



COMMITTEE OF THE WHOLE
MARCH 28, 2011
5:30 PM

Opening of Meeting

Nondenominational Invocation

Roll Call

Approval/Amendments to Agenda

1. Presentation - APPA's Hometown Connections Organizational Check Up (page 2)
2. Discuss – Washington Daily News VIP Plan (page 69)
3. Adjourn – Until Monday, April 11, 2011 at 5:30pm in the Council Chambers at the Municipal Building.

Organization Check Up

Final



WASHINGTON ELECTRIC UTILITIES
Washington, North Carolina

Prepared by
Hometown Connections, International, LLC
A Subsidiary of the American Public Power Association
March 2, 2011

Hometown Connections®
DELIVERING VALUE TO PUBLIC POWER

Organization Check Up
City of Washington Electric Utilities, Washington, North Carolina

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Executive Summary

Hometown Connections was asked by the electric director of the city of Washington to conduct a review of the electric utility operations and identify areas that are working well, along with areas where improvements are recommended.

The review looked at all aspects of the utilities operations, including those listed below. Each is discussed in its own section, identifying strengths and weaknesses. Additionally each section is assigned a rating, based on four stars, also shown below.

Operational Areas	Rating
Customer Service	★★★★☆
Customer Outreach and Communications	★★★★☆
Utility Programs	★★★★☆
Power Supply	★★★★☆
Distribution Operations	★★★★☆
Employee Safety	★★★★☆
Governance	★★★★☆
Strategic Planning	★★★☆☆
Rates	★★★★☆
Administration, Accounting and Finance	★★★★☆
Technology	★★★★☆
Human Resources	★★★★☆

Hometown Connections found a number of areas that Washington is doing well and for which they should be commended. These are described in the report.

Hometown Connections also has made some recommendations that will address areas of concern or weakness. These too are described in the report and are separated out in the *Recommendations Section*.



As will be discussed in greater detail in the following report, Washington's electric services, and those city functions that support it, are providing strong value to the community. As a city department, rather than an independently governed utility, Washington Utilities is more

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fully integrated into the fabric of city operations, relying on general fund departments for a variety of services and the city council for policy direction. The integration of services between the enterprise fund and general fund appear strong, with strong perceived value being delivered. Governance issues reveal some signs of friction, as the city is going through a transition in city managers, while the current city council make up suggests some differing expectations of the role of the utility in the community and in the municipal operations.

In many public power utilities that work closely with general city operations, the line between enterprise fund and general fund can become blurred, and misunderstandings by staff and governing board members may exist regarding the distinctions between these two funds. In extreme cases, the utility may find itself hamstrung as it attempts to run its enterprise like a business, maintaining the integrity and reliability of the asset while continuing to provide value to the community. This does not appear to be the case in Washington, although there does appear to be a need for greater alignment of organizational priorities. Nonetheless, Washington's enterprise fund and general fund operations function effectively, working well most of the time with each other to deliver a high level of service to its electric customers. Hometown Connections was very impressed with the professionalism and dedication of the many staff members who joined the dialogue during our two days onsite.

Hometown Connections found many strong functions within the utility and the city. Yet, while there are many excellent examples of cutting edge ideas, so too are there examples of older practices and paradigms that have largely disappeared within public power utilities of Washington's size. Hometown Connections is nonetheless excited by Washington's commitment to excellence and quality of staff that will make these steps possible.

The electric industry, and public power in particular, is undergoing a tremendous transformation that will bring both good news and bad to the consumer. New technologies, new services, a new energy economy and changing customer and regulatory expectations are all converging to make public power's decisions critical about what role it can and will play in the future. Moreover, while there may be disagreements on the causes, the reality is that energy costs are only going to go up in the foreseeable future. Washington is taking a number of crucial steps now to ensure that its customers will continue to receive reliable electric power and associated services at competitive rates for many years to come.

The electric division of Washington Utilities is well run and uniformly strong across all aspects of utility operations, including technical, financial and customer facing services. The community is well served by the utility.

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Background

A well-run public power utility is the result of a number of critical institutional systems that must be in place and function smoothly. Hometown Connections' *Organization Check Up* provides a utility with a specific assessment of those systems that exist today as well as those that may be needed in the future.

The city of Washington is a standalone community and county seat in Beaufort County with a municipal population of about 11,000. Like much of the nation, the recent economic downturn has affected Washington and Beaufort County. At 10.7% for November 2010, the unemployment rate in Beaufort County is higher than the state average of 9.9%. Washington's rate is slightly higher at 11.2%. The national average during the same period was 9.6%.¹ While economic conditions are no doubt being felt throughout Beaufort County, Washington's downtown remains vibrant and the community infrastructure appears well-maintained. Washington enjoys the presence of several healthy commercial and industrial customers.

Washington was founded in 1776 and has the distinction of being the first U.S. community named after George Washington. In 1905 the city of Washington established the municipal electric operations in the community. The utility now includes water and wastewater. This was the beginning of a long and beneficial enterprise that has consistently brought low cost, highly reliable power to the community. With approximately 13,000 electric customers, Washington is today a larger sized public power utility and, by number of customers, the 208th largest public power utility in the U.S. out of 2010 total utilities.² Nationally, 85% of public power utilities in the U.S. have 10,000 or fewer customers. The median size is approximately 3,200. Because of several very large utilities, the average size public power utility is nearly 17,000 customers.

Washington serves the electric load within the community, as well as much of Beaufort County's contiguous area to the city. The city's electric utility employs 37 employees.

¹ Employment Security Commission of North Carolina, Nov. 2010

² APPA Annual Statistical Directory, 2010

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Methodology

Hometown Connections engaged two of its employees, Tim L. Blodgett and Steve VanderMeer (see bios in Appendix), to conduct the review on December 15 and 16 in Washington North Carolina.

The process used meetings and discussions with key utility and city personnel to gather information and performance results in the following key areas of running an electric public power utility:

1. Customer service
2. Customer outreach and communications
3. Utility programming
4. Power supply
5. Distribution operations
6. Employee safety
7. Governance
8. Rates
9. Administration, Accounting and Finance
10. Strategic Planning
11. Technology
12. Human resources

Hometown Connections and Washington staff discussed participation in the study prior to Hometown Connections' visit, settling on a final agenda, timing and participation. Multiple employees from both the utility and the general fund side of the city operations were involved in all or part of the ensuing onsite discussions. The objective of these discussions was to document service offerings, business processes, organizational policies and the supporting human and capital infrastructure that allows for the effective delivery of Washington's electric services.

The results of these discussions were then reviewed and analyzed by the Hometown Connections team and evaluated against their experience with comparable public power utility operations and benchmarked against national industry standards. This resulted in the summary recommendations contained in this report.

Observations and Findings

Customer Service

The overall objective of good customer service is to meet or exceed customer needs and expectations.

These can be measured in a number of ways including but not limited to:

- Customer satisfaction (service, complaints)
- Billing and Payment options
- Bad debt (collections) ratios

★★★★ Washington gets good marks for customer service. It follows sound business practices and provides good customer service.

Customer Satisfaction

Hometown Connections believes that as one of the primary faces of the utility and the community, customer service staff should be well-trained to address complicated billing questions and handle a wide range of customer behaviors. The utility billing function resides in the general fund under the Finance Department. Within utilities whose governing board is the city council, the fund location of the billing function seems to fall evenly between the general fund and the enterprise fund. Both arrangements can work very well, although Hometown Connections staff has seen greater potential for conflict when the billing function resides in the general fund. Regardless of location, the key is that the customer service or billing staff recognize the utility as a key stakeholder and treat them accordingly. Staff in Washington notes that the interface between these two departments is good. For many customers, utility billing or customer service staff will be their only point of contact with the utility, making the importance of this interaction critical. Staff notes that customer service employees represent the utility and the city well.

Customer satisfaction in Washington appears good, as evidenced by anecdotal comments. There has not been a formal customer satisfaction survey in the past several years. Complaints recently have tended to be high bill complaints, which is not surprising since customers have no point of reference for comparison purposes. Billing staff has a number of tools, discussed in more detail below, that can assist them in handling most billing related concerns, giving them good options for those experiencing high bills.

The Utility Bill

Good business practices require municipalities to be diligent in billing customers for electricity usage according to its rates, charging a penalty on customers' unpaid balances, and collecting all the money due to them in a timely manner. In Washington, the bill print and mail shop is outsourced to Cash Cycle Solutions, Inc., based in Charlotte, North Carolina while remittance processing remains an in-house function. Many public power utilities have found it cost effective to outsource one or both of these functions as these are not typically

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core strengths for public power utilities and may consume excessive time from staff that could be better used in other activities. The city uses Logics Software out of Raleigh, North Carolina for billing. Staff notes that the software upgrade that occurred earlier in 2010 did not go well, for a while resulting in bills being mailed that were incorrect. These issues have since been resolved and satisfaction with the upgraded software is improving.

Customers receive an 8½" x 11" black and white bill through the mail or electronically each month. The bill includes electric, water, sewer and sanitation services (depending on the services received by the customer). The bill shows usage data graphically for the past 13 months. It is becoming more common on utility bills to show previous usage for electric and water, preferably shown graphically and preferably the past 13 months, which allows the customer to view the same billing cycle from the previous year. This information provides customers with a point of reference and can drive down the number of high bill complaints. Average monthly temperature data is another piece of information we have seen used to decrease high bill complaints, particularly during the shoulder months, when customers may be paying a bill reflecting usage during a considerably hotter or colder month than the current one.

Page two of the bill is pre-printed and contains payment information and locations, information on delinquent payments, bill language explanation and other information. The amount of information contained on page two of Washington's bill is well above what Hometown Connections will typically see. We would encourage Washington to review what information is included on page two of the bill and consider streamlining the look of this page.

At the bottom of page two is a credit card authorization form. Hometown Connections will often see utilities that actively promote – through the utility bill and elsewhere - those forms of payment that are most cost-effective to the utility. In Washington, this was noted by staff as bank drafts, which calls into question the inclusion of a credit card – versus a bank draft authorization at the bottom of the page. If bank drafts are the most cost effective payment option, Hometown Connections would encourage Washington to replace the credit card authorization with a bank draft. Hometown Connections has encountered a wide range of promotions providing monetary and other incentives to move to bank draft. Washington staff notes it has conducted such promotions in the past with good success.

Overall the bill is very readable with a logical flow. Hometown Connections would encourage billing staff to evaluate periodically the look and various functions of the utility bill and explore ways to leverage this important monthly communication with its customers.

Payment Options

As noted above, a number of options are available to customers for utility payment. Current options include automatic bank draft (also known as automated clearing house or ACH), mail, drop-boxes across from and in front of the municipal building, walk-up at the municipal building, by phone using a credit card and online through an outside provider using a credit or debit card.

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The predominant payment method is in-person, with approximately 65% of customers paying this way. Hometown Connections recommends that Washington continue to track both the share of each form of payment as well as the fully loaded costs of those payments to the utility. While a range of payment options to meet the varied needs of customers is to be lauded, Hometown Connections also believes that the utility should do what it can to encourage customers to use the most cost-effective form of payment available. We will typically see bank drafts, occasionally online credit card payment, providing the most cost-effective means of payment. Washington staff noted that their own evaluation has shown bank drafts to be the most cost effective form of payment. Hometown Connections applauds staff's review and understanding of the cost implications of their payment options. As noted above, staff has periodically employed incentives to move customers onto bank drafts. Promotional tools we have seen include:

- Advertisements (broadcast and print media)
- During live interactions with customers about billing
- CSR contests or incentives for enrolling customers
- Messages on printed paper bills and statements
- Bill inserts or enclosed newsletters
- Printed messages on envelopes
- Email campaigns to customers
- Website messaging and links displayed on the homepage and elsewhere
- Website tutorials or informative videos
- Sweepstakes or prize drawings among customers who enroll
- Monetary incentives for each customer who enrolls (e.g., one-time credits, gift cards, discounts on services)
- Community outreach to groups at local events and fairs
- Promotions in customer service offices
- Offering a discount with paperless bills and statements
- Charging a fee for paper bills and statements

Electronic bill presentment and payment (EBPP) has become the norm in virtually every industry that regularly bills customers, yet public power has been slow to embrace this technology.³ Hometown Connections applauds Washington's option of online payments. Hometown Connections has some concerns, however, with the city's decision to charge additional administrative fees for online credit card payments. As understood, online billing is done through Cash Cycle Solutions Inc. and the city is merely passing through the fees being charged by them. While EBPP will often add costs to the bill collection process, billing offices often do not take into consideration offsetting cost reductions that come with

³ From a 2010 survey, utilities companies overall lag in electronic billing adoption. Electricity (32 percent), gas (32 percent), and water (24 percent) were among the least common bills consumers receive online. *NACHA PayItGreen Survey 2010*, conducted by Javelin Strategy & Research.

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this increased level of automation, including less staff time dedicated to production, mailing and remittance processing. Online bill pay can also insulate the utility from the risks of uncollectibles, which is instead borne by the credit card company. Yet beyond simple cost-benefit calculations, customers' expectations to be able to view and pay their bill online have become the norm. Hometown Connections strongly encourages the adoption of EBPP options for virtually any size public power utility with the ability to discontinue paper bills at the customer's wish. The inclusion of an administrative fee, as is the case in Washington, will no doubt discourage many customers from using the EBPP option. Many utilities have found they have greater control over expenses associated with online billing once they have installed an online billing module to their CIS.

Washington's payment options are good and have remained in front of their customers' evolving expectations. Hometown Connections recommends using outreach tools, such as surveys of customers, to explore customer preferences around bill paying, and building awareness of the desired payment option to customers through expanded bill messaging and bill stuffers.

The Revenue Cycle

A timely, thorough and efficient collection of payment for services rendered is a key component of any business. A well designed process, supported by technology, and clearly spelled out policies are critical to ensuring the timely collection of utility payments. Further, by linking the bill presentment as close in time to the energy consumption, confusion from customers about their bill is minimized. Washington has the option for those on fixed incomes of choosing their payment date to coincide better with their personal revenues (such as social security checks). Hometown Connections applauds this level of responsiveness by the city.

Washington bills in four cycles per month, with bills posted each Friday of the cycle for meters read that week. From the billing date customers have approximately 25 days (up to 32 days after the meter reading) to pay, although penalties are not incurred until the 30th day. On the 30th day following the due date a 5% late penalty is incurred. The majority of customers are paying within this time frame. The city uses an automated outbound calling system to provide reminders to delinquent customers (we have seen some systems that allow the customer to pay at that time through the auto-attendant with a credit card). Seven days after the penalty, service disconnects take place, about 40 to 45 days after the meter was read. Weather thresholds prevent cut-offs during particularly hot or cold periods, although Hometown Connections was surprised that there is no explicit policy on weather imposed restrictions on cut-offs. The absence of a consistent policy leaves the city open to charges of favoritism or prejudice. Hometown Connections would encourage Washington to adopt, and consistently apply, policy on what weather conditions will postpone service terminations.

Overall, the revenue cycle in Washington is tightly managed, allowing adequate time for the vast majority of customers to pay without excessively extending payment timelines. Hometown Connections applauds the use of a percentage-based penalty rather than a fixed

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dollar amount. Fixed dollar amounts tend to be proportionally more onerous on low income customers. The penalty rate in use in Washington is average compared to other public power utilities.⁴

Late or delinquent notices represent a practice that Hometown Connections is seeing less often. Many utilities have chosen to discontinue them as their additional cost is not significantly affecting timely payments, and in effect exacerbate the financial impact of delinquent customers, which ultimately is borne by the good paying customers. Washington has continued to provide courtesy calls and/or door hangers to those customers who are delinquent for the first time.

For terminations of service, Washington charges a \$25.75 reconnect fee, \$75.75 for after hours reconnects. Staff notes that these amounts will recover the fully loaded costs of rolling a truck and crew to reconnect service. Hometown Connections applauds Washington's review of this cost. We would encourage Washington to assess periodically the costs of delinquency and termination activities (labor, fuel, depreciation, etc.) to ensure that the rest of the customer base is not subsidizing the additional costs incurred by delinquent customers. It is Hometown Connections' belief that, for most public power systems, the amounts they charge do not cover these costs, even less so if the utility is not recovering in some other way the costs associated with the initial *disconnect*.

