

# Chelan County PUD

## Fiber Grant Evening Workshop

### August 24, 2010



# Agenda

- Welcome
- RUS fiber grant overview
- Grant contract terms and conditions
- Financial and risk analysis
- Range of options for Board consideration
- Customer comment
- Next steps



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# Welcome

- Introductions
- Ground rules
- Please use the microphone and introduce yourself
- 3-minute limit for each customer comment

No action will be taken tonight



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# Overview

- Opportunity for fiber grant
- A tough choice
- Grant covers 75% of estimated build-out costs
  - Electric customers may need to cover the remaining 25% and any project overruns
- Analyzing obligations, financial implications and risks
- Gathering customer feedback
- Laying out the range of options for Board consideration



# Fiber Grant Overview

- Federal grant through Rural Utilities Service (RUS)
- Filed application on March 27, 2010
  - Total amount to complete build-out is ~\$33M
  - Combination grant/District funded
  - 75% grant or ~\$25M
  - 25% funded by the District ~\$8M
  - Any cost overruns funded by the District



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# Fiber Grant Overview

- To aid in completing the build-out to most of the rural areas of the county
  - Approximately 6,800 premises would be reached
  - 13 distinct serving areas (see map)
  - Some areas would still be unserved
- Grant covers building distribution fiber and the drop to every house in the build areas
  - Plan is to put a CPE device on approximately 40% of the homes
  - Plan can be adjusted if project costs are over or under budget



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# Benefits to the Community

- Ubiquitous broadband availability, a connected community
- 75 jobs will be created in the local community
  - Mostly temporary contract positions during construction
- Distance learning more accessible to children in rural areas
- Telemedicine capabilities in rural areas increases exponentially
- May assist in economic growth



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# Grant Requirements

- Primary legal issues were resolved with RUS
- Have 7 days from the receipt of the formal package to accept the award (received on August 18)
- Obligation to serve for life of equipment (~22 years)
- Must be 67% complete in 2 years and done in 3 years
- List of services to be provided
- Specific purchasing requirements
- Quarterly, annual and other financial reporting to RUS
- Annual audit



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# Risks

- Build out costs higher
- Customer acceptance (take rates) lower
- Operating costs higher
- Technology life shorter
- Build out not completed within required timelines
- Shortfalls may need to be covered by electric customers



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# Financial Implications

- Modeled many scenarios
- Included consultant modeling
- What if ?
  - Cost higher, revenues lower, technology changes, etc.
- Range of incremental outcomes if accept grant
  - Expected case – would add \$5 million of net revenue over 10 years
  - Worst case – would lose \$2 million of net revenue over 10 years  
(compared to “no build” option)



# Impact on Financial Policies

Range considers 10 and 20 year periods:

	<u>Expected</u>	<u>Worse Case</u>
• Cash reserves	(\$2M) - +\$4M 	(\$13M)–(\$14M) 
• Debt coverage	Neutral 	Neutral 
• Debt ratio	Neutral 	(\$1M) 
• Rate of return	(\$1M) 	(\$2M) 



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# Potential Impact to Electric Rates

To stay neutral:	<u>Expected</u>	<u>Worse Case</u>
• Cash reserves	0-1%	1-3%
• Debt coverage	Neutral	Neutral
• Debt ratio	Neutral	0-1%
• Rate of return	1-2%	3-4%

(3-4% is \$1.50–\$2.00 per month for the average residential power user)



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# Customer Feedback and Analysis, So Far

- Hired consultants to give an independent look at the fiber operations and numbers
- Phone survey of county residents
  - 64% favorable if electric rate increase was up to 3%
  - Dropped to 37% favorable if electric rate increase was at 10%
- Customer email to more than 2,000 customers
  - ~200 responses pretty balanced in pro and con
- Talked with community leaders
- Website poll, guest columns in newspaper, public meetings



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# Range of Options

For Board consideration:

- Accept grant and potential need for electric rate increases
- Decline grant, continue in slow down mode, resume build-out later (with potential of higher electric rate increases)
- Decline grant and stop plans for any further build-out



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# Customer Comments

- Please use the microphone
- Please introduce yourself
- Please limit your comments to 3 minutes



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# Next Steps

- ❑ Need to accept or decline RUS grant tomorrow (Aug. 25)
- ❑ Board has set special meeting for tomorrow morning (Aug. 25, 8:30 am, PUD Boardroom)



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# Thank you for attending!

- Visit our Web site [www.chelanpud.org](http://www.chelanpud.org) for further comment
- Make plans to attend future board meetings

