



Sunbreak over Hood Canal

THE CONNECTOR SPRING 2018

MANAGER'S REPORT

Tax-Exempt Municipal Bonds Are Crucial to Public Infrastructure

TAX-EXEMPT MUNICIPAL BONDS HAVE FINANCED NEW INVESTMENTS in

infrastructure for decades, including new investments in electric power generation, transmission, and distribution. Municipal bonds are the cornerstone of any plan to address the significant challenges of funding and financing new investments in public infrastructure. Simply put: bonds build public power. Tax reform legislation signed into law at the end of 2017 retained the underlying tax exemption for municipal bonds, which was a clear recognition by Congress on their importance for financing state and local infrastructure investments. Unfortunately, that same legislation reduced the flexibility of this critical tool by prohibiting the issuance of tax-exempt advance refunding bonds.

State and local governments have issued municipal bonds to finance long-term projects for two centuries now. These include investments in power generation, distribution, reliability, demand control, efficiency, and emissions control—all of which are needed to deliver safe, affordable, and reliable electricity. This is particularly important to smaller towns, counties, and publicly owned utilities like Mason PUD No. 1 that issue municipal bonds. Outside of municipal bonds, we have limited means to raise funds for our capital needs.

The federal tax exclusion of bond interest means issuers of all sizes can finance their investments affordably. These savings result in providing more infrastructure and essential services with lower costs for these services. Also, municipal bonds are ideally suited to finance capital-intensive and long lived public infrastructure, such as the assets of Mason PUD No. 1, with the cost of investments repaid over time by the customers whom use the infrastructure.

Investors purchase municipal bonds in part because of the tax considerations; accepting a lower rate of return because the interest is exempt from federal income tax. Municipal bonds are also valued for their ability to generate a steady stream of revenue for fixed-income households. Individual households are the investors in over 70 percent of municipal bonds. Nearly 60 percent of this household tax-exempt interest is earned by taxpayers over 65 years old.

There are persistent calls from outside policy groups and federal bureaucrats to begin taxing municipal bonds. For example, some conservative think tanks argue that raising the cost of government-financed infrastructure investments will make private infrastructure investments more cost-competitive. Meanwhile, liberal think tanks and congressional committee staff say that the tax exemption

is an “inefficient” subsidy. These third-party opinions, coupled with hostility to the provision of benefits to states and localities, are influencing tax policy in Washington, D.C.

Had current investments been financed with taxable debt, public power utility rates would be higher. Any other attempt to eliminate or limit the tax exemption for municipal bonds would impose higher borrowing costs that would limit low financing investment in critical infrastructure and, ultimately, impose higher electric rates on households and businesses.

As the Washington PUD and Northwest Public Power Associations travel to Washington, D.C. this season, this is one of the main points we will convey to our federal lawmakers. Tax-exempt bonds are crucial to our country's public infrastructure and critical to the system infrastructure for the ratepayers of Mason County PUD No. 1.



Steven Taylor,
General Manager

Sources:

Internal Revenue Service, “Statistics of Income—2010: Individual Income Tax Returns” (2012).

Senate Republican Policy Committee, “Tax Reform’s ‘Simplicity Dividend,’” (June 13, 2017); <https://www.rpc.senate.gov/policy-papers/tax-reforms-simplicity-dividend>.

New “Spill” Mandates AND THE UPCOMING IMPACT TO OUR ELECTRICITY RATES

“SPILL” IS QUITE LITERALLY THE WATER THAT IS SPILLED THROUGH MASSIVE GATES that are raised at our federal hydropower dams. The spill is designed to help young salmon migrate quicker and easier downstream from the rivers to the ocean. Due to a ruling after two decades of litigation from fish advocates, Judge Simon from the Oregon U.S. District Court ruled for additional spills this year at eight large dams from April through mid-June. This will hit all of us Northwest ratepayers right in our wallets through our electric bills.

