



POLICY BRIEF

The failed promises and politics of Jefferson Public Power: How creation of a public electric utility led to higher rates and lower customer service

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December 2016

Key findings

1. In 2008, Jefferson County voters agreed to let the local public utility, Jefferson Public Utility District (JPUD), buy Puget Sound Energy's electrical infrastructure and become the electric utility for the district.
2. JPUD boosters promised rates would remain low and could actually be reduced. Public power advocates also argued JPUD ownership would result in better service that is more responsive to the community.
3. More than three years after Jefferson Public Utility District took over, however, customers are paying more than they would have if they had remained with Puget Sound Energy.
4. JPUD has also had billing problems, including virtually eliminating a charity program for low-income electrical customers, cutting assistance from \$464,000 annually to an average of \$41,800 since the utility became public.
5. According to JPUD's own survey, customer satisfaction is the lowest ever recorded by the firm conducting the survey.
6. The State Auditor found significant problems with the utility's financial management, leading to several "findings," the highest level of audit citation.
7. Rather than being more responsive to customers, the JPUD board has responded to political incentives to minimize problems and blame others for its failures.
8. The public utility has not lived up to the promises it made when it took over from PSE, actually increasing rates and providing a lower-level of customer service.



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“Rates could increase, as the new PUDs take on the costs of litigation, property acquisitions, consultant fees and securing wholesale power sources. It is also possible residents...could receive lower-quality service, at least in the initial years, as managers of the new county PUDs get their operations up and running.”

– *“Moving to Government-owned power,” Washington Policy Center, 2008*

“Had I known the eventual outcome, I never would have signed it. One of the bonuses I thought there would be would be the price of energy would be less expensive. Somehow, I thought they’d cut out the middle man somewhere.”

– *Jefferson PUD customer on his previous support for moving to public electricity*

Introduction

In March 2013, officials at Jefferson County Public Utilities District (JPUD) flipped the switch and became the electric utility for people in their district, taking over from Puget Sound Energy. Authorized by voters in 2008, it was hoped that moving from a private utility to a public board would yield lower rates, improved service and better treatment of customers, especially for those with low-incomes.

Despite glowing promises, Jefferson County ratepayers now pay more to JPUD than they would have if they had stayed with Puget Sound Energy. Additionally, there have been billing difficulties and a cut of about \$400,000 a year available to help low-income families pay their electric bills.

How did the transition to a public utility go so wrong? In 2008, Washington Policy Center published an analysis of the proposal to move Jefferson County, and others, from Puget Sound Energy to a public utility district (PUD). At the time we highlighted the rosy projections of public power advocates and the challenges of taking over from PSE. A look at the failures of JPUD provides a strong warning to others who want to replace a regulated private utility with a public utility monopoly.

In this analysis, we will look at:

- Jefferson County’s transition to public power
- How acquisition costs compared to projections
- How consumer electricity rates increased
- How service declined
- How politics have played a role in decision-making at the PUD

Rising costs to consumers

In 2008, Jefferson County PUD commissioners who wanted to take over Puget Sound Energy’s business hired D. Hittle and Associates to provide projected cost estimates. Voters had already given JPUD the authority to negotiate adding electricity to the existing sewer and water services it already provided.

After assessing the costs, John Heberling, a vice president at Hittle, told the JPUD commissioners, “Over the first 10 years of PUD operation, the benefit of PUD operation is \$22 million to the residents and businesses of Jefferson County.”¹ His claim was based on the combined assessment of the cost to acquire PSE’s existing electrical infrastructure, hiring additional employees, expanding the utility district’s operations, and the cost of purchasing electricity from Bonneville Power.

This projection turned out to be exceedingly rosy. As Washington Policy Center noted in our 2008 assessment, “There are costs associated with setting up a new government-owned utility,” and these costs are difficult to predict.² Although we are just over a third of the way through that initial ten-year projection, there are some strong indications it is unlikely JPUD customers will see anything like the promised \$22 million in savings. Instead, rates are actually higher than they would be if JPUD customers had stayed with Puget Sound Energy.

JPUD debt and costs higher than projected

After the 2008 approval by voters, the JPUD commission began discussions with PSE about how they could take over PSE’s existing infrastructure. The commissioners had two choices. Either they could

1 “Jefferson PUD urged to move quickly on power franchise,” by Jeff Chew, *Peninsula Daily News*, November 20, 2008.

