Organization Check Up



Washington City Power Department

Washington City, Utah

Prepared by Hometown Connections, International, LLC A Subsidiary of the American Public Power Association December 18, 2007

Hometown Connections

DELIVERING VALUE TO PUBLIC POWER**

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Executive Summary

Hometown Connections was asked by the Director of Power of the Washington City Power Department to conduct a review of electric utility operations and identify areas that are working well, along with areas where improvements are recommended.

The review looked at common areas of operating an electric utility, including:

- Customer service
- Customer Outreach and Communications
- Power supply
- Distribution operations
- Employee safety
- Governance
- Rates
- Administration, Accounting and Finance
- Planning
- Costs
- Technology
- Human resources
- Expertise

Hometown Connections found a number of areas that Washington Power is doing well and should be commended for. These are described in the report.

Hometown Connections also has made some recommendations that will address areas of concern or weakness. These are separated out in the Recommendations Section.

Overall, the Washington Power Department is a very well run electric utility that will need to address increasing challenges in the power supply market and the community's rapid growth.

As will be discussed in the following report, the electric utility is in many ways behaving like a utility several times its size. Hometown Connections witnessed levels of service in a number of areas that we would more typically find in utilities of 20,000 customers with much larger staffs. Clearly some of the high level of service can be traced back to the close proximity of numerous other electric utilities serving southwest Utah. This has created a competitive and collaborative framework that is unusual for smaller public power utilities,

who are frequently serving a standalone city, surrounded by low density, rural lands served by a single REA. Much of the credit must also to go the highly professional workforce that Hometown Connections encountered throughout our time in Washington City. The residents of Utah's Dixie are the clear winners from the collaboration and competition these many utilities have fostered. The irony here is that the Washington Power Department has a great story to tell, but has done far too little to make clear to the community how much they benefit from the commitment, integrity and professionalism displayed by city staff.

Hometown Connections was impressed with Washington Power's commitment to customers and the value it adds to the Washington community. The past five years have seen a period of unprecedented growth in Washington. To the utility's credit, the electric system has easily expanded to accommodate this growth. Yet the changing landscape of both the electric industry and the greater Southwest Utah area will pose challenges to the utility that current practices may or may not adequately address.

The electric industry is increasingly complex and Washington Power should remain current on utility best practices. Further it should continue pursuing opportunities for working with others to benefit from aggregation, be it electric supply, technology, expertise or influence. Washington Power's involvement with the Utah Associated Municipal Power Systems (UAMPS) for electric supply and technical support and its cooperation with neighboring utilities are good examples of such aggregation. This should continue and expand if Washington Power and Utah public power utilities in general are to thrive.

The significant growth and changing demographics in Utah's Dixie has also brought about significant challenges to the Washington community. With so many newcomers to the city, their understanding and appreciation of the role Washington Power Department plays is less certain. As the power supply landscape becomes increasingly volatile, it will be critical for Washington Power to reach out to its customers and the community to ensure their understanding of their power supply and the role the utility plays in delivering it.

The city and the utility are well run and professionally staffed. The governing body seems effective and well-tuned into the issues facing the Power Department. This environment should allow Washington Power to adapt effectively to this changing landscape. The decision that city leaders made in 1987 to invest in a municipal owned and operated electric utility has proven to be a wise one; one that has provided -- and will continue to provide -- significant returns to the community.

Background

A well-run public power utility is the result of a number of critical institutional systems that must be in place and function smoothly. Hometown Connections Connection's *Organization Check Up* provides a utility with a specific assessment of those systems that exist today as well as those that will be needed in the future.

Hometown Connections was asked by the Director of the City of Washington Power Department to conduct a review of electric utility operations and identify areas that are working well, along with areas where improvements are recommended.

In 1988 the city of Washington purchased the distribution system serving much of the city from PacifiCorp for \$2 million. Since then, it has seen significant growth in both customers and system value. Over the past five years the city has averaged a 20% growth rate, effectively doubling the population during that time. In 2006, Washington Power served 5337 residential and 371 commercial customers over 20 square miles of the 32 square mile city.

Washington Power peak demand is also growing rapidly and for 2007 has exceeded 26 mW with new records routinely being set. Electricity is provided by UAMPS to two delivery points through one main feed from Rocky Mountain Power transmission lines. Washington Power then delivers this power through 10 miles of subtransmission, six substations then through 105 miles of distribution line at 12.47 kV. Distribution equipment is relatively new.

Washington Power sees significant seasonal fluctuations in its load factor, from 50% to 72%. It has an average load factor of 62%, which is good considering the high proportion of residential customers in Washington, whose usage goes through predictable daily cycles and is resistant to load shifting.

Average residential usage is approximately 1500 kWh/month. While average residential energy consumption varies widely across the nation, this nonetheless strikes Hometown Connections as high. The most recent national survey is now several years old, but the average residential monthly electricity consumption was under 900 kWh. More locally, Rocky Mountain Power reported in 2005 that their average residential consumption was 736 kWh/month. Another Utah public power utility reports monthly consumption of approximately 700 kWh. Lastly, the Southwest Energy Efficiency Project reports that for 2004, the average household energy consumption for Utah was 772 kWh per month. Climate differences alone may account for the higher numbers Washington City is seeing, although it would be interesting to compare consumption rates among other southwestern Utah utilities.

Ten employees run the electric department, which is a city department, governed by a Mayor and City Council and managed by the City Manager and Power Director and his staff. A number of general fund staff also provide administrative support to the utility, including HR, purchasing, finance and accounting, IT.

Methodology

Hometown Connections engaged two of its employees, Tim L. Blodgett and Steve VanderMeer (see bios in Appendix), to conduct the review on November 7 and 8, 2007 in Washington, Utah.

The process used meetings and discussions with key City of Washington personnel to gather information and performance results in the following key areas of running an electric public power utility:

- 1. Customer service
- 2. Customer Outreach and Communications
- 3. Power supply
- 4. Distribution operations
- 5. Employee safety
- 6. Governance
- 7. Rates
- 8. Administration, Accounting and Finance
- 9. Planning
- 10. Costs
- 11. Technology
- 12. Human resources
- 13. Expertise

Hometown Connections and Washington discussed participation in the study prior to Hometown Connections' visit, and accordingly, those requested to be present joined in the review. Multiple employees were involved in ensuring onsite discussions including, but not limited to, the Power Director, City Manager, Superintendent, HR Director, Finance Director. During the two days onsite, Hometown Connections staff met with virtually every power department employee and several of those who support the utility operations. We were also honored to be joined for a short time by Councilwoman Jean Arbuckle and Councilman Jeff Turek. The objective of these discussions was to document what is being done today and to determine current individual and organizational roles.

The results of these discussions were then reviewed and analyzed by the Hometown Connections team and evaluated against their experience with comparable public power utility operations. This resulted in the summary recommendations contained in this report.

Observations and Findings

Customer Service

The overall objective of good customer service is to meet or exceed customer needs and expectations.

These can be measured in a number of ways:

- Customer satisfaction (service, rates)
- Customer complaints
- Customer service
- Service outages
- Payment options
- Bad debt (collections) ratios
- Customer partnering
- Economic development
- Interest in renewables
- Energy efficiency/Demand Side Management
- Key Account management

Washington Power gets mixed marks for customer service. The customer service ethic seems strong among city and utility staff. The customer service staff seems to exhibit a strong customer service orientation. As one of the primary "faces" of the utility and the city, Hometown Connections believes it is important that customer service staff be trained to address complicated billing questions and handle a wide range of customer behaviors. It was noted that occasionally the customer service staff struggle to handle the volume and complexity of calls, often handing them off to the Power Director. Hometown Connections would encourage staff to assess what the appropriate staffing levels and training are to ensure that the large majority of customers receive timely and accurate information. For many customers, customer service will be their only point of contact with the utility, making the importance of this interaction critical.

Hometown Connections was impressed with apparent low frequencies of customer outage complaints and low number of outages. Early years of the utility saw a higher number of outages and brownouts. As system improvements have taken hold, outage frequency has gone down considerably.

Although there has been no effort to quantify satisfaction with rates and rate options, rate complaints seem minimal, usually occurring during the summer months. Washington is poised, however, for a period of greater rate volatility and increases. Steps are being taken to manage customers expectations around these anticipated increases, but Hometown

Connections would strongly encourage staff to develop a more comprehensive plan to deal with what we expect will be customer confusion and dissatisfaction over sudden – and potentially frequent – increases to their electric bill. In the coming months and years, customer communications will become increasingly important.

Within Utility Billing, Hometown Connections was particularly impressed with the range of options available to customers for utility payment. Among Public Power in 2007, it is very unusual to find a utility of Washington's size that offers mail-in, walk-in, drop box, drive-in window and online payment submittal options. The wide range in forms of payment, including cash, check, credit card, automatic withdrawal and a levelized billing plan is also impressive. There are several public power utilities among the nation's 50 largest that do not offer all of these options.

The recently launched online payment option is particularly commendable. Staff expects participation to increase substantially by 2008. This should have a positive impact on administrative costs, including time, postage, paper supplies, and customer satisfaction. As hardcopies of city communications disappear, Washington should make sure that these communications continue to be available electronically to those customers opting out of mailed materials.

For the time being most customers receive their bill through the mail in an envelope that includes city-wide information through a newsletter format. Additional bill stuffers are not usually included. The bill itself is deemed to be easily read, although there is an opportunity to include more usage and historical data as well as promote options such as levelized billing, online payment or the utility's Green Power Program.

Hometown Connections would encourage Washington staff to evaluate the look and various functions of the utility bill and explore ways to leverage this important monthly communication with its customers. Among public power utilities of Washington's size, regular monthly newsletters are increasingly common as a means to convey city and utility-specific information as well reinforce the values proposition to the community. As one of the few customer interactions over which the City has great control, this is an excellent opportunity to build the city and the utility's "brand" in the community and foster positive communications. Hometown Connections applauds Washington City's decision to outsource bill print and mail, which are typically not a strength of utilities.

Despite strong customer service, Hometown Connections staff is concerned by the current billing process, which seems to be creating unnecessary delays in the revenue collection cycle. As understood, there is one billing cycle that occurs each month. Bills go out to everyone on the first of the following month and are due by the 20th of that month. Under this scenario, customers whose meters are read near the first of the month will potentially have up to 51 days from the time of their meter read to pay before being penalized for late payment.

Hometown Connections would encourage Washington to conduct a thorough process review of the revenue cycle, from meter reading through collections and bank deposits. Once this process is completed, areas of improvement should be identified and implemented with the goal of decreasing the timing of the revenue cycle. Several processes seem worthy of review in addressing the slow revenue cycle in Washington. Relying on a single billing cycle, rather than partitioning customers into multiple billing cycles that more closely correspond to when their meter is read. Route optimization and coordination within and between the electric and water meter reading routes, allowing for water and electric reads to occur at approximately the same time, if not simultaneously. Route coordination issues become a moot point should the water and electric departments adopt the same meter reading technology and/or use a single meter reader versus individual meter readers from each department. Coordination of meter reading to billing is somewhat of a puzzle to Hometown Connections staff, as departments the size of Washington Power and Washington Water, using mobile AMR technology, should be able to complete their entire customer base in a single week. So, for example, if routes can all be read the first week of the month, billing should be able to follow sooner than the first of the following month.

