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Pacific Power calls on Millersburg to fully disclose millions in stranded costs tied to MUD formation

Company points to up to \$44 million in additional overlooked costs using the city's own studies

Millersburg, Ore. – Pacific Power sent a letter Tuesday to the Millersburg City Attorney notifying the city that it will need to establish the value of investments Pacific Power has made to serve the city that would become “stranded” if the city follows through with plans to form a municipal utility.

The letter comes as the City of Millersburg plans to hold the first meeting on September 30 of a six-member task force that will develop an implementation plan for the city to create its own utility by condemning Pacific Power’s property within the city.

The letter points out that neither of the two consulting firms the city has hired to conduct feasibility studies to support formation of a municipal utility district adequately address the city’s obligations to pay stranded costs under the jurisdiction of the Federal Energy Regulatory Commission (FERC).

“In addition to its investment in the electrical distribution infrastructure in the city, PacifiCorp has also incurred significant costs to provide service to the City,” the letter says. “FERC has determined that, as a matter of policy, these costs should be paid by the newly-formed municipal utility and not shifted to other customers of PacifiCorp.”

The issue of stranded costs, which in this case represents what Millersburg would owe Pacific Power for generation and transmission investments made to serve the city, is not unique to Millersburg.

In Las Cruces, NM, in 2000, the city abandoned its efforts to create a municipal electric utility after nine years of pursuit when FERC issued a declaratory order requiring the city to pay El Paso Electric nearly \$53 million in stranded costs if it went through with its planned condemnation. The stranded cost ruling helped push the total cost for the city of

Las Cruces to form its own utility from the initial estimate of \$30 million to \$110 million before the idea was dropped.

In Boulder, CO, where the city currently is proceeding with plans to condemn the local electrical distribution system from Xcel Energy, the question of what stranded costs the city would owe Xcel has been brought before FERC but not yet finally decided. Xcel estimated the stranded costs in that case to be up to \$255 million.

Also in Boulder, the Colorado Public Utility Commission, the state utility regulator, intervened in the FERC stranded cost proceeding, seeking to ensure that stranded costs are paid by the city and not shifted to Xcel's other customers.

FERC ruling possible for Millersburg. FERC is the primary forum for addressing the recovery of stranded costs caused by contested municipalization efforts like the one proposed in Millersburg.

Pacific Power's letter points out that the city itself can request a ruling from FERC on stranded costs if the city and Pacific Power remain in disagreement on the issue. The letter also states that if the city does not make such a request of FERC or does not otherwise engage Pacific Power on the issue, the company can initiate the process to bring the issue before FERC.

"One thing the City Council should have heard loud and clear during hours of public hearings over the summer is that the residents of Millersburg are very concerned about the potential costs of this proposed takeover," said Scott Bolton, Pacific Power's vice president of community and government relations. "The city and its residents should know the actual, real-world cost of what this will take if their elected leaders remain determined to push this forward."

Total acquisition costs could approach \$100 million. Even before stranded costs are calculated and included, Pacific Power has pointed out that, using assumptions in the city's own consultants' studies, the cost to the city to acquire the company's property and account for the significant cost of separating its Millersburg facilities from the broader system that serves much of Linn County is likely to be at least \$56 million.

By applying assumptions and estimates from the city's studies to the formula FERC uses for calculating stranded costs, Pacific Power has identified a range of potential stranded costs from roughly \$28 million (Hittle Study) to \$44 million (EES Study). The range is accounted for by different assumptions used by the city's two consulting firms on questions such as future wholesale power prices.

"As we've seen in other examples of hostile municipal takeovers, the issue of stranded costs is real and will very likely add tens of millions of dollars to the total cost," Bolton said. "A price tag that could approach \$100 million for a city the size of Millersburg to take over a system that already exists and serves customers well simply makes no sense."

[Click here to see Pacific Power's letter to the city of Millersburg.](#)

Visit www.pacificpower.net/millersburg for more information from the company on the issue.

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About Pacific Power

Pacific Power provides electric service to more than 730,000 customers in Oregon, Washington and California. The company works to meet growing energy demand while protecting and enhancing the environment. Pacific Power is part of PacifiCorp, one of the lowest-cost electricity providers in the United States, with almost 1.8 million customers in six western states. Information about Pacific Power is available on the company's website, Twitter, Facebook and YouTube pages, which can be accessed via pacificpower.net.