2 “Moving to Government-Owned Power, A review of ballot proposals to create new Public Utility Districts in Jefferson, Island and Skagit counties,” by Brandon Houskeeper, Policy Notes, Washington Policy Center, September 2008, page 4, at <http://www.washingtonpolicy.org/library/docLib/pudpn.pdf>.

negotiate, or they could take legal action and force condemnation, in which case a judge would decide the fair value of PSE's power lines and other equipment.

JPUD's consultant provided a low-cost estimate to take over the system, saying "\$35 and \$70 million, with the most likely estimate being about \$47.1 million."³ The initial cost was a critical factor for a variety of reasons, most notably that Jefferson County ratepayers would have to pay the debt service in addition to the actual cost of the electricity.

That projection turned out to be extremely low. Commissioners at JPUD settled on a final cost to ratepayers of \$110.7 million – more than twice their original estimate.⁴ This required JPUD to take out a significant loan. As a public entity, it received a government-backed loan, and the "PUD received a \$115.7 million loan from the U.S. Department of Agriculture with an interest rate of 2.728 percent locked in for 28 years."⁵

The cost to ratepayers for that large loan is significant. To pay off that size of loan is costing customers about \$300 a year or about \$25 a month.⁶ The base rate, the charge every family must pay just for being on the system, for Jefferson County PUD is \$7.49, meaning the basic rate does not come close to paying simply for the debt service, let alone paying for the operational cost of the system.⁷

The large debt liability faced by JPUD and its customers, is one reason rates have not kept pace with Puget Sound Energy or declined as promised. During the 2008 campaign, public power advocates argued Jefferson County residents were paying more than neighbors in nearby districts, claiming that PSE's profit-based approach to electricity was driving prices up. As the local paper, the *Port Townsend Leader*, noted, "A flier prepared by public power proponents said...Jefferson County residents were paying 30 percent more per kilowatt hour (kWh) than neighbors served by the Clallam PUD," implying rates would fall if JPUD took over.⁸

3 "Jefferson PUD urged to move quickly on power franchise," by Jeff Chew, *Peninsula Daily News*, November 20, 2008.

4 "PUD, PSE promise 'seamless transition,'" by Tristan Hiegler, *Port Townsend Leader*, February 27, 2013.

5 "State finds deficiencies in Jefferson County PUD audit," by Jesse Major, *Peninsula Daily News*, August 24, 2016.

6 "Company: PUD electric rates expected to rise," by Allison Arthur, *Port Townsend Leader*, August 31, 2016.

7 "Rate Schedule for Electricity," Jefferson County PUD, at <http://www.jeffpud.org/rate-schedule/>, accessed November 14, 2016.

8 "PUD holds line on rates – for now," by Scott Wilson, *Port Townsend Leader*, April, 2013.

Advocates promised “no rate increase”

Public power advocates Barney Burke and Wayne King, who both became members of the public utility board, said costs would not increase. “There will be no rate increase in the foreseeable future, Burke said.”⁹ The *Port Townsend Leader* noted that, “King even foresees the possibility of rate cuts.” Just weeks before JPUD took over in 2013, Burke was even more optimistic, telling the Leader, “Our goal from Day 1 has been to match the PSE rate or charge a little less than that.”¹⁰

JPUD lived up to that promise in part, but its customers actually ended up paying more for electricity than if they had simply stayed with Puget Sound Energy.

Soon after JPUD took control, PSE restructured its rates in the remaining service area, lowering costs for many non-Jefferson County customers. Rather than matching those rates, JPUD kept them steady, with the result that Jefferson County customers paid more than they would have otherwise.

When asked about the issue in 2014 – one year after taking over from PSE – JPUD commissioners admitted customers were paying more, noting, “PUD customers who used 1,000 kWh a month are paying \$2.58 more a month than they would have if they had stayed with PSE, and those using 1,500 kWh are paying \$4 a month more than they would if the PUD were still with PSE.”¹¹

Paying off debt and the need to expand the public utility district’s mission to cover electricity service also made it impossible to reduce rates.

Now, more than three years later, JPUD commissioners want to increase rates, which will again make them higher than Puget Sound Energy. Even with a rate increase, JPUD “needs to dip into reserves to the tune of \$1.5 million to make ends meet...”¹² The pressure to meet the promise to keep rates low is acting as a constraint that makes it difficult for the district to keep revenue in line with obligations.