Hometown Connections strongly encourages Washington City and its Power and Water Departments to find a way to use a single meter reader to read water and electric meters. This will have the effect of decreasing costs and increasing efficiencies.

Washington City's bad debt ratio (write-offs divided by total revenue) of 0.12% is very low and commendable. Hometown Connections will typically see bad debt ratios of 0.2% -0.5%. The use of an outside collection agency is likely another important choice and a contributing factor to this low debt ratio. This demonstrates the success of efforts to manage this important area in a time of rising energy costs.

The \$10 fee charged for late payments falls at the median of late fees charged by public power utilities *that charge a fixed fee.* Fixed fees, however, are clearly in the minority among public power utilities. A 2006 American Public Power Association (APPA) study revealed that 89% of respondents charge some form of late payment penalty, yet only eight percent of those respondents used a fixed fee. The predominant approach is to charge a percentage of the bill. Among those charging based on a percentage, the amount of the penalty was fairly evenly distributed, with a third charging less than 2%, a third 2 - 5% and a third 5 - 10%. Hometown Connections is a strong subscriber to percentage-based late fees as fixed dollar amounts tend to be proportionally more onerous on low income customers. We would encourage Washington City to evaluate the trade-offs of transitioning to a percentage-based late fee.

For the most part Washington City effectively manages late payments, collections, payment arrangements and shutoffs so as to minimize impacts on other customers. It appears to Hometown Connections staff that the relevant policies are applied consistently. While

perhaps a simple thing, cities that have *not* been consistent have opened themselves up to charges of favoritism or political interference that compromised their reputation for integrity.

Outage notification and communication are somewhat strong. During work hours, outage calls come in to a general number. After hours calls go to an answering service through Southern Bell, which then notifies the on-call employee or, if not available, the foreman. This is perhaps the optimal arrangement for a smaller utility, economically ensuring that each caller's call is answered.

Economic Development responsibility in Washington occurs largely at the City and County levels. The utility has provided support to their activities. While some communities may look to their electric utility to play a strong economic development role, the recent surge in new development makes such a strong role unnecessary. The utility should continue to add value where appropriate to ongoing efforts.

Washington City customers have expressed some interest in renewable or "green" energy. The city should be commended for the wind energy mix it receives through the Pleasant

Valley Wind Project through UAMPS and particularly for its voluntary Green Power Program, which offers green tags at \$3.50 for 100kwh. Hometown Connections' experience is that utility customers are highly appreciative of green programs offered through their incumbent provider, yet participation rates will rarely exceed five percent of its residential customers and one to two percent is typical. Nonetheless, having only four participants in Washington's Green Power Program is discouraging. Washington City has evaluated Net Metering and will likely move forward with a policy, but it waiting for sample policy to be drafted by UAMPS staff.

To date, over 20 states have minimum renewable electricity standards (see figure below). In several of these states, there is no public power "opt out". Federal legislation is likely to emerge shortly. Washington



Power is well positioned to adapt to any forthcoming state or federal legislation. To that end, Hometown Connections encourages Washington and UAMPS to continue monitoring renewable energy options that make the most economic sense for this region. Hometown Connections would also encourage Washington Power to look at additional ways to publicize its green power offering and, as part of future city or utility market research, determine the level of awareness of this program among customers.



Source: U.S. Department of Energy, Database of State Incentives for Renewable Energy, September 2007

Washington City currently has no energy efficiency or demand side management (DSM) programs. The city's Utility Billing and Power Department websites do, however, provide a variety of useful energy conservation information and links to the other websites including the U.S. Department of Energy and the Energy Star "Change a Light Pledge." This more passive approach is an important first step in encouraging better energy efficiency. More formal DSM programs have seen a resurgence in public power in the past few years, reflecting the nation's growing concern over rising energy costs. Successful demand side management can not only save customers money on their electric bill, it can help postpone the need for new generation.

DSM activities can take on many forms. Active programs with dedicated staff and community outreach may provide home energy audits or offer incentives on demand controllers for heating and/or air conditioning. In addition to the web resources currently available on Washington City's website, there is a growing number of customized websites that tie directly to the utility and the individual customer using the web program. See for example www.energydepot.com. Given the strength of the Washington City's website, online energy efficiency resources would most likely enjoy high usage. Hometown Connections would encourage Washington to explore whether customers would respond favorably to additional energy efficiency assistance or demand response programs. Hometown Connections would be happy to provide the names of companies providing this kind of service.

Key accounts are typically those larger commercial and industrial customers of a utility.

Through Key Accounts programs, utilities will offer additional information and support to help the customer optimize their energy consumption. Washington has no formal Key Accounts program although given the current mix of commercial and industrial customers, this is probably appropriate. As national chains continue to locate in Washington, utility staff will likely find that these customers' expectations for additional energy services will be higher. Value added services to key accounts can come in many forms, many of which do not require excessive cost or staffing. Hometown Connections would encourage Washington Power to monitor the growth of its commercial and industrial base and, if appropriate, form stronger ties with these customers to ensure their continued satisfaction.

Discussion groups, formed and managed by APPA, are available on a number of topics relevant to Washington City's operations, including DSM, green power and economic development. A list of listservs offered through APPA is attached in the Appendix. Hometown Connections recommends that Washington Power explore the information available through the APPA listservs.

Community Outreach and Communications

The overall objective for good community relations is to establish and maintain in the public mind confidence in and support for the public power electric utility.

Two way communications should be maintained between the utility, the public and such local institutions, organizations, and groups that make up the structure of the community. Washington has taken a number of strong actions to enhance its outreach to the community. The city has effectively used its website to create a user friendly interface between the city and its citizens. The "WashQ&A" is an excellent example of a city using the Internet to close the gap between city hall and its citizens. Given the power supply cost uncertainties anticipated for Washington Power, Hometown Connections would suggest the Washington City website be kept current and expanded to field the likely increase in concerns and complaints from its customers. On a more low tech level, the Washington City's use of door hangers whenever utility staff has been to a customer's site is an excellent means to reinforce the utility's outreach.

Washington did an extensive survey through ICMA in 2006, but with a city-wide focus, questions about the electric utility were minimal. The city expects to do some form of citizens survey biannually, but will likely utilize a different forum than ICMA, perhaps the University of Utah.

The Citizen Response Management system, citizen surveys and the city-wide 311 system that the city is working on establishing are all examples of strong community communications and outreach. The community-wide embrace of strong communications is admirable and speaks to the strong customer service ethic and value on transparent government that city leaders have fostered.

At the Power department level, customer outreach efforts are mixed. The Power Department has made some strong efforts in support of community outreach. These include hanging banners for five annual community events, and hanging lights during the holiday. The utility has also been instrumental in developing the infrastructure for expanded broadband capabilities in the community.

Given the abundance of electric utilities vying for visibility in the region, Washington Power seems frequently to fall in the shadow of St. George and Dixie REA. Toward this end, Hometown Connections would encourage staff to explore other low impact ways of strengthening the image of the utility in Washington City. Staff sizes certainly constrain just how much community involvement a utility can have, but Hometown Connections has seen several examples of low impact efforts that have provided the public power utility higher visibility in their community. This could include school electric safety demonstrations,

manning a booth at community events, encouraging volunteerism among employees or greater involvement in the annual Public Power Week.

Hometown Connections would also encourage the Power Department to explore customer research focused more specifically on their operations. This could address, for example, customers' awareness of the Power Department and their level of satisfaction, perceptions of the utility's green power program, satisfaction with the billing options available, recognition of national energy issues that may impact them, desire for services or options not currently available, etc. Further, regular customer surveys conducted annually or biannually, would allow Washington Power to benchmark and monitor trends in performance and customer surveys to keep in touch with their customer base. This not only gives the utility insights into their customers, but also provides good will to those customers who are contacted.

Hometown Connections has worked for many years with a Utah based market research firm, SDS Research, which has specialized in the electric and telecom industries. They have conducted surveys for well over 200 public power utilities over the past 10 years. We can wholeheartedly endorse the quality of their service.

Power Supply

The overall objective for power supply is to ensure the utility is able to provide long-term, reliable, low cost electricity while minimizing price volatility for its customers.

Areas for measuring a utility regarding power supply include:

- Understanding of the utility load characteristics
- Understanding of suppliers in the marketplace
- Understanding of current supply participants and their roles
- Understanding of how owned generation would affect customers
- Costs for available types of supply
- Reliability of supply
- Term of supply available
- Market and counterparty risk
- Price volatility
- Understanding of the delivery system, its participants and their roles
- Regulatory oversight
- Employee skills

Across the nation, utilities struggle with power supply issues, and for good reason. The cost of power can represent 70% to 90% of a customer's bill and if not well managed, can be one of the least controllable costs a utility incurs. Power supply costs account for approximately 80% of revenue dollar in Washington City. In other words, approximately 80% of a typical customer bill was used to pay for electric supply costs for fiscal year 2007 (\$5.1 million of the \$6.4 million total revenues). The typical electric utility customer does not understand this and, during times of rate fluctuation, will tend to blame the utility for issues outside of their control. We will discuss this further later in this section.

Washington, as well as many utilities in the west, is in the unenviable position of customer (demand) growth in a region that is short of supply. As growth in demand continues, whether from new or existing customers, the incremental supply costs for the utility and its customers will increase. As it is not practical for Washington to turn away new customers, it is critical for the utility to control demand growth as much as possible. Staff shared that a Demand Side Management program is currently under design thru UAMPS; peak shaving and conservation efforts will be an important part of Washington's ability to have a positive impact on long term supply costs. Examples of these types of programs are discussed throughout this report.

Washington Power gets good ratings for its management of its supply and to this point has done a good job in negotiating the power supply issues that have hit much of the Western U.S. over the past decade.

Washington Power's key staff relies heavily on its supplier, UAMPS, for information related to the supply business and as an active participant in this increasingly complex side of the business. Planning for power supply is done by the Director of Power, in collaboration with UAMPS, using long term load forecasts to anticipate energy needs and associated costs. Washington City is fortunate to have the in-house expertise on power supply that they do in the Power Director. Hometown Connections sees in Washington City a greater reliance on the spot market, rather than base load, to meet its power needs. Although spot market resources are available today, they tend to be less reliable with more price volatility than base load resources. Hometown Connections strongly supports Washington City and UAMPS efforts in pursuing additional base load resources to add to its supply mix which will in turn provide more reliability and pricing predictability for its consumers over the long term.

Washington Power rates UAMPS expertise as good. Staff noted that they could never have accomplished an Intermountain Power Project callback without UAMPS staff and its members. This relationship seems very strong and is well positioned to secure favorable terms for power for the future.

Models for joint action agencies vary tremendously across the nation, from power supply aggregation only, to full service organizations, which might include lobbying, training, conferences, key account support, engineering support or virtually any function its members deem important. We applaud the relationship UAMPS and Washington City have forged and encourage the two organizations to explore other ways they can partner.

Counterparty (supplier) risk mitigation is mainly the responsibility of UAMPS and is minimal. The risk of a large utility customer consuming electricity and not paying their bill is borne by Washington Power.

Washington City owns some back up generation, and is planning more at its future community center. It also participates in a joint venture with Hurricane City and has another partnership in the works with Santa Clara city. Many joint action agencies will provide capacity credits to its member utilities. If this is the case at UAMPS, Hometown Connections would encourage Washington City to explore the value of obtaining such credits.

