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Division of Public Utilities

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Executive Director

THOMAS BRADY  
Deputy Director

CHRIS PARKER  
Director, Division of Public Utilities

## ACTION REQUEST RESPONSE

To: Utah Public Service Commission

From: Utah Division of Public Utilities

Chris Parker, Director

Artie Powell, Energy Section Manager

Doug Wheelwright, Technical Consultant

Date: October 8, 2013

Re: **Action Request – Ticaboo Utility Improvement District**

Docket No. 13-2508-01 – Motion for Name Change

Docket No. 13-2508-02 – Application for Authority to Issue Securities

### **RECOMMENDATION- APPROVE BOTH THE MOTION FOR NAME CHANGE AND THE APPLICATION TO ISSUE SECURITIES.**

The Division has reviewed the motion for name change to the Ticaboo Utility Improvement District and recommends the Commission approve the request in Docket No. 13-2508-01. The Division also recommends approval of the request to issue securities in Docket No. 13-2508-02. It is the Divisions understanding that approval of the request and the replacement of electric generating capacity is critical to the continued operation of the utility.

### **ISSUE**

**Docket No. 13-2508-01** - On September 16, 2013, the Ticaboo Electric Improvement District filed an application to change the operating entity's name to the Ticaboo Utility Improvement District. The reason for the requested name change is due to the consolidation of the utility operations. In addition to providing electricity, the District provides culinary water, waste water

and garbage collection services. The requested name change was approved by the Lieutenant Governor's Office on March 5, 2013 and recorded in Garfield County on March 25, 2013.

**Docket No. 13-2508-02** - On September 16, 2013, the Ticaboo Utility Improvement District filed an application for authority to issue securities and enter into contracts. The proposed obligation is a \$600,000 term loan that will be used to acquire more efficient power generating equipment and make other related infrastructure improvements. The lender for this obligation is the Utah Permanent Community Impact Fund Board (CIB). The loan will be amortized over 30 years and has an interest rate of 1.5%. The lender has approved the terms of this loan and is scheduled to close by the end of October 2013. On September 17, 2013, the Commission issued two Action Requests to the Division of Public Utilities (Division) to review and make recommendations. This memo is the Division response to both Action Requests.

## **DISCUSSION**

Ticaboo was established in 1977 as an unincorporated Garfield County community in support of uranium mining operations in the area. Since that time, the mines have changed ownership and eventually terminated active mining operations in November 2008. The electric District was created in 2009 and is primarily responsible for the power in the town of Ticaboo; however, the service area includes the Bullfrog Marina and Glen Canyon National Recreation Area. The primary reason for the creation of the District was due to the remote location and the inability for Ticaboo to connect to the conventional power grid. The closest connection to Garkane Energy is approximately 55 miles away and the closest connection to Rocky Mountain Power is 127 miles away. Electric service for the community of Ticaboo is generated from diesel powered generators that were originally owned and maintained by the mining companies.

The Ticaboo Utility Improvement District is faced with a unique and challenging situation of high operating costs combined with a small customer base to pay for the expense of generating electric service. As of the date of this application, the town of Ticaboo has 26 full time residents with a few additional part time residents. As of year-end 2012 the District had 58 active electrical connections consisting of 56 residential customers, 1 small commercial (church) and 1 large commercial customer. The large commercial account represented approximately 46% of

the kWh usage in 2012. Fuel cost for the diesel generators total \$263,629 in 2012 and represents approximately 80% of the District expense budget. The fuel cost is high due to the inefficient generation equipment and the inability to use a smaller generation source when demand is low.

The District started with three aging diesel powered generators. (Duetz 185kW manufactured in 1959, CAT 500kW manufactured in 1977, rebuilt in 2005, and a Cummins 1000kW manufactured in 2005) This configuration of the three generators allowed the larger capacity generators to be used during heavy demand periods and provide backup in the event of a mechanical failure of a generator. At the present time, The Duetz and the Cummins generators are no longer operational. The only remaining generator is the CAT 500kW, stand-by rated generator. With only one operational generator, the town is subject to interruptions if there is a mechanical failure. The remaining generator consumes between 19 and 22 gallons of fuel per hour and is currently experiencing operational problems. Under the current demand conditions, the District needs to generate only 125kW. A smaller generator that would meet the current generation needs would consume approximately 7 gallons of fuel per hour. Due to the lack of back-up generation and the high fuel consumption the District is looking to replace the current generators with 3 new generators.