JPUD officials admit their new increase would push rates above PSE’s. JPUD manager Jim Parker noted, “If we do these rates, we probably would be a little higher” than PSE.¹³ JPUD officials are aware the comparison to

9 “Today’s the day for electrical power switch for East Jefferson County,” by news staff, *Peninsula Daily News*, April 1, 2013.

10 “New power source due in 7 weeks,” by Paul Gottlieb, *Peninsula Daily News*, February 11, 2013.

11 “Public Utility District questions: Did bills go up? Did rates go up?” by Allison Arthur, *Port Townsend Leader*, April 23, 2014.

12 “PUD sets Nov. 10 for rate-hike hearing,” by Allison Arthur, *Port Townsend Leader*, October 26, 2016.

13 Ibid.

PSE makes them look bad. Parker added, “We’re trying to get away from comparing ourselves to PSE.”¹⁴

Three-and-a-half years into the 10-year projection that Jefferson County residents would save \$22 million by creating a public utility, the record has been the opposite. JPUD customers have paid higher rates than they would have if they had stayed with Puget Sound Energy. The conditions that created higher rates, including the high debt load from purchasing PSE’s infrastructure, are not going to change in the near future. Additionally, the new JPUD rate increase will put consumers even further behind. Rather than saving money, Jefferson County residents will end up paying more during the first decade of JPUD control.

Does local government control make the difference?

Advocates of the JPUD takeover argued that a local utility would be more compassionate and responsive to the needs of the community, with board members living in the community and accountable. Advocates said PSE is a for-profit enterprise with no connection to the people in the community. As our 2008 analysis noted, “Proponents of government-run utilities say...a private company is more interested in making a profit to shareholders than in providing customers with reliable low-cost services.”¹⁵

Despite the theory, JPUD has experienced a number of difficulties with customer service, accounting and assisting low-income customers. JPUD had a difficult time making the transition from PSE’s billing and customer service to the public utility.

JPUD’s harsh billing policy

JPUD officials instituted a harsh billing policy that required utility bills be paid within ten days. Families that did not pay quickly were subject to late payments or threatened with power shutoff.

The policy created significant backlash. One letter to the editor in the *Port Townsend Leader* noted, “I haven’t had anything close to 10 days. My latest bill was mailed June 7, received June 10 and due June 12 – a two-day window.”¹⁵ Another customer complained, “PSE gave people more than 10 days to pay the bill. Why does the PUD only have a 10-day window...”¹⁶

14 Ibid.

15 “Moving to Government-Owned Power, A review of ballot proposals to create new Public Utility Districts in Jefferson, Island and Skagit counties,” by Brandon Houskeeper, Policy Notes, Washington Policy Center, September 2008, page 4 at <http://www.washingtonpolicy.org/library/docLib/pudpn.pdf>.

15 “PUD billing is too tight,” letter to the editor by Tony Dirksen, *Port Townsend Leader*, June 19, 2013.

16 “PUD bills: Questions, answers,” by Allison Arthur, *Port Townsend Leader*, June 5, 2013.

Those who did not pay on time and had their power cut off were also subject to reconnection fees, which increased the family's cost even further.

Many residents questioned why JPUD compared so unfavorably with PSE. The frustrating answer from one commissioner was, "Puget Sound Energy is gone, what they did doesn't matter. We can't do it the way PSE did."¹⁷

Billing challenges, combined with difficulties reaching customer service took a toll on customers' opinion of the utility. JPUD hired SDS Research, which specializes in utility surveys, to gauge customer satisfaction with the utility's service. The survey found that JPUD's customers were unhappy.

Dale Inkley, one of the researchers, told utility commissioners, "In plain English, the overall tone of the survey is negative for most respondent ratings."¹⁸ The survey asked users to rank utility service, and "the benchmark for satisfaction is somewhere in the 150-160 NPI range."¹⁹ He noted, "This is the only survey in our history without a single NPI (net positive index) above 100."

Loss of charity funding

The billing difficulties are not the only problems JPUD faces since taking over from Puget Sound Energy.

In the past, PSE provided about \$464,000 annually to charity to help low-income families pay their electricity bills. When JPUD commissioners took over, they tried to find a way to replace that funding. Public utilities, however, cannot donate to charity because that would be considered a "gift of public funds." Article VII, Section 5 of the Washington state constitution says, "The credit of the state shall not, in any manner be given or loaned to, or in aid of, any individual, association, company or corporation."²⁰ As a result of the JPUD takeover, the funding that PSE had previously given to help low-income families disappeared.