UAMPS's supply is considered to be very reliable. Supply comes from a number of providers including the Intermountain Power Project and Colorado River Storage Project (WAPA) and sources include coal, wind, natural gas and hydroelectric. The fuel source for the latest generation added to Washington's power supply mix is natural gas which tends to carry a higher risk in price volatility. The Washington Power staff expressed its desire to

obtain backup generation at a level that will power the entire system in the event of a supply default or delivery failure. While this reliability goal is admirable, the challenge will be in locating the generation in a close proximity to Washington Power's distribution system, thus reducing the risk of transmission failure.

Today, Washington is served by a single Rocky Mountain Power/UAMPS transmission feed. Washington Power is to be commended on its progressive relationship with its transmission provider in working to upgrade this single feed to a dual feed which will provide back up in the event of a line failure. Although this will not eliminate catastrophic structure failures due to natural disasters like the fire of 2006, it will provide backup transmission in the case of equipment failure on a single feed. Washington Power's sub-transmission loop with dual delivery points is also very progressive for a utility of this size. It is very clear to Hometown Connections that Washington Power has made system improvements reducing the risk of system outages and increasing the electric reliability to its community.

Regulatory oversight of supply costs is provided by the City Council.

The strong systems and expertise in place at Washington City and UAMPS will likely be tested in the coming months and years. The power contract for less expensive hydroelectric power, representing about 45% of the utility's load, is expiring at the end of 2007. Hometown Connections shares Washington City's concerns over the uncertainty of short and long term power supply. Price fluctuations may have dramatic impacts on utility operations, reserve funds and ultimately customer satisfaction. The good news is that Washington City leaders are fully aware of the implications and are working closely with UAMPS to minimize the financial impact on the city and its customers.

Hometown Connections' larger concern is Washington City's ability to address anticipated reaction in the community to this price volatility. We are confident in Washington City and UAMPS ability to secure favorable short and long term contracts for Power Department customers. But, as discussed in Customer Service above, there will likely be some period of price volatility and likely higher rates even after most of these fluctuations have moderated. Hometown Connections would strongly encourage that city and utility staffs create a plan for mitigating the financial and political fallout that could occur in the face of greater price uncertainty. As discussed in Customer Service above, public outreach could be a key component of this plan.

Additionally, Hometown Connections would encourage consideration of a power cost adjustment (PCA) line item on customers' bills. Such a line item can quickly convey to customers that this portion of the bill is largely out of the utility's control. A PCA can also assist in the utility's financial stability.

Distribution Operations

The overall objective for a utility in operating the distribution system is to design, construct and operate a distribution system that is safe, reliable and cost effective.

Areas for measuring a utility regarding Distribution Operations include:

- Age of equipment (substations, feeders, system protection, etc.)
- Reliability
- Design
- Maintenance requirements
- New construction demands
- Capital budgets
- Maintenance budgets
- Cost per customer statistics
- Safety performance
- Utilization of the workforce, including outside contractors
- Employee skills and training

Overall, this area of Washington City Power's electric operations gets good marks for performance. Hometown Connections discussed various areas of Washington's distribution system, and concluded that the system is well operated, well designed, safe and reliable.

All substations are single transformers. Washington City is doing a good job staying current on the latest technologies, employing automated breakers, reclosers and other automation. It is also rare and commendable to find a utility the size of Washington City that has a specialist in substation maintenance. There are two delivery points, each of which can currently accommodate the full load. Distribution losses and unaccountables, including street lighting were stated at 4.2%.

Three of the substations are served by the utility's SCADA system, a VMS-based GE system. Hometown Connections would encourage the extension of its SCADA to all of its subs, although would not encourage that expansion through the existing VMS SCADA system. Windows-based SCADA solutions have come to dominate the SCADA industry, particularly among public power. These tend to be less expensive, easier to use, and more readily compatible with other distribution system software and hardware solutions, such as outage management, or video security. Hometown Connections can recommend several providers of SCADA solutions that match up well with the needs of a utility such as Washington City.

New construction is funded through impact fees that seem to adequately cover the fully loaded costs of that construction. Almost all new construction is underground, with about 70% of the service territory now underground. Hometown Connections applauds the decision by city leaders to require new construction to be undergrounded. While initial costs are often slightly higher, reliability and community aesthetics both improve.

Equipment inventory is well maintained, striking what seems to be a good balance of equipment on hand. Washington Power has also made good strides at pooling shared inventory with neighboring utilities, particularly Hurricane and Santa Clara which share the same voltage as Washington Power.

There is good redundancy, with a subtransmission loop nearly complete. The condition of the distribution system is quite good, due in part to the fact that much of the system is relatively new. Hometown Connections is concerned, however, that during the period of rapid expansion that has occurred in the Power Department service area, system maintenance is being deferred as utility crews focus on construction projects necessary to support the community's growth. While it is clear construction will eventually slow down in the community, the utility should be taking steps now to ensure maintenance is scheduled and adhered to before problems occur.

Poles are butt-treated only, and there is no inspection process. Staff reports that because of the desert geography, many threats to pole integrity, such as termites, freezing or rotting, are rarely found. Nonetheless, Hometown Connections would recommend a more formal pole inspection program that insures every pole is inspected at least every five years. It is Hometown Connections' understanding that an annual inspection program including substation testing and maintenance is in place and listed as a department goal in employee evaluations but work load reduces staff's ability to implement it to the level they desire.

Tree trimming is mostly on as needed basis, which, given the year long growing season, can pose challenges. Efforts at securing reliable tree trimming contractors have been discouraging. Hometown Connections would encourage Washington City to explore whether providing longer term commitments to contractors and/or teaming up with neighboring utilities to ensure more year-round work for contractors would result in a stronger pool to choose from at a better price.

As mentioned previously, Washington Power reports that its system has suffered few outages recently. It is difficult to benchmark this as good or bad because Washington Power does not measure its reliability using IEEE 1366 standards.¹ Compliance with the IEEE

[•] CAIDI, or customer average interruption duration index, is the average time needed to restore service to the average customer per sustained interruption. It is the sum of customer interruption durations divided by the total number of customer interruptions.



¹ IEEE Standard 1366 typically refers to the three outage measurements below. While the standard has made comparisons across utilities possible, regional differences and differences in how outages are recorded by individual utilities can limit these comparisons.

[•] SAIFI, or system average interruption frequency index, is the average frequency of sustained interruptions per customer over a predefined area. It is the total number of customer interruptions divided by the total number of customers served.

SAIDI, or system average interruption duration index, is commonly referred to as customer minutes of
interruption or customer hours, and is designed to provide information as to the average time the
customers are interrupted. It is the sum of the restoration time for each interruption event times the
number of interrupted customers for each interruption event divided by the total number of customers.

industry standard would allow Washington to gain a better understanding of the reliability of its system compared to state or regional averages as well as develop more robust reliability measurements that can direct utility maintenance practices.

While Washington Power collects outage data, the raw data has not been converted into more meaningful measures. Utilities with the level of commitment to their distribution system observed at Washington will frequently take this additional step so they can compare to themselves over time and with other utilities. In addition to the IEEE measures, other frequently used distribution performance measures include Total O&M \$/customer, Distribution O&M \$/customer and Distribution O&M \$/mile of line. Given that much of this data is already being collected, Hometown Connections would strongly encourage utility staff to take this to the next step and establish uniform reporting measures.

To assist in the tracking and analysis of outage data, APPA has created spreadsheet-based software called *Reliability Tracker*, which is comprehensive yet simple. Hometown Connections recommends this software and the Power Director reports they have now purchased it.

The system appears adequately designed and maintained. Most of the system planning is done in-house without a licensed engineer on staff. More complicated engineering issues are outsourced. Nearly 100% of the system can be fed from another point (loop feed or redundancy) with the goal of reaching 100% redundancy in 2008. All new construction, with the exception of some overhead feeders is underground. Substations are checked and serviced by in-house personnel and tested by Power Department staff. As mentioned earlier, the development of a dedicated substation maintenance person is exceptional for a utility this size.

Hometown Connections applauds the quality of the existing system. The exemplary record of system maintenance in Washington City is at risk, however, as continued population growth tasks both maintenance and new construction. Impact fees have been successfully designed to cover the cost of new construction. As this equipment ages, however, maintenance demands will increase, putting pressure on both staffing levels and O&M budgets. According to staff, the maintenance budget and staffing levels have not increased in the last four years, while distribution materials have increased substantially. Hometown Connections would encourage Washington to evaluate future maintenance and equipment replacement needs and ensure that funding and staffing is identified to address them.

A continued high rate of growth may also excessively task the in-house planning and design expertise, both in workload and increasing complexity of design. In 2006 outside engineering costs were in the range of \$500,000. Hometown Connections would suggest that staff analyze the cost benefit trade-offs of hiring a full time engineer, which could feasibly move much of this outsourced design work into a salaried position.

Capital planning and budgeting is very well developed and tightly designed. The city manager has implemented a rolling five year capital budget that lays out clear definitions, goals and timelines.

Given the strength of Washington Power's distribution operations, Hometown Connections recommends that the utility apply for APPA's Reliable Public Power Provider (RP₃) program which provides a road map for, and recognizes utilities that excel in, the areas of reliability, safety, training and system improvement. Additional information can be found in the appendix of this report. Additionally, at least one of APPA's listservs address transmission and distribution issues.

Washington City and the Power Department have completed planning for a disaster. Some disaster drills have been conducted at the county level, but none so far at the city level. Formal mutual aid agreements have been developed through the Intermountain Power Superintendents Association. Hometown Connections would encourage the city to test



the strength of their disaster plans through periodic disaster drills.

Employee Safety

The overall objective for safety is to determine a utility's commitment and performance related to employee safety.

Measures in this area include:

- Goals
- Training
- Equipment
- Performance

Washington Power gets good marks for safety. Performance has been strong; the last lost time injury occurred five years ago. In some utilities it may seem more good luck than proper preparation that accounts for its spotless safety record. This is not the case in Washington City. The utility has taken many strong steps to ensure that its employees and the community remain safe.

Department safety meetings are held weekly. Responsibility for organizing and training usually falls with the Superintendent, although it can also rotate among crew members. In addition to the weekly meetings, impromptu tail board meetings are held prior to any hot job. Training is ongoing, using both in-house expertise, video and occasionally outside trainers. Interest was expressed in having access to more safety content through DVDs and online services. Hometown Connections would encourage Washington City to continue using various crew members to assume responsibility for a weekly training meeting. This not only reinforces the importance of safety but can strengthen the impact by "learning by doing". Hometown Connections would also encourage Washington City to continue bringing in outside expertise, in order to keep utility staff abreast of the most current safety practices and technologies.

Washington Power does not budget safety expenditures separately, which is a practice Hometown Connections frequently sees as way of demonstrating the importance of safety to the organization. Further, senior management occasionally attends safety meetings to further reinforce its importance. Hometown Connections would encourage management to attend weekly safety meetings as frequently as possible. New employees receive the APPA Safety Manual. Employees must sign off on the manual to acknowledge review and receipt, as well as sign-offs for subsequent updates. Hometown Connections applauds these steps and the choice of the APPA manual.

From training to daily tail boards before each project, immediate and near misses discussions, Washington Power has demonstrated tremendous commitment to its employees the importance of safety.