Staff estimates that about two percent of residential customers' services per month are terminated (approximately 250 out of 10,500 customers). Hometown Connections would encourage Washington to continue tracking its service termination rates. While there are national benchmarks for terminations,⁵ probably more important is the utility's own termination rate over time, which can be a valuable indicator in aligning the billing process with customers' payment behavior.

Washington's billing and collections process is generally well run. Nonetheless Hometown Connections strongly recommends that any utility periodically review its revenue cycle process for improvement.

Uncollectible Accounts per Revenue Dollar

Washington's uncollectible accounts per revenue dollar (defined as the amount of total uncollectible accounts written off to total electric utility operating revenues) \$45,000 per year on receipts of about \$36 million, or \$0.00125. This is on the lower end compared to respondents to APPA's annual survey.⁶ North Carolina has provisions in the state code, through the Setoff Debt Collection Act that allow utilities to recover bad debt through state income tax refunds and lottery winnings, which the state then refunds back to the utility.

⁴ In a 2006 APPA survey of members, among those charging a percentage based fee (approximately 89% of the respondents), the amount of the penalty was fairly evenly distributed, with a third charging less than 2%, a third 2 - 5% and a third 5 - 10%. APPA Customer Service Survey, 2006

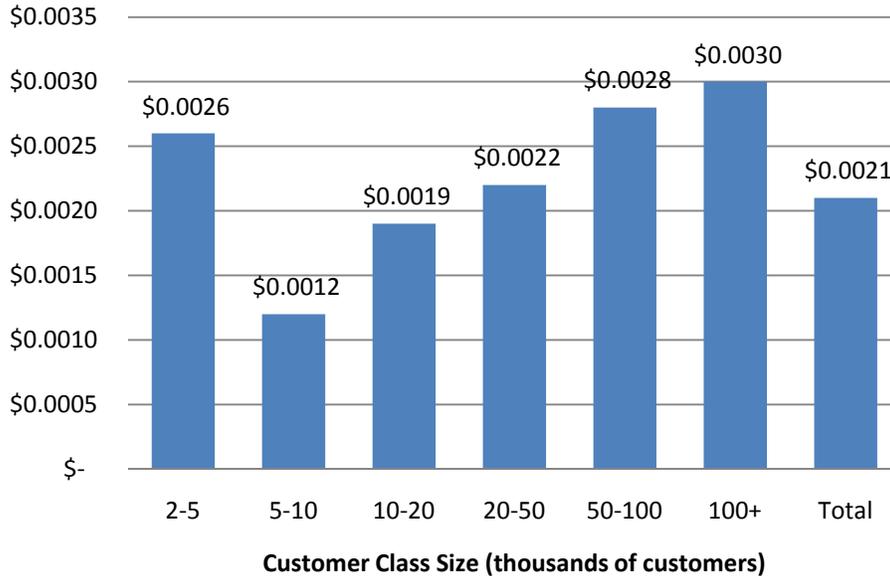
⁵ A recent national study of utility payments showed an average termination rate of 4.7%. *2008 Individual State Report by the NARUC Consumer Affairs Subcommittee On Collections Data Gathering*, National Association of Regulatory Utility Commissioners

⁶ *2009-2010 Annual Directory and Statistical Report*, APPA

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This has proven to be an effective tool and allows North Carolina utilities to keep its write-offs to a minimum. Washington has also utilized local small claims court for arrears.

Uncollectible Accounts per Revenue Dollar



Source: APPA 2009 - 2010 Statistical Report

Deposits

Security deposits are common among public power. In the most recent APPA survey of members, 88% of respondents require a security deposit for residential customers.⁷ A security deposit can be an effective tool for protecting the utility from customers leaving the system without making final payments on utility bills. Washington's security deposit policy is very much in line with those seen elsewhere. Residential deposits are \$200 for those providing their social security number, \$300 for those who do not. After six months of on time payments, the security deposit is returned to the customer by applying it to outstanding balances.

Overall, Washington's customer service procedures, policies and processes are good. The utility could benefit from a review of the major objectives of this function and ensure that policies and practices are aligned to best support reaching those objectives.

⁷ From the survey, sixty-three percent of residential deposits required by respondents are of a fixed amount, and 37% of residential deposits are variable. The variable deposits range from one month's average bill to three month's highest bill. Twenty-seven percent of respondents indicated that credit history affects the amount of deposit on residential accounts. Forty-seven percent of respondents indicated that residential deposits are kept for one year if the account is in good credit. Sixteen percent keep deposits for two years and 31% keep deposits until the account is closed. APPA Customer Service Survey, 2006.

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Community Outreach and Communications

The overall objective for good community relations is to establish and maintain in the public mind confidence in and support for the public power utility.

Areas often used to describe community outreach include:

- Communications with the customer
- Community outreach
- Relationship with local media

★★★★ Washington's communications and outreach are generally good. For a utility of Washington size, particularly one serving both urban and widely dispersed rural populations, it can be challenging maintaining effective communications with its customers, yet the utility and the city have in place several tools that make that job easier.

Washington's call center hours run from 8:15 a.m. to 5:00 p.m. Monday through Friday. Call center hours mirroring the typical work week have been the norm within public power for many years. More recently Hometown Connections is seeing public power utilities with extended call center hours during certain days of the week or even Saturday mornings. For many working families, the time that falls outside the eight to five weekday period may be critical to their being able to complete household activities such as paying a bill or other utility interactions. Hometown Connections would encourage Washington, as part of any future customer outreach, to test the need for additional or different office hours.

Washington appears to have consolidated effectively its phone numbers, with both the utility bill and the website pointing customers to the 9300 extension, except for service emergencies. Work hour and after hours emergencies are directed to 9320. One issue staff noted revolves around calls coming in to 9300 after hours, when the phone will simply ring indefinitely. In Hometown Connections' opinion, this is not an optimal response (nor is another common practice among public power utilities of having customer service calls roll over to a plant or dispatch center, or even 911). Hometown Connections would recommend that Washington provide after hours outbound messaging on its customer service line that provides office hours, the number to call in an emergency and online or other options available. While the utility bill prominently provides business office and emergency phone numbers, it is less obvious on the city's website. Hometown Connections would encourage Washington to include clearer "Contact Us" information on its website.

In many public power customer satisfaction surveys, the utility's response to outages and specifically outage communications are frequently the source of the highest customer dissatisfaction, in part because call volumes during outages can overwhelm staff manning the phones. This is almost unavoidable for any utility that does not use an automated system of some form. The desire to provide a live voice to as many callers as possible is laudable.

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Interestingly, that value is cited by many utilities for *not* implementing an IVR system. This approach does not recognize, however, that for many callers, reaching a live voice is not a priority as long as the information the caller wishes to convey or receive can be transmitted electronically. Automated systems can allow a utility to address more effectively the need of customers to communicate with the utility while freeing up lines more quickly to provide a live voice for those who want it. While Washington does not employ an IVR for outage communications, it does take the admirable step of calling back customers by request at the end of the outage.

Washington employees are encouraged to play an active role in the vitality of the community. Utility employees participate in outreach to a variety of community groups, from seniors to school age children, where programs on electric safety and utility careers are shared. The utility strings the downtown lights during the holiday season, and hangs banners for other Washington events. The utility used to recognize Public Power Week each October, but lately has not observed this week through community activities or recognition. Hometown Connections would encourage Washington to celebrate Public Power Week.

Utility sponsored and individual employee efforts at giving back to the community are an important part of what public power is. Washington plays an active role in supporting local customer assistance programs including the Salvation Army's financial assistance and Washington's "Box Fan" programs. If it is not occurring today, Hometown Connections would encourage Washington to track these efforts – resources, in-kind and monetary donations and employee volunteer hours donated - and report these to customers and staff on a periodic basis. While humility is a common -- and in many ways admired -- public power trait, the utility cannot disappear into the community background so much so that its residents and stakeholders lose sight of who is supporting the quality of life of their community.

Washington does not include a newsletter in its monthly utility bill, although it does include bill stuffers intermittently. Regular monthly, bi-monthly or quarterly newsletters are growing in popularity within public power communities as a means to convey city and/or utility-specific information. This is particularly true in municipalities where the utility is a city department and the newsletter can serve broader civic interests in addition to those of the utility. A newsletter can reinforce with its customers the utility's and city's commitment to creating a culture of information and transparency that can do much toward fostering greater customer loyalty. Unlike local media outlets, it is completely under the control of the utility and/or city, making it an excellent forum for communicating important utility and civic matters while reinforcing the organization's values. In Washington's case, a large number of electric customers are not residents of the city of Washington. Nonetheless, a newsletter can be an effective tool for conveying energy and water saving tips as well as community events that would be relevant to anyone in the region. Hometown Connections would encourage Washington to explore options for a city-wide newsletter to its customers.

The current electric and utility billing portions of the Washington website are perceived by Hometown Connections as very good among public power utilities of similar size.

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Information is logically laid out and the electric pages feature a wide range of helpful information as well as clearly identified links to strong outside websites, such as Energy Depot and the NC Public Power website.

As noted above, contact information is somewhat difficult to find, compared to those websites deploying the commonly used “Contact Us” tab at the top of their web pages. This is particularly true for anyone seeking utility billing information through the Finance web pages. Despite being the office responsible for utility billing, there is no link to payment or billing information, which can only be accessed through the Utilities pages. Hometown Connections would encourage greater redundancy of utility billing and payment information throughout the Washington website.

It appears that at one time the website showed electric rates, although at the time of Hometown Connections’ review, they were not available. In the spirit of governmental transparency, most public power utilities will at a minimum publish their rates online. Many will go beyond that by showing residential rate comparisons of their own utility against neighboring utilities (for example, monthly cost for 1,000 kWh usage). There is what appears to be one rate-related page that is outdated and merits removal or updating, titled Working Hard to Keep Your Electric Rates Down.

Washington may wish to see how other public power utilities represent themselves online, including themes of energy conservation and efficiency. The APPA Annual Directory provides URLs for most public power utilities. Hometown Connections would encourage the Washington staff to review websites of similar sized utilities for comparison. Among those of similar size that we believe are well done are: Brainerd Public Utilities, MN – 7,700 customers, <http://www.bpu.org/>; Hingham Municipal Light Plant, MA – 9,800 customers, <http://www.hmlp.com/>; Westerville Electric Division, Westerville Ohio, 16,000 customers, www.westerville.org. After reviewing Washington’s website, we believe that its quality is equal to any of these, and applaud the effort that has been put into it.

Washington has not recently conducted customer satisfaction surveys. While staff reports that anecdotal feedback received from customers is generally good, there has been no effort to verify to what degree these comments reflect the customer population as a whole. Hometown Connections is a strong proponent of periodically gathering the “voice of the customer” in a meaningful and statistically significant way. Self-administered online survey tools are now available, but they are only as good as the person writing them, and even then leave the organization open to charges of bias. An impartial, professional survey can serve to focus utility resources where the greatest needs are, as well as staunch criticism from disgruntled customers or citizens who purport to speak on behalf of the community. Hometown Connections would encourage Washington to conduct more in-depth customer satisfaction surveys at regular intervals. The real value of the survey comes from comparing the utility to itself over time, looking for trends that warrant action – or celebration. The act of asking also increases customer satisfaction when utilities ask customers for their opinion and input.

The utility has good outreach capabilities and leverages several outreach tools to reach its

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customers and reinforce the utility's role in the community. The city and the utility's position in the community seem strong, with good recognition of the utility's contribution to the local quality of life. Hometown Connections believes that most public power utilities should be doing more to minimize the gap between the customer and their public power utility. Washington is no exception and has myriad opportunities worth exploring to maintain strong customer communication.

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Utility Programs

The overall objective of utility programs is to provide additional resources to customers that assist in advancing desired public policy and meeting customer needs, such as energy conservation, environmental stewardship and stronger customer satisfaction and other community priorities.

These programs often fall in four main categories:

- Economic development
- Key Account Management
- Energy Efficiency/Demand Side Management
- Renewable Energy

★★★★ Washington's utility programs get strong marks overall. The utility, city and ElectriCities of North Carolina have assembled a strong toolkit for adding value to existing and potential Washington electric utility customers.

Economic Development

The economic development function in North Carolina typically resides within the county government. For Washington, this function is served by the Beaufort County Economic Development Commission. The city of Washington appoints three members to the commission and plays an active economic development role. The utility provides financial support to this function of about \$75,000 annually and offers attractive economic development rates in conjunction with ElectriCities of North Carolina.

Key Account Management

Attracting larger commercial and industrial customers to the utility is an important first step. Once there, it becomes critical to keep them. Through key accounts programs, electric utilities will offer additional information, incentives and other support to help the customer optimize their energy consumption. Key account programs within public power will vary tremendously depending on the number and types of industry within the community and the relative priority assigned by the community policy makers in supporting them. Political considerations aside, for a utility, key account customers provide revenue stability and many will contribute to better load factors.

Washington has identified its largest accounts, and describes relationships as good, while acknowledging that regular communications are often lacking. Nonetheless, with the rate structures offered through the North Carolina Eastern Municipal Power Agency (NCEMPA), there are strong financial incentives for peak shaving that has led to strong examples of behind the meter key account support and consumer partnering on distributed generation. For example, the utility has invested \$100,000 in peak shaving equipment at the hospital, allowing for large energy savings at the same time they have back up generation for the hospital campus. The utility owns several small generators for which the customer provides fuel, each contributing to the utility's overall ability to shed load during peak pricing

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events. In addition to peak shaving activities, Washington and ElectriCities of North Carolina staff provides other support for key accounts behind the meter such as infrared scanning and other energy services. It provides the newsletter Questline to its commercial customer. The degree to which Washington is working with its key accounts is very strong.

Energy Efficiency/ Demand Side Management

Energy efficiency, conservation and demand-side management (DSM), which peaked after the last energy crisis, has seen a resurgence in public power, reflecting the nation's growing concern over rising energy costs and uncertain power supply. Successful demand side management can not only save customers money on their electric bill, it can help postpone the need for new generation. This is very evident in Washington where up to 10 MW of load can be shed through demand controllers and peak shaving generation.

While renewable energy captures most of the headlines, the much more cost effective means to reduce dependence on fossil fuels is through energy efficiency and conservation. Wasteful energy practices are manifest across all customer groups, but are typically not addressed because of the history of cheap electricity and the lack of pricing signals associated with the time of use. Utilities are increasingly focusing on conservation as a cost-effective way to lower consumption and smooth out their load curves. Hometown Connections has no doubt that pressure on public power utilities to expand their energy efficiency efforts will increase significantly, coming both from greater expectations of their customers and increased regulatory initiatives.

Because of the wholesale electric pricing structure, Washington energy efficiency efforts go well beyond those found in public power utilities found in other states. In addition to the demand control efforts described above in key accounts, Washington works closely with its residential and small commercial customers to assist in saving energy. About 5,000 demand controllers are deployed throughout the service territory, controlling water heaters and air conditioners. Like many utilities with older generation controllers with one-way communications, the actual number still functioning is unknown. However, staff reports that the impact during peak load is 2 – 3 MW. Washington partners with ElectriCities of North Carolina on energy audits for both commercial and residential customers. The utility offers energy efficiency kits, and, as mentioned earlier, provides through its website, the Energy Depot online audit solution.

Several public power cities have implemented model energy codes or created incentives to builders to adhere to good building practices. Although retrofitting or recommissioning existing homes and businesses can be effective, the greatest gains in energy efficiency are made at the time of design. For this reason, public power can be well-positioned to influence building and energy codes within their communities to ensure that the most effective steps occur upfront.

Hometown Connections would encourage Washington to benchmark other public power energy efficiency efforts, including both their program offerings and how they convey energy efficiency information to the customer. One excellent means to do this is through a new

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energy efficiency website created by APPA that includes a database of other public power initiatives. The website, at www.FERCnet.org, provides a great deal of information and searchable database on energy efficiency.

