

Continuation:
Camas Acres Hearing -
Electric Local Utility District

(LUD) Petition

February 25, 2008



Camas Acres Electric LUD Hearing - Continuation

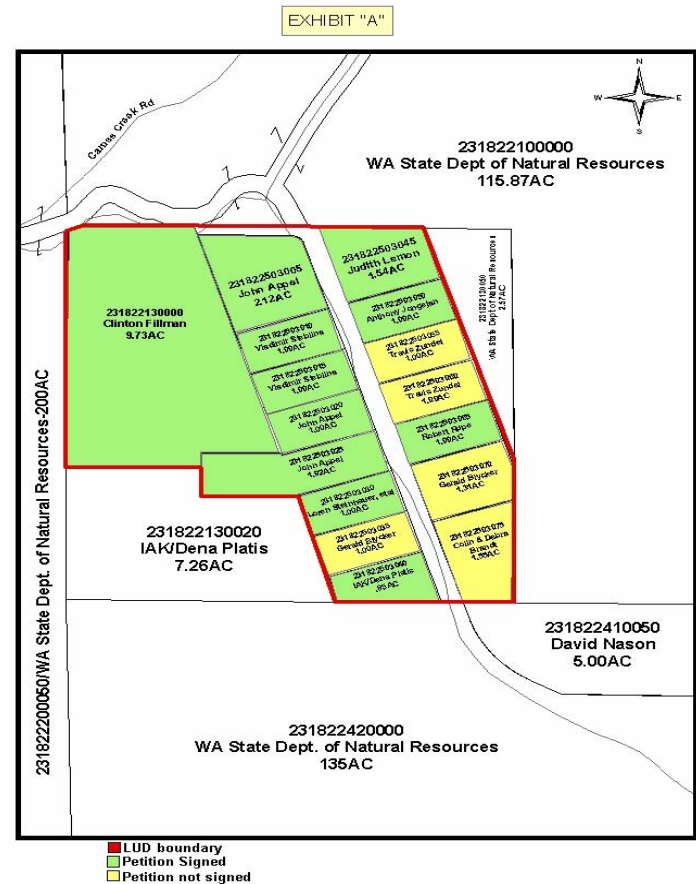
Staff presentation:

1. February 11, 2007 hearing recap
2. Overview of electric line extension policy
3. Policy change impacts to consider
4. Recommendation

Camas Acres Electric LUD Hearing Recap

Petition - seeks to extend electrical service to 16 lots located in the Camas Acres area

- Signed by 8 of 11 property owners
- Representing 11 of 16 lots



Camas Acres Electric LUD Hearing Recap

- Existing policy is in place for electric line extensions – schedule 13
- This petition does not meet the historic factors for LUD consideration
- Request essentially creates an administrative heavy financing mechanism for line extensions and may force customer participation
- Financing of electric line extensions utilizing the LUD process conflicts with Board guiding principle #3 “As a whole, we should manage rates to cover operating costs as measured by an acceptable operating ratio” and principle #6 “Cost control and efficiencies should be a component of annual financial plans “

Camas Acres Electric LUD Hearing Recap

Conclusion & Recommendation

- Camas Acres electric LUD Petition
 - Outside of current line extension policy and its intent
 - Would create a cascading precedent for future electric LUDs that circumvent existing line extension policy
 - Puts the District in the position of financing line extensions at a rate below cost recovery of current line extension policy
- Based upon these facts, staff recommends the Camas Acres electric LUD petition is not in the best interests of the District and its customer owners. It is not financially or economically feasible



Electric LUDs...A Policy Call

First must reaffirm or revise the existing Electric Line Extension policy

Why:

- Electric LUDs are in conflict with the existing policy
- Will set a precedent
- Mitigate staff and customer confusion
- Allows for thorough analysis to try and understand the consequences

Electric Line Extension Policy Overview

Historical Perspective

- June 15th, 1985 – Customer to pay for 100% of actual line extension costs

- April 3rd, 1989 – Added a 10 year financing plan for up to \$10,000

- June 6th, 1994 – 10 year financing option was eliminated and connection fees were added
 - Reflected public sentiment that “growth pays for growth”
 - District and its customer owners should not be the bank for financing line extension



Electric Line Extension Policy Overview

Current customer options

- Estimate or Actual w/ audit fee
- Rock clause applies
- Late-comers fee

Specific Camas Acres options

- Project management alternative but right-of-way and easements are a challenge

Electric Line Extension Policy Overview

Background

- Prior 5 year average – 193 line extensions a year @ \$7,595 each
- Since 2001, largest 30 line extensions have averaged \$19,250 each
- Largest single line extension - \$60,198 established in 1998

