



JEFFERSON PUD ELECTRIC SERVICE BACKGROUNDER

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Jefferson County PUD and Puget Sound Energy Reach Agreement

Public Utility District No. 1 of Jefferson County (PUD) and Puget Sound Energy (PSE) have reached agreement in a non-binding letter of intent for the PUD to purchase PSE's Jefferson County electric utility facilities. The PUD plans to begin operating the system within three years.

The PUD's Board of Commissioners unanimously approved a non-binding letter of intent presented by Puget Sound Energy on May 3.

"This is an important day for Jefferson County," said Ken McMillen, a retired Navy pilot and president of the PUD Board of Commissioners. "While much work remains to be done, we have taken the first step toward bringing community-based power to Jefferson County."

The purchase price of \$103 million and other terms were hammered out over a year of negotiations. Under the agreement, the PUD can begin operating the system in 18 to 36 months.

The PUD currently serves about 3,500 water and/or sewer connections. After the acquisition of PSE's electric facilities, the PUD will also serve about 18,000 electric customers in Jefferson County.

No Condemnation

In November 2008, by a vote of 54 percent in favor, Jefferson County voters authorized the PUD to become an electric utility.

Under Washington law, PUDs can acquire private electric utilities through eminent domain. But from the beginning, the PUD commissioners were determined to explore whether PSE's electric facilities could be acquired through negotiation, even though PSE was opposed to selling.

The first negotiation session paired PSE President and CEO Steve Reynolds with PUD Commissioner Wayne King, a retired drag-racer and native of Gardiner, Jefferson County.

When Reynolds brought up the cost of a potential condemnation suit, King replied, "We had hoped we could sit down and talk about this over a cup of coffee." That conversation set the tone for subsequent negotiations, and led to the commitment by PSE and the PUD to work cooperatively during the transition period.

PUD commissioners were prepared to file a condemnation proceeding if negotiations had proven unsuccessful. Eventually, they concluded that making a deal would cost less overall and provide a much smoother, more efficient transition than condemnation, which would likely take years to litigate and not necessarily result in a lower acquisition cost.

Moreover, the timeline of the agreement allows the PUD an opportunity to qualify for a power allocation from the Bonneville Power Administration (BPA) on more favorable terms than it would at the end of a condemnation proceeding. The BPA allocates hydro power to new utilities every two years, and the deadline to apply for the next allocation is June 30.

Future Electric Rates Estimated

When Jefferson County voters were debating whether to authorize a public electric utility in 2008, various experts estimated that customers would be paying anywhere from slightly more than to 20

percent less than the rates PSE would be charging, depending on the purchase price, financing, the cost of power, and other factors.

According to the PUD, its electric rate will be at or below the rate being charged by PSE when the transition is complete. Subsequently, PUD projections indicate that its rates would remain lower than PSE's rates, and not increase very much, due to the relatively stable and less expensive cost for power available to public power utilities from the BPA.

All three commissioners said that they would not want to get into the electric utility business unless they could offer a lower rate than PSE. "We believe this deal does that," said McMillen.

Next Steps

The PUD has scheduled an informational workshop for 5 p.m., Wednesday, May 5, at the Chimacum Grange to present its plan and answer questions from the public. The commissioners said they are especially pleased to be holding the meeting at the local Grange Hall, as it was the Washington State Grange that placed the public power initiative on the ballot in 1930.

As the PUD moves toward operating the electric utility, it will be creating advisory committees to look at customer-related and energy-related issues, such as credit and collection policies, conservation incentives and acquiring "green" power.

"We're looking for public input on both the start-up and ongoing operation of the utility," said PUD Commissioner Barney Burke, adding, "The immediate priority is to get our financing and operational plans in place to ensure that customers receive reliable electric service at the lowest possible cost."

Now that the letter of intent has been signed, the parties will need to develop the final purchase and sale agreement. Then, the PUD's financing team can engage in more serious discussions with potential lenders. The core of the financing plan is a long-term, low-interest loan from the USDA's Rural Utility Service (RUS). It can take up to two years to obtain RUS funding, which is one of the reasons the

PUD negotiated the 18 to 36-month transition period with PSE.

Both PSE and the PUD have stressed the importance of a smooth transition for customers.

“The transition period gives the PUD plenty of time to get its financing, staffing and other important start-up tasks completed,” said Jim Parker, the PUD’s manager. He noted that Karl Karzmar, PSE’s lead negotiator, has assured the PUD that PSE is committed to maintaining a high level of customer service throughout the transition.

The PUD expects to hire about 25 to 35 employees to run the electric utility. PSE currently contracts with Potelco for much of its repair and maintenance work, and those crews are typically dispatched from Kitsap County – on the other side of the Hood Canal Bridge

The commissioners want the new utility to be operated entirely by PUD employees. “One thing almost everyone in Jefferson County can agree on is the need for more family-wage jobs,” said Burke.

Jefferson County Public Utility District No. 1

Jefferson County Public Utility District No. 1 was formed in 1939 and is one of 28 PUDs in Washington. Of those 28, 23 are in the electric business. Jefferson County PUD will be number 24.

Located on the Olympic Peninsula, the PUD currently serves more than 3,500 water and/or sewer customers throughout East Jefferson County. Headquartered in Port Hadlock, it has nine employees and an annual budget of about \$2 million.

The PUD has a board of three elected commissioners who serve six-year terms. PUD Commissioner Dana Roberts, who had championed public power, died unexpectedly in November 2009. McMillen and King appointed Burke, a former city planner and journalist, to complete Roberts’ term.

The last acquisition of an investor-owned utility’s territory in Washington was Snohomish County PUD’s acquisition through condemnation of a portion of Puget Sound Power & Light Company’s

electric system in 1949.

In 1953, Jefferson PUD was part of a consortium that attempted to buy portions of PSE's electric utility, but that effort was unsuccessful.

In 1993, Asotin County PUD negotiated the purchase of a three-mile electric line from Clearwater Power Company, a nonprofit co-op, simply to reduce the power cost of the PUD's water utility. All residential and commercial customers in Asotin County continue to receive electric service from either Avista Utilities or the Clearwater Power Company.

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