JPUD officials asked the public to contribute voluntarily to a program called "Power Boost," designed to replace the charitable funding PSE had provided. The results were poor. In its first three years, "Power Boost raised \$15,700 in 2013; \$73,100 in 2014 and \$36,600 in 2015."²¹

17 "Jefferson County PUD shutoff, reconnect policy approved," by Allison Arthur, *Port Townsend Leader*, March 12, 2014.

18 "PUD satisfaction survey: Confusing questions, conclusions unclear," by Allison Arthur, *Port Townsend Leader*, March 9, 2016.

19 Ibid.

20 Washington State Constitution, text at <http://leg.wa.gov/LawsAndAgencyRules/Pages/constitution.aspx>.

21 "PUD sets Nov. 10 for rate-hike hearing," by Allison Arthur, *Port Townsend Leader*, October 26, 2016.

Some community organizations have attempted to fill in the gaps, but during the first three years, customers in the Jefferson County utility district have lost more than \$1.2 million in charity assistance that would have been provided by PSE.

The impact was significant. As one church pastor explained:

“The poor have grown to expect annual assistance from PSE... Now, with no warning to the poor, the assistance is cut from paying their full bill to paying a third or less of their annual bill. This is no different than if, without warning, our personal bills jumped 66 percent.”²²

Customers reported that JPUD is also more stringent when it comes to payment deadlines and arrangements for low-income families that cannot afford their bill. In one case, a low-income woman with asthma fell behind on her bills and asked for assistance. JPUD Manager Jim Parker told the *Port Townsend Leader*, “Just because you are on a nebulizer doesn’t mean you don’t have to pay your power bill.”²³ He is certainly correct, and JPUD, like any utility, must pay its bills to keep operating. The story demonstrates, however, that local control of a utility does not absolve it of balancing its books and remaining solvent.

State Auditor findings

The problems of taking over a private utility were dramatically demonstrated when the State Auditor issued a report outlining several findings of significant accounting problems at JPUD. There were several findings, including one showing that the required report had been filed a year late.

Most notably, JPUD’s accounting of assets and payments were poorly reported. The Auditor found that, “utility plan assets were overstated by \$31,685,488 and accumulated depreciation was overstated by \$29,771,410.”²⁴ The Auditor also found problems with payroll, including an overpayment in 2013 that was still, in part, outstanding in 2016.²⁵ The state audit also found problems with credit card control, general expenditure control and material inventory.

JPUD’s accounting was, in many cases, extremely unreliable. For example, the Auditor’s Office found, “The District made more than \$550

22 “Church sacrifices benevolent fund to pay PUD bill,” by Allison Arthur, *Port Townsend Leader*, May 14, 2014.

23 Ibid.

24 “State finds deficiencies in Jefferson County PUD audit,” by Jesse Major, *Peninsula Daily News*, August 24, 2016.

25 “Accountability Audit Report: Public Utility District No. 1 of Jefferson County,” Washington State Auditor, August 22, 2016, at <http://portal.sao.wa.gov/ReportSearch/Home/ViewReportFile?arn=1017233&isFinding=false&sp=false>.

million of adjusting journal entries for 2013.”²⁶ In some cases discrepancies were “not detected timely by the District, and the cause of the variance was not identified or corrected.”²⁷

JPUD admitted “the acquisition of the electrical facilities in Jefferson County during 2013 presented a tremendous challenge for JPUD.”²⁸ Commissioners promised a number of steps to remedy the state’s negative findings.

Poor customer-service record

Despite the promise that a public utility would provide improved service that was closer to the people, JPUD’s customer record has been poor. The billing failures are evident not only in the low customer satisfaction ratings, but also in the admission by the commissioners themselves that they had to toughen the billing enforcement compared to PSE.

Finally, a utility – public or private – is a business and must operate in a fiscally sustainable manner. Utility managers must not only pay for the electricity they purchase from Bonneville Power (BPA) and the salaries of their employees, they must also maintain the infrastructure and the capital stock of the utility. Although public utilities have some unique advantages, such as access to low-interest loans backed by the federal government, the underlying economics still apply and commissioners must balance the books.

The combination of these factors mean that even if JPUD commissioners wanted to provide service and amenities that were better than PSE’s, they found they simply could not. Instead, JPUD commissioners ended up providing service that was, by many accounts, less flexible than that of the entity they replaced.