Customers have grouped together to collectively fund line extensions

Electric Line Extension Policy Overview

Historical Activity

Year	Estimates		Customer Charge	Actual		Customer Charge
1996	311	\$	2,672,285.00	182	\$	1,178,303.00
1997	294		2,413,282.00	181		1,024,564.00
1998	255		1,885,576.00	176		1,109,624.00
1999	220		2,068,064.00	143		1,259,959.00
2000	231		1,830,833.00	161		1,169,876.00
2001	188		1,091,537.00	119		668,710.00
2002	196		1,395,626.00	125		682,599.00
2003	241		1,912,916.00	178		1,231,081.00
2004	256		2,017,584.00	171		1,600,378.00
2005	304		3,291,032.00	189		1,279,329.00
2006	301		3,744,642.00	231		1,587,632.00
2007	310		2,804,075.00	194		1,614,842.00
Totals	3107	\$	27,127,452.00	2050	\$	14,406,897.00

Policy Change Impacts to Consider

Impacts on Strategic Financial Guidelines:

- ❑ Change in net assets – negative impact from increased costs
- ❑ Operating ratio – negative impact from increased costs
- ❑ Debt coverage – negative impact from increased costs and debt
- ❑ Potential surcharge – higher surcharge in less than average wholesale sales years
- ❑ Cash reserves – decreases reserves if cash finance
- ❑ Cost control and efficiencies – Increases costs and decreases efficiency
- ❑ Debt – increases debt outstanding if debt finance

All of these impacts contribute to continued pressure on rates



Policy Change Impacts to Consider

Customer Service Perspective

- Simply a large line extension, no more special or different than any other line extension
- Perception of other large multi-property line extension customers who followed schedule 13
- Concerned what this would open given other potential rural line extensions

Policy Change Impacts to Consider

- Not a core competency
- Competes against local banks
- Increases debt outstanding at same time as trying to reduce debt outstanding
- Assumes additional risks
 - Credit and collections risk
 - Interest rate risk – variable vs. fixed
 - Project cost exceeds special benefit-who assumes the overrun?
 - Foreclosure actions
- Benefit potential greater for developers
 - Cannot distinguish between single property owners and “developers”
 - Policies must be fair, equitable and non-discriminatory

Policy Change Impacts to Consider

- ❑ LUD process costs add to cost of line extensions
- ❑ LUD system not designed for high volume/high activity loans (may need to reprogram or replace current system)
- ❑ May be matching a long-term financing tool with a short-term financing need (for developments)
- ❑ Negative customer perception from those forced to join LUD
- ❑ Resources challenged by other competing priorities for customer service like automated metering system and conservation programs

Policy Change Impacts to Consider

- ❑ Will result in increased FTE's to administer program
- ❑ Receive taxpayer addresses from County who uses a different mailing format (differences have to be resolved manually)
- ❑ Segregation of parcels must be done manually and is labor intensive
- ❑ Will increase operations and maintenance costs
- ❑ Don't have the ability to recover the added costs from the specific ratepayers (no special rate class) – so all ratepayers share in the additional costs

Impact Illustration

Staff effort in working with Camas Acres in
LUD process to date

Time Frame	Activities	Hours
Aug – Sept 2007	Meetings, email Q&A	40
Oct – Nov 2007	Requested research, Leavenworth mtg	45
Jan – Feb 2008	Hearing setup and process	40
	Total hours	125

Policy Change Impacts to Consider

Estimate of LUD Process Costs:

(Customer Service, Engineering, Treasury, Real Estate Services, Legal, Administration, Operations, Public Information, Accounting and Information Technology)

Task	Hours	Dollars
Initial Customer Request for Information, on-site visits	85	\$3,400
Hearing on intent to form LUD (preparation and set-up)	40	1,600
Study, appraisal and feasibility	80	3,200
Hearing to form LUD (preparation and set-up)	60	2,400
LUD process management (prelim assessment roles, interim financing, etc.)	80	3,200
Hearing(s) to finalize LUD (preparation and set-up)	120	4,800
Issue LUD Bond and program LUD system	160	6,400
Non-labor costs (appraisal, interest, legal, county fees, advertising, etc.)		<u>20,000</u>
Total		<u>\$45,000</u>



Policy Change Impacts to Consider

- Estimate of LUD Process Costs
 - 20%-25% of project cost

- Ongoing annual admin, collection and foreclosure costs
 - \$6,000 per LUD per year



Recommendation

Staff recommends that the existing line extension policy continue and the Camas Acres electric LUD petition be deemed as not economically and financially feasible

Staff also encourages Camas Acres to continue to work within existing policies to accomplish their line extension

Questions?