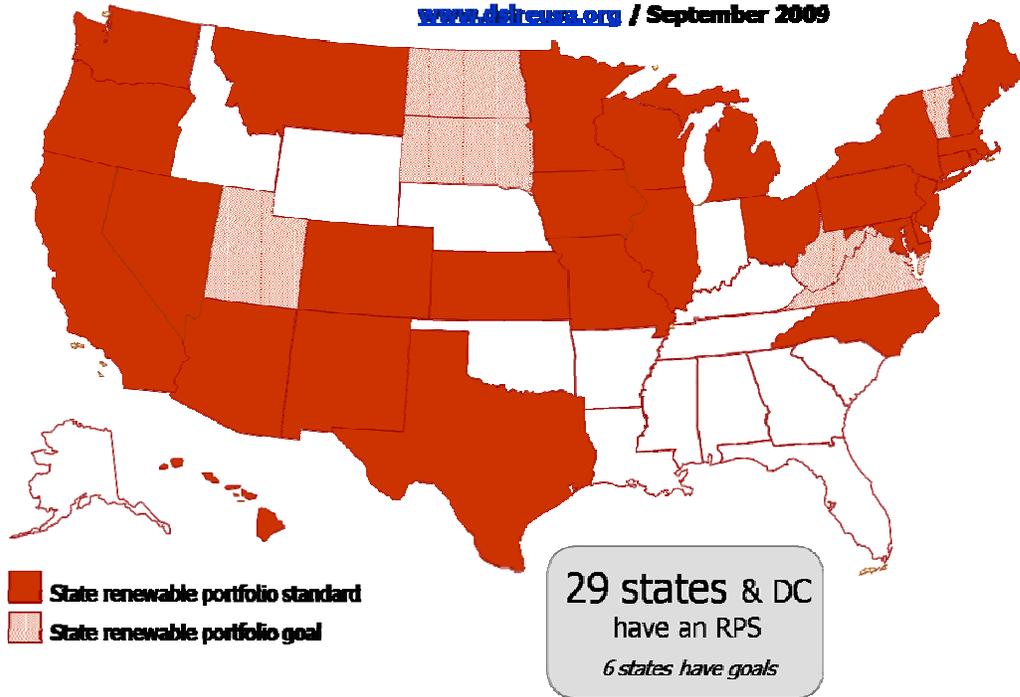
Renewable Energy

Electric customers of Washington have expressed some interest in renewable energy. Renewable energy resources in the Southeast are scarce, and perceived interest by customers has historically lagged that elsewhere in the nation. To date, 29 states & Washington DC have an RPS and five states have goals. Review of the RPS map shows that the vast majority of states remaining without an RPS are in the Southeast, although North Carolina does. NCEMPA falls under the state RPS and has been exploring options available to it. Currently NCEMPA is purchasing Renewable Energy Credits (RECs) on behalf of its members. It is also exploring solar power, particularly in the western part of the state and swine waste in the east. The utility is meeting additional renewable energy requirements through its demand side management and conservation programs.

In the coming years, Federal legislation is likely to emerge that will supersede much of the state legislation. It is Hometown Connections' belief that efforts made now toward the development of renewable energy sources not only will be well received by utility customers, it will blunt criticisms among lawmakers that public power is shirking its responsibilities. Lastly, when the day does come that public power no longer can opt out of more stringent RPS requirements, those that already have renewable projects underway will be in much better shape in meeting those requirements than those that are starting from scratch. Hometown Connections would encourage Washington and ElectriCities of North Carolina to continue monitoring state and federal renewables rulemaking as well as renewables technology that make the most economic sense to the utility and its customers.

Renewable Portfolio Standards

www.deltreuss.org / September 2009



For all of these issues described above, Hometown Connections would strongly encourage Washington to leverage the resources available through APPA. Listserv discussion groups, formed and managed by APPA, are available on a number of topics relevant to the utility's operations, including DSM, green power and economic development. A list of listservs offered through APPA is attached in the Appendix.

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Power Supply

The overall objective for power supply is to ensure the utility is able to provide long-term, reliable and affordable electricity while minimizing price volatility for its customers.

Areas for measuring a utility regarding power supply include:

- Understanding of the utility load characteristics
- Understanding of suppliers in the marketplace
- Understanding of current supply participants and their roles
- Understanding of how owned generation would affect customers
- Costs for available types of supply
- Reliability of supply
- Term of supply available
- Market and counterparty risk
- Price volatility
- Understanding of the delivery system, its participants and their roles
- Regulatory oversight
- Employee skills

★★★★ Washington gets a strong rating for power supply today and in the foreseeable future. Washington's generation portfolio, through its ownership in NCEMPA, is comprised of both base load and supplemental power contracts with a good level of diversification both on resources and fuel type. This unit/fuel supply diversity is a strength that should positively serve Washington well into the future.

Across the nation, utilities struggle with power supply issues, and for good reason. The cost of power can represent 70% to 90% of a customer's bill and if not well managed, can be one of the least controllable costs a utility incurs. Power supply costs accounted for 77% of revenue in Washington for the year ending October 31, 2010. In other words, 77% of a typical customer bill was used to pay for electric supply costs for fiscal year 2010 (\$29.771 million of the \$38.570 million in total revenues). This is a direct reflection of the large role supply costs play in a utility's operations, although the typical electric utility customer does not understand this and, during times of rate fluctuation, will tend to blame the utility for issues outside of the utility's control.

Washington has a full requirements power supply contract with the NCEMPA through January 2032. The agreement with NCEMPA is for any power supply requirements above and beyond that which is self-generated by Washington and or its customers. NCEMPA receives approximately 69% of its power supply needs from Progress Energy-operated base load generation facilities: 52% nuclear (Brunswick Units 1 & 2 and Harris Unit 1) and 17% coal (Mayo Unit 1 and Roxboro Unit 4). Two percent of its power supply is from Federal hydro projects provided by the Southeastern Power Administration and the remaining 29% is from a supplemental power supply agreement with Progress Energy priced at average system cost. In the recent past, dependency on nuclear power supply, due to its traditional

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higher cost, was considered a liability but in today's environment of lowering a utility's carbon footprint, it is more a strength. Assuming the continuation of this current pattern of higher environmental and regulatory costs associated with fossil fuel generation, nuclear generation stands to become a very price competitive generation option.

Hometown Connections compliments NCEMPA and Washington for the terms of its power supply supplemental agreement, which is based on average system costs versus market pricing. Typically, supplemental agreements of this nature are priced at market rather than the true cost of production. Granted, during times of a soft power supply market, market prices may at times be lower than production prices but for the longer term, Washington is best served through cost-based pricing.

Historically, Washington has experienced minimal price volatility with power supply costs pegged more to the cost of production rather than true market pricing. With its current portfolio, this should continue to be the case. The good news for Washington and its customers is that as the debt service on the bonds for NCEMPA-owned generation declines (forecasted to decline through the maturity date of 2024), rates will be continue to be positively impacted.

Washington staff relies on ElectriCities of North Carolina (ENC), the management services provider for NCEMPA, for information related to the supply business and as an active participant in this increasingly complex side of the business. ENC is a strong joint action agency comprised of 91 utility members in North Carolina, South Carolina and Virginia, and provides an array of valuable member services beyond simply power supply. Washington rates ENC's expertise as very good. The relationship between the utility and its joint action agency is good. While Hometown Connections was impressed with the level of power supply knowledge of Washington's Electric Utility Director, who also participates on the NCEMPA Rates Committee, it recommends that other staff members become more educated in the area of power supply. While duplication of the utility director and ENC's role is not required, additional knowledge of this role would be valuable in the event the utility director leaves Washington.

Washington's Annual NCP Load Factor is 65.7%. The historical system peak is 77 MW which occurred in 2008. With its peak shaving capabilities through both local generation and demand controllers, Washington is able to reduce its peak by up to 16 MW. This includes operating 9 MW of its own generation (22 units), 4 MW of customer-owned generation (9 units), and 3 MW of appliance demand controllers spread across its residential and small commercial customers. Washington staff estimates that its peak shaving program saves the utility and its customers approximately \$1 million per year in power supply costs.

Washington's local generation and peak shaving capabilities are strong assets with the ability to help control customers power supply costs. Hometown Connections would encourage Washington to continue playing an active role in power supply planning and ensure that customers are educated on the benefits of local control, especially as it relates to peak shaving.

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Washington has one delivery point with Progress Energy, its transmission provider. The single point, a breaker station, ties to Washington's eight miles of 230 kV transmission line, crossing the river into Washington, and feeds to transformers stepping down to 34.5 kV. While Washington's entire load can be fed from either transformer the majority of the time, with only one delivery point, the risk of power supply interruption increases. Although staff noted that transmission reliability has been good in recent history and the transmission system is certified for winds of up to 180 mph, having only a single transmission feed places the utility at a higher risk of interruptions. Hometown Connections recommends that if not already in place, Washington develop, continuously update and maintain a contingency plan in the event the single transmission feed is interrupted.

Counterparty (supplier) risk mitigation is the responsibility of NCEMPA. The risk of a large Washington customer consuming electricity and not paying their bill is borne by Washington.

Regulatory oversight of supply costs is shared by the governing body and NCEMPA. NCEMPA and Washington also share regulatory reporting responsibility as it relates to power supply.

Overall, Washington's power supply outlook is very strong.

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Distribution Operations

The overall objective for a utility in operating the distribution system is to design, construct and operate a distribution system that is safe, reliable and cost effective.

Areas for measuring a utility regarding Distribution Operations include:

- Age of equipment (substations, feeders, system protection, etc.)
- Reliability
- Design
- Maintenance requirements
- New construction demands
- Capital budgets
- Maintenance budgets
- Safety performance
- Utilization of the workforce, including outside contractors
- Employee skills and training

★★★★ Overall, this area of Washington's electric operations gets good marks for performance. The system is in relatively good shape, most equipment has been updated, and reliability has been good.

The electric distribution system consists of five 12 kV substations, fed from the two 34.5 kV transformers, serving 17 distribution feeder circuits. It is somewhat a looped fed system within the more urban portions of the service territory, allowing for multiple redundancies. Hometown Connections recommends the completion of looping the entire system when economically feasible as this will help achieve higher reliability and greater customer satisfaction. All 4160 volt line has been replaced. We applaud the conversion of 4160 volt line to 12 kV, which improves service delivery and decreases in line loss.

There has been a good renewal program over past 10 years. The age and overall condition of the substations are good and all have seen upgrades as necessary. Staff has replaced breakers, reclosers and relays and increased capacity. Reconductoring and substation change outs are handled in-house. The high voltage transmission work, building new substations and DOT work is outsourced. (DOT work is reimbursable). Peak shaving installations are also outsourced. Washington appears be working efficiently and effectively through a good balance of work performed in-house and that which is outsourced. Washington has developed a 20 year work plan through a consultant, which is updated every 5 years and drives the utility's portion of the city's CIP. Staff notes that in general one-third of equipment is new, one-third operational, and one-third in process of renewal. Essentially, two-thirds of the system is less than 20 years old.

Distribution line losses are not tracked although street lighting load is metered, making the calculation of the final line losses easier than in many utilities. Staff estimates distribution

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losses at about two to three percent. Hometown Connections would encourage Washington to begin tracking line losses, enabling the utility to measure and improve in this operational area over time.

Washington inspects poles annually with right-of-way and other staff through visual inspections. The utility typically replaces, rather than treating, poles as needed. Washington's tree trimming program is handled through an outsourced three man crew through Asplundh. This crew is 100% dedicated to Washington's system throughout the year. Staff notes tree trimming has improved significantly with the added emphasis it has received.

The warehouse and equipment inventory are considered good. Most critical equipment and vehicles are stored under a roof. Crew quarters are considered good and can accommodate most crew needs. Fleet and the garage are also well maintained. The city replaces vehicles as part of its capital improvement program.

Washington uses a Survalent SCADA system. Survalent is a strong representative of the modern Windows-based SCADA solutions that are well positioned to accommodate the build-out of additional smart grid technology. The more rural nature of Washington's service territory will mean additional communications challenges for remote substations. At present there is very little fiber connecting municipal facilities; remote substations current communicate via wireless Ethernet. Broadband communications will be important for supporting smart grid distribution automation technology and other functions, such as security cameras.

Washington captures outage information but is not tracking over time. Staff reports that system reliability has been good. The system has suffered few outages recently and has recovered quickly from those it has had. Hometown Connections would suggest that Washington begin tracking and trending outages. Hometown recommends the easy to use APPA software, *Reliability Tracker* to manage outage information. This Excel-based tracking software allows utilities to calculate common outage IEEE 1366 standards indices such as CAIDI, SAIDA, and ASAI with the outage information that is gathered.⁸ Compliance with the IEEE industry standards will allow Washington to gain a better understanding of the

⁸ IEEE Standard 1366 typically refers to the three outage measurements below. While the standard has made comparisons across utilities possible, regional differences and differences in how outages are recorded by individual utilities can limit these comparisons.

- SAIFI, or system average interruption frequency index, is the average frequency of sustained interruptions per customer over a predefined area. It is the total number of customer interruptions divided by the total number of customers served.
- SAIDI, or system average interruption duration index, is commonly referred to as customer minutes of interruption or customer hours, and is designed to provide information as to the average time the customers are interrupted. It is the sum of the restoration time for each interruption event times the number of interrupted customers for each interruption event divided by the total number of customers.
- CAIDI, or customer average interruption duration index, is the average time needed to restore service to the average customer per sustained interruption. It is the sum of customer interruption durations divided by the total number of customer interruptions.

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reliability of its system compared to regional averages or perhaps more importantly, to itself over time.

Physical security of equipment, substations and other non-public areas has not been an issue. The remote substations are more likely at risk, although they are fenced and lit. Cameras are located at the warehouse and in city hall. Although the utility has largely avoided any theft problems, nationwide, theft at public power utilities is becoming more prevalent. Hometown Connections would encourage Washington to assess its physical security plan and make the appropriate improvements to ensure security and safety at its facilities. The lack of fiber to each substation limits some security solutions that would otherwise be available.

In general, Washington's electric distribution operations are well run, using mostly newer equipment. Staff noted that they are going through the application process for APPA's RP₃ program. This is to be applauded and Hometown Connections would encourage staff to submit its application for RP₃ at the earliest opportunity.

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Employee Safety

The overall objective for safety is to determine a utility's commitment and performance related to employee safety.

Measures in this area include:

- Budget
- Equipment
- Training
- Goals and Recognition
- Performance

★★★★ Washington gets good marks for safety. The utility's track record is very good, as lost time injuries have been infrequent. Many years ago a significant accident focused the utility more strongly on safety in the workplace. To the utility's credit, it currently retains that strong culture of safety and has taken many steps to ensure that its employees and the community remain safe.

Overall safety programming is managed through the city-wide safety director. The electric superintendent manages safety activities and monthly safety meetings within the electric division.

Budget

Many utilities will budget safety expenditures separately. This is a practice Hometown Connections encourages as a way of demonstrating the importance of safety to the organization. Washington budgets safety separately, although it relates primarily to training and not equipment, which is addressed below. Staff notes that amounts budgeted have been adequate to address the safety needs of the organization.

Equipment

Employees are provided most safety clothing and equipment directly. Fire retardant clothing is provided by the utility and is mandatory. Washington leases versus purchases crew clothing. Safety equipment is tested regularly. Staff noted that the utility recently completed an arc flash study and has implemented the recommendations.

Currently there is one automatic external defibrillators (AED) in the utility building, three total throughout city facilities. AED technology and choices have improved tremendously in the past decade, lowering costs and offering many easy to use, ruggedized versions that are well suited for utility vehicles. Over the past several years, Hometown Connections has witnessed a reversal among many communities on the use of AEDs. In the past, many communities feared that the incorrect use of an AED could lead to litigation over wrongful death or injury. Good Samaritan laws have essentially rendered this a moot point. Interestingly, now we are seeing litigation coming from the *lack* of AEDs in public venues. Hometown Connections would encourage the utility to develop a policy, with timelines, for

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locating AEDs on utility property and vehicles. The presence of such a policy can provide stronger legal protection related to claims involving the presence or absence of AEDs.

The city uses a city-wide safety manual for all employees, which is currently undergoing revision. Sign-offs are required of employees when they receive it, and for any addenda. The electric utility staff also uses the *APPA Safety Manual*, which is an excellent publication in very wide use among municipal utilities (including non-electric crews). All electric employees must sign-off on the manual to acknowledge review and receipt, as well as sign-off on subsequent updates.

