

# Electric Utility Feasibility Study Presentation to City Commission



**January 8, 2019**

**GE Warren Associates**

# Why Are We Here?

- City of Pittsburgh wants to consider owning and operating its own electric utility:
  - To improve local competitive position in economic development
  - Local rate control
  - Control local infrastructure for the benefit of the community

## Why Did We Hire GEW?

- To answer THE question: Is this a worthwhile effort for the City that we should continue spending time and money on, **or** should we abandon it?
- Kansas State Law gives the City the right to purchase the electric facilities within the City of Pittsburg.
- City retained **GE Warren Associates** to analyze the financial feasibility of the purchase option.

# Who Are We?

- **Jerry Warren**

- BS Degree in Electrical Engineering (Univ. of Florida)
- Thirteen yrs experience @ Gainesville Regional Utilities (a 90,000 customer municipal electric , water, wastewater and natural gas utility); served as Planning Director, Asst Gen. Mgr. , & General Manager
- Employed by international utility consulting firms (RW Beck, RMI) for 11 years; headed up First Southwest Company's (Dallas based investment banking firm) energy practice for 8 years. Sole Proprietor 14 years.
- Served as Electric Utility Director for Winter Park Florida for 8 years (Winter Park first Florida city to municipalize electric utility in 40 years)

# Who Are We?

- **Bill Herrington**

- BS Degree in Mechanical Engineering (Univ. of Florida)
- MBA Rollins College
- Additional graduate study in Finance (Univ. of Central Florida)
- Registered Professional Engineer (#1546)
- Retired from Orlando Utilities as Sr. VP Elect. Business Unit
  - 120,000 electric customers; Annual Budget > \$500 million, > 500 employees in Electric Business Unit
- Engaged in Utility Consulting for 20 years

# Purpose of Today's Meeting

- Review Scope of Work
  - Develop a 20-year cash flow
  - Analyze regional power supply options sufficient to estimate wholesale power costs for input into the pro forma
  - Severance & Reintegration (S&R) analysis
    - Field review of the Pittsburgh electric system to identify required changes to distribution system to separate the two utilities
- Present the Results
- Q&A
- Discussion of Next Steps

# Perspective

- A City of Pittsburg Electric Utility
  - 11,941 Electric Meters (12 mo's ending 10/31/18)
  - Retail Sales  $\approx$  309,000 MWh (12 mo's ending 10/31/18)
  - Annual Sales Revenues  $\sim$  \$35,000,000
- Currently  $\sim$  118 City-owned electric utilities in Kansas
- Nationwide there are 2,011 Public Power Utilities
  - Median size  $\sim$  2,031 customers
  - Pittsburg would be larger than 85% of municipal utilities in the US

# Key Elements of Financial Feasibility

- Cost of Wholesale Power Supply (Represents about 65 percent of total cost of the electric utility enterprise)
- Acquisition Cost
- Severance & Reintegration - necessary steps to create two separate utilities



# Wholesale Power Supply Cost Considerations

- Actual reserve margins exceed regional standards. Excess supplies generally mean declining prices.
- Current provider's cost of power supply (estimated from information in the provider's most recent retail rate filing.)
- GEW believes that City can acquire power cheaper.