Politics vs. business

The primary justification advocates give for switching from a regulated private utility to a public utility is the assumption that a local board of elected officials will make better decisions and be more responsive to local needs. The real-world evidence from JPUD’s experience shows this claim is not correct.

Several factors have driven this result. JPUD could not match PSE’s charity donations. Lack of experience and the need for cash flow resulted in

26 “Financial Statements Audit Report: Public Utility District No. 1 of Jefferson County,” Washington State Auditor’s Office, August 22, 2016, at <http://portal.sao.wa.gov/ReportSearch/Home/ViewReportFile?arn=1017250&isFinding=false&sp=false>.

27 Ibid.

28 Ibid.

billing policies that were, by the commission's own admission, more strict than PSE's.

Political pressure

Politics also played a role. Elected officials are subject to pressures of their own and they are expected to live up to the promises they make. In some cases that is quite simply impossible. Commissioners who argued they could reduce rates below those of PSE struggled to explain why they did not do it.

Political promises put commissioners in a bind. If rates are too high, they face the judgment of voters. If rates are too low, the district cannot keep up with capital investment and maintenance needs, creating an even larger pressure down the road. Put simply, commissioners have incentives to keep costs low but the realities of running a sustainable utility require adequate rates and a tough billing policy.

Promising more jobs

Politicians face other pressures. During the 2008 campaign, public utility advocates argued, "...67 new local jobs could be created if voters approve Proposition 1."²⁹ Promising to create new jobs is a popular campaign pledge, even if it cuts against the goal of keeping rates low. At the end of the day, the district fell far short of that amount, hiring only 42 employees.³⁰ Again, what is good economics for ratepayers may be bad politics for elected commissioners.

During the November 2016 election, Commissioner Burke learned this the hard way. He lost his bid for re-election, gaining only 38 percent of the vote.³¹ As an early advocate of the public utility district, voters appeared to hold Burke accountable for JPUD's failures.

Avoiding accountability

Commissioners know they are being watched and try to avoid accountability when there are difficulties. For example, when the *Port Townsend Leader* asked commissioners why they did not go back to the voters when the price of buying PSE's infrastructure increased so significantly, Commissioner King responded, "You are making these up. ... I will not

29 "Expect 67 jobs from PUD takeover of PSE: consultant," by Scott Wilson, *Port Townsend Leader*, September 17, 2008.

30 "PUD sets Nov. 10 for rate-hike hearing," by Allison Arthur, *Port Townsend Leader*, October 26, 2016.

31 "Jefferson County November 8, 2016 General Election," Washington Secretary of State, at <http://results.vote.wa.gov/results/current/jefferson/>, accessed November 20, 2016.

participate in your question game.”³² When the *Leader* identified the person who asked the question, King refused to answer, noting the questioner “is in Commissioner Burke’s district.”

Rather than answer a question he knew was difficult, he attempted to deflect. Politicians understand that if they are associated with a bad decision, it could cost them re-election, so they have strong incentives to deflect and deny the mistake. Of course, this can make it difficult to address public problems in an honest and direct way, but it is a common political approach.

Private utilities certainly have an incentive to make a sustainable profit for their owners. They are, however, subject to government oversight and any rate increases must be approved by regulators.

Public utility commissioners, however, face pressures and incentives of their own. They must answer to customers directly. They must keep rates reasonable and, although public utility advocates argue local commissioners are more responsive, there is a strong political incentive for them to blame problems on someone else, rather than facing them directly. These problems are not unique to JPUD – they are inherent in every elected public utility commission.

Conclusion: Jefferson Public Utility’s poor record

Three-and-a-half years after flipping the switch from a private to a public utility, officials at the Jefferson Public Utility District have failed to deliver on the promises they made to improve service and have not kept rates comparable to those of Puget Sound Energy.

These failures have more to do with the inherent incentives that come with political control than with the unique circumstances of Jefferson County. Other elected officials considering the switch to a public utility will face the same problems and political challenges.

Understanding those inherent incentives is one reason our report eight years ago was so accurate. We noted that “costs could increase,” and that residents would “receive lower-quality service.” Unfortunately for Jefferson County PUD customers, those predictions largely came true, and their experience should be considered when advocates of taking over private utilities make the same promises in the future.

32 “Why didn’t PUD ask for permission to buy PSE – a second time?” by Allison Arthur, *Port Townsend Leader*, May 14, 2014.

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