Training and Meetings

Safety meetings are held monthly through the city-wide safety committee. The group will review accidents and near-misses, safety compliance and track trends and review the overall safety program from an historical context. At the department level, meetings are held at least monthly and sometimes weekly to review safety issues and accidents and near misses within the department. Additionally, the utility takes the strong step of holding tailgate meetings every morning, which also include sign-offs for the foreman and crew. This can be a critical step in focusing crew members on the task at hand and the safety issues and hazards that may be a part of that job. Staff notes that management participation in safety meetings is good.

Linemen attend the ElectriCities of North Carolina linemen school, which addresses a variety of safety issues through its training program. This is a highly regarded program that draws students from well beyond the ElectriCities member utilities.

Ongoing safety training is provided primarily by outside trainers, including those from the ElectriCities of North Carolina and the North Carolina Association of Municipal Electric Systems (NCAMES). For utilities of Washington's size, it is often not possible to have a safety trainer on staff, even part-time, although Hometown Connections has seen some utilities hire semi-retired safety professionals on a part-time basis to manage the utilities safety and training program.

While the best option for safety training may be through outsourcing, utilities must take care that employees don't subconsciously outsource responsibility for safety itself. Washington staff has taken steps to ensure safety remains a strong part of the organizational culture. Hometown Connections has observed a safety training practice at many utilities that Washington staff note is also done within the utility. This involves rotating among various crew members the responsibility for organizing and presenting for a safety meeting. Such an approach not only reinforces the importance of safety but can strengthen the impact by "learning by doing". We have been very impressed with the responses of crewmembers asked to contribute in this way and commend Washington for also following this practice.

Disaster planning and drilling can become a critical tool in minimizing the impact and duration of future events that may affect the utility and the community. Hometown Connections will frequently see utility staff, in conjunction with city and/or county public safety and public health officials, work together to develop a disaster recovery plan and

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regularly drill on that plan through tabletop or field exercises. Staff reports that they have participated in disaster drills held through the county. Washington also has a mutual aid agreement through ElectriCities of North Carolina. Hometown Connections would encourage Washington to review its disaster planning and to participate in any future disaster drills occurring at the county or city level.

Goals and Recognition

Hometown Connections will frequently observe strong additional steps around goal setting and recognition that reinforce the importance of safety to the organization. These steps focus on making safety a more pervasive part of the utility's or city's culture. Setting realistic goals and tracking measures of safety closely should be an integral part of any safety program. Less common are those public power utilities that include safety in individual employee's performance evaluations.

Safety metrics are a critical component of building and maintaining a strong safety program. Many public power utilities have implemented measures that track safety metrics. It is important that these measures not only assess accountability, but focus staff on opportunities for improvement and track trends as well. Currently Washington tracks basic safety-related metrics, such as lost time accidents, light duty and near misses. Hometown Connections has observed a number of other safety metrics that one or more utility has used in tracking safety. These include:

- First Aid Cases
- Recordable Injuries/Illnesses
- Lost and Restricted Days
- Worker's Compensation Costs
- Property Losses
- Regulatory fines or citations
- Catastrophic events
- Near Misses
- Safety Meetings Conducted
- Attendance at Safety Meetings
- Instructors Trained

Hometown Connections would encourage Washington to consider a broader slate of safety metrics that would more fully describe the effectiveness of the city and utility's safety efforts.

Tracking safety data leads to an additional component of a sound safety program and that is setting reasonable safety goals that provide direction and focus employees on the success of the safety program. Washington staff note that safety is a factor in employee evaluations. The safety metrics that are used all have goals set at zero. This is good start, and more than many similar sized municipalities are doing. Nonetheless, Hometown Connections would encourage the utility to establish departmental and individual safety goals that heighten awareness and support a strong safety culture. Ideally these goals should focus on and support continuous improvement, which can be challenging when goals are all set at zero. With greater variety and granularity of safety metrics, the utility can not only describe more effectively its state of safety, it can utilize metrics with greater measurable variation.

The last critical piece of safety is recognition and reward. These can be formal or informal. From annual luncheons with presentations, to occasional coffee and donuts, to awarding shirts with the city logo on them - all go a long way in rewarding the behaviors you are

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seeking. Washington does a good job with safety recognition. This includes “safety bingo” (for each day with no reportable accidents, the employee gets a letter), and a point system for accidents, used in the performance appraisal system. When funding has been available, a city-wide safety appreciation dinner is held. Outside recognition includes Department of Labor awards, which Washington has won gold or silver, and the ElectriCities of North Carolina safety award, which it has won the past four years. Hometown Connections would encourage the utility to embrace meaningful ways of recognizing safety practices and milestones.

One of the best recognition tools we have seen is the APPA sponsored Reliable Public Power Provider (RP₃) program, which helps guide safety efforts and reward those public power utilities who can demonstrate excellence in the program categories. This program focuses on four criteria: reliability, system improvement, safety and work force development. In addition to providing a structure around which a utility may organize its improvements, each year APPA recognizes the top utilities that go through the process. Hometown Connections would strongly encourage Washington to apply to the RP₃ program. The application process itself is a good starting place and roadmap for stronger safety practices. Washington staff has noted that applying for RP₃ is already on their work plan.

The utility’s track record on safety has been strong in recent years. These are results worth celebrating and rewarding but should not be taken for granted. Washington’s challenge now will be to continue its current track record without becoming complacent in the area of safety.

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Governance

The objective for this area is to develop and sustain an environment of trust and involvement with the governing body to allow the utility to accomplish its business plan.

The measures in this area are:

- Understanding of roles for the governing body and staff
- Existence of an approved strategic plan
- Effective Utilities Director
- Active performance monitoring of utility operations

★★★★ Overall, Washington gets mixed marks for governance. The timing of Hometown Connections site visit occurred only days after an interim city manager assumed management duties in Washington, replacing the previous city manager whose tenure was described by staff as rocky. Hometown Connections was pleased to have the opportunity to meet with one member of the city council, Councilmember Mercer.

Overall, the Washington City Council oversight appears to be good. The most important roles of a governing board, as it relates to its electric operations, are to:

1. Represent the interests of utility customers and the community as a whole
2. Approve the annual utility budget
3. Ensure the utility enterprise fund is operating in a fiscally responsible manner
4. Approve rate cases
5. Authorize expenditures above certain thresholds
6. Provide policy direction to the utility

The vast majority of public power utilities fall into one of two general governing arrangements: First is that where the utility is a city department, reporting to an administrator, most often a city manager, city administrator or city clerk, or in cases within a mayor-council form of government, the mayor. The governing body in this scenario is the city council or city commissioners. The second arrangement is where an independent commission serves as the governing board and the utility manager reports directly to them. Commission members are typically appointed by city council or directly elected.

Nationally, as utility size increases, the likelihood of it being governed by an independent board also increases. For public power utilities above 50,000 customers, independent utility boards are common, where 72% of utilities in this category use an independent governing board. Between 20,000 and 50,000 customers, it is still nearly 70%, in the 5,000 to 20,000 customer category, the proportion governed by an independent board drops to just over 60%, while in the under 5,000 customer category, this number is 24% (source: APPA 2005 survey data).

Washington is a council-manager form of government, with an appointed city manager serving as the chief executive officer of the organization, responsible for carrying out city council policy through the administration of the various departments and their staff. The

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electric superintendent reports to the utility director, who reports to the city manager. The city manager reports to the city council, which is chaired by a non-voting mayor. These are fairly common reporting relationships for the type and size of government in Washington, particularly for North Carolina, where the council-manager form of government predominates

As a city department, the Washington Utility Department is governed by the Washington City Council. The council is composed of a mayor and five members elected at-large. The mayor presides over city council meetings, but votes only in the case of a tie vote. Each serves for two year terms. There are no term limits. According to the UNC School of Government, terms for all city and county governing board members in North Carolina are either two or four year terms, with the majority being four year terms. Over 85% of the 350 or so North Carolina municipalities elect governing board members from within the city at-large, with less than 15% electing them by district.⁹ North Carolina has no provisions for home rule status among its municipalities, although the UNC School of Government notes that current enabling legislation affords similar autonomy as that found in home rule cities in other states.¹⁰ The two year term, while apparently common in North Carolina (and the U.S. House of Representatives), is much more uncommon among municipal governments elsewhere in the nation, where four year terms are more the norm.¹¹

Washington staff believes that overall the relationship between the governing board and utility staff is good, although there are differences within the city council about whether the electric utility is operating efficiently and in the best interests of its customers and the community. As noted above, Washington recently saw the departure of its city manager, reflecting what appear to be differences with the current city council. The appointment of an outside interim city manager, particularly one with experience in other public power communities, should help during the transition to a full time city manager. Nonetheless, many of these issues will not likely become fully resolved until the full time manager is in place.

In addition to the governance role of city council, Washington has an Electric Advisory Commission consisting of seven people: two outside the city, four inside and one at-large. This group meets bi-monthly. It is rare to find an electric advisory board or commission within this sized utility. Hometown Connections applauds the additional focus that Washington has put on its electric operations.

It is clear that Washington Utilities currently faces some governance challenges. It appears that these are not irreconcilable, and indeed, there has been ongoing dialogue on how to

⁹ *City and County Governing Boards*, David M. Lawrence, City and County Municipal Government in North Carolina, UNC-Chapel, School of Government, 2006.

¹⁰ *Do North Carolina Local Governments Need Home Rule?* Frayda S. Bluestein, *Popular Government*, UNC-Chapel Hill, School of Government, Fall 2006

¹¹ In a 2010 APPA survey, among respondents with a city council as governing board, 37% had terms between one and three years, while 63% were four year terms. *2010 Governance Survey*, American Public Power Association, August, 2010.

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improve the situation. No doubt the placement of a permanent city manager will help. To that end, Hometown Connections would encourage the city council to view favorably those city manager candidates that possess experience in a public power community. Another recommendation toward the goal of strong communications between governing board and utility would be a more formal orientation of new city council members on the utility's operations. With two year terms, and some recent history of city council turnover, it is no doubt a challenge to get new councilmembers up to speed on one of the more complicated – and financially significant – aspects of the city's operations. This leads to a final governance recommendation, namely, to pose to the voters of Washington a proposal to change city council terms to staggered, four year terms. The overlapping terms would provide greater continuity, while four year terms would allow city councilmembers more time to understand the complexities of municipal government, including the electric utility.

Overall, Washington's governance and community support is good. There are important questions being asked by the governing board, and it appears the utility is working to resolve them. We have little doubt that the stakeholders can work through these questions effectively and in a way that addresses the needs of the community and the utility customers.

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Strategic Planning

The objective of strategic planning is to determine what the utility intends to do to be successful and describe specific steps to accomplish that plan.

Specific measurable areas include:

- Guidelines set by governance and executive management
- Overall goals for the entire organization
- Specific goals and objectives set by areas in the utility
- Action items recommended to meet these goals
- Specific responsibilities and accountability to implement the plan
- Resources, money, materials and people to accomplish the plan
- A functional approval process that goes beyond the dollar budget for the next year

☆☆☆☆ Overall, Washington gets fair marks on strategic planning. There is much evidence of strong strategic thinking in the utility and the city, but less in the way of formal strategic planning.

Hometown Connections is a strong proponent of strategic planning and believes it should be an inclusive, living document that involves the entire utility, including the governing board – as well as any department or agencies outside of the utility, for example a city billing office or joint action agency. It is essential that the department's governing board provide input on the larger strategic issues facing the community that will necessarily drive more specific strategic goals. The result should be a comprehensive strategic document that prioritizes and drives utility policies and actions and more clearly informs staff on organizational priorities and goals. A strategic plan at a minimum should:

- Focus on customer needs
- Assess areas of strength and weakness within the utility
- Identify likely opportunities and threats to the community and the organization
- Establish strategic direction for the future
- Set goals for performance and accountability for staff
- Describe specific action items to accomplish goals
- Identify other departments of the utility, for example information technology, accounting, human resources, purchasing, safety, and legal that are participants in or impacted by the plan
- Monitor implementation of the plan

Hometown Connections' experience in public power is that strategic planning is typically given far too little attention. Planning is usually restricted to system planning, focusing on expansion and integrity of the distribution system. Some utilities will also incorporate goals and objectives through their capital budgeting process, but time horizons tend to be short and focus more on system reliability rather than broader elements that contribute to utility success. In general among public power, we tend to see a strong culture of shorter term

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planning and responsibility, but rarely do we see much evidence of longer term strategic planning, where the utility's current and future roles are deliberated and a document created to drive organizational focus and alignment.

At first blush, strategic planning may seem unnecessary for an industry whose business model has remained largely unchanged for over 100 years. Yet, the electric industry, and public power in particular, is poised on the precipice of an era of unprecedented change. Soaring energy and distribution equipment costs, concerns over global climate change, explosive advances in communications technology, changing demographics (including an aging utility workforce), and escalating customer expectations have all come into alignment in such a way that the future of how people use electricity is far from certain.

Washington has made good use of a five year capital improvement plan to drive system build-out and maintain system integrity, reliability and safety. Yet in Hometown Connections' opinion, most public power utilities will benefit greatly from more formal, comprehensive strategic planning. This seems particularly relevant given the discussion described in Governance on the future of the utility. While there is certainly value in assessing costs of operation and benchmarking against similar utilities, the larger strategic question that is not apparently being addressed is what role does the community see its electric utility playing? There are certainly many examples of utility expenditures that do not directly contribute to the bottom line of the utility but do add value in the community. These could include hanging Christmas lights and banners, participation in school outreach and economic development, supporting activities of other city departments, etc. Yet there has apparently been little discussion among stakeholders whether these activities have intrinsic value beyond simple financial cost-benefits. Similarly there appears to be little discussion about how – or whether – the utility could play a role in *expanded* community services. Changing economics, technologies and demographics present opportunities for a changing role in the community.

For more discussion on the transformation facing public power, Hometown Connections recommends that Washington executive staff and governing body review APPA's *Public Power in the 21st Century* report as a road map in establishing longer term strategies and goals. The executive summary is included in the Appendix.

Hometown Connections would encourage Washington to push its strategic thinking ahead further and develop a strategic plan that addresses more far reaching goals for how the utility can operate successfully while providing benefit to the city government, to its customers and to the community as a whole. As personnel and governing board members change, such a plan can be instrumental in creating a roadmap that continues to inform, bridge and align future leaders' actions. This is even more critical in Washington's case where there is the possibility of a 100% turnover in city council members every two years.

Hometown Connections sees too many public power utilities developing strategy that do not properly engage their governing board, particularly those who governing board is a city council. Without board involvement, strategic planning rarely breaks through into the level

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of public policy, meaning it often isn't strategy at all, but rather tactics on how best to sustain the status quo. The development of a strategic plan can further align the utility and ensure it remains on a course toward a high functioning organization, and not simply maintaining the status quo.

Hometown Connections applauds Washington's existing planning efforts and urges utility leaders to take these to the next level.

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Rates

The overall objective for rates is to assure that the utility will generate revenues sufficient to sustain utility operations while offering customers options to best meet their needs.

Areas to measure rates include:

- Rate policies
- Rate options
- Rate planning
- Approval process
- Rate performance
- Customer input/involvement

★★★★ Overall, Washington gets good marks for rates. It has effectively leveraged rate-making tools to keep rates competitive while ensuring they fully cover the costs of operations and renewal. Recently rates have been a political issue in the utility. In the midst of difficult economic times rate cuts can be welcome relief, although the decision to cut the residential rate was not without controversy. Nonetheless, Washington's rate making and the competitiveness of the rates themselves are to be applauded.