# Purchase Price

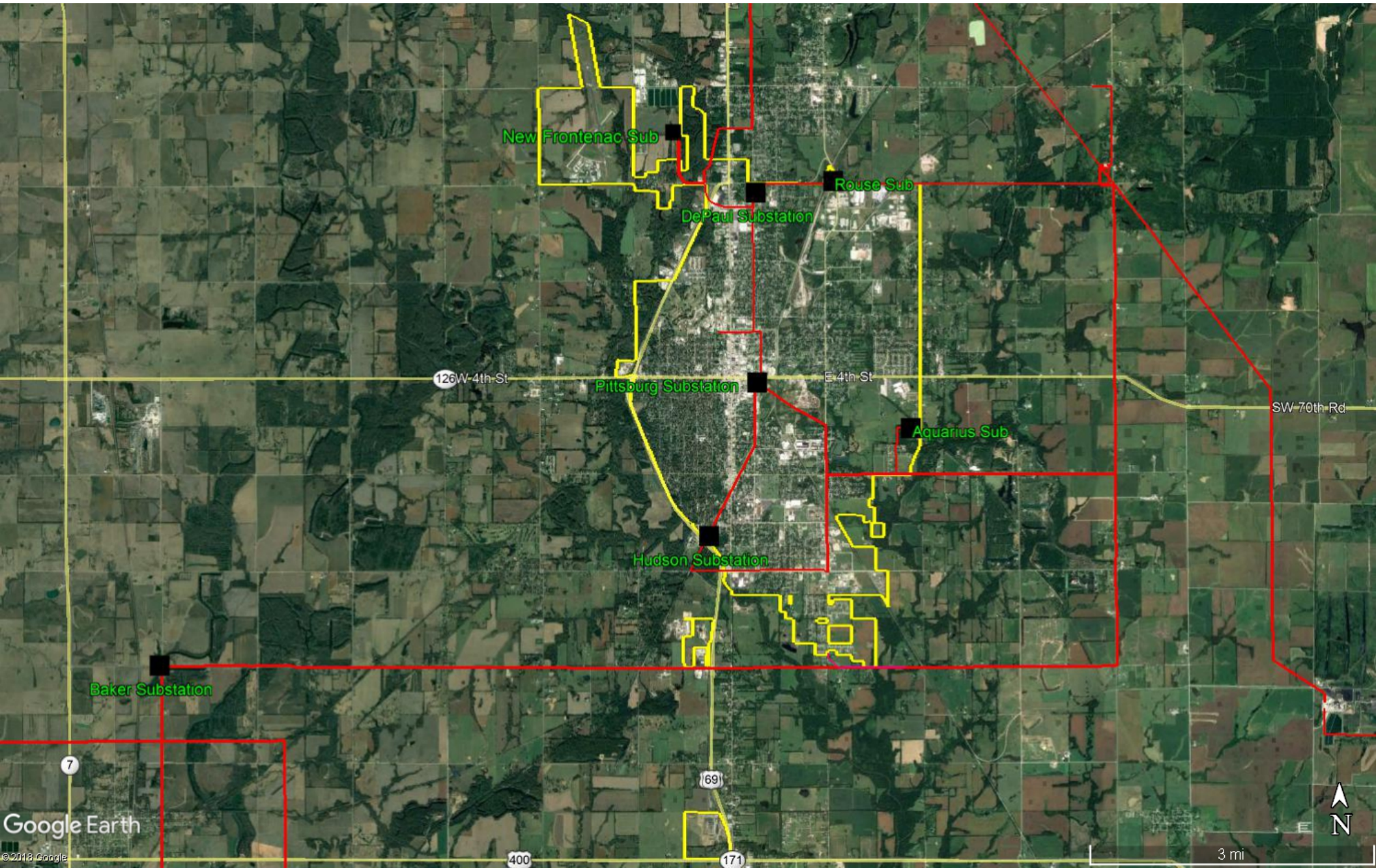
- For Pro forma purposes, GEW estimate considered the following:
  - Valuation of publically traded utility companies
  - Local provider's average replacement cost
  - Recent arbitrations and purchase agreements
  - Discounted cash flow analysis
  - Other GEW experience
- Actual purchase price will be determined by:
  - Negotiations with local provider; or
  - Per Kansas statutory process

# Severance & Reintegration

- Objectives of Severance and Reintegration:
  - To create two electrically separate utilities that serve customers from each Utility's own facilities
- Goals:
  - Maintain current capacity to serve customers
  - Maintain reliability
  - Minimize cost
- Identify a reasonable plan

