

**Public Utility District No. 1 of Jefferson County, WA**  
**Establishing Electric Service**  
**What's Next?**

January 14, 2009

# Today's topics

- Strategic Approach
- Brainstorming session (four approaches):
  - (a) Stop the clock,
  - (b) expedited formation,
  - (c) wait and see formation,
  - (d) some combination of the above
- Next Steps?

# Strategic Approach

- Thinking several moves ahead
- Identifying long term goals and current status (lower cost power, local control/accountability, economic development, reliability, etc.)
- Puget Sound Energy is not going to go away and its activities will impact what the PUD does and the PUD's schedule (watch out for interference lawsuits)
- Keeping Options open
- Keeping promises to voters and community

# Strategic Approach (Continued)

- Maintaining community support and public opinion
  - PUD out-reach commission meetings
  - Citizen Advisory Committee
  - Meetings with government sponsors/stakeholders
  - Periodic surveys
  - Other
- Managing cost and expenditures
  - Creating a template for others that may follow

# Strategic Approach (Continued)

- The PUD should create a business plan (there are many ways to create such a plan)
  - What do you want the PUD to accomplish?
    - What elements of the business plan do the Commission and PUD manager want to delegate?
      - Delegate to Commissioners? (Public relations and constituency communications?)
      - Delegate to the General Manager? (hiring necessary outside skills?)
      - Delegate to a Project Manager? (monitoring status, coordinating with selected stakeholders, working with consultants so things don't bog down, tracking expenditures?)
      - Delegate to a Citizens Advisory or Planning Committee? (fleshing in of business plan outline, helping with public relations, identifying "stop the clock" generation/system projects?)
      - Delegate to consultants/attorneys/financial advisors/public affairs/? (legal opinions, economic analysis, engineering plans, operations plans, staffing plans, public affairs outreach plans, asset appraisal, financial plans, power & transmission plans, help at meetings with BPA and PSE, generation plans, conservation plans, etc.?)
  - How should the PUD spend or what is the PUD's budget if all goes well?
  - Managing cost and expenditures
  - Respond to change and opportunities

# Brainstorming session

(four basic approaches)

- (a) Stop the clock,
- (b) expedited formation,
- (c) wait and see formation,
- (d) some combination

## **(a) Stop the clock**

Something to “stop the clock” on the ten-year time to provide electric services and help the local economy through such activities

- Research potential grant funding for alternate energy, renewable energy or energy conservation projects
  - Ask for community suggestions for small projects with special local benefits (economic, reliability, visibility, etc.)
  - Consider an outreach to Clallam Co PUD and Grays Harbor Co PUD’s for projects in western Jefferson County served by those utilities
  - Consider an outreach to Mason County PUD No. 1 for portion of eastern Jefferson County they serve.
  - Find one or two projects within east Jefferson County that provide broad or special benefits to the community.
  - Care must be taken not to create a BPA “high water mark” or its equivalent by this.

## (a) Stop the clock (Continued)

- Snohomish Co PUD as an example: Requested federal funding:
  - Several small hydroelectric dams (Young's Creek hydro, etc.)
  - Pilot tidal energy plant in Admiralty Inlet
  - Geothermal energy project near Glacier Peak in Cascades
  - Solar energy project at Cathcart landfill
  - Certain substations and an underwater transmission line
- In Jefferson County maybe...
  - Work with Grays Harbor Co PUD on windmill in west Jeff Co?
  - Marrowstone Island micro hydro; RO at fish lab?
  - Peterson Lake small seasonal hydro? Other hydro?
  - Wood waste generation at PT Paper?
  - Pressure reducing valve replacement in water systems?
  - USN Indian Island?



## **(b) Expedited formation**

Advance the potential purchase of PSE assets through an expedited, pro-active electric utility formation approach

- Explore PSE's desire to sell
- Explore Macquarie's desire to sell part of PSE
- Open a dialogue with the WUTC to better understand their vision of PSE in Jefferson County so the PUD understands the full differences between the two likely approaches to customer service.
- Public relations/information campaign and constituency building is very important.