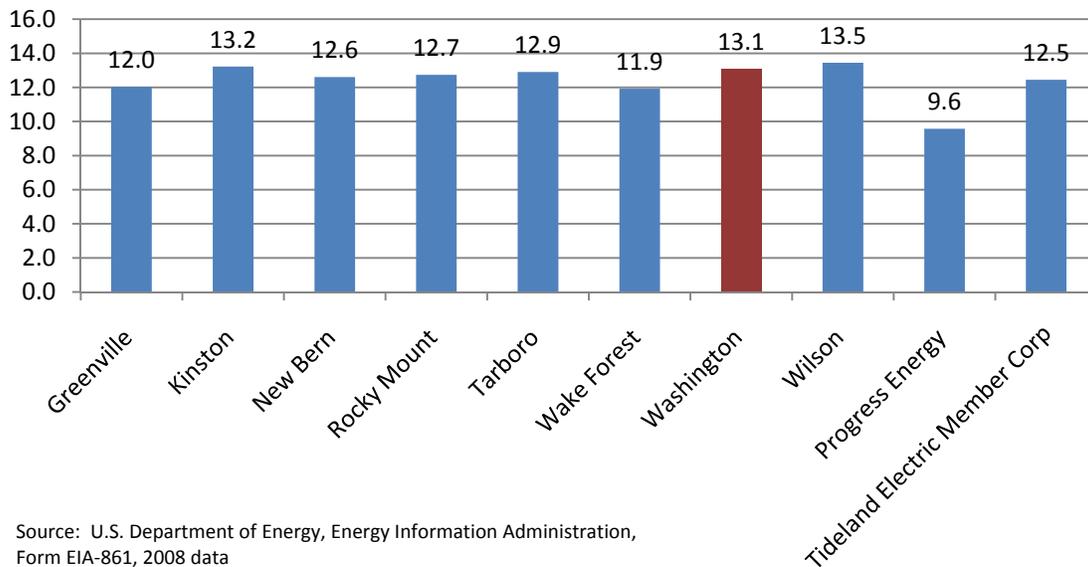
Rates for Washington electric customers are competitive across all customer classes when compared to other North Carolina utilities. North Carolina on average is low among states for electricity costs, ranked 20th nationally (lower being better) in the most recent report from the U.S. Energy Information Administration.¹² Within this lower-cost state, Washington's residential rates are higher than average, but remain close to the state-wide mean.¹³ Staff notes that among the 32 members of the North Carolina Eastern Municipal Power Agency (NCEMPA), they are the twelfth least expensive. A sample of NCEMPA utilities, along with the neighboring investor-owned utility and cooperative are shown on the chart below.

¹² Source: U.S. EIA, Table 5A. Residential Average Monthly Bill by Census Division, and State 2009

¹³ Individual utility rate information from within the state is based on 2008 data from the U.S. EIA.

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Residential Rev/kWh



Source: U.S. Department of Energy, Energy Information Administration, Form EIA-861, 2008 data

Hometown Connections strongly encourages Washington – and all public power utilities -- to publicize electric rates broadly, regardless of how they compare. Rate transparency and simplicity are often key differentiators between public power and its competition. As noted earlier, many public power utilities will go beyond that by showing residential rate comparisons of their own utility against neighboring utilities (for example, monthly cost for 1,000 kWh usage).

Washington has several rate options available to commercial and industrial customers; however, there is only one residential rate. There are three commercial rates based on size, and one industrial rate. All of the non-residential rates have a coincident peak option. Under the wholesale power agreement with NCEMPA, there are significant incentives for load management during peak periods. To this end, Washington has installed a strong load management program for its customers.

Rates have been stable with few changes in the past several years. Based on changes in the wholesale cost of power, rates have increased slightly, with four increases in the past five years. NCEMPA's rate increases have been predictable and come with the lead time necessary for Washington to reflect wholesale changes in their budgeting process. Staff estimated that Washington's retail rates have only increased 20% since 2003. This level of increase is below most utilities across the country.

A trend we are seeing in public power, including Washington, is to move away from infrequent, large rate increases, to smaller, more frequent increases that anticipate increases in power supply, labor and distribution material costs. Viewed from one perspective, long term rate stability for many years is admirable, yet Hometown Connections staff frequently

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sees public power utilities resist rate increases for too long, leaving in place rates that are no longer keeping up with increases in material and labor costs. Not only are large rate increases more politically untenable, but by the time they are enacted the utility may have severely weakened its financial position through the depletion of cash reserves. To this end, Washington's careful rate construction has been fairly effective in mitigating public backlash against increases.

In parts of the country where rate pressures have grown significantly, or wholesale pricing structures strongly incent peak shaving, we have seen utilities implement a number of practices that encourage conservation, primarily among residential customers. These include tiered rate structures, demand response programs, and enhanced energy efficiency information through the utility website. NECMPA's wholesale rate structure provides very strong incentives for its members to participate in active load control, and indeed, its members demonstrate some of the more sophisticated load control programs in the country.

Hometown Connections has seen a number of public power utilities enact inclining block rates, in which residential rates are tiered *upward* in order to reward energy conservation, and not penalize low and fixed income households that use minimal energy. Hometown Connections is aware of a few public power utilities that still use a *declining* block rate structure for residential customers. Because they offer lower prices for consumption beyond the basic block of consumption, declining block rates encourage customers to increase rather than decrease energy consumption and convey the message that using more power is good. Five states (CA, ID, OR, VT, WI) have eliminated declining block rates.¹⁴ Hometown Connections would encourage Washington to investigate the inclining block rate structure for its residential rates.

Hometown Connections expects pressures to increase at the state and federal level for stronger energy efficiency actions, including mandatory measures such as demand response and dynamic pricing. We also expect the adoption of smart grid and AMI technology in public power to grow substantially in the coming years. Washington's sophisticated load management pricing and controls gives it a significant head start in responding to these changes.

Currently no written rate policy is in place to guide rate making. The absence of a rate policy is not unusual within public power; however, in the anticipated economic and power supply climate, this will become increasingly important. Hometown Connections would encourage a more formalized rate policy that outlines what factors will trigger a rate increase or decrease. This has the effect of minimizing political considerations that may conflict with the ability of the utility to operate objectively, in the best interests of the utility and its stakeholders.

According to staff, cross-subsidization between utilities is minimal, but growing, as commercial's cross-subsidization of residential increases. Hometown Connections would

¹⁴ National Action Plan for Energy Efficiency (2009). *Customer Incentives for Energy Efficiency Through Electric and Natural Gas Rate Design*. Prepared by William Prindle, ICF International, Inc. <www.epa.gov/eeactionplan>

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recommend that as part of any cost-of-service study, rate subsidization between electric customer classes, as well as between utility services, be examined and opportunities to minimize these subsidies be explored.

Rate and cost-of-service studies are excellent rate planning tools and ensure that there is minimal rate class subsidization or cross-subsidization across utilities or services. This is instrumental in ensuring that Washington rates generate revenues sufficient to sustain ongoing utility operations while offering customer options to best meet their needs.

Staff noted that employee's rate making and monitoring skills are appropriate at this time. Washington's use of outside expertise is commendable, as staff notes that cost of service studies are updated annually using Booth and Associates. It has not, however conducted a recent rate study. These can be an important tool in determining revenues by rate class and how changes in rates will affect those revenues, the relative contribution each class provides and the presence of cross-subsidization. Hometown Connections would encourage Washington to conduct an outside rate study every three to five years.

Washington's rate approval process is straightforward. The Washington City Council is completely responsible for rate changes and seems to have been effective in its role balancing utility needs and constituent interests. It is interesting to note, however, that with the presence of the Electric Advisory Board, the City Council has not chosen to ask this board for their advice on proposed rate changes. Overall, Washington has a good handle on rates and ensuring they remain competitive while recovering the cost of operations.

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Administration, Accounting and Finance

The objective in this area is to assure that the business is well managed and that management and governance has the tools available to properly plan and account for business activities.

Areas to measure Administration, Accounting and Finance include:

- Annual budget
- Accounting and reporting systems to enable up-to-date information for decision makers
- Clear policies and procedures for consistent application in purchasing, planning and finance
- Financing requirements
- Policies for managing cash reserves
- Cash flow forecasting and management
- Internal controls to assure that policies and procedures are being followed

★★★★ Washington gets strong ratings in Administration, Accounting and Finance. The financial condition is good and processes appear to serve the utility fairly well.

Washington updates the five year capital improvement plan budget first, before moving on to the annual operating budget. This sequencing can be an effective means to ensure that capital needs are not shorted, relying on what remains after the operating budget is complete. The annual budgeting process is developed by staff and reviewed through work sessions with the city council, which provides final approval. The budgeting process relies on an iterative process of departmental and city manager communications, addressing past expenditures, forecasted revenues and anticipated needs for the coming budget cycle. The process appears thorough, transparent and well designed.

Washington's use of a five year capital budgeting process is commendable. It continues to surprise Hometown Connections regarding the number of public power utilities that do not work from a capital improvement plan. A longer term capital budget is critical to maintaining the electric distribution asset and a key piece of a municipality's strong fiscal management. Capital planning and budgeting help provide for the orderly replacement and development of facilities. To maintain the quality and efficiency of public services such as electric, water and sewer systems, the facilities involved must be replaced or upgraded periodically. Hometown Connections has witnessed policies requiring 3% of net plant be allocated each year to a depreciation fund which can only be spent on system renewal (such a policy is state law in at least one state). This helps ensure reinvestment in the distribution system. Both the replacement and new capital needs must be taken care of within the limited capital resources of the community. A capital planning and budgeting process helps achieve this by setting priorities to meet the most pressing needs first, by submitting projects to several stages of review and analysis to eliminate poor or low-priority projects, by more careful scheduling to lower somewhat the costs on approved projects, and by providing

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revenue projections to help a community avoid overextending itself financially in meeting capital needs.

The city's policies and procedures are well documented. There have been no audit exceptions. The city has been awarded a GFOA *Certificate of Achievement for CAFRs* award for 15 straight years. This level of performance is to be lauded.

The city's CIS software, provided by Logics, gets generally good reviews. This Raleigh-based company is a relatively small player within the utility billing industry, but they seem to serve public power customers in this region fairly well. Much of public power fits into a unique yet challenging niche among CIS software solutions. Many of the major software developers have ignored this market as profits from public power sales are much smaller than can be had from the large investor-owned utilities. Smaller, regional ("mom & pop") companies have done well in the public power market, but struggle to stay current on evolving customer needs, interfaces with new technologies and federal and state mandates. Additionally, for many of these smaller companies, the software development staff may be a single person, meaning that if and when they leave the company, utility customers may be left with little ability to effect changes or repairs to their solution. For Washington's next CIS software upgrade, be it the incumbent or another provider, Hometown Connections would encourage the city to examine CIS providers who have an established solution with a good track record within public power. Further, as interoperability and the intelligent grid increasingly become a reality, the CIS solution must be capable of integrating smoothly into this new milieu of software and hardware. For any CIS software purchase preparation is the key. The utility must make sure that processes are mapped out well in advance, and staff understands what functionality is critical and/or unchangeable, and what are simply current conventions or preferences.

Currently Washington Utilities has about \$2.5 million in debt. Washington makes good use of installment notes, which allow the utility to avoid going through the North Carolina Local Government Commission, which approves the sale and delivery of substantially all North Carolina local government bonds and notes. Most of Washington's current debt is in installment notes. Staff notes that they retain a large debt capacity for any future needs. The total net asset is about \$33 million leaving the utility with significant additional borrowing capacity.

Operating reserves represent the most common form of cash reserves in the utility industry and most utilities maintain operating reserves in one form or another. It is uncommon within small and mid-sized public power utilities, however, to find a formal cash reserve policy, describing how levels are determined and how funds are accessed. Those utilities with cash reserve policies will take one or more approaches that describe minimum (and often maximum) amounts that will be transferred or which will be held in these accounts. They may show up as percentages of some operating revenue metric or be fixed dollar amounts (Hometown Connections strongly favors proportional or percentage-based policies). A report prepared by the University of South Carolina's Institute for Public Service and Policy Research found among North and South Carolina municipalities a common theme among general fund reserves whereby cities held cash reserves of no less

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than 10% and no more than 20% of annual operating expenses.¹⁵ Staff notes that the Local Government Commission recommends a minimum of 8% for GF. Hometown Connections will frequently see the amount or level of utility cash reserves based upon providing “coverage” of expenses over a number of days or months, from two to six months of operating expenses being typical. This recommended time frame does not account for funds earmarked for capital projects which in some cases will drive reserve levels higher as monies are saved for upcoming larger projects. Small reserve funds can leave the utility at risk of unplanned or emergency expenditures. Large reserve funds may unnecessarily encumber monies that may better be leveraged elsewhere, and can attract attention from the community, questioning the size of such a reserve.

Washington has a cash reserve policy that states that 15% of gross electric sales (\$5.2 million of \$36 million in sales) be kept in reserves. If not met, 1% of sales will be allocated per year until threshold is met. Unfortunately this policy has not recently been followed. The utility will typically hold one to two months of operating in unrestricted cash reserves (they currently have approximately \$4.5 million in reserves on \$14 million revenues). Hometown Connections would recommend that Washington review its cash reserve policy and make the changes necessary to ensure that it has the support of utility and municipal decision-makers. Hometown Connections is not a big proponent of extensive written policies, but a cash reserve policy addresses a critical component of a utility’s fiscal health. As such, a written policy ensures that current - and future - policymakers are in alignment on the fiscal goals of the utility. Sample language for cash reserve funds can be found in the appendix.

Transfers or payments-in-lieu-of-taxes to a city’s general fund can be the source of significant conflict between enterprise fund operations and the general fund. Certainly any municipality that owns their utility or utilities should expect a return on their investment. Conflict can often arise, however, when the decision-making process by which transfers are determined is ambiguous, or when transfer amounts rise to such a level as to hinder effective utility operations and capital replacement. Hometown Connections has witnessed cities without any agreed upon transfer formula, often smaller cities that view the utility’s enterprise fund as their primary source to make up any year to year shortfalls. In some cases transfers may become onerous; where 30% or more of a utility’s operating revenues are transferred out of the operations. This can severely limit the utility’s ability to maintain its asset and continue generating optimal revenue. Hometown Connections is a proponent of clearly defined formulas for setting annual transfers at a fixed percentage of operating revenue. This rewards the utility for operating efficiently and effectively and helps discourage future administrations from jeopardizing the electric utility fund. We are also strong advocates of accurately tracking what the net contribution to the general fund is. Transfers from an enterprise fund to the general fund usually take on three forms: dollar transfers, in-kind contributions and charges for administrative overhead, which theoretically are billed at the cost of providing those services. In Hometown Connections opinion, it is

¹⁵ Benchmarking And Municipal Reserve Funds: Theory Versus Practice, Michael Shelton and Charlie Tyer with the Assistance of Holly Hembree, University of South Carolina Institute for Public Service and Policy Research, 1999

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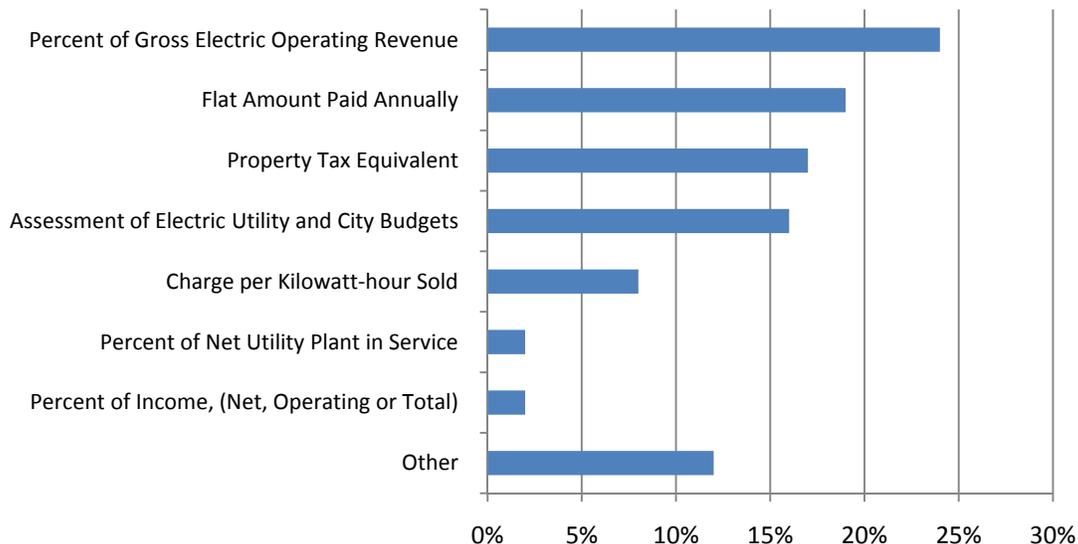
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critical to track each of these three areas as closely as possible, allowing the utility, the city and the community, to fully understand the net contribution that the utility makes.