The utility provides employees safety glasses, hard hat, gloves, shirts, pants, a boot allowance (\$50), the first set of climbing boots, and tools. The utility has recently gone to flame retardant shirts for live line work. This is a generous allotment provided by the utility. Gloves are tested every six months. Hot sticks every two years. Bucket trucks once a year.

There is an automatic external defibrillator (AED) in the office, but none in any of the crew vehicles or maintenance shop. Over the past five years, Hometown Connections has witnessed a reversal among many communities on the use of AEDs. Many communities used to fear that the incorrect use of an AED could lead to a lawsuit. Good Samaritan laws have essentially rendered this a moot point. Interestingly, now we are seeing litigation coming from the *lack* of AEDs in public venues. Hometown Connections would encourage Washington City to develop a plan and timeline for AED deployment and then execute that plan. Hometown Connections has worked closely for several years with the leading provider of AEDs, Philips, to provide a deeply discounted AED to public power utilities.

One additional safety/employee retention trend Hometown Connections is seeing among mostly larger public power utilities is the institution of a city or utility wellness program. Hometown Connections was impressed to see such a program in place in Washington City. These programs emphasize healthier lifestyles (often with reward components), health screenings and offer programs such as aerobics, stretching, yoga and health education. Several studies seem to indicate that wellness programs can reduce demand for medical services through the reduction of lost time injuries, absenteeism and Workers Compensation costs.

Hometown Connections is very impressed with the Washington Power safety program. Our recommendations focus on some of the peripheral – yet important – aspects of a safety program, namely planning, tracking and recognition.

Washington Power sets safety goals/performance (five individual, five organizational), of which safety represents 20% of an employee's evaluation. As mentioned earlier, the APPA RP₃ program could be an effective means to confirm the safety program's success and look for additional ways to improve Washington Power's safety program.

Hometown Connections would recommend a Safety Recognition program. Currently recognition is limited to the annual IPSA safety awards banquet. Washington Power's safety program is impressive, and the results are worth celebrating and rewarding. We would be happy to provide examples from other utilities.

Lastly, Hometown Connections would recommend that Washington City take the steps necessary to document it safety program and results toward obtaining discounts on its Workers Comp premiums. Many public power utilities have enjoyed lower Workers Comp rates because of these efforts.

Governance

The objective for this area is to develop and sustain an environment of trust and involvement with the governing body to allow the utility to accomplish its business plan.

The measures in this area are:

- Understanding of roles for the Mayor, Council and utility
- Existence of an approved strategic plan
- Effective Power Superintendent and City Manager
- Active performance monitoring of utility operations

Overall, the Washington City and the Washington Power Department get good marks for governance.

Washington City is governed by a Mayor-Council form of government. The Mayor and the five City Council members are elected at-large for staggered terms of four years. The members of the City Council serve part-time and are responsible for adopting all legislative ordinances and setting the policies of the City, including the appropriation of all monies.

The Mayor, who is a member of the City Council (non-voting except in the case of a tie vote), is the chief executive officer of the City. The City Manager is the administrative head of the city government and is responsible for the daily management of the City and works as the Mayor's agent in implementing the policies of the City Council. With the concurrence of the Mayor, the City Manager appoints, disciplines and removes the managers of the City's several departments.

Washington Power is a city department and the Director of Power reports directly to the City Manager, who keeps the mayor and city council abreast of utility operations. There are no citizen advisory committees with oversight or review of the utility. An electric board was formed as part of the start up of the utility, but was not deemed effective and was disbanded by the mayor after a few years.

Overall, the City Council oversight appears to be good. The most important roles of the Council are to:

- 1. Represent the interests of utility customers and the city as a whole.
- 2. Approve the annual city budget
- 3. Approve rate cases
- 4. Authorize expenditures above certain thresholds
- 5. Provide policy direction to the utility and the city

Hometown Connections was honored to be joined by Councilwoman Jean Arbuckle and Councilman Jeff Turek. It was clear from our time together that both were very interested

in the utility's operations and were committed to seeing that the utility continue to play a strong role in supporting the quality of life in Washington City. Staff concurred, indicating the relationship is very good and a high degree of trust exists between the parties.

As has been mentioned already, Hometown Connections is particularly impressed with the value city leaders have placed on government transparency. While it may not always be pretty, Washington City's embrace of open government has no doubt gone a long way toward fostering confidence in the integrity of city leaders and staff.

A city-wide, five year strategic plan, updated on annual basis, exists that is an integral part of the city's budget document. While the strategic plan is comprehensive, the items pertaining specifically to the electric utility are few. As a result, the document does not seem to be a living document that determines utility focus, tending to be referenced only during budget preparation.

At the Power Department level, there is no written strategic plan prepared by Washington Power staff. Planning tends to be more system planning, exercised through a series of work sessions with the City Council. These discussions are less strategic in nature and more directed toward expansion of the system to accommodate growth.

The Director of Power has frequent interactions with the Mayor and City Council, through the weekly Council meetings. The amount of direct interaction between the Director of Power and the City Council is good. In other utilities of Washington City's size, utility business appears less frequently on the City Council agenda, and is limited to routine approvals of purchase orders. Indeed we have witnessed some utilities where the utility receives far too little attention from their governing body, competing unsuccessfully against more highly visible community issues.

On the subject of purchasing authority, Washington City is to be applauded for setting realistic thresholds for triggering competitive bids and Request for Proposals. Many municipalities across the nation have the same dollar thresholds now that they did 10, 20 or even 50 years ago. Washington City's decision makers have remained current in their purchasing authority thresholds and have demonstrated an important level of trust in staff.

Washington Power relies primarily on the governmental affairs staff of UAMPS for lobbying and representation in the state capital. This relationship seems to work well. Utah is one of only 10 public power states that does not have a state association representing public power utilities at the state capitol. UAMPS coordinates its lobbying efforts with the other two Utah joint action agencies and, where appropriate, the Utah League of Cities and Towns.

Community support of the utility is generally good, but may suffer from confusion among customers about who their electric provider is. Washington Power's value to the community goes beyond simple financial considerations, and the utility must explore the ways they can

make that value clear. In the face of calls for selling a public power system, the need for strong communication from the utility and its governing body to its customers and the community is critical. As mentioned earlier, Hometown Connections would encourage the development of additional outreach to the community, such as greater use of the utility bill insert as a low cost means to share information with customers. Hometown Connections would encourage city leaders, including the governing body, to be actively involved in advancing the community dialogue on anticipated power supply price volatility and its impact on Washington Power customers.

Hometown Connections would not recommend reestablishing an electric board, largely because of the city's past experiences. It is Hometown Connections' experience that in smaller communities (under 5,000 customers), the creation of a separate electric governing body is often an unnecessary level of bureaucracy. Indeed, Washington City staff and council members report communications and relations are excellent between the utility and city hall and that utility operations are getting the attention they need from city leaders...often the precipitating factor in calls for a separate governing body. Nationally, independent utility boards are rare for public power utilities under 5,000 meters. About a quarter of utilities this size use an independent governing board. Interestingly, in the 5,000 to 20,000 meter category, the proportion jumps to over 60%.

While an independent governing board does not appear to make sense in Washington City, Hometown Connections has seen some communities where an advisory electric board of citizens can play an effective role. Such a citizen's board can serve as a bridge between the utility and the community. Board members can provide a valuable source of information and advice to the City Council, and provide the utility a more coherent and accurate "voice of the community" on a variety of utility issues. Given the strong relations that currently exist, Hometown Connections does not recommend this step as much as we want to point out the availability of this tool.

Planning

The objective of utility planning is to determine what the utility intends to do to be successful and describe specific steps to accomplish that plan.

Specific measurable areas include:

- Guidelines set by governance and executive management
- Overall goals for the entire organization
- Specific goals and objectives set by areas in the utility
- Action items recommended to meet these goals
- Specific responsibilities and accountability to implement the plan
- Resources, money, materials and people to accomplish the plan
- A functional approval process that goes beyond the dollar budget for the next year

Overall, Washington Power gets strong marks on system planning and personal growth, but somewhat weak marks in the area of strategic planning. City-wide, through the use of performance indicators, and departmental and personal goals, there is a strong culture of planning and responsibility. This extends to the power department where goal setting, system safety, and personal growth all seem to be embraced and planned for. Employee involvement in this planning is also to be lauded.

Planning at the strategic level appears to Hometown Connections staff, less fully developed. Although a city-wide strategic plan was developed in conjunction with the budget document, it does not appear to be guiding utility strategies. The strategy currently for Washington Power seems to be keeping up with growth. Fortunately they are doing a good job keeping pace with that growth. Yet with that growth, the city has witnessed a fundamental transformation in it size, identity, demographics and infrastructure. There has been no comparable transformation in strategic planning by the utility to adapt to these changes.

It is a testament to the utility staff their success to date, but without a paradigm shift in how the utility does business, staff burnout, deferred maintenance, and dissatisfied customers are a very real possibility. Viewing the projected population growth and supply price fluctuations, current business practices will eventually be unable to serve the utility and the community effectively. Hometown Connections recommends that the utility consider developing a strategic plan that addresses more far reaching goals for how the utility can operate successfully within the community and within the city organization. The development of a strategic plan can pull the entire utility together and put them on a common course toward a high functioning organization, and not simply maintaining the status quo.

Washington Power interacts frequently with other city functions, such as Information Technology, Accounting, Human Resources, Purchasing, Water and Legal and therefore

relies heavily on the planning efforts within each of these areas. Hometown Connections would encourage those departments that interact with the utility to develop a strategic plan that will more clearly inform staff on organizational goals. Washington Power should develop a simple, modest strategic plan to:

- Focus on customer needs
- Improve areas of weakness within the utility
- Set goals for performance and accountability for staff
- Describe specific action items to accomplish goals
- Identify other departments of the city, i.e.: Information Technology, Accounting, Human Resources, Purchasing, Safety, and Legal that are participants in or impacted by the plan.
- Monitor implementation of the plan

Hometown Connections recommends Washington review APPA's *Public Power in the 21st Century* report as a road map in establishing longer term goals and consider bringing in an outside consultant to help develop the planning process.

Washington City government has a strong culture of dialogue and transparency, and of planning, goals and performance measures. Hometown Connections would encourage the utility to add more strategic discussion to its planning efforts.

Rates

The overall objective for rates is to assure that the utility will generate revenues sufficient to sustain utility operations while offering customers options to best meet their needs.

Areas to measure rates include:

- Rate policies
- Rate options
- Rate planning
- Approval process
- Rate performance
- Customer input/involvement
- Employee skills

Overall, Washington gets somewhat weak marks for rates.

Currently no rate policy is in place to guide rate making. The absence of a rate policy is not unusual for a utility the size of Washington City; however, in the current power supply climate this will become increasingly important. Hometown Connections would encourage a more formalized rate policy that outlines what factors will trigger a rate increase or decrease. This has the effect of minimizing political considerations that may conflict with the ability of the utility to operate objectively, in the best interests of the utility and its ratepayers.