## (b) Expedited formation (Continued)

- Explore PSE franchise agreements with Jefferson County and all cities.
  - Find any expiration dates and terms! Start an inventory!
  - Discuss and potentially make competing applications, where appropriate!
  - Find out about any service issues with government agencies
- Also check special contracts that PSE may have with federal government: USN Indian Island, Dabob Bay Naval Operations Area (southern submarine cable), and BPA or with private companies like P. T. Paper Mill.
- Have discussions with City of Port Townsend to avoid conflicts and have unified roles and future utility service vision.

## (b) Expedited formation (Continued)

- Explore how PUD Eminent Domain/Condemnation cases involving PUD's are handled
  - Houghton Cluck background on all past condemnation cases
  - Does final offer need to be close to court awarded amount to avoid certain PSE costs
  - How are initial & final offers usually quantified, appraisal based on inventory, based on field collected data
  - Explore alternate ways to get critical data at low costs
    - Ask PSE for asset data
    - Sampled inventory of PSE assets
    - Request Jefferson County asset data currently held as confidential with WA Dept of Revenue
    - Request asset data and future rate/revenue data currently held as confidential with WUTC in Merger & Rate Cases
    - Develop complete Jefferson County PSE asset inventory program with cost and schedule
  - Likely time frame for such a case and likely level of legal fees and any "first steps" that may help refine costs and schedule.

## **(b) Expedited formation (Continued)**

- How to position the PUD to be able to best borrow money needed for an electric utility system
  - Talk to financial advisors and accountants
  - Talk to bond counsel to learn about needed bond covenants and current bond tax issues.
  - Talk to attorney's
  - Talk to rating agencies
  - Talk to consulting engineer
  - Develop a financing plan to optimize future borrowing

## (b) Expedited formation (Continued)

- Explore BPA Transmission requirements
- Explore BPA Power requirements
  - Regional Dialog Contract
  - Standards for Service (how to satisfy the 6 standards)
  - Power supply options prior to BPA Regional Dialog Tier 1 becoming available, if needed
- Non requirements customer joint purchase RFP
- BPA TAC or special purchases (get BPA Res Exchange Credit)
- RCW 54.04.100 request to WUTC for limited power supply from PSE
- Bypass PSE and talk to Macquarie about recent purchase of Grant Co PUD power block
- Talk to other potential power suppliers of interim power
- Some generation resources or Jefferson Co PUD contracts (Paper Mill? Other?) Jefferson County PUD

## (b) Expedited formation (Continued)

- Explore alternate utility ownership options or benefits
  - BPA's Tier 1 power allocation favors smaller utilities over larger utilities (Jefferson Co PUD is estimated to be 37 aMW).
    - Utilities under 10 aMW have best situation
    - Utilities > 10 aMW but < 34 aMW are next best
    - Utilities > 34 a MW are next
  - Even at 37 aMW Jeff Co PUD should get most of requirements from BPA at Tier 1 rates
  - Agreements with say Clallam Co PUD and/or Mason Co PUD No. 1 (or other PUD's?) for initial O&M and cost sharing.
- Talk to IBEW –learn how they can help and their expectations.
- Talk to Dept of Revenue and local taxing districts
- Talk to the State Auditor (This could be important for many reasons!)

## **(b) Expedited formation (Continued)**

- DHA recommends hiring or appointing a project manager who will work for the PUD as an employee, contract employee or consultant
  - DHA could arrange for a past PUD Manager such as Dennis Bickford or Tom Anderson to initially help.
    - Want someone experienced in electric PUD laws and operations
    - Want someone who doesn't have a potential conflict of interest, (i.e. long term job security interest) in the outcome of their advice
  - Other Consultants, who are more local or have the right skills
  - Recruit a new employee with the necessary skills
  - Identify employee or new employee and provided any needed training

## **(b) Expedited formation (Continued)**

- Pull together a complete project schedule and business plan
  - Financial feasibility
  - Organizational structure, plan and interim milestones
    - Staffing & training
    - Equipment
    - Inventory
    - Contract services
    - Other
  - Legal Plan
  - Financing Plan
  - Engineering/Asset plan
  - Power Supply Plan
  - Transmission Plan
  - Regulatory Plan
  - Public Affairs & Public Information Outreach Plan
  - PUD Management Plan & key decision points



## (c) Wait and see formation

Advance the potential purchase of PSE option through slower “wait and see” electric utility formation approach