Washington has a transfer policy that includes an operating transfer of no more than 3% of gross fixed assets (as recommended of the LGC) and a PILOT (also recommended by the LGC) determined by the gross fixed asset, property tax rate, and percentage of asset within city limits (usually about 45%) . The total of these two sources last year equaled \$1.093 million out of \$30 million total revenue, or 3.6%.

Washington's methodology is in line with practices observed at other public power utilities. From the 2008 APPA report on payments and contributions from electric utilities,¹⁶ methods of transfer break out along the following:

Methods Used to Calculate Payments in Lieu of Taxes



Among participants in the most recent APPA study, the median net payments and contributions as a percent of electric operating revenue was 5.0%.¹⁷ The amounts vary slightly depending on utility size and are shown below.

Washington's transfers are thought to be about average. The 3.6% above does not include in-kind services: those services that are performed on behalf of the general fund but not fully reimbursed. This could include activities such as street lighting, holiday lighting, banner hanging, snow plowing, etc. In Washington, as is the case throughout North Carolina, the general fund pays for all energy costs of city buildings and street lighting. Hometown

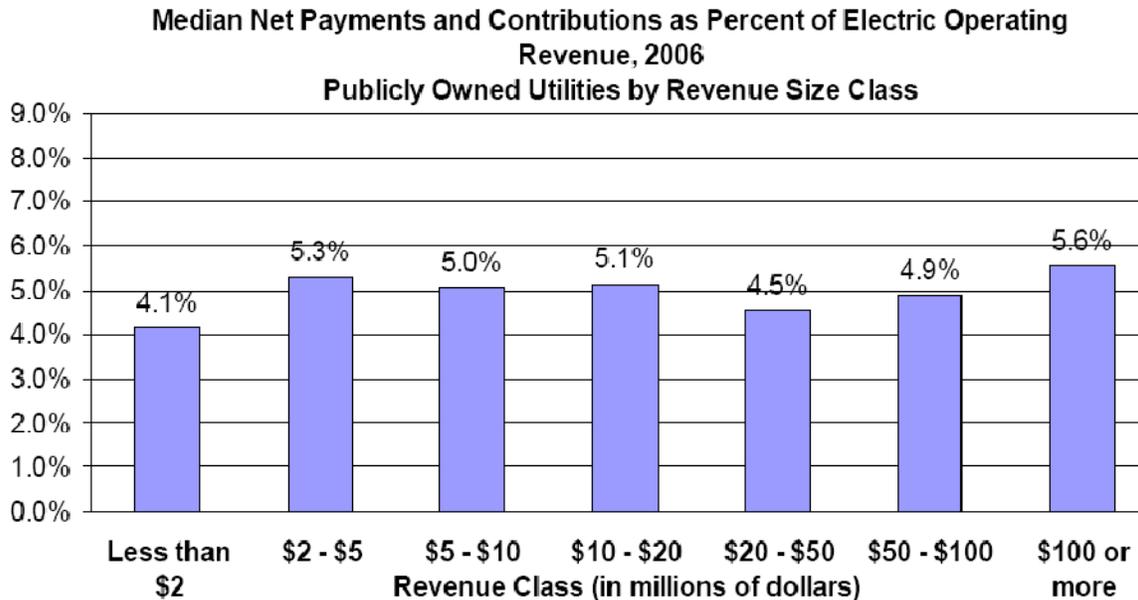
¹⁶ *Payments and Contributions by Public Power Distribution Systems to State and Local Governments*, 2006 Data. Published March 2008. APPA

¹⁷ *Ibid*

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Connections is pleased to see this information is captured, as street lighting can run into several hundred thousand dollars annually. In many cities, this transfer is never accounted for. In-kind services and other contributions can be significant, and should be factored into the total payments and contributions the utility makes to the general fund. Hometown Connections strongly encourages Washington to track in-kind services and contributions, assign a monetary value to them and include this dollar amount in the overall promotion of the electric utility's value to the Washington Utility stakeholders.



When discussing transfers to the General Fund, the predictability of the amount transferred is only one element to consider. The amount transferred relative to other third party (i.e. IOU) utilities' payments to the city, typically through franchise fees or occupation taxes, should also be considered. In other words, if the nearby IOU was the city's electric provider, what would *they* be paying into the general fund? One of the positives of public power frequently touted is the additional benefits that come back to the city and the community. Toward this end, PILOTs plus other contributions, made in the form of free or reduced cost services, will typically exceed the franchise fee amount that an investor owned utility would pay. The aforementioned 2008 study found that when all taxes, tax equivalents and other contributions to state and local government are considered, the median amount contributed by public power systems in 2006, as a percent of electric operating revenues, was 19% higher than investor owned utilities.¹⁸ Franchise fees paid by the neighboring investor owned electric utilities in North Carolina levied at 3.22%.¹⁹ With currently available

¹⁸ *Payments and Contributions by Public Power Distribution Systems to State and Local Governments*, 2006 Data, Published March 2008, APPA

¹⁹ § 105-116. Franchise or privilege tax on electric power, water, and sewerage companies: The tax on an electric power company is three and twenty-two hundredths percent (3.22%) of the company's taxable gross receipts from the business of furnishing electricity, electric lights, current, or power.

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information, this amount is comparable to the transfer that the Washington electric enterprise fund makes to the general fund.

Purchasing policies are in place and adhered to for most purchases. In North Carolina, state statutes dictate purchasing policies; municipalities may choose to enact stricter language, but not more lenient. Staff believes, however, that the state statutes are reasonably accommodating, allowing quality to be factored in (versus strictly low bid) and providing sole source options. Additional purchasing thresholds have been established within the city. Staff notes that the purchasing process itself can be easily navigated.

Hometown Connections is a strong advocate of purchasing functions that serve to support the services provided, rather than erect onerous barriers to employees attempting to complete their critical tasks. In the past 100 years, purchasing practices and attitudes have undergone fundamental change within the public sector. Early government purchasing practices were created in an era of rampant city corruption and focused on control. Today, in most public power utilities that role has evolved from the role gatekeeper and public protector to more of a collaborative effort, where purchasing agents assist utility staff in securing the optimal solutions for the utility and the community. Hometown Connections is a strong proponent of any internal service, such as purchasing, HR, legal, etc. that treats those departments they serve as *customers*, while operating within the utility statutes that guide their actions.

In general the internal services provided by Washington general fund departments seem effective in supporting electric division operations. The warehouse function seems to work well, supported by the inventory management program from Logics

New construction is funded out of operations; there are no impact, system development or capital expansion fees. Policies on capital expansion fees vary considerably between regions, but in any part of the country that is experiencing growth, the lack of expansion fees likely means that existing customers are funding the infrastructure of new customers through their rates. While impact fees often do not reflect the full price of infrastructure improvements, fees do make the economic linkage between those paying for and those receiving benefits more direct, and so promote economic efficiency. During periods of rapid growth, or should infrastructure be installed, but the development not go forward, the utility is even more exposed, drawing down reserves to fund projects. Hometown Connections recognizes that in North Carolina, impact fees are not common for the expansion of electric distribution, although curiously, they are commonplace in North Carolina in the form of water and wastewater tap fees, where 98% of all 287 water rate structures, including Washington have them.²⁰ It is our understanding that the state must approve the use impact fees for each municipality, something that occurs few and far between, yet it is unclear whether system development charges fall under the same definition as impact fees.

²⁰ *Tap Fees and System Development Charges for Residential Water and Wastewater Connections in North Carolina as of January 2009*, Shadi Eskaf, Environmental Finance Center at the UNC School of Government, Chris Nida, North Carolina League of Municipalities.

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Nonetheless, we would encourage a review of Washington's capital expansion options and develop a policy on system development fees that are adequate to fund the utility's new construction requirements driven by that development. In a sense, Washington already levies an impact fee on those developments that choose to locate the distribution system underground, as staff notes that those developers will pay two-thirds of the cost of undergrounding. As an economic development tool, communities will often include impact fee *abatements* as a form of economic incentive for targeted new development. We find this approach more equitable, and politically palatable, than the current policy in Washington.

Overall, Washington's administrative functions, both within the city and the utility operations, are strong.

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Technology

The overall objective for technology is to determine the extent a utility utilizes technologies to improve customer service and operations.

Measures in this area include:

- Transmission
- Distribution
- Meter reading
- Communications
- Information technology
- Integration with community infrastructure

★★★★ Washington gets good marks for technology. It has deployed some important technologies, and is largely staying current on emerging technologies, but is doing so without the benefit of a technology plan. The electric industry is becoming increasingly complex, as new and emerging technologies promise significant enhancements in how public power will meet and exceed customer expectations for service, efficiency and reliability. With these technologies come greater demands on utility staff to effectively leverage those technologies that will add value.

Public power's use of new technologies varies tremendously, with many utilities committed to deploying leading edge technology, while others take a more conservative approach, adopting new technologies only after they have proven themselves, and as vendors rise to the top with price points stabilizing (or even declining as efficiencies of mass production take effect). Hometown Connections believes there are a variety of acceptable approaches for public power to take in assessing and adopting new technologies. What is not acceptable is simply to ignore the emergence of new technologies that have tremendous potential to impact public power's success. For most utilities, this will mean the creation and maintenance of a technology plan, with resources – internal or external – devoted to staying on top of evolving technology. Washington has deployed several important technologies, but it is doing so largely through individual departmental needs and not through an integrated technology plan that would drive – and align – the longer term objectives of the city. Hometown Connections would encourage Washington – either at the utility level or city-wide – to expand and firm up a plan that identifies and prioritizes cost-effective technologies and outlines actionable goals and timelines toward their implementation.

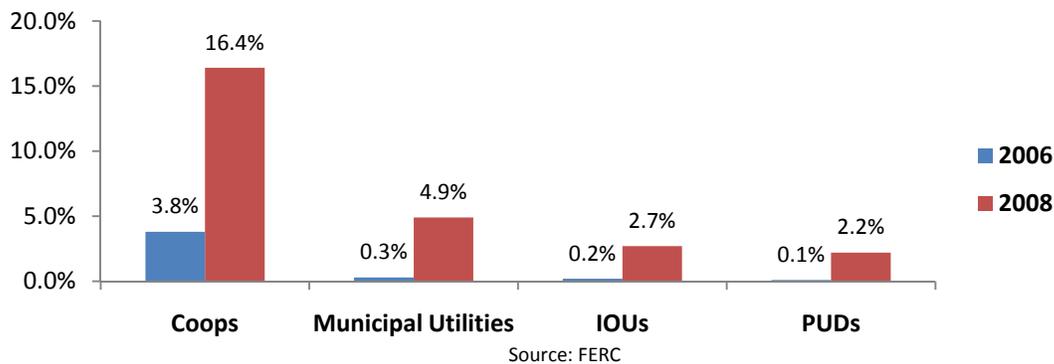
Within the electric industry, smart grid technology has captured the interest of virtually every electric utility across the nation. Rapidly evolving technologies, combined with aging grid infrastructure, higher fuel prices and emerging public policies on climate change and the environment suggest a certain inevitability to smart technology becoming the new standard. With the most visible smart grid projects occurring among the large IOUs and with the cooperatives' historically high use of power line carrier communications, the impression has

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been that public power is lagging well behind these other sectors in smart grid deployment. Further investigation has revealed that this is not the case. Based on a comprehensive survey of the electric industry in 2006 and 2008 by the Federal Energy Regulatory Commission,²¹ public power adoption rates of smart grid – and in particular AMI -- have grown significantly. In the most recent FERC report from 2008, public power has made significant strides in AMI adoption, falling above IOUs and below coops in AMI market penetration. In the two years between the 2006 and 2008 data, AMI penetration for municipal entities shows an increase of 1,673 percent, increasing from 0.3 percent in 2006 with approximately 43,500 advanced meters to 4.9 percent in 2008 with 771,660 advanced meters. While still small, public power use of AMI has grown tremendously. This aligns well with Hometown Connections' own observations of public power. Penetration figures are shown below.

Penetration of Advanced Metering by Type of Entity



Utilities have been slow to adopt smart grid technology, primarily because of cost and little pressure to enact more options and services, such as demand response, time-of-use rates, critical peak pricing (a standard TOU rate structure plus a “critical peak price” that would only occur on a limited number of days in a year), real time rates, remote turn-on and turn-offs, etc. As smart grid prices have come down and the prospect of a comprehensive federal energy policy act or state legislation becomes more likely, public power has moved relatively quickly to bolster its smart grid capability.

While the growth in AMI technology is clear, less clear is which specific technologies will best meet public power's needs. Hometown Connections believes that AMI technologies are still sorting themselves out, as different communication platforms and meter data management solutions present different values propositions to public power. Given that much of public power, read primarily urban and suburban electric (and often water and gas) meters, Hometown Connections' assessment is that the wireless solutions are emerging as the most cost-effective communications technologies for those higher density, multiple

²¹ FERC *Assessment of Demand Response and Metering, Staff Report*, August 2008

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utility systems. In a service territory such as Washington's which serves both rural and urban customers, a combination of communications technologies may be warranted, including power line carrier solutions, which have dominated among the mostly rural cooperative utilities.

Washington uses an Itron mobile automated meter reading (AMR) solution to read electric and water meters. All of the utility's electric and approximately 15% of its water meters are ERTed. Itron's MV-RS AMR solution, using the Mobile Collector, is a strong AMR system for utilities reading both electric and water. Itron's AMR system, in its current configuration cannot, however, convert to a true AMI solution without the replacement of existing ERTs and/or meters.

For many utilities with which Hometown Connections has consulted, we have recommended they continue the build-out of their mature AMR solutions, recognizing they will most likely be relevant in five years or more, allowing them to more fully recover their technology investment. This is likely the case for Washington as well, which has made a significant investment in an AMR solution that continues to serve the utility well. However, given the wholesale pricing structure of power supply and the strong incentives for peak shaving, it is likely that the paybacks on an AMI system would be much quicker in Washington than in other parts of the country. Hometown Connections would encourage Washington to evaluate AMI technologies most suitable for its service territory characteristics and understand fully the paybacks of the various solutions. We would also recommend pursuing only those technologies that come from established AMI vendors. The number of companies attempting to enter the AMI market has exploded over the past several years. We expect that several years from now, many of them will be gone.

As noted earlier, Washington uses Survalent's SCADA for its electric distribution system. SCADA systems have grown tremendously in popularity among smaller and mid-sized public power systems as price points have come down considerably and Windows-based software has made for much easier use by utility staff. Today's SCADA systems can also provide important information on the condition of the system, including advanced warning of equipment failure, enabling a utility to resolve a problem prior to the actual failure which in many cases will damage other equipment. Survalent's system is highly regarded within public power and should serve Washington's needs well.

As mentioned above, one issue that Washington will need to address as it implements smart grid technologies is the communications infrastructure. Rural customer densities provide additional challenges as Wi-Fi's effective distance can make its application in low density areas expensive. WiMax and PLC communications seem to show promise for these settings. Currently Washington uses limited bandwidth wireless Ethernet to most subs, mostly for telemetry data. Currently fiber runs only between city hall, police and fire. Southern Link Cable may be a communications option in the future, but would likely be expensive. Ultimately the smart grid is about enhanced communications, and the presence of a high speed communications link makes many elements of the smart grid that much easier to implement.

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The utility has not begun development of a geographic information system (GIS). This is key technology component that Hometown Connections would expect to find in a utility such as Washington. Hometown Connections believes that the GIS will take its place as the hub of city and utility information management, and will play an increasingly important role in maintaining system reliability. Yet its impact goes far beyond utility, streets and planning functions; its value can reach virtually every aspect of municipal operations. Hometown Connections would strongly encourage staff to allocate the necessary resources to develop a viable GIS that remains current and effective. At a minimum we would encourage that all new equipment going into the field is being captured, including both geospatial and age information.