Rate options for customers are fairly limited: one residential rate class and two commercial rates based on size. Washington previously offered multiple rate classes to residential The current residential rate is a three tiered structure that encourages customers. conservation through an escalator that applies at 1,000 and 2,000 kWh/month. This is not the case on the commercial side, where rates decrease slightly with larger consumption, however, according to staff, this has been addressed in the most recent rate recommendation to be presented to city Council before year's end. There is also a green option available through the Green Power Program. Hometown Connections applauds these conservation/renewables incentives. While the recent residential rate simplification has been achieved with little apparent backlash, Hometown Connections would encourage Washington to explore whether additional rate classes would be valued by customers. These might include all-electric rates or seasonal rates (e.g. for snowbirds). As Washington becomes more diversified in residential, commercial and industrial customers, more rate options may be desirable. Customer research will help determine customer needs in the area of rate options. The trend in public power has been toward more rate options, including customized rates for larger commercial and industrial customers.

New construction is funded out of developer impact fees. Earlier, during this period of rapid growth, it was unclear whether impact fees were set at a level to fully recover the costs of a given development. This since seems to have been corrected.

Hometown Connections recommends that Washington City initiate a cost-of-service study, which we understand is already underway. With such a study complete, Washington can then establish and implement a rates policy that will generate revenues sufficient to sustain ongoing utility operations while offering customers options to best meet their needs. Such a study will also determine whether any cross-subsidization is occurring between electric rate classes, or other utilities or services (e.g. Water or Golf). Staff has indicated that this is not currently the case. And finally, a cost-of-service study could also evaluate how closely development impact fees match utility construction costs.

The City Council and Mayor have total responsibility for rates. Rates are set by City Council.

The average residential rate in Washington is comparable to the neighboring public power and REA rates. Below is brief comparison of Utah residential rates, although in the absence of a rate study, it is difficult to make accurate comparisons or to gauge rate performance currently and in the future.



As discussed under Power Supply, there is no monthly fuel adjustment pass-through, also called a power cost adjustment, that accommodates variation in fuel supply costs. This is a more common practice in other regions, especially where natural gas is a significant fuel source, which typically has greater price volatility. This can allow the utility to maintain

consistent revenues in the face of fluctuating fuel costs. Among Utah public power utilities, Spanish Fork has a power cost adjustment, determined monthly, and matched to power purchase price from its suppliers. Given the anticipated price increases looming that are based on power supply, Hometown Connections would strongly encourage Washington City to consider a power cost adjustment line item on its utility bills.

Clearly, maintaining adequate cash reserves is an operational need as well as a primary determinate of bond ratings. In addition to an electric utility reserve fund, Washington City has established a rate stabilization fund that could become a key component in mitigating significant rate spikes. Nonetheless, in turbulent times, such a fund, currently funded at \$134,000, could quickly be eaten up by supply cost increases, especially in the absence of a power cost adjustment. Despite its name, the Rate Stabilization Fund is currently without any policy directing its use, funding formula or target size. For example typical policy language might establish the fund in the amount that represents an x% of annual market power costs. In one California public power utilities for example, this amount was set at 20%. Hometown Connections would strongly support development of a rate stabilization fund policy.

Administration, Accounting and Finance

The objective in this area is to assure that the business is well managed and that management and governance has the tools available to properly plan and account for business activities.

Areas to measure Administration, Accounting and Finance include:

- Annual budget
- State of the art accounting and reporting systems to enable up-to-date information for decision makers.
- Clear policies and procedures for consistent application in purchasing, planning and finance.
- Financing requirements
- Policies for managing cash reserves
- Cash flow forecasting and management
- Internal controls to assure that policies and procedures are being followed.

Overall, Washington gets a strong rating in Administration, Accounting and Finance. Policies and processes are very tight and appear to serve the city well. There have been no audit exceptions in recent history.

Accounting and reporting systems get mixed reviews. It is clear from staff complaints about the accounting/CIS software that problems exist, but it is not clear to Hometown Connections how much these problems can be traced back to deficiencies in the software functionality or training issues among the software's users.

The annual operating budget and five year capital budget are developed by staff and reviewed through work sessions with the Mayor and City Council. The budget is updated periodically, through the appropriate approval process. The budget document itself is very thorough and well laid out and the budgeting process seems well run.

The capital budget has become an important planning tool in the face of the community's growth. The five year rolling budget to date has stayed ahead of the growth curve to ensure capital projects are not delayed. Capital planning and debt policies are clearly defined and suggest an appropriate delineation between capital and operating funds.

The policies and procedures are consistent with other departments in the city. Policies are in place and adhered to for purchasing and employment.

Purchasing authorization thresholds are at \$2,000, above which the City Council must approve (usually through the consent agenda or annual budgeting process). Purchases of greater amounts fall under state procurement guidelines. The city uses weighted criteria that provide the flexibility to choose someone other than the low bidder if other criteria are not

adequately met. Washington's approach to purchasing is where all of public power should be. Early government purchasing practices, originally borne in an era of rampant city corruption are no longer appropriate in the vast majority of local governments, yet in too many cities these policies remain largely unchanged. Hometown Connections applauds Washington's purchasing focus on customer value rather than employee control. If Hometown Connections can make one recommendation on Washington Power's purchasing practices, it would be to evaluate whether the role of purchasing agent should be shifted from the Director of Power to someone else in the department or in city hall. As Washington has grown, the time commitment it demands is not appropriate for the department head.

The city has an electric utility reserve fund, but with no policy on funding it, how levels are determined or how funds are accessed. Currently it is funded through retained earnings at the end of the year. Operating reserves represent the most common form of cash reserves in place in the utility industry. Most utilities maintain operating reserves in one form or another. The amount or level of reserves is generally based upon providing "coverage" of expenses over a number of days. Typically, operating reserves are sized to cover 30-60 days' expenses. Sample reserve fund policy language is attached in the Appendix. As with the Rate Stabilization Fund,



Hometown Connections would recommend the utility establish a written reserve funds policy to help ensure a viable reserve account for the longer term.

Washington City has recently imposed a Municipal Energy Tax which effectively replaces transfers from the electric utility to the general fund, frequently referred to as a Payments In Lieu of Taxes or PILOT. This Municipal Energy Tax is set at 6%, equivalent to the franchise fee being charged other utility providers serving Washington City.

Hometown Connections applauds Washington City's use of a set formula for determining monies moving from the utility fund to the general fund. In the latest APPA surveys of members, some form of PILOT is employed in 80% of all respondents, although among utilities of 5,000 or less customers, the percentage drops to 74%. Among all cities, 62% use a formula to determine the amount, although again, among smaller utilities, the percentage is only 50% and among those smaller utilities where the city council is the governing board (as opposed to an independent board), the percentage is only 39%. Among all utilities of Washington City's size class, the average PILOT is slightly under 6%.

Hometown Connections has witnessed cities without a formula, usually smaller cities, that view the utility's enterprise fund as their primary source to make up any year to year shortfalls. For obvious reasons, such an approach will seriously hinder a utility's ability to operate like a business. The issue of transfers to general fund (payment in lieu of taxes) can be a heated topic in a public power utility. Hometown Connections has seen practices where 30% or more of a utility's operating revenues are transferred out of the operations, severely limiting the utility's ability to maintain its asset and continue generating optimal revenue. Hometown Connections is a proponent of setting annual transfers at a fixed percentage, which rewards the utility for operating efficiently and effectively and helps discourage future administrations from jeopardizing the electric utility fund.

When discussing PILOTs, the predictability of the amount transferred is only one element to consider. The amount transferred relative to other outside utilities' payments to the city, typically through franchise fees, should also be considered. One of the positives of public power frequently touted is the additional benefits that come back to the city and the community. Toward this end, PILOTs plus administrative overhead and other contributions, made in the form of free or reduced cost services (e.g. street lighting), will typically exceed the franchise fee amount. In a 2004 study² the average total payment in taxes and fees to state and local governments averaged 4.6%. In the public power, the total of payments and other contributions averaged 5.3%

It is Hometown Connections' understanding that Utah's Municipal Energy Sales and Use Tax Act requires public power utilities to levy the tax on its own sales if it levies a tax on private energy suppliers, which is the case under the franchise agreement with Dixie REA and other utility providers within the city. The enactment of this law seems to take some flexibility away from municipalities; however, Washington City has taken a very proactive response. Hometown Connections would encourage Washington Power to make clear the other contributions it makes to the city and community that further differentiates itself.

² Payments and Contributions by Public Power Distribution Systems to State and Local Governments, 2004 Data, Published June 2006, APPA



Costs

The overall objective for documenting costs is to quantify the costs associated with operating the utility.

Measures in this area include:

- Supply costs
- Transmission costs
- Distribution costs
- Labor costs
- Benefit costs
- Overheads

Through its relationship with UAMPS, Washington Power appears to be doing a good job of managing supply costs while providing value to its customers.

As a planned participant in UAMPS' all-in pool, Washington Power's supply costs for now approach true cost of production at a time many utilities face market pricing with much higher cost and increased volatility. Transmission costs are included in UAMPS delivered cost and reflect true costs without market margin. Fiscal year 2007 total supply costs of approximately \$5.15 million represents approximately 80% of a typical customer's bill. While this percentage seems high to Hometown Connections, a good cost-of-service study would be able to provide better insight into whether 80% is appropriate.

Washington appears to be efficient in its distribution, labor, benefits and overhead costs. Its ability to maintain a reliable system and retain staff while keeping its electric rates relatively consistent is a compliment to its leadership.

Administrative support provided by General Fund employees are fairly accounted for and charged back to the utility.

Washington City should closely monitor its pay structure to help ensure its ability to attract and retain competent and skilled employees in a time of increased competition for labor.

Technology

The overall objective for technology is to determine the extent a utility utilizes technologies to improve customer service and operations.

Measures in this area include:

- Transmission
- Distribution
- Meter reading
- Communications
- Information technology
- Integration with community infrastructure

Washington Power gets strong marks for technology.

The city's CIS software, Casselle, which supports the financial, payroll and billing processes, gets mixed reviews. While some find it strong on functionality, staff reports that it can be difficult to access reporting, does not interface well with other programs and in general can be difficult to use. Staff reports that an upgrade to this system is being considered within the next three years. Before pursuing new technology, Hometown Connections would first encourage staff to identify whether the needs of the customer and the organization are being met through the current CIS software. If so, can the current technology be deployed more effectively through additional training and/or staff? Hometown Connections can recommend a number of CIS solution providers, with a good match to small, multi-utility cities like Washington City.

UAMPS monitors Washington Power's delivery points with dial up access for each point. UAMPS does not use a Supervisory Control and Data Acquisition (SCADA) system. Currently three substations are served by Washington Power's SCADA system. As substations continue to be added and range across a larger area of the community, a SCADA system will become an important component to the integrity of the system. As discussed under Distribution Operations, Hometown Connections supports Washington's build-out of their SCADA, but would encourage the utility to evaluate the newer Windows-based SCADA technologies that have driven price points down 60% to 80% lower than older VMS-based technologies.

With fiber extending to each of the substations, Washington Power may also wish to explore the cost benefits of video security at each site. Although the perceived threat of vandalism or sabotage may be low, the cost of installing video surveillance has dropped considerably, especially in light of the fiber broadband connection that already exists.

A Geographic Information System (GIS) is currently under development in the city, but has not reached the Power Department yet.

Washington Power and Washington Water have implemented an AMR solution for their electric and water meters respectively. The electric side has employed the Itron Mobile Collector and primarily Centron solid state meters, both good choices. The utility is not currently using the mobile technology for commercial three-phase meters.