The District has been able to utilize the technical support of UAMPS and supply vendors to help with the requirements and design of newer more efficient generating equipment. The new generators will be installed in parallel and synched together so that power demands will be generated in the most efficient manner. Additional generation will begin automatically as demand increases and generation will be automatically decreased with reductions in demand. In addition to the new equipment, electrical engineers have identified a leading power factor that needs to be corrected in order to increase the efficiency of the power generation. The installation of the equipment to correct this problem has been included as part of the equipment upgrade. Fuel savings and improved air quality are the key components of this request. The District has estimated that the savings in fuel cost will be greater than the required debt service payments for the proposed loan.

In February 2013 the District received a notice from the Utah Division of Air Quality (DAQ) requiring a Notice of Intent (NOI) regarding the engines used to produce power. The new equipment will allow the District to remain compliant with air quality guidelines and avoid penalties or fines for potential violations caused by the older inefficient generation equipment.

On May 30, 2013, the Division provided a memo to the Commission<sup>1</sup> identifying a significant increase in customer rates and a change in the rate structure. The current rates are structured as flat rates with allocated power usage blocks. This structure allows the customers to select a fixed monthly charge and provides a more consistent income stream to the District. The rate increase became effective June 1, 2013 and was structured to incorporate the anticipated debt service requirement from this proposed financing agreement. Since the proposed loan has already been included, approval of this request should not increase customer rates. If the cost savings from reduced fuel expenses is realized, the District is anticipating a possible reduction to customer rates in 2014 or 2015.

One of the more controversial aspects of the new fee structure is the addition of stand-by or minimum fees for all services. The District has recently instituted a minimum fee for each of the services offered whether they are used or not. For example, if a customer installs a solar power system for power but utilizes the water and sewer connections, the customer is billed a minimum electricity fee of \$75 per month in addition to the bills for other services. Minimum fees have been established for electricity, water, sewer and garbage services. The combined minimum fee for all services is \$154 per month and is identified in the attached DPU exhibit 2. This change, along with the new power rates have not been well received by some of the residents. Based on the projections, the District will be billing property owners a minimum fee for all services even though the property owner may not be utilizing any of the services. This change could be helpful and provide additional revenue to the district but may be difficult to collect from property owners.

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<sup>1</sup> Docket No. 13-2508-T01, Division of Public Utilities, May 30, 2013

The Division is faced with several challenges in analyzing the impact of the proposed request primarily due to the lack of historical financial information to use for comparison. A few of the concerns are as follows:

1. The application included one year of audited financial statements for year-end 2012, however, the audit included only the Ticaboo Electric Improvement District and not the combined Ticaboo Utility District.
2. A summary of the revenue and expense items for 2010 and 2011 are identified in the application but it does not include an amount for depreciation expense and once again only includes information from the Electric Improvement District.
3. Revenue and Expense information for 2013 are budget amounts and do not include actual year to date values.
4. As identified above, the District implemented a significant rate increase for all customers effective June 1, 2013. The impact of the rate change will affect the actual revenue for the second half of 2013 and the forecast for future years. Since this is a significant change from the previous rate structure, the revenue projections are uncertain.
5. As part of the recent rate change, the District implemented the stand-by or minimum billing for all utilities. Since this is a new feature, the estimated revenue that may be collected through the stand-by or minimum billing process is unknown and could be overestimated.

At the request of the Division, the District has provided combined financial information identified and attached as DPU Exhibit 1. In review of the District assumptions, it is the Division's position that some of the projections were inflated and will probably not be realized. For example, the original District projection estimated collecting the \$154 per month inactive customer charge from 134 property owners beginning in 2014. Since there were only 58 active billing customers in 2012, it is unlikely that the District will be able to collect the additional fees from all the inactive property owners. In the attached Division projection, collection of the stand-by fee has been reduced from 134 to 25 inactive customers. If the District is able to collect

additional stand-by fees, the revenue will add to net income since there are only minor expenses for collection of these fees.

In the original projection, fuel costs were estimated to be significantly reduced beginning in 2013 even though the new equipment could not be installed and operating until near the end of the year. The Division has made changes to the fuel cost estimate to better match the prior year expense. Areas that have been changed from the District projection have been highlighted in green.

The Division's changes provide a more conservative outlook on the future years but indicate that the District could meet the proposed loan payments and stay within the debt coverage ratio identified in the loan covenants.

In addition to the Exhibit pages, this memo includes a copy of the revised amortization schedule prepared by the Utah Permanent Community Impact Fund Board (CIB). The original application included a 20 year amortization schedule instead of the 30 year schedule that has been approved by CIB.

## **CONCLUSION**

The Division of Public Utilities recommends the Public Service Commission approve the request for name change in Docket No. 13-2508-01. The Division also recommends approval of the request to issue securities in Docket No. 13-2508-02.

CC Chip Shortreed, Ticaboo Utility Improvement District  
Keith Heaton, Director of Community Development (CIB)  
Michelle Beck, Office of Consumer Services  
Marialie Martinez, DPU Customer Service