Washington's telephone communications system is an older technology that doesn't necessarily align with staff needs. The city does not have its own switch; telephone switching is through a Centrex. During outages and other busy times the central office can quickly become inundated, giving the caller a fast busy signal. The city is looking into an IP based system, which would allow for the addition of an integrated voice response (IVR) or other auto-attendant system. Hometown Connections would strongly encourage a thorough evaluation and upgrade of the existing phone system with an eye toward greater ease of use and customer service. In the field, crews rely primarily on two-way radios with city-owned cellular phones used for backup during major storms and other events when the two-way radio channels can get busy.

Cyber-security has become a significant issue within the electric industry and the nation. Recent comments from the former Director of National Intelligence have elevated cyber-attacks as one of the single greatest threats to the nation's infrastructure. Several recent examples of cyber attacks on utility infrastructure have made clear that the U.S. electric industry has a great deal of work to do. NERC (the North American Electric Reliability Corporation) has issued a number of critical infrastructure protection (CIP) standards that directly affect over 200 public power utilities. These include reliability coordinators, balancing authorities, transmission service providers, owner and operators, generator owners and operators and load serving entities. While Washington is not named, those utilities not specifically identified in the NERC Compliance Registry should nonetheless remain current on cyber-security issues and continually monitor their systems for security and data integrity. Hometown Connections would strongly encourage Washington to stay current on cyber-security issues and work with ElectriCities of North Carolina and others to monitor the security of its infrastructure, including an independent vulnerability assessment.

Washington has leveraged some technologies very well, adding greater efficiencies and overall value to employees and citizens alike. In a few areas, such as GIS, the utility seems to be lagging. Hometown Connections would encourage staff to take advantage of the technology resources available through ElectriCities of North Carolina and APPA, in particular the technology-focused listserv they maintain, which is an excellent forum for dialogue with utility peers across the country.

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Human Resources

The objective for Human Resources is to assure the workforce is well trained, properly motivated and fairly compensated.

The measures in this area include:

- Knowledgeable HR staff
- Procedures and practices
- Compensation, benefits
- Staffing levels
- Employee morale
- Training and development
- Career opportunities
- Expertise

★★★★ This is an area that gets good reviews. In many public power utilities with which Hometown Connections has worked, human resources do not receive the emphasis that other functional areas do. This is particularly true among the small and midsized systems. Washington's HR functions are robust, with well defined business practices not typically seen in cities of its size.

The human resources function resides with the Human Resource Department of the city, and serves employees across all funds. The city has in place clearly defined policies and procedures for key HR functions. The current personnel manual has not been fully revised since its adoption in July 2003. There have been many minor revisions since 2003, but only as needs have arisen. The manual covers internal HR issues as well as all relevant state and federal policies. The manual is provided to all employees. Sign-off is required on receipt of the manual and any addenda. These are strong steps, reinforcing the value the city places on its workforce.

Morale in the city and the electric division appears somewhat low. With recent turnover at the city manager position and discussions at the governing board level that include outsourcing electric distribution management, many electric employees are concerned with the apparent lack of confidence in the efficiency and effectiveness of their work. Washington has not recently conducted an employee survey to assess morale and other employee perceptions and levels of satisfaction. Employee surveys can prove to be a minefield for both management and employees. Inappropriate venting, unrealistic expectations and unintended messages can all result from poorly conceived employee surveys. Nonetheless, Hometown Connections has seen several employee surveys – nearly all conducted by outside, professional survey firms – that can avoid many of the pitfalls that often crop up. Hometown Connections would encourage Washington to consider an employee survey facilitated by an outside firm.

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Throughout much of the nation, public power is facing a crisis in human capital, as retirements and more attractive salaries at cooperatives and investor-owned utilities are depleting manpower. Washington has done a good job providing an attractive workplace for both recruitment and retention. The city's recruitment efforts are strong, utilizing a variety of outreach tools (such as the Employment Security Commission and the Mid-East Commission COG) to announce job openings. Washington has been very conscious of reaching minority candidates, although it is still looking for more effective outreach tools. Staff notes that while applications are plentiful, qualified applicants can be much harder to find.

Compensation is considered average, although the last salary survey is now over six years old. While salaries nationally have not moved much over the past few years, the 2004 salary survey done in Washington seems woefully outdated. Hometown Connections would encourage Washington to find more current data in the establishment of its employee salary ranges. The APPA salary and wage study or the NC Employment Security Commission may be good resources for additional salary information useful in this research.

Washington has adopted the approach of midpoint salary structures, replacing the fixed salary ranges that are common in most municipal organizations. This is an approach that is slowly catching on throughout much of the country. In theory, the approach uses the salary range to provide stronger focus on performance than simply on longevity. With such an approach, the spread between minimum and maximum salaries is much larger, meaning employees may take many years longer to move through their range than they would in more traditional pay ranges, where even a minimally functioning employee may move through all the steps in their job in a few years. The mid-point structure will often alleviate pay compression issues that result in most employees within a job classification being paid the same amount, regardless of performance.

Washington's approach to pay is well thought out and seems to work effectively. Nonetheless, staff notes room for improvement on avoiding salary compression and finding additional ways of recognizing strong employee performance.

Pay for performance or any form of monetary rewards for performance has had mixed success when applied to governmental organizations. The more an agency's mission tilts toward "public service" and away from generating revenue, the more challenging a pay for performance plan can be. Among all governmental agencies, an enterprise fund is typically the best positioned to implement a successful pay for performance strategy because of the availability of many relevant performance measures and a measurable bottom line.

Performance appraisals are conducted annually. Performance reviews in even the largest organizations can slip through the cracks if the organization's leadership does not place an emphasis on feedback and continuous improvement. Hometown Connections is a strong proponent of regular, consistent employee reviews that clearly outline the behaviors and practices that the organization values. We have been very interested in the movement we

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have seen among some organizations to conduct reviews semi-annually or even quarterly, in an effort to provide more timely feedback on employee performance.

Health and life insurance benefits are strong but have witnessed some decline over the years. This erosion of health benefits is happening within most public power utilities. The city offers a wellness program. We are seeing an increasing number of public power utilities offering wellness programs. These can take on many forms, but may include classes for topics such as smoking cessation, yoga, aerobics, etc, discounts in parks and recreation programs and facilities, employee health screening, blood and hearing tests, flu shots, the availability of a workout facility, and presentations by experts in diet, retirement and employee well-being. Several studies indicate that wellness programs can reduce demand for medical services through the reduction of lost time injuries, absenteeism and workers compensation costs. Washington is to be commended for offering programs such as these that seek to support the employee.

The retirement package is strong. The plan consists of a defined benefits plan through the North Carolina Local Governmental Employees' Retirement System. It includes a pension component as well as 401(k) and 457 plans, with a \$50 employer contribution (with a minimum of \$5 employee match). State retirement pension plans across the nation are facing significant challenges keeping them funded in the face of dwindling earnings and a growing retirement population. The majority are underfunded (i.e. assets are less than the accrued liabilities), although North Carolina's has held up much better than most.

Washington has placed an emphasis on training and development. Training or education that is job related is paid for by the city (assuming a C average). Washington requires two years of additional service for those employees availing themselves of the tuition support. This is a good step that ensures that the city not simply be the training ground for individuals using it to move into other organizations. It was somewhat of a surprise to Hometown Connections that the journeyman training does not carry similar obligations. Many public power utilities that have invested heavily in their employees through generous training policies have seen that investment disappear when an employee leaves early and the utility has no means to recover training costs. We have observed some utilities that offer very attractive training programs, only to see nearby utilities cherry-pick these newly trained employees. Hometown Connections would encourage Washington to create expectations for two or more years of continued work for those obtaining journeyman training.

Washington's training policies are sound and reflect the city's emphasis on employee growth and development. It is Hometown Connections' observation that, prior to the recent economic downturn, an increasing number of utilities were offering tuition reimbursement. We expect that when the economy recovers, this trend will continue. Washington's tuition policies are within the norm, but we would encourage the city to remain current on changing national and state expectations around tuition support.

The overall total compensation package appears competitive and should prove attractive to most potential and existing employees. Pay is a slippery slope that if handled poorly, can leave few winners, only losers. Certainly salary must remain competitive, but as numerous

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studies have asserted, pay is rarely the dominant factor in job decisions, but simply one of many, which can also include: interesting work, appreciation of work done, job security, good working conditions, promotions and growth in the organization, feeling involved, personal loyalty to employees, tactful discipline, and sympathetic help with personal problems.

Succession planning is increasingly on the mind of public power managers, although in our experience, few utilities are attacking the problem aggressively enough. The nation's demographics are revealing some disturbing trends that are directly affecting public power. Colleges and universities are registering a 50 percent drop in the number of graduating engineers in the last 20 years. In power engineering there are only about 500 undergraduate degrees awarded annually, compared to nearly 2,000 in the 1980s²². To compound the problem, the U.S. Department of Labor states that at least 30 percent of the existing workforce will be eligible for retirement in five years. By 2012, it states that the utility sector will fall 10,000 jobs short.²³ Another 2006 study found that close to 80% of utility workers are older than 40 years of age²⁴.

Washington has been aware of these demographic trends and the need for strong succession planning. Basic succession planning has been discussed and the aging of the workforce quantified. Staff notes that about 50% of crew members are within 10 years of retirement, and some of those closest to retirement are postponing those plans during the down economy. This creates the potential for a large number of retirements within a much smaller window of time, which can severely test the ability of the utility to recruit, hire and train qualified replacements in a timely manner. Washington has deployed few tools to smooth the pending turnovers. Hometown Connections has observed several utilities that have taken small steps, such as allowing more than one person to occupy the top linemen category helps in that it allows others to continue working to the top linemen category before retirements or turnover open up that position, or being able to hire replacement workers in anticipation of retirements that may still be a year or more away. These kinds of overlap allow for additional training and mentoring and ultimately a smoother transition. Other utilities have used local technical colleges tree-trimming crews (in-house or outsourced) or even high school work study programs as something akin to a minor league farm system, identifying and grooming promising candidates for future employment. The awareness within the utility of succession issues is very encouraging; however, Hometown Connections would encourage Washington staff to develop support for policies that give management greater flexibility in addressing the anticipated loss of skills within the utility. The potential impact of these losses on system reliability, safety and a continued smooth revenue stream are significant.

Overall, Washington has a strong employee workforce and many commendable human resource practices. Given the many workforce issues that will increasingly affect the utility and the city, the organization must be well prepared to deal with them.

²² Transmission & Distribution World Magazine, Sept. 1, 2002

²³ American Public Power Association, Workforce Planning for Public Power Utilities, 2006

²⁴ Energybiz Magazine, "Vision of Human Resources," Jan/Feb 2006

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Recommendations

Overall

Overall, Washington is a well run electric utility. It is strong across virtually all aspects of its operations, resulting in strong customer care and service delivery at competitive electric rates. Uncertainties around the future of both the national and local economy will no doubt pose ongoing challenges to the utility. Nonetheless, Hometown Connections is confident that it will weather these challenges better than most utilities and that the community itself will be better off because of the services provided by the Washington Utility Department.

Washington should remain current on utility best practices and continue pursuing opportunities to work with others to benefit from aggregation, be it electric supply, technology, expertise or influence. As part of this, Hometown Connections would encourage staff to continue making use of the resources available through ElectriCities of North Carolina, as well as those through the American Public Power Association, including the recently launched energy efficiency website, www.EERCnet.org, and the many listservs created to address a wide variety of issues facing public power. At the same time, the utility has much to offer the public power community, as many of its practices and policies are strong benchmarks from which others can and should learn. We would hope that utility staff will continue participating in the public power dialogue at both the state and national level.

Below is the compilation of recommendations from throughout this report.

Customer Service

1. Washington should review what information is included on page two of the bill and consider streamlining the look of this page.
2. If bank drafts are the most cost effective payment option, Hometown Connections would encourage Washington to replace the credit card authorization with a bank draft authorization on page two of the bill.
3. Hometown Connections would encourage billing staff to evaluate periodically the look and various functions of the utility bill and explore ways to leverage this important monthly communication with its customers.
4. Washington should continue to track both the share of each form of payment as well as the fully loaded costs of those payments to the utility.
5. Hometown Connections strongly encourages the adoption of EBPP options for virtually any size public power utility with the ability to discontinue paper bills at the customer's wish.

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6. Hometown Connections recommends using outreach tools, such as surveys of customers, to explore customer preferences around bill paying, and building awareness of the desired payment option to customers through expanded bill messaging and bill stuffers.
7. Hometown Connections would encourage Washington to adopt, and consistently apply, policy on what weather conditions will postpone service terminations.
8. Washington should periodically assess the costs of delinquency and termination activities (labor, fuel, depreciation, etc.) to ensure that the rest of the customer base is not subsidizing the additional costs incurred by delinquent customers.
9. Hometown Connections would encourage Washington to continue tracking its service termination rates to look for changes in trends.
10. Hometown Connections strongly recommends that any utility periodically review its revenue cycle process for improvement.

Community Outreach

11. Hometown Connections would encourage Washington, as part of any future customer outreach, to test the need for additional or different office hours.
12. Hometown Connections would recommend that Washington provide after hours outbound messaging on its customer service line that provides office hours, the number to call in an emergency and online or other options available.
13. Hometown Connections would encourage Washington to include clearer “Contact Us” information on its website.
14. Hometown Connections would encourage Washington to celebrate Public Power Week.
15. Hometown Connections would encourage Washington to track resources, in-kind and monetary donations and employee volunteer hours donated and report these to customers and staff on a periodic basis.
16. Hometown Connections would encourage Washington to explore options for a city-wide newsletter to its customers.
17. Hometown Connections would encourage greater redundancy of utility billing and payment information throughout the Washington website.
18. Hometown Connections would encourage the Washington staff to review websites of similar sized utilities for comparison.

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19. Hometown Connections would encourage Washington to conduct more in-depth customer satisfaction surveys at regular intervals.

Utility Programs

20. Hometown Connections would encourage Washington to benchmark other public power energy efficiency efforts, including both their program offerings and how they convey energy efficiency information to the customer.
21. Washington and ElectriCities of North Carolina should continue monitoring state and federal renewables rulemaking as well as renewables technology that make the most economic sense to the utility and its customers.
22. Hometown Connections would strongly encourage Washington to leverage the resources available through APPA.

Power Supply

23. While Hometown Connections was impressed with the level of power supply knowledge of Washington's Electric Utility Director, who also participates on the NCEMPA Rates Committee, it recommends that other staff members become more educated in the area of power supply.
24. Hometown Connections would encourage Washington to continue playing an active role in power supply planning and ensure that customers are educated on the benefits of local control, especially as it relates to peak shaving.
25. Hometown Connections recommends that if not already in place, Washington develop, continuously update and maintain a contingency plan in the event the single transmission feed is interrupted.

Distribution Operations

26. Hometown Connections recommends the completion of looping the entire system when economically feasible as this will help achieve higher reliability and greater customer satisfaction.
27. Hometown Connections would encourage Washington to begin tracking line losses, enabling the utility to measure and improve in this operational area over time.
28. Hometown Connections would suggest that Washington begin tracking and trending outages.
29. Hometown recommends the easy to use APPA software, *Reliability Tracker* to manage outage information.

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30. Hometown Connections would encourage Washington to assess its physical security plan and make the appropriate improvements to ensure security and safety at its facilities.
31. Hometown Connections would encourage staff to submit its application for RP₃ at the earliest opportunity.

Employee Safety

32. Hometown Connections would encourage the utility to develop a policy, with timelines, for locating AEDs on utility property and vehicles.
33. Hometown Connections would encourage Washington to review its disaster planning and to participate in any future disaster drills occurring at the county or city level.
34. Hometown Connections would encourage Washington to consider a broader slate of safety metrics that would more fully describe the effectiveness of the city and utility's safety efforts.
35. Hometown Connections would encourage the utility to establish departmental and individual safety goals that heighten awareness and support a strong safety culture.
36. Hometown Connections would encourage the utility to embrace meaningful ways of recognizing safety practices and milestones.

Governance

37. Hometown Connections would encourage the city council to view favorably those city manager candidates that possess experience in a public power community.
38. The electric utility should develop a formal orientation program for new city council members on the utility's operations.
39. Washington should consider a change in city council terms from two year terms to staggered, four year terms.