Water is using the MasterMeter solution. Both vendors (Itron and MasterMeter) provide high quality solutions. Although the ideal would be to have a single meter reader, using a single technology reading electric and water meters, each department has chosen strong AMR technology for their applications. With this investment in place, there is little reason to consider any change in the near term. Nonetheless, Hometown Connections would strongly encourage the city to evaluate a single technology when the time comes for replacement of the current AMR systems. Even in the past five years, meter reading technology has made significant gains in functionality and ease of use across utility types (e.g. electric, water, gas). In other words, excellent AMR solutions serving both water and electric are available. These solution require few compromises and would offer tremendous savings to Washington, for example, through the avoidance of two sets of software (and their maintenance) and hardware. Most important is the consolidation of meter reading into a single meter reader, or if a fixed network, no meter reader.



Connections Hometown would strongly encourage this consolidation be given serious consideration when AMR/AMI technology is next being evaluated. This should be facilitated by the recent shift of meter reading responsibility from the city to the utility. The technology trend in meter reading is clearly toward two-

way communication through some form of fixed network, using wireless, power line carrier (PLC) or other communication infrastructure. Public power has been slow to adopt this technology, primarily because of cost and little pressure to enact more options and services, such as Demand Response³, Time-Of-Use rates, Critical Peak Pricing (a standard TOU rate

³ Demand response in electricity is defined as load response called for by others and price response managed by end-use customers. Load response includes: direct load control, such as of residential air conditioners; partial or curtailable load reductions; and complete load interruptions. Those calling for load response include: independent system operators (ISOs), load serving entities (LSEs), and utility distribution companies (UDCs). Price response includes real-time pricing, dynamic pricing, coincident peak pricing, time-of-use rates and demand bidding or buyback programs. (Source: Demand Response: Principles for Regulatory Guidance, Peak Load Management Alliance)

structure plus a "critical peak price" that would only occur on a limited number of days in a year), remote turn-on and turn-offs, etc.

The use of pre-pay meters was also discussed as a technology solution for higher risk customers. The use of pre-pay meters in other parts of the world, such as Europe is much higher than in the U.S. Among public power only one percent of utilities use pre-pay meters. These include Salt River Project, AZ and Bryan, TX, which have both successfully implemented a pre-pay meter program. Of those public power utilities that use pre-pay meters, the percent of residential customers using such meters averaged 11% (APPA 2006 Customer Service Survey). Hometown Connections would encourage Washington to explore the value of pre-pay meters among its electric customers.

Washington Power's communications systems seem to work effectively. Cell phones and two-way radios are utilized by crew members. Supervisors use Treo handhelds, providing voice and email capabilities. No work order management system is in place, which is not unusual for a utility the size of Washington City.

Washington Power uses the city website with a link to the electric department site. The city's website is well laid-out, easy to navigate and provides up to date information that will likely encourage many Washington residents to look there first for information. In general Hometown Connections was very impressed with the functionality of the city website. Hometown Connections would encourage further development on the City's electric department web page, providing additional information and resources, such as energy conservation, rate and billing explanation and service requests.

Although Washington City has an effective system for handling outage calls, Hometown Connections would encourage Washington City to explore the use of technology for outage and after-hours calls. Integrated Voice Response (IVR) systems have evolved to become less expensive, more efficient and less cumbersome than past generations. Hometown Connections will provide additional information on suppliers.

Washington Power relies on city information technology standards and support, which appears to be strong. City governments the size of Washington City will often struggle with the decision whether to outsource IT services or employ IT staff. The decision to bring IT services in-house seems to have paid off for Washington City.

In general Washington has successfully leveraged technology to add greater value to employees and citizens alike. With the changing demographics of Southwestern Utah, customer demand for easier access to more sophisticated information will likely grow.

Human Resources

The objective for Human Resources is to assure the workforce is well trained, properly motivated and fairly compensated.

The measures in this area include:

- Knowledgeable HR staff
- Procedures and practices
- Compensation, benefits
- Staffing levels
- Employee morale
- Training and development
- Career opportunities
- Expertise

This is an area that currently gets mixed ratings. The HR function is part of the city and used by Washington Power as needed. The city has recently placed greater emphasis on a strong human resources/employee development function. They have done this through the support of a full time, professional HR administrator. HR staff is undergoing the training and development needed to be fully effective in this role. This is an admirable step for a city the size of Washington City, but, in the face of continued growth, an important and necessary one.

Washington Power has effective policies and procedures for basic HR functions such as requisitions justification, compensation, hiring, discipline, and promotions. The personnel manual has recently been revised and provided to employees, who must sign off on its receipt.

Washington City uses an independent consultant to compile salary information. Compensation and benefits are targeted to be market competitive when compared to other municipal utilities within the state.

Medical Benefits seem quite strong. The city covers 100% of benefits premium. Washington City has crafted an excellent package that should foster high employee satisfaction and loyalty. Similarly, the retirement package is strong. This is a defined contribution plan whereby the city contributes 4.5% into the employees 401k with no employee match required. Employees are vested at 4 years.

Hometown Connections' assessment is that the total compensation package is competitive and should prove attractive to potential and existing employees. Nonetheless, severe

shortages of journeyman lineman and craft positions nationally, and a very competitive employee landscape locally are of great concern. The presence of several nearby electric utilities complicates employee retention. Employees have a choice of several of other utilities in close proximity, allowing job switching without having to relocate residency. As a result, Washington Power has lost several employees over the past few years to neighboring utilities. Given strong upward pressure on electric industry salaries, particularly journeyman lineman and technicians, salary data is becoming outdated soon after it is collected and according to staff, despite the improvements the city has made over the last three years, it continues to lag behind the local competition.

As already mentioned, Hometown Connections believes the current compensation package is competitive, and is reluctant to recommend Washington City enter any kind of bidding war for lineman. Nonetheless, Hometown Connections would encourage Washington City to make sure its salary levels are pegged against like positions locally, are competitive and up to date.

Hometown Connections would also suggest that Washington City undertake an evaluation of who is leaving and why. In our discussions with staff, it appears that several third year apprentices have left. This suggests that Washington Power ends up training these individuals, largely at the utility's cost, only to have them jump to another employer who is paying a higher wage. For younger workers, the appeal of a strong retirement and benefits package may be lost in the face of a higher wage. If this is true, Washington City Power should consider modifying its recruitment strategy to target workers who are more inclined to view these positions as a career.

Pay is a slippery slope that can leave few winners, only losers. Hometown Connections would rather see Washington City build on its "brand" as an excellent employer: Offering a safe and professional work environment that emphasizes employee training, development and strong career tracks. Certainly salary must remain competitive, but as numerous studies have asserted, pay is rarely the dominant factor in job decisions, but simply one of many, which can also include: interesting work, appreciation of work done, job security, good working conditions, promotions and growth in the organization, feeling of being in on things, personal loyalty to employees, tactful discipline, and sympathetic help with personal problems. With the development of a full-time HR administrator, Washington City is well positioned to address the wider range of factors that encourage employee retention and performance. Hometown Connections would encourage Washington City to build its brand as an excellent employer and work place.

Washington City has a strong emphasis on individual training and goals that tie into its pay for performance system. Hometown Connections applauds this effort. Pay for Performance has had mixed success when applied to governmental organizations. The more an agency's mission tilts toward "public service" and away from generating revenue, the more challenging a pay for performance plan can be. Washington City seems to be embracing an

updated approach to pay for performance that is proving to be a good fit among public service and government agencies, specifically the reward and recognition of employees for attainment of new knowledge and skills obtained through ongoing education and training.

Among all governmental agencies, a public power utility is one of the best positioned to implement a successful pay for performance strategy because of the availability of several performance measures. Hometown Connections would encourage the Power Department to develop and track additional performance indicators that can effectively gauge the success of the utility in meeting community needs.

Washington Power relies on a number of other city functions, such as Information Technology, Accounting, Human Resources, Purchasing, and Legal. This is not unusual for a utility of Washington Power's size and organized in the manner it is. Relationships appear to be good between these offices.

Some level of succession planning is occurring within Washington Power, but a formal, well documented, plan was not evident. Succession planning will become increasingly important to the utility in the next few years. Hometown Connections would encourage Washington City to develop a succession plan. Under current Washington City policy, retirement is at age 65, although several older Power Department employees are working under policies that allow retirement at 60 and 62. Based on data provided by Washington City staff, the average years to retirement in the Power Department is just over 21 years. This number is high compared to other utilities that Hometown Connections has worked with. Nonetheless, we remain concerned by the departure of many of the younger linemen, who in years to come should become the experienced employees who form the backbone of the utility. Indeed there is currently no one in the 30 to 39 age range on staff: everyone is either in their 20s or are 40 and above. Hometown Connections would encourage Washington City to seek effective means of retaining the younger members of the workforce.

Hometown Connections observed what appeared to be potential staff gaps within the utility. First, as mentioned earlier, Washington City may wish to consider the trade-offs of hiring an engineer, which should allow the utility to rely less on outside engineering consultants. This might be either a seasoned engineer who could step in at a fairly high level, or an entry level person who would be required to do more on the job training through other utility staff and outside consultants.

A second gap appears in the customer service office, where the growing workload seems to be impacting their ability to handle customer service issues in an effective and timely manner.

A third gap appears to be the lack of administrative support for the Power Department. As has been discussed elsewhere in this report, a number of administrative functions, by default,

currently fall in the lap of the Director of Power. With continued system growth, this arrangement will likely prove increasingly untenable.

Lastly, there is the age gap just discussed. While growing and retaining the entry level line positions will eventually close this gap, Washington City may want to consider the option of filling that experience gap sooner through the hiring of linemen who already have a number of years experience in another utility.

Expertise

The overall objective for documenting expertise is to identify the level of expertise that exists in important functional areas.

The areas identified are:

- Customer service
- Accounting
- Finance
- Engineering
- Human Resources
- Planning: System and Strategic
- Purchasing/contracting
- Rates
- Craft positions
- Legal

After a discussion with the Director of Power, the following ratings were determined based on a scale of STRONG to WEAK:

STRONG

- Accounting
- Engineering (outside)
- Finance
- Legal

SOMEWHAT STRONG

• System Planning

SOMEWHAT WEAK

- Craft positions
- Human Resources
- Purchasing/contracting
- Rates

WEAK

- Customer Service
- Engineering (in-house)
- Strategic Planning

Recommendations

Overall

Overall, the Washington Power Department is a very well run electric utility that will need to address increasing challenges in the power supply market and the community's rapid growth.

Washington Power should remain current on utility best practices and continue pursuing opportunities to work with others to benefit from aggregation, be it electric supply, technology, expertise or influence. As part of this, Hometown Connections would strongly encourage staff to avail themselves of the resources available through the American Public Power Association, including the many listservs created to address a wide variety of issues facing public power. See Appendix for a complete list of these listservs.