- Explore PSE’s desire to sell
- Explore Macquarie’s & other foreign investor’s desire to sell
- Focus on community outreach, public support and consensus building in support of PUD electric service.
- WUTC OK’s Merger/Sale decision, with clarifications (WUTC appeal period ends Jan. 9; Merger 15 business day closing Jan. 20 or maybe Jan. 22?; WA Superior Court appeal of WUTC decision prior to Jan. 29)
- Wait to see if any appeals or if deal is consummated by foreign owners

## **(c) Wait and see formation (Continued)**

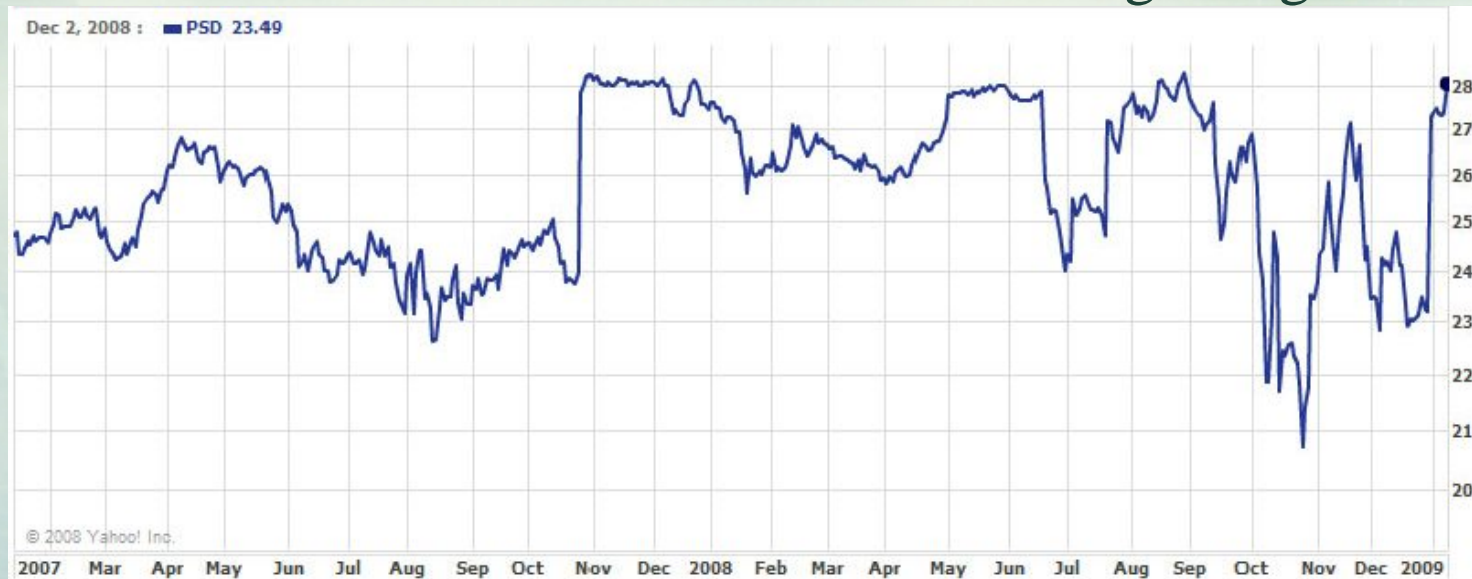
- Wait to see if Macquarie/PSE are entangled in world financial problems
  - Credit crisis (PSE/Macquarie are counting on significant amounts of borrowed funds) may impact ability to perform merger as outlined in Oct 2007 agreements.
  - Will world or local recession change plans or desire of either Macquarie or PSE for their previous PSE business plan

## (c) Wait and see formation (Continued)

PSD (Puget Energy) Stock value below \$30 US per share.

