

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.

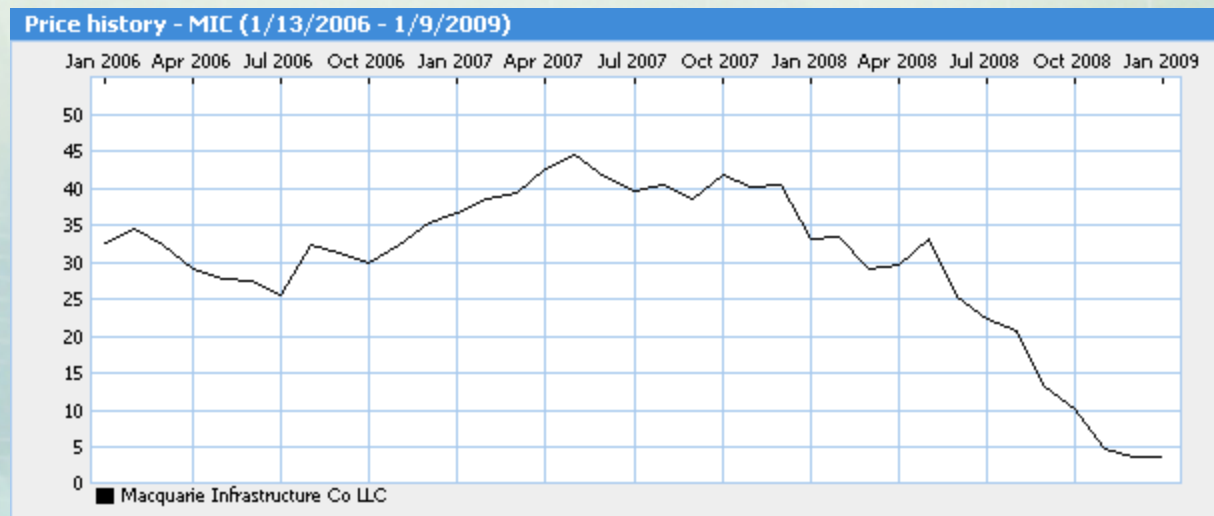
As of 11:25 ET Jan. 13 PSD value was \$27.56

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 1st 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