Customer Service

- 1. Washington City Power should use the existing city survey instrument or a supplemental survey to explore in more detail customers' satisfaction with existing service and desire for services or options not currently available. Regular customer surveys conducted annually or biannually, would allow Washington City Power to benchmark and monitor trends in performance and customer satisfaction in areas such as:
 - Customer satisfaction
 - Reliability
 - Utility service performance
 - Rates
 - Areas of interest, possible new services that may desired
- 2. Washington City should develop a comprehensive plan to deal with customer confusion and dissatisfaction over anticipated increases to their electric bill.
- 3. As hardcopy forms of city communications disappear (e.g. utility bills), Washington City should ensure that these communications continue to be available electronically to those customers opting out of mailed materials
- 4. Hometown Connections would encourage Washington City staff to evaluate the look and various functions of the utility bill and explore ways to leverage this important monthly communication with its customers. This could include providing more usage and historical data as well as information on levelized billing, online payment or the utility's Green Power Program.

- 5. Washington City should conduct a thorough process review of the revenue cycle, from meter reading through collections and bank deposits. Areas of improvement should be identified and implemented with the goal of decreasing the timing of the revenue cycle.
- 6. Washington City and its Power and Water Departments should seek to find a way to use a single meter reader to read water and electric meters. This will have the effect of decreasing costs, increasing efficiencies and speeding up the revenue collection cycle.
- 7. Washington City should consider transitioning to percentage-based late fees.
- 8. The utility should continue to add value where appropriate to ongoing economic development efforts.
- 9. Washington City and UAMPS should continue monitoring federal and state laws on renewable energy. Further, Washington City should look at additional ways to publicize its green power offering and, as part of future city or utility market research, determine the level of awareness of this program among customers.
- 10. Washington should explore whether customers would respond favorably to additional energy efficiency assistance or demand response programs.
- 11. Washington Power should monitor the growth of its commercial and industrial base and, if appropriate, form stronger ties with these customers to ensure their continued satisfaction

Customer Outreach and Communications

12. Hometown Connections would encourage staff to explore ways of strengthening the image of the utility in Washington City

Power Supply

- 13. Hometown Connections believes it is critical for the utility to control electric demand growth as much as possible through Demand side management, peak shaving and other conservation efforts.
- 14. Hometown Connections strongly supports the efforts of Washington City and UAMPS in pursuing additional base load resources to add to the Washington City supply mix, which will in turn provide more reliability and pricing predictability for its consumers over the long term.
- 15. Toward that end, Hometown Connections encourages UAMPS and Washington City to explore other ways they can partner.

- 16. Hometown Connections would encourage Washington City to explore the feasibility of obtaining capacity credits from UAMPS for existing back up generation.
- 17. Hometown Connections would strongly encourage that city and utility staffs create a plan for mitigating the financial and political fallout that could occur in the face of greater price uncertainty
- 18. Washington City should explore the incorporation of a power cost adjustment as a line item in its electric bills.

Distribution Operations

- 19. Washington City Power should complete the extension of its SCADA system to all of its substation, but should consider the cost benefit of converting to a Windows-based SCADA system.
- 20. Washington City Power should ensure that maintenance of system equipment is scheduled and adhered to before problems occur.
- 21. Washington City Power should collect outage information based on IEEE standards so they can compare with themselves over time and with other utilities. To assist in this collection, Hometown Connections encourages the use of APPA's *Reliability Tracker* software.
- 22. Washington City Power should encourage the completion of formal pole inspection goals that will ensure every pole is inspected every five years.
- 23. For tree trimming, Washington City should explore whether providing longer term commitments to contractors and/or teaming up with neighboring utilities to ensure more year-round work for contractors would result in a stronger pool to choose from at a better price.
- 24. Washington City Power should apply for APPA's RP₃ program. This program will further the utility's current focus on reliability, safety, training and system improvement.
- 25. Washington City Power should analyze the cost benefit trade-offs of hiring a full time engineer.
- 26. Washington City should test the strength of its disaster plans through periodic disaster drills.

Employee Safety

27. Hometown Connections would encourage Washington City to continue using various crew members to assume responsibility for a weekly training meeting

Hometown Connections would also encourage Washington City to continue bringing in outside expertise, in order to keep utility staff abreast of the most current safety practices and technologies.

- 28. Hometown Connections would encourage management to attend weekly safety meetings as frequently as possible.
- 29. Hometown Connections would encourage Washington City to develop a plan and timeline for AED deployment and then execute that plan.
- 30. Washington City Power should consider the APPA RP₃ program could be an effective means to improve the Power Department's safety program.
- 31. Washington City Power should implement a Safety Recognition program.
- 32. Hometown Connections would recommend that Washington City take the steps necessary to document it safety program and results toward obtaining discounts on its Workers Comp premiums.

Governance

- 33. Hometown Connections would encourage city leaders, including the governing body, to be actively involved in advancing the community dialogue on anticipated power supply price volatility and its impact on Washington Power customers.
- 34. In general Hometown Connections would encourage stronger efforts to make clear to the community, the value of the public power utility in Washington City.

Planning

- 35. Washington City Power should consider developing a strategic plan that addresses far reaching goals for how the utility can operate successfully within the community and within the city organization. Plan elements should:
 - Focus on customer needs
 - Improve areas of weakness within the utility
 - Set goals for performance and accountability for staff
 - Describe specific action items to accomplish goals
 - Identify other departments of the city, i.e.: Information Technology, Accounting, Human Resources, Purchasing, Safety, and Legal that are participants in or impacted by the plan.
 - Monitor implementation of the plan

36. Washington City Power should review APPA's *Public Power in the 21st Century* report as a road map in establishing longer term goals and consider bringing in an outside consultant to help develop the planning process.

Rates

- 37. Hometown Connections would encourage Washington to explore whether additional rate classes would be valued by customers.
- 38. Washington City should complete its cost-of-service study that is underway.
- 39. Washington City Power should develop a more formalized rate policy that outlines what factors will trigger a rate increase or decrease.
- 40. Hometown Connections would strongly encourage Washington City to consider a power cost adjustment line item on its utility bills.
- 41. Hometown Connections would strongly support development of a policy to guide the Rate Stabilization Fund.

Administration, Accounting and Finance

- 42. Hometown Connections would support the evaluation of the role of purchasing agent, and whether it should be shifted from the Director of Power.
- 43. Washington City should establish a written reserve funds policy to help ensure a viable reserve account for the longer term.
- 44. Hometown Connections would encourage Washington City Power to make clear the financial and other contributions it makes to the city and community that differentiate them from other electric providers.

Costs

45. Washington City should closely monitor its pay structure to help ensure its ability to attract and retain competent and skilled employees in a time of increased competition for labor.

Technology

- 46. Hometown Connections would encourage staff to assess the needs of the customer and the organization and how effectively they are being met through the current accounting/CIS software. Prior to software replacement, Hometown Connections would encourage staff to evaluate whether the current technology can be deployed more effectively through additional training and/or staff?
- 47. When the time comes for the electric and water departments to evaluate new AMR

technologies, the use of a single vendor technology, used by a single meter reader for both electric and water meters, should be given serious consideration.

- 48. Hometown Connections would encourage Washington to explore the value of prepay meters among its electric customers.
- 49. Washington City Power should further develop their pages on the City's website, providing additional information on the utility as well as consumer information on energy conservation, reading a bill, explaining rate options, etc. In some cases, it simply involves the replication of information currently found only on the Utility Billing web pages.
- 50. Washington City should explore the cost benefits of video security at each substation.
- 51. Hometown Connections would encourage Washington City to explore the use of technology for outage and after-hours calls, reflecting the significant price reductions and improvements in IVR technology over the past few years.

Human Resources

- 52. Hometown Connections would encourage Washington City to ensure its salary levels are pegged against like positions locally, are competitive and up to date.
- 53. Hometown Connections would encourage Washington City to develop a succession plan.
- 54. Washington City Power should consider modifying its recruitment strategy to target workers who are more inclined to view these positions as a career.
- 55. Hometown Connections would encourage Washington City to build its brand as an excellent employer and work place.
- 56. Washington City Power and Washington City should evaluate staffing needs within the utility and consider the cost-benefits of adding an in-house engineer, direct administrative support staff and more customer service representation.

Summary

Hometown Connections appreciates the opportunity to review the operations of Washington City Power and hopes the recommendations will be implemented. It should be noted, however, that Washington City Power has the latitude to make improvements in accordance with available manpower and resources both within the utility and from outside sources.

Hometown Connections commends Washington City Power's management, the City Manager, the Mayor and City Council for their commitment to improve operations in Washington City. The future for all electric utilities is becoming increasingly complicated and if Washington City Power is to serve customers and protect the City's interests, it will require increased performance from everyone.

Appendix

Hometown Connections Information

Hometown Connections is a utility services subsidiary of the American Public Power Association (APPA). APPA is the national service organization representing the nation's more than 2,000 community- and state-owned electric utilities. It owns 65% of Hometown Connections through its Public Power, Inc., subsidiary. Alabama Municipal Electric Authority owns the remaining 35% of Hometown Connections.

Hometown Connections was formed in 1998 and provides value to public power in two ways.

First is by assessing public power product and service needs and identifying best-in-class vendors that can meet these needs. By partnering with these vendors, Hometown Connections secures discounted pricing, group packaging and high levels of service for members of the American Public Power Association. Hometown Connections makes products and services directly available in every part of the country through its direct sales staff and alliances with 17 public power joint action agencies, state associations and individual utilities. These products and service fall into three categories:

- 1. Utility Operations Services: Including broadband over power lines, metering over power lines, generation development, defibrillators, online energy audits and billing systems.
- 2. Business Planning Services: Combining strategy consulting and assessments with market research capabilities.
- 3. Retail Services: Companies partner with APPA members to add surge protection, energy improvement, Internet or other services to their mix of retail offerings.

Second, is by leveraging Hometown Connections substantial in-house expertise to provide consulting and facilitation of utilities' operations and planning. Hometown Connections staff bring considerable experience and expertise on the energy industry, public power and municipal government. Since 1998, Hometown Connections has worked with over 500 public power utilities, joint action agencies and state associations across the U.S., giving the staff unique insights into the operations of an enormous variety of public power organizations. Hometown Connections has several pre-packaged consulting services and also provides customized consulting, facilitation and research services.

Hometown Connections Bios

Tim L. Blodgett

Mr. Blodgett has held the positions of President and CEO of Hometown Connections, the utility services subsidiary of the American Public Power Association, since January 2001. Mr. Blodgett is responsible for Hometown Connections' overall efforts in delivering value to public power utilities. Mr. Blodgett has worked with many public power utilities in the area of strategic consulting and is a frequent guest speaker at industry forums across the country.

Mr. Blodgett joined Hometown Connections in May of 1998 as the Vice President, Sales and Marketing where he assisted in the molding of a start up organization into a well recognized company known for value adding products and services specifically designed to meet public power's needs.

Prior to joining Hometown Connections, he was the Director of Sales for en-able, an affiliate of KN Energy and PacifiCorp, where he assisted energy distribution companies with their customer care programs. Mr. Blodgett played a key role in the development and sales of Simple Choice, a broad residential package of products and services including energy and home services, infotainment and communications services.

Prior to the formation of en-able, Mr. Blodgett worked for KN Energy where he focused on the sale of energy and related services to local distribution companies. He also participated on the consumer services team that led the industry in becoming one of the first to promote consumer choice. The end result of this effort was the largest retail consumer choice program in the natural gas industry in 1996. Mr. Blodgett spent 6 years with Phillips Petroleum Company in various positions ranging from natural gas marketing to business development in exploration and production.