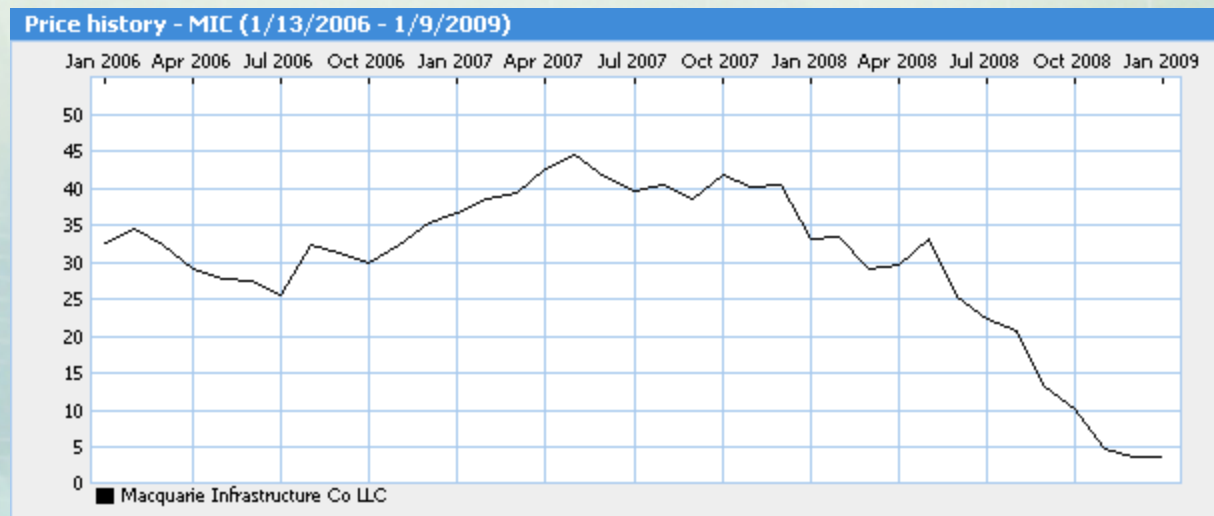
As of 11:25 ET Jan. 13 PSD value was \$27.56

Some investors believe there is risk in closing Merger/Sale



## (c) Wait and see formation (Continued)

- Investment in PSE is a much greater share of Australian Macquarie Infrastructure LLC Stock is worth than in October 2007



## **(c) Wait and see formation (Continued)**

- See if there are any US government economic stimulus proposals from new federal administration that a PUD can better take advantage of
- Wait for PSE mis-step(s) to advance PUD
  - Reliability/outage problems
  - PSE Rate increases
  - Other negative publicity on the part of PSE
- Work methodically using many of the steps in (a) above on a comprehensive plan and be ready to adjust the schedule based on public support and changing conditions.

## **(d) Some combination of (a) (b), or (c)**

(a) Stop the clock,

(b) expedited formation,

(c) wait and see formation,

(d) some combination of the above

# Next Steps?

## ■ Some thoughts on next key steps

- Continue discussions with BPA TBL & BPL
- Talk to State Auditor, WUTC, PSE, Foreign Owners, taxing districts, cities, county, etc.
- Brainstorm the business plan and who PUD wants to do what
- Visit/talk to Pacific Co PUD, Mason Co PUD No 1, Clallam Co PUD, Grays Harbor Co PUD, Kittitas Co PUD, Columbia River PUD
- If constrained for time, possibly hire consultant to help develop business plan or periodic briefings on components of business plan

## ■ A good time to organize

- Consider a Project Manager (or firm) to help manage expenditures
- Citizen Advisory Committee
- RFP/Selection of some Consultants, legal and other professionals who can advise as needed
- Commission consensus building

# Next Steps? (Continued)

## ■ A Vision for Success

- As a PUD Commission, determine which elements of a, b, c, d and priority DHA suggestion is “d” with emphasis on “a” and “b”!
- Work on a Vision or business plan via workshops and feedback from stakeholders
- Set some targets or goals for 1<sup>st</sup> quarter of 2009
  - Preliminary business plan and identification of project manager (firm or individual)
  - Develop a preliminary Public Affairs/Education/PUD Commission out reach program
  - Educate PUD Commission on condemnation process
  - Educate PUD Commission on BPA TBL & PBL process and exchange data with BPA
  - Educate PUD Commission on financing steps
  - Develop inventory of local PSE franchises and special PSE contracts
  - Talk to State Auditor
  - Hold meeting with local taxing districts
  - Visit/talk to Pacific Co PUD, Mason Co PUD No 1, Clallam Co PUD, Grays Harbor Co PUD, Kittitas Co PUD, Columbia River PUD



## On behalf of D. Hittle & Associates, Inc.

- Thank you for this opportunity to share our thoughts
- D. Hittle & Associates, Inc. has helped several utilities in forming or adding electric customers; we would like to be part of your success
- Please contact us if we can provide you with further assistance