PUDs support fish and wildlife and we support habitat restoration and mitigations efforts. The federal hydro projects on the Columbia and Snake rivers already spill 30-40% of the water in those rivers, which together drain a land area as large as France. As ratepayers, we pay 25 to 30 cents per dollar on our power bills to pay for that along with other mitigations efforts. Here's the rub: There is no proof that more spill will be better for fish. In fact, modeling by NOAA Fisheries shows that more spill will have little to no impact on fish survival. The pro-spill groups claim that their modeling tells a different story, but they have yet to provide data that would allow for a full and accurate comparison of results.

Spill costs money, and the ones who pay are families and businesses in the Pacific Northwest. You and I pay for these in our electric rates. Existing spill costs are already wrapped into the fish and wildlife costs on our bills. This additional spill is going to be a new charge to all of BPA's customers this spring.

At PUD 1 we have gone back and forth

about how to handle this increased cost. At our electric rate workshop and public hearing last September, we finally decided that it would be unfair to estimate PUD 1's portion of the spill surcharge and build it into our rates. The actual amount of the surcharge is unknown at this point, and we will only incur the extra fee during the spring months that the spill occurs. We passed a resolution that stated the “spill surcharge” will be passed through as a separate line item on customer bills. This will allow the PUD to only recapture our costs for that surcharge and not impact our regular rates.

The PUD bills are one month behind so starting in May, you will likely see a separate “spill charge” line item on your bill for the April spill at the dams. This will continue through the June statement you will receive in July.

In my opinion and the opinion of Northwest RiverPartners, of whom PUD 1 is a member, this mandate is a massive misuse of people's hard-earned dollars that will do little to nothing to help endangered salmon. One of the Northwest's prime economic advantages has been its traditionally low-cost electricity. Repeated rate increases are eroding that competitive advantage and BPA's historic position as one of the region's lowest-cost energy providers.

More spill may pose harm to the very fish that spill proponents say they want to protect. Too much spill produces dangerous levels of gas in the river, which can give young fish “the bends” similar to divers who rise up from deep seas too quickly. Churning waters at the

dams from spill also prevents returning adult salmon from ascending the dams' ladders to reach their home rivers, where they spawn. BPA also estimates that the increased spill will result in another 840,000 tons of carbon added to Northwest skies, because carbon-emitting natural gas will likely replace the carbon-free hydropower that will be lost to spill. That's a 1.7% increase in Northwest electricity sector emissions, at a time when state legislatures are grappling with proposals to reduce carbon emissions and our governor is pushing a carbon tax on our residents. When do the mandates and compounding rate impacts stop?

I think we can all agree that Northwest residents care deeply about our environment, our air quality, and our iconic salmon. However, without sufficient data to support Judge Simon's spill ruling, as a commissioner and a ratepayer, I cannot support throwing money at a plan that likely isn't going to make a measurable impact. Federal agencies are appealing the order to the Ninth Circuit Court of Appeals, along with Northwest RiverPartners, tribes, and the states of Idaho and Montana. We will keep you posted of the progress. In the meantime, you can visit nwriverpartners.org for more information.



Mike Sheetz
District 1 Commissioner

(Co-authorship credit to Terry Flores,
Executive Director, Northwest
RiverPartners)

Process for Managing Outages is Changing

OUR TWO PRIMARY GOALS at PUD 1 are to be safe and reliable. We work hard throughout the year to quickly restore power when we have outages and to do mitigation work (tree trimming, line replacement, substation maintenance) to avoid future outages. Part of the challenge of maintaining some of the oldest electric infrastructure in the state is the process of upgrading it and being able to monitor it electronically like many of our utility counterparts.

We don't have a modernized grid that can communicate with our office 24/7. However, we have been working on fully utilizing our operations and engineering software systems to track outages, trends, monitor equipment and ensure that all of the infrastructure- from the meter that sits outside your home or business, all the way up the line to the substation- are all accounted for properly in our mapping system.

You may have noticed if you've called our office to report an outage that we now ask you for your actual address number and to verify a phone number on the account. Before, you could just say "I'm out on the Dose" or "I live on Sunnyside" and we would write it down and pass it on to the crew. Now, we track each phone call in our software to ensure that we know exactly who is out and why. We are also using the new process as an opportunity to ensure our contact information for you is correct.