Mr. Blodgett holds a Bachelor of Arts Degree from Northwestern Oklahoma State University in Business Management.

Steve VanderMeer

Mr. VanderMeer is the National Sales Director for Hometown Connections. He joined Hometown Connections in October of 1998 and provides sales and marketing support and consulting to public power utilities.

He comes to Hometown Connections from a Colorado public power utility, Fort Collins Light & Power, where he was the Director of Marketing and Energy Services. Mr. VanderMeer directed the development and promotion of a stronger utility image and brand. He oversaw the launch of several new products and services including the very successful Wind Power Program, winner of the 1997 APPA Energy Innovators Award.

Prior to his work with Light & Power, Mr. VanderMeer was Assistant to the City Manager with the City of Fort Collins. During this time he managed numerous community outreach and citizen participation programs. He facilitated strategic planning efforts at the department, organization and community levels. Mr. VanderMeer also directed the City's Total Quality Management program and is a certified TQM instructor.

Mr. VanderMeer gained his early experience while Assistant to the Vice President of Marketing and later Assistant to the President at the Philadelphia Zoo.

Steve is a native Michigander. He holds a Bachelor of Arts Degree from the University of Michigan and a Masters Degree in Governmental Administration from the University of Pennsylvania. Steve is active with the Discovery Science Center in Fort Collins, where he serves as the President of the Board of Directors.

Sample Electric Department General Reserve Fund Language

For Illustration purposes only. Hometown Connections does not endorse this specific language.

Section ____: Utilities department general reserve fund; water and sewer reserve fund.

A fund shall be created and maintained to be known as the City of ______ Utilities Department General Reserve Fund. The City, from revenues derived from the operations of its electric system now owned or which it may hereafter acquire, shall pay into such fund twenty (20) percent of the net income from its systems before depreciation charges are made. The moneys in such fund shall be used and applied solely for improvements, extensions, and replacements of the lands, buildings, equipment, and distribution systems now owned and used or which may hereafter be acquired by the City in connection with the operation of its electric system and shall not be used or applied for ordinary operation and maintenance nor for ordinary service connections.

Public Power in the 21st Century: Introduction

INTRODUCTION

Public power is nearly as old as the incandescent light bulb, the first publicly owned utility being established in 1882. From small, isolated and self-sufficient entities in existence at the beginning of the 20th century, publicly owned utilities entering the 21st century are an integral and integrated part of our nation's electric utility infrastructure. They have successfully capitalized on new techniques and technologies to provide low-cost, superior service to their communities and citizens. They have consistently served as a benchmark or "yardstick" by which the performance of other utilities has been measured.

Twenty years ago, indeed for the last 100 years, the future of the industry seemed fairly certain, so certain that long-range strategic planning was pervasive. Today, our long range plans tend to be measured in months, not years.

We face many unanswered questions: How fast will deregulation proceed? Will regional transmission organizations promote real wholesale competition? Will publicly owned utilities be able to rely on a stable wholesale market or will they need to play an aggressive role in developing resources to meet the needs of their customers? Will "deregulation" prompt technological breakthroughs? Will new technologies, such as distributed generation, change our core business? How will environmental regulations affect us?

Answering these questions was not the charge given to the APPA task force on Public Power in the 21st Century. Rather, in light of these questions, the task force was asked to look toward our future and offer its best advice on how to prepare for and adapt to the changes it will bring. As this report's title, "It's Your Future ... Lead It!," implies, it is designed to help public power utilities focus on the things they can control and, in the process, define their own future and ensuring their own success.

This task force consisted of 23 public power leaders, and was co-chaired by Glenn Cannon of Waverly, Iowa, and J. V. "Vic" Parrish of Energy Northwest. It placed a premium on brevity and practicality and the final work product reflects that. The task force identified 10 key areas that need to be the focus of management's attention and offered specific recommendations that might be considered to improve performance and prepare not just for survival, but also for success.

Many members of the APPA staff contributed to this final product, drafting the sections, collecting anecdotes and designing the checklists that can be used to diagnose performance and plan for the future. The efforts of the task force and staff were coordinated by Jeff Tarbert, APPA senior vice president. Former Arizona Congressman Mo Udall once observed that America would prosper if future generations could blend two elements: "change, the ability to adjust things to the special needs of our times; and stability, the good sense to carry forward the old values, which are just as good now as they were 200 years ago." This is sound advice for any institution, including public power. Our longevity is a testament to our ability to change, but the ways we have changed have always reflected that underlying stability of our core values-community service, customer orientation and local control.

So long as public power leaders have the wisdom to carry forward these old, but still contemporary, values as they adapt to changing times, public power's success in the 21st century will be assured. We hope this report and the tools it offers will contribute to that success.

Alaw H. Mihada

Alan H. Richardson President & CEO

Reliable Public Power Provider Program Criteria



The RP3 program designates four specific areas to measure a utility's adequacy in providing system proficiency. Reliability represents 30 percent of the total points required, safety and training each represent 25 percent and system improvement makes up the remaining 20 percent.

Criteria within each designated area are based upon sound ™ business practices and a utility-wide commitment to a safe and reliable delivery of service. The RP3 Procedure Manual provides in-depth explanations of the requirements for each area.

Reliability

The term "reliable" is defined by Webster's Dictionary as an adjective that means: can be relied on; dependable; trustworthy; and worthy of confidence. Although these are all true in context, reliability of an electric system goes deeper than just defining the results which are evident through reliable day-to-day service. Questions such as "Does the utility belong to a mutual aid network to handle major storms?" and "Has the utility prepared for a major disaster?" are very important.

In the APPA RP3 program, the criteria which are used to define a reliable system are balanced between statistical analysis (results) and proof of membership in a mutual aid network, along with disaster preparation. To attain the full 30 percent rating in the reliability category, a public power utility must provide a minimum of three accurate reliability indices; provide a signed mutual aid agreement, and show proof of a system-wide disaster management (emergency response) plan.

Safety

Workers' safety starts with the utility's safety program. This commitment to safety must begin with top management, and include safety in all aspects of operations from generation to line-work, and all utility services in between. Benchmarking of safety statistics by tracking industry-accepted OSHA incident rates, along with a proven commitment to safety and focusing on front-line workers, is crucial to the delivery of safe and reliable electricity.

In the RP3 program, in order to attain the full 25 percent rating, each utility must prove that it uses an accepted safety manual, provides benchmarking information through APPA's Annual Safety Contest, and follows safe work practices.

Training

Training of employees, whether through traditional avenues such as workshops and college courses or through in-house programs, demonstrates that a utility values its workforce.

However, education alone is not sufficient, especially in the world of public power. Utilities benefit from providing opportunities for staff to network with other utility representatives throughout the nation and encourage them to get involved in the national perspective of utility relations. Utility staff knowledge increases through membership in state, regional, and nationally focused committees, conferences, and training.

To attain the full 25 percent rating in this area the applicant must demonstrate that utility staff attends applicable industry conferences and workshops, are provided with opportunities for education, and are active directly or indirectly on industry-based committees.

System Betterment

Stewardship of utility assets is essential to ensuring long term system reliability and performance. Keeping an electric system well maintained and up-to-date through mandating a self improvement program that includes both an eye on the future through R&D and a commitment to system improvement programs, can help utilities provide reliable services in the future.

To attain the final 20 percent rating of the RP3 program, a utility must demonstrate that it participates in a national, regional or local R&D program, and regularly performs improvement projects to maintain the system's integrity and efficiency.

Earning Your RP3 Designation

Due to utility size, travel limitations, and staff, APPA recognizes the difficulty in meeting 100% of the criteria identified above. Therefore, the RP3 program has three membership levels of attainment. The three levels of APPA RP3 program membership are: diamond, platinum and gold.

The utility that receives the diamond designation must successfully meet 100 percent of the defined criteria. The platinum designation is presented to the utility that meets 90 percent of the criteria. If the utility meets 80 percent of the RP3 program criteria, it receives the gold designation.

APPA List Servers and Electronic Discussion Groups

Accounting and Finance

Policies and procedures for daily accounting management, accounting for utility transactions, debt management, financial reporting to the board, reserve fund policies and other accounting and finance issues. Information on new GASB and FASB standards or interpretations, IRS regulations, and federal legislation.

Broadband Marketing

For the discussion of topics related to marketing communications services, such as internet, telephone, and cable television.

Community Broadband

Providing (or considering the providing of) advanced communication systems or services, including dark fiber leasing, Internet data, telephone service, and city or school communications. Also barrier to entry, marketing, advertising topics.

Customer Services

Call centers, customer billing, credit and collections, revenue security, customer service representative selection and training, other service quality issues. (M)

DEED

The DEED list serve will provide an opportunity for DEED members to discuss innovative research ideas and will offer a forum for disseminating information related to the DEED program, its research projects, and other research of interest to the membership. All topics of interest to public power electric utilities may be discussed as it relates to innovative research and demonstration projects. (Only DEED members may participate)

Economic Development

Community economic development, business retention and expansion, new product development, and direct utility involvement in economic development efforts.

Energy Services

Energy efficiency, load management, integrated resource planning and demand-side management. (M)

Environmental Issues

Federal environmental regulatory issues. Disseminates memos and documents pertaining to environmental regulations and compliance. The weekly e-mail notice also provides helpful industry compliance tips. (M)

FERC

Dissemination of news, analyses and documents pertaining to the Federal Energy Regulatory Commission. (M)

Generation & Fuels

Problems and solutions associated with power generation and the fuels used in the generation process. (M)

Human Resources

Human resources policies and practices, utility issues impacted by aging and retiring workforce, labor relations, compensation and benefits, employee training, and the importance of investing in your employees.

Information Technology

Information technology in an electric utility, including enterprise-wide strategic planning, security, equipment, systems and procedures used in data and information processing. (M)

Key Accounts

Development and maintenance of mutually beneficial long-term relationships with major commercial and



industrial customers and other key accounts.

Legal

Discussion of major litigation developments, policies and procedures for managing legal offices, contracts, tort liability, litigation practice, and legal aspects of risk management, governance, human resources, debt issuance, information practices, intellectual property, and privacy. (M)

NERC-NAESB

Development of and ballot recommendations on proposed NERC and NAESB WEQ business standards, and other related activities of the North American Electric Reliability Organization (NERC) and/or the North American Energy Standards Board's Wholesale Electric Quadrant (NAESB WEQ).

Pricing & Market Analysis

Primarily for APPA's Pricing and Market Analysis Committee (professionals in costing, pricing, load research and market analysis) but other member-utility employees may join with permission of list owner.

Public Communications

For public power communicators, topics ranging from public relations to advertising and marketing to employee communications. Forum may be used to post announcements from individual utilities.

Risk Management & Insurance

To help facilitate information exchange between public power utilities and help with day to day operational issues related to risk management and insurance. To join, please contact Diane Moody at APPA directly. (M)

Safety

Provides information on safety information, policies and practices to member utilities. (M)

Security

Provides Department of Homeland Security (DHS) including NIPC, NERC and DOE security bulletins and alerts to subscribers. Facilitates security information exchange between participants. (M)

Supply Management

Forum for discussion of topics related to supply chain management, procurement, inventory and warehousing for publicly owned electric utilities.

Transmission and Distribution

Construction, operation and maintenance of utility transmission and distribution equipment. (M)

"M" designates a list moderated by APPA staff.