Strategic Planning

40. Hometown Connections recommends that Washington executive staff and governing body review APPA's *Public Power in the 21st Century* report as a road map in establishing longer term strategies and goals.
41. Hometown Connections would encourage Washington to push its strategic thinking ahead further and develop a strategic plan that addresses more far reaching goals for how the utility can operate successfully while providing benefit to the city government, to its customers and to the community as a whole.

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Rates

42. Hometown Connections strongly encourages Washington – and all public power utilities -- to publicize electric rates broadly, regardless of how they compare.
43. Hometown Connections would encourage Washington to investigate the inclining block rate structure for its residential rates.
44. Hometown Connections would encourage a more formalized rate policy that outlines what factors will trigger a rate increase or decrease.
45. Hometown Connections would recommend that as part of any cost-of-service study, rate subsidization between electric customer classes, as well as between utility services, be examined and opportunities to minimize these subsidies be explored.
46. Hometown Connections would encourage Washington to conduct an outside rate study every three to five years.

Administration, Accounting and Finance

47. Hometown Connections would encourage the city to examine CIS providers who have an established solution with a good track record within public power.
48. Hometown Connections would recommend that Washington review its cash reserve policy and make the changes necessary to ensure that it has the support of utility and municipal decision-makers.
49. Hometown Connections strongly encourages Washington to track in-kind services and contributions, assign a monetary value to them and include this dollar amount in the overall promotion of the electric utility's value to the Washington Utility stakeholders.
50. Washington's should review capital expansion options and develop a policy on system development fees that are adequate to fund the utility's new construction requirements driven by that development.

Technology

51. Hometown Connections would encourage Washington – either at the utility level or city-wide – to expand and firm up a plan that identifies and prioritizes cost-effective technologies and outlines actionable goals and timelines toward their implementation.

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52. Hometown Connections would encourage Washington to evaluate AMI technologies most suitable for its service territory characteristics and understand fully the paybacks of the various solutions.
53. Hometown Connections would strongly encourage staff to allocate the necessary resources to develop a viable GIS that remains current and effective. At a minimum we would encourage that all new equipment going into the field is being captured, including both geospatial and age information.
54. Hometown Connections would strongly encourage a thorough evaluation and upgrade of the existing phone system with an eye toward greater ease of use and customer service.
55. Hometown Connections would strongly encourage Washington to stay current on cyber-security issues and work with ElectriCities of North Carolina and others to monitor the security of its infrastructure, including an independent vulnerability assessment.
56. Hometown Connections would encourage staff to take advantage of the technology resources available through ElectriCities of North Carolina and APPA, in particular the technology-focused listserv they maintain, which is an excellent forum for dialogue with utility peers across the country.

Human Resources

57. Hometown Connections would encourage Washington to consider an employee survey facilitated by an outside firm.
58. Hometown Connections would encourage Washington to find more current data in the establishment of its employee salary ranges.
59. Hometown Connections would encourage Washington to create expectations for two or more years of continued work for those obtaining journeyman training.
60. Washington's tuition policies are within the norm, but we would encourage the city to remain current on changing national and state expectations around tuition support.
61. Hometown Connections would encourage Washington staff to develop support for policies that give management greater flexibility in addressing the anticipated loss of skills within the utility.

Appendix

Hometown Connections Information

Hometown Connections is a utility services subsidiary of the American Public Power Association (APPA). APPA is the national service organization representing the nation's more than 2,000 community- and state-owned electric utilities. It owns 65% of Hometown Connections through its Public Power, Inc., subsidiary. Alabama Municipal Electric Authority owns the remaining 35% of Hometown Connections.

Hometown Connections was formed in 1998 and provides value to public power in two ways.

First is by assessing public power product and service needs and identifying best-in-class vendors that can meet these needs. By partnering with these vendors, Hometown Connections secures discounted pricing, group packaging and high levels of service for members of the American Public Power Association. Hometown Connections makes products and services directly available in every part of the country through its direct sales staff and alliances with 23 public power joint action agencies, state associations and individual utilities. These products and service fall into three categories:

1. Utility Operations Services: Including AMI, SCADA, outage management, IVR, engineering and GIS software, property insurance, online energy audits and billing systems.
2. Retail Services: including surge protection and energy improvement services.
3. Business Planning Services: including market research and interim staffing solutions in addition to the strategic consulting and utility assessments discussed below.

Second, is by leveraging Hometown Connections substantial in-house expertise to provide consulting and facilitation of utilities' operations and planning. Hometown Connections staff bring considerable experience and expertise on the energy industry, public power and municipal government. Since 1998, Hometown Connections has worked with over 700 public power utilities, joint action agencies and state associations across the U.S., giving the staff unique insights into the operations of an enormous variety of public power organizations. Hometown Connections has several pre-packaged consulting services and also provides customized consulting, facilitation and research services.

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Hometown Connections Bios

Tim L. Blodgett

Mr. Blodgett has held the positions of President and CEO of Hometown Connections, the utility services subsidiary of the American Public Power Association, since January 2001. Mr. Blodgett is responsible for Hometown Connections' overall efforts in delivering value to public power utilities. Mr. Blodgett has worked with many public power utilities in the area of strategic consulting and is a frequent guest speaker at industry forums across the country.

Mr. Blodgett joined Hometown Connections in May of 1998 as the Vice President, Sales and Marketing where he assisted in the molding of a start up organization into a well recognized company known for value adding products and services specifically designed to meet public power's needs.

Prior to joining Hometown Connections, he was the Director of Sales for en-able, an affiliate of KN Energy and PacifiCorp, where he assisted energy distribution companies with their customer care programs. Mr. Blodgett played a key role in the development and sales of Simple Choice, a broad residential package of products and services including energy and home services, infotainment and communications services.

Prior to the formation of en-able, Mr. Blodgett worked for KN Energy where he focused on the sale of energy and related services to local distribution companies. He also participated on the consumer services team that led the industry in becoming one of the first to promote consumer choice. The end result of this effort was the largest retail consumer choice program in the natural gas industry in 1996. Mr. Blodgett spent 6 years with Phillips Petroleum Company in various positions ranging from natural gas marketing to business development in exploration and production.

Mr. Blodgett holds a Bachelor of Arts Degree from Northwestern Oklahoma State University in Business Management.

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Steve VanderMeer

Mr. VanderMeer is the Senior Vice President for Planning and Marketing for Hometown Connections. He joined Hometown Connections in October of 1998 and provides sales and marketing support and consulting to public power utilities.

He comes to Hometown Connections from a Colorado public power utility, Fort Collins Light & Power, where he was the Director of Marketing and Energy Services. Mr. VanderMeer directed the development and promotion of a stronger utility image and brand. He oversaw the launch of several new products and services including the very successful Wind Power Program, winner of the 1997 APPA Energy Innovators Award.

Prior to his work with Light & Power, Mr. VanderMeer was Assistant to the City Manager with the City of Fort Collins. During this time he managed numerous community outreach and citizen participation programs. He facilitated strategic planning efforts at the department, organization and community levels. Mr. VanderMeer also directed the City's Total Quality Management program and is a certified TQM instructor.

Mr. VanderMeer gained his early experience while Assistant to the Vice President of Marketing and Development and later Assistant to the President at the Philadelphia Zoo.

Steve is a native Michigander. He holds a Bachelor of Arts Degree from the University of Michigan and a Masters Degree in Governmental Administration from the University of Pennsylvania. Steve is active with the Discovery Science Center in Fort Collins, where he serves as the President of the Board of Directors.

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Sample Cash Reserve Policies

Enterprise Fund-related terminology:

For the Electric Utility Enterprise, the minimum cash balance level will be determined by the following formula; Total Revenues - (Cost of purchased power + Operating Transfers to the General Fund + Cost of Surcharge Transfers) / 360 days X 120 days. For the purposes of this calculation, the current fiscal year budget shall be the total budget as originally adopted by ordinance. This budget shall be prepared on the modified accrual basis of accounting and therefore includes such items as capital outlay and operating transfers out. This reserve shall be in addition to all other Enterprise Fund Cash Reserves, including but not limited to amounts reserved for debt service and/or amounts reserved for Renewal and Replacement of long lived assets, and shall not include any impact fees or capital contributions from developers.

General Fund-related terminology:

Staff recommends that the City maintain ending cash balances in the General Fund, of at least 15% of General Fund expenditures. This is the minimum needed to maintain the City's creditworthiness and to adequately provide for economic and legislative uncertainties, cash flow needs and contingencies. However, during periods of unforeseen emergencies that trigger shortfalls, the minimum balance shall be lowered to 7% of total expenditures, which is projected to be the maximum the City would be likely to lose within any one fiscal year. This is based on the premise of revenues coming in below expectations due to unforeseen emergencies. The Council shall have the discretion to use the reserve for one time emergencies only and not to be used for operating expenses. As the City experiences net revenue gains in future years, the cash balance must grow back to 15% of total expenditures, following the stabilization policy, in order to allow the City to build up its capacity to handle future short term economic downturns or emergencies without cutting services. Any balance accrued in excess of 15% should be used primarily for one-time expenses rather than on-going expenses so as to avoid the problem of over-committing on expenses during good times only to aggravate the challenge of cutting back during the lean times. A policy based upon a percentage assures that the reserve will remain a prudent cushion as the City's budgets grow over time.

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APPA List Servers and Electronic Discussion Groups

Accounting and Finance

Policies and procedures for daily accounting management, accounting for utility transactions, debt management, financial reporting to the board, reserve fund policies and other accounting and finance issues. Information on new GASB and FASB standards or interpretations, IRS regulations, and federal legislation.

Audit

Topics related to utility audit issues, including internal audits and use of external auditors.

Broadband Marketing

For the discussion of topics related to marketing communications services, such as internet, telephone, and cable television.

Community Broadband

Providing (or considering the providing of) advanced communication systems or services, including dark fiber leasing, Internet data, telephone service, and city or school communications. Also barrier to entry, marketing, advertising topics.

Customer Services

Call centers, customer billing, credit and collections, revenue security, customer service representative selection and training, other service quality issues. (M)

DEED

The DEED list serve will provide an opportunity for DEED members to discuss innovative research ideas and will offer a forum for disseminating information related to the DEED program, its research projects, and other research of interest to the membership. All topics of interest to public power electric utilities may be discussed as it relates to innovative research and demonstration projects. (Only DEED members may participate)

Economic Development

Community economic development, business retention and expansion, new product development, and direct utility involvement in economic development efforts.

Energy Services

Energy efficiency, load management, integrated resource planning and demand-side management. (M)

Environmental Issues

Federal environmental regulatory issues. Disseminates memos and documents pertaining to environmental regulations and compliance. The weekly e-mail notice also provides helpful industry compliance tips. (M)

FERC

Dissemination of news, analyses and documents pertaining to the Federal Energy Regulatory Commission. (M)

Generation & Fuels

Problems and solutions associated with power generation and the fuels used in the generation process. (M)

Human Resources and Training

Human resources and training policies and practices discussions and exchange of ideas on utility issues impacted by aging and retiring workforce, labor relations, compensation and benefits, employee development, and the importance of investing in your employees.

Information Technology

Information technology in an electric utility, including enterprise-wide strategic planning, security, equipment, systems and procedures used in data and information processing. (M)

Key Accounts

Development and maintenance of mutually beneficial long-term relationships with major commercial and industrial customers and other key accounts.

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Legal

Discussion of major litigation developments, policies and procedures for managing legal offices, contracts, tort liability, litigation practice, and legal aspects of risk management, governance, human resources, debt issuance, information practices, intellectual property, and privacy. (M)

NERC-NAESB

Development of and ballot recommendations on proposed NERC and NAESB WEQ business standards, and other related activities of the North American Electric Reliability Organization (NERC) and/or the North American Energy Standards Board's Wholesale Electric Quadrant (NAESB WEQ).

Pricing & Market Analysis

Primarily for APPA's Pricing and Market Analysis Committee (professionals in costing, pricing, load research and market analysis) but other member-utility employees may join with permission of list owner.

Public Communications

For public power communicators, topics ranging from public relations to advertising and marketing to employee communications. Forum may be used to post announcements from individual utilities.

Risk Management & Insurance

To help facilitate information exchange between public power utilities and help with day to day operational issues related to risk management and insurance. To join, please contact Diane Moody at APPA directly.(M)

Rodeo

The APPA Lineworkers Rodeo Forum will provide its members with updates and information on rodeo events, the latest rodeo related discussion, course specifications and other current rodeo event details as they become available. Also, this forum will provide a moderated environment for members to ask rodeo related questions. (M)

Safety

Provides information on safety information, policies and practices to member utilities. (M)

Security

Provides Department of Homeland Security (DHS) including NIPC, NERC and DOE security bulletins and alerts to subscribers. Facilitates security information exchange between participants. (M)

Smart Grid

Community communication needs to facilitate smart grid; automated metering infrastructure (AMI); interoperability of new and legacy utility equipment; smart grid integration of renewable, CHP and other distributed generation; data management, including MDMS; security of the smart grid; protocols and standards development; development of real-time pricing/time-of-use rates; and best practices and other issues surrounding smart grid. (M)

Supply Management

Forum for discussion of topics related to supply chain management, procurement, inventory and warehousing for publicly owned electric utilities.

Transmission and Distribution

Construction, operation and maintenance of utility transmission and distribution equipment. (M)

Underground Injection Control Sequestration

The APPA UIC Sequestration listserv is a group distribution e-mail service for information on injection of CO2 for power plants. (M)

"M" designates a list moderated by APPA staff.



City of Washington
MEMORANDUM

To: Mayor Jennings & Members of the City Council
From: Matt Rauschenbach, C.F.O.
Date: March 28, 2011
Subject: Washington Daily News VIP Plan

The Washington Daily News (WDN) offered an advertising plan (overview attached) presented to Council on April 14th. The City spent \$8,545 with WDN in 2010 and \$9,721 so far this year. A high percentage of this was for legal notices that must continue to be advertized in the appropriate section of the paper.

We are nearing completion of the Electricities funded advertising initiative and will be responsible for the advertising going forward. Last fall the City began advertising a monthly City page at a cost of \$4,200 per year.

Staff recommends that the City subscribe to the Double VIP plan for an annual cost of \$8,840. Two 20” ads per week can be utilized for the City page, public notices, electric education initiative, other City services, and/or other communication objectives.

WDN has requested a commitment deadline of March 29th and staff requests Council’s support to proceed.



Benefits of the Washington Daily News

VIP Plan

BASIC VIP - \$50.00 per week

- One 10" ad to publish once a week Tuesday - Saturday (Sunday, add 10%)
- Supersize to a **QUARTER PAGE** once each quarter at no additional costs.
- **FREE** Process color once per quarter.

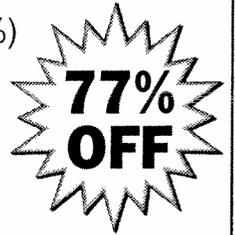
ANNUAL VIP COST - \$2,600.00 Reg. Cost - \$8,252.00



DOUBLE VIP - \$85.00 per week

- Two 10" ads to publish twice a week Tuesday - Saturday (Sunday, add 10%)
- Supersize to a **QUARTER PAGE** once a month at no additional costs.
- **FREE** Process color once per month.

ANNUAL VIP COST - \$4,420.00 Reg. Cost - \$19,036.00



BASIC X 2 - \$100.00 per week

- One 20" ad to publish once a week Tuesday - Saturday (Sunday, add 10%)
- Supersize to a **HALF PAGE** once each quarter at no additional costs.
- **FREE** Process color once per quarter.

ANNUAL VIP COST - \$5,200.00 Reg. Cost - \$15,292.00



DOUBLE VIP X 2 - \$170.00 per week

- Two 20" ads to publish twice a week Tuesday - Saturday (Sunday, add 10%)
- Supersize to a **HALF PAGE** once a month at no additional costs.
- **FREE** Process color once per month.

ANNUAL VIP COST - \$8,840.00 Reg. Cost - \$34,436.00



217 N. Market St.
Washington, NC 27889
www.wdnweb.com

Phone: **252-946-4233**

March 28, **252-946-9797**
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Process Color

\$35.00 per ad



Special Sections and Magazines:

10% OFF 4 publications