Eventually, we'll expand how we are able to communicate with you during outages and we want to make sure we are ready if you choose to text or email with us.

In February, we moved our after-hours answering services to Cooperative Response Center (CRC). They are a utility-specific call center that was created by multiple utilities in Michigan banding together after a large regional weather event left their region out of power and scrambling for days. We have been floating around the idea of a local western-Washington PUD call center for a while but it hasn't gained any traction. It doesn't mean we won't ever get there, but in the meantime, we're excited to join CRC.

CRC was founded on many of the same principles as public power. We chose them because they are kind and professional on the phone, they use the same software and mapping that we do at the PUD office, our customers should always be able to get through to a live person no matter how big the outage, and they all are located in the U.S. and easy to communicate with. The process with CRC is also different than what our customers have been used to. They are asking the same questions that we now ask in the office to be sure they have the correct information and send our crews to the right place. They are tracking our outage information in our system just like we do during the day. They also do safety checks on our crews and they can take payments for reconnection on nights and weekends so our crew members don't have to handle cash out in the field anymore.



Lineman Mike Rose puts bales on the line for hot taps (fire prevention).

Like any new process, it takes a while to work out all the kinks. We are in touch with them every single week to fine tune how they're handling calls and how we're relaying information back and forth. We understand new processes are sometimes exasperating and we apologize in advance for any frustration. We anticipate that this will be a really great move for our PUD and help us respond and restore faster when we do have outages. It will also give us a better feel on the pulse of our system and equipment. Thank you for your patience and for any feedback about how the process is working- good or bad! We always appreciate hearing from you.



Kristin Masteller
Director of Business Services





COLD WEATHER *Leaves Customers In Need*

We have seen late snow and long periods of low temperatures this winter. These low temperatures have shocked power customers across the state with many seeing their winter energy bills double from the previous month or year. Our seasonal customers that left a heat source on low in their second home or cabin have also been surprised that they have high power bills. This is simply because the outside temperatures were very low all day long. With overnight lows in the teens and afternoon highs in the 20's and 30's, people that use electric heat experienced much higher bills because their heat source was working hard round the clock to maintain even a low (50-55 degree) internal temperature. It's not unique to our area or our utility, fellow PUDs across Washington State have also been fielding high call volumes on the issue.

With the increased usage comes increased power bills. **If you are having a difficult time with your high utility bills, please call the PUD office to work out a payment plan.** We understand that customers from all income levels are having a hard time with high bills over the last few months. We also encourage customers to contact the Community Action Council to determine if you qualify for utility assistance based on your income. The CAC administers the PUD's Canal Comfort Fund and other federal assistance programs. The CAC for Mason County residents can be reached at: www.caclmt.org/ or (360) 426-9726. Jefferson County residents can reach out to OlyCap at: www.olycap.org or by phone at (800) 464-2571.

PUD ADVOCACY



Brandy Milroy (water department), **Joyce Gray** (accounting) and general manager **Steve Taylor** represented Mason PUD No. 1 at the Washington PUD Association's "PUD Day on the Hill" on February 14th in the Capitol rotunda. From the PUD 1 booth they greeted capitol and legislative staff, lobbyists, and many members of the public, educating them about PUD 1 and the value of public utility districts in our state. Meanwhile, PUD staff and commissioners met downstairs with our state legislators to discuss the PUD legislative agenda and how upcoming bills would impact our Districts and ratepayers. It was a very well attended event- thank you to WPUDA for organizing it and inviting Mason PUD 1 to participate!

Have you signed up for the Email Notification List yet?



Be the first to know about scheduled outages and other important PUD information by emailing kristinm@mason-pud1.org to join.

Be sure to follow us on social media for more frequent updates.

THE BOARD OF COMMISSIONERS regularly meet the 2nd and 4th Tuesday of each month at 1:00 p.m. at the PUD 1 office in Potlatch. For more information on meetings, agendas and minutes, please visit mason-pud1.org/about/meetings/.



www.mason-pud1.org

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