

# ISLAND PUD POTENTIAL EXPANSION INTO ELECTRIC SERVICE

## Not in the public's best interest

PSE

PUGET SOUND ENERGY

The Energy To Do Great Things

### Overview

For the past 80 years, Puget Sound Energy has been providing electric service to Whidbey Island residents in Island County. Throughout this time, PSE has installed, maintained, and upgraded critical infrastructure and responded during storms and other emergencies to provide customers with safe and reliable power.

Proponents of forming a public utility district (PUD) filed a petition with the Island County Auditor's Office on July 3, 2008, to ask voters on the Nov. 4, 2008, ballot to authorize the creation of a first-time-ever Whidbey Island PUD, presumably, to acquire PSE's electric distribution utility assets on Whidbey Island. If the public votes to authorize a Whidbey Island PUD to takeover PSE's electrical distribution system, it is expected that the PUD would initiate a condemnation action in 2009. The condemnation action would determine what assets the PUD would purchase and the compensation owed PSE. The vote would also grant the PUD the authority to issue revenue bonds to pay for the takeover without another public vote.

PSE is committed to continue serving its 34,000 and growing customers on Whidbey Island and recently commissioned a detailed Preliminary Acquisition Cost Analysis by an independent consultant, UtiliPoint International, Inc. The third-party analysis determined that a takeover of PSE's electric system on Whidbey Island is not in the public's best interest because of high costs and uncertain power supplies. Specifically:

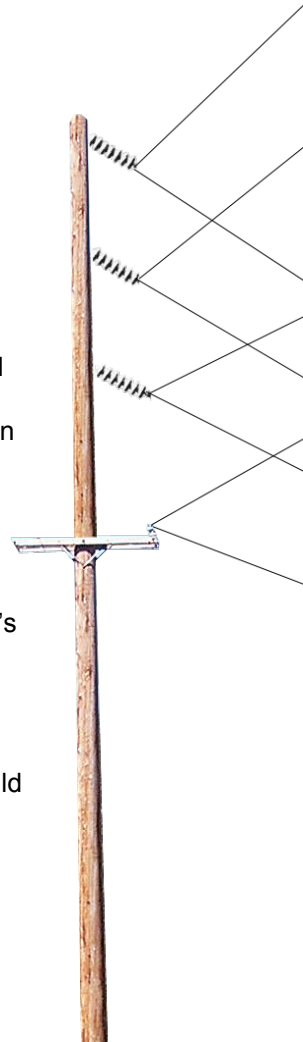
- \$130 million is the minimum cost that a Whidbey Island PUD would incur to takeover PSE's utility system and it could take years to get a final decision from the courts.
- A PUD takeover would subject Whidbey Island citizens to unnecessary financial risks that would likely result in higher electric rates than those of PSE.
- The PUD would be able to issue revenue bonds without a public vote.
- Condemnation of PSE's electric utility assets would potentially cost the PUD millions in consulting and legal fees that would be funded by Whidbey Island residents and take years to complete.
- It would take several years for the PUD to secure a reliable supply of power and there is no guarantee it would be at a low cost.

### Utility Takeover Costs

<b>Distribution Assets</b> (such as poles, wires, meters, transformers)	\$86,580,228
<b>Startup Costs</b> (such as customer records, billing system, office and service center)	\$10,000,000
<b>Going Concern</b> (the value of assets to generate future income and cash flows)	\$30,103,414
<b>Legal, Consulting</b> (legal fees to complete the acquisition)	\$3,000,000
<b>Total</b>	<b>\$129,683,642</b>

### What is the Preliminary Acquisition Cost Analysis?

In response to requests for more information on the outcomes of a potential government takeover, PSE commissioned an internationally recognized and independent, third-party expert to help the citizens of Whidbey Island evaluate the associated costs of such action. This detailed Preliminary Acquisition Cost Analysis identifies and quantifies the financial and operational costs that will likely be incurred by local taxpayers, should Whidbey Island voters approve the November ballot measure to create a PUD and then condemn, purchase, and takeover PSE's power distribution system on the island.



### **What are the real costs involved in condemnation?**

Valuing an electric utility's business is complex. Consequently, both the PUD and PSE would face high legal and consulting fees in determining the system value. Most government entities like a PUD greatly underestimate the amount of just compensation eventually awarded to the utility and the costs to operate an electric utility. The basic cost elements include, but are not limited to:

- Generation, transmission, and distribution facilities
- Substations, power lines, power poles, transformers and meters
- Customer service systems (billing, call center) and service centers
- Demand-side management (energy conservation) programs
- Low-income assistance programs
- The real costs to condemn and purchase PSE's system on Whidbey Island are at least \$130 million, before damage awards, and do not include the possible purchase of transmission and substation assets on the island

### **Why would a potential Whidbey Island PUD takeover result in higher rates for Whidbey Island?**

Rates would likely increase for a combination of reasons. The premium paid to purchase the system and lost economies-of-scale are contributing factors. Also, the PUD would strive to qualify for power from the Bonneville Power Administration (BPA), which is an uncertain source. By BPA's proposed rules, the PUD would need to buy power at essentially market prices for a period of three years before receiving any BPA Tier 1, low-cost power. The market price of power is higher than what PSE charges, which will almost certainly lead to dramatic rate increases during the initial three-year period. This best-case scenario would result in an average consumer rate increase 20 percent higher than PSE's requested rates effective Nov. 3, 2008.

A worst-case scenario is the new PUD would get no Tier 1 power or a smaller amount of Tier 1 power than planned because BPA is limiting the total amount of power it will supply to newly formed government-run utilities. Additionally the PUD would be required to meet I-937 requirements and obtain 15 percent of its energy load from renewable resources. These scenarios could result in an increase of rates significantly higher than the 20 percent.

### **Have utility condemnation cases been successful elsewhere?**

In recent times, nearly all contested government condemnation attempts to take over a private electric utility system have failed. It was during the early decades of the last century that most municipal utility systems that exist today were formed. Virtually all recent efforts have failed due to high legal costs, inaccurate estimates of the real costs to acquire and operate the system, and lack of public support from the community for the government takeover of a private business.

*The comprehensive report is fully accessible to the public. Copies can be obtained on PSE.com or by contacting PSE Government & Community Relations Manager Dom Amor at dom.amor@pse.com or 425.424.6795.*