



State of Utah
Department of Commerce
Division of Public Utilities

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REDACTED

ACTION REQUEST RESPONSE

To: Utah Public Service Commission

From: Utah Division of Public Utilities

Chris Parker, Director

Artie Powell, Energy Section Manager

Claire Oman, Technical Consultant

Charles Peterson, Technical Consultant

Joni Zenger, Technical Consultant

Sam Liu, Utility Analyst

Date: May 20, 2013

Re: **Action Request Memorandum**

Docket No. 13-035-58, RMP—Approval of Asset Transfer Agreement with Blanding, Utah.

RECOMMENDATION (Approve)

The Utah Division of Public Utilities (Division) recommends that the Public Service Commission of Utah (Commission) approve the Transfer Agreement as being in the public interest.

ISSUE

In an application dated April 19, 2013, Rocky Mountain Power (RMP or the Company) requests that the Commission approve its agreement with Blanding City, Utah, (Blanding) wherein 35 Rocky Mountain Power customers along with the related distribution facilities will be transferred

to Blanding. The 35 customers, representing primarily residential customers but also including commercial customers, live outside the municipal boundaries of Blanding; these customers are at the end of electric distribution lines serving adjacent current Blanding customers who are also outside the city boundaries. The recently passed Senate Bill 180 (SB 180) provides a framework for the transfer of customers between an electric corporation and a municipality.

DISCUSSION

Blanding is apparently one of several municipalities that provide electric service outside its municipal boundaries. SB 180, passed in the 2013 legislative session and effective May 14, 2013, provides a framework for transfer of customers between a municipality that provides electric service and an electric corporation. Current outside of boundary customers of municipal electrics are generally grandfathered into the municipal electric service. However, after June 15, 2013, a municipality is strictly not authorized to add outside of boundary customers unless it enters into a written contract with the incumbent electric corporation transferring the customers to the municipality and the contract is approved by the Commission. In the instant case, RMP wants to transfer its customers to Blanding for the following reasons.

The 35 RMP customers that the Company wishes to transfer to Blanding are currently being served on Company distributions lines. These lines are simply extensions of distribution facilities owned by Blanding; the Company has no way at present to serve these customers except through the Blanding facilities. The Company has calculated that the cost to provide service directly through connection to PacifiCorp transmission would be prohibitive given the relatively small number of customers involved. At a personal level, making the transfer will put everyone in the same neighborhood on the same electric system with the same rates and services.

In response to Division data requests, the Company has provided detailed estimates of the prospective annual payments to Blanding that its current customers will make compared to the annual payments made to RMP. The Company estimates that 24 of the 35 customers will see reductions in their bills, with some of the larger-load customers seeing annual reductions of

several hundred dollars. Seven of the 35 customers may see increases; three of which will likely see increases of over \$100 dollars per year. There were four customers for which insufficient information was available to make an estimate, according to the Company. The principal reason for customers seeing an annual decline is that Blanding's rate structure is a declining block structure after 400 kwh for residential customers and 500 kwh for commercial customers each month, as opposed to the "inverted block" structure for RMP. The customers who will pay more under the transfer are generally those with relatively low usage patterns: under Blanding's rate structure, customers pay more for the first block of power than they would under RMP. The Company's sole effort to inform its customers of potential rate impacts of the transfer is the following line from a letter sent to each of the 35 customers: "Blanding City's current rates and service rules can be found at: www.blanding-ut.gov/services.electric.html."

The Company reports that six of its customers contacted it by telephone. Regarding these contacts, in its response to a Division data request the Company states the following.

Generally, the customers expressed concern about the service they will receive from the city. The Company explained the reasons for the proposed transfer and that customers will receive their power supply from the same source and facilities as they do currently. Customers were encouraged to contact the city to express their concerns. The customers were also reminded of their right to contact the Commission and make their concerns known as part of the Commission's review and approval process.

The Division is unaware of any complaints from any of the 35 customers made to it or to the Commission.

The proposed transfer results in several benefits to RMP and, by extension, its continuing customers. The Company will receive a cash payment of \$25,000 from Blanding as payment for the distribution plant and equipment directly serving the 35 customers; however, the net book value of these facilities is estimated by RMP to total \$50,000. One way to view the book value of the plant is as a sunk cost. The Company told the Division that it typically tries to sell property for replacement cost less depreciation, but in this case there were additional considerations that

were part of the negotiations with Blanding. The Division requested that the Company provide revenues and expenses, including capital expenditures, for the last three years. These data indicate that the Company likely had a positive operating income from these customers, but when capital expenditures are included, the Company was in a negative cash flow position. The Company was probably looking at close to breaking even on cash flows going forward.

RMP seems to recognize additional benefits through a separate new five-year utility services agreement the Company negotiated with Blanding. Under the previous agreement RMP provided repair and maintenance work on the city's electric facilities, billing Blanding for the cost of any equipment and supplies used plus an hourly rate for the Company's time. In addition to these direct costs, Blanding paid the Company [REDACTED]

Therefore the advantages to the Company for this transfer can be summarized as follows. The Company no longer has to expend its own resources providing power, repair and maintenance, capital expenses and billing and collection expenses for the 35 customers. The Company receives [REDACTED] for maintaining crews and facilities for servicing the Blanding area.

The 35 customers impacted by the transfer will continue to receive safe and reliable electric service with no obvious change in their electric service, as RMP will continue to maintain and service the transmission and distribution lines. Furthermore, under SB 180 these customers will have a right to representation and some protection from unfair rate increases compared to actual residents of Blanding.

Finally, the Division recommends that, if the Commission approves the proposed transfer, the Company must file within 30 days a revised service territory map that removes the 35 referenced customers from its obligatory network service territory.

CONCLUSION

It appears to the Division that the Company and its continuing customers will be better off with the negotiated agreements with Blanding. The majority of the transferring customers will likely be better off under Blanding's tariff structure than under RMP's. These transferring customers will continue to receive maintenance and repair services from RMP under the arrangement with Blanding. The outside of boundary customers receive additional protections under SB 180.

Given these factors, the Division recommends Commission approval of RMP's agreement with Blanding to transfer 35 customers from its service territory to Blanding. The Company should update its service territory map with the Commission due to this transfer. The Division recommends that the Company file a map with the Commission showing its service territory and the customers served by Blanding by May 28, 2013.

However, the Division believes that the Company should have done more to inform its customers of the potential impacts to those customers of its proposed transfer. In this regard, the Division recommends that the Commission order that in similar future cases the Company, at a minimum, provide transferring customers with a notice of that customer's annual usage and other information that would facilitate the customer being able to understand the effect of moving to tariffs with a new electricity provider.

CC David Taylor, Rocky Mountain Power
Michele Beck, Office of Consumer Services
Cheryl Murray, Office of Consumer Services
Service List