PSE's electric facilities prior to purchase.
- During the transition, PSE will continue to operate the system as the PUD builds up its utility staff and "shadows" PSE's operation. This time period allows the PUD to build its electric utility organization in an efficient and cost effective manner. Not unlike the sale of a small business to a new owner, a cooperative relationship between buyer and seller helps maintain a high level of service and a smooth transition for customers.

Are the documents from the negotiations available for public review?

The final purchase and sale agreement, the exhibits referenced in the letter of intent signed May 3, and the documents relating to financing the power system are all "public records" under Washington Public Records Act and are (or will be) available for inspection and copying.

During the negotiations, PSE and the PUD entered into a confidentiality agreement pursuant to state and federal rules of evidence and Chapter 42.56 of the Revised Code of Washington, the Public Records Act. The PUD entered that agreement in order to have access to confidential and proprietary information from PSE, a privately-held business, which would only let the PUD review it if its confidentiality was maintained. The PUD's engineers and other utility consultants used that information to: (1) help determine the value of PSE's assets in Jefferson County; (2) estimate what

it would cost the PUD to operate PSE's system, and (3) evaluate whether to pursue condemnation.

Even when the purchase and sale is completed – or had the PUD elected to not proceed with acquisition – state and federal law prohibits the PUD from releasing the confidential and proprietary information obtained from PSE. Of course, the PUD will fully disclose all costs related to acquisition, all terms of its financing, and all of its operating costs; this information is considered to be “public” under Washington’s Public Records Act.

How can I get more information?

The PUD will be posting updates on its website, <http://pud.co.jefferson.wa.us/>, and issuing news releases as the transition moves forward.

Citizens are encouraged to attend PUD board meetings, which are normally held at 5:00 p.m. on the first and third Wednesday of every month at the PUD’s offices at 230 Chimacum Road, Port Hadlock.

You are also encouraged to talk to your PUD commissioners and staff:

Ken McMillen, President (District 2)
360-385-4439
jmcmillen@cablespeed.com

Barney Burke, Vice President (District 1)
360-379-4081
Barney@BurkeDigitalPix.com

Wayne King, Secretary (District 3)
360-797-7491
kinghyd@olyphen.com

Jim Parker, General Manager
360-385-5800
jparker@jeffpud.org

In the meantime, PSE intends to continue providing a high level of service in Jefferson County.

For billing or other information related to PSE, please call PSE's Port Townsend Customer Service Office at 360-385-6366.

PSE's Web site is <http://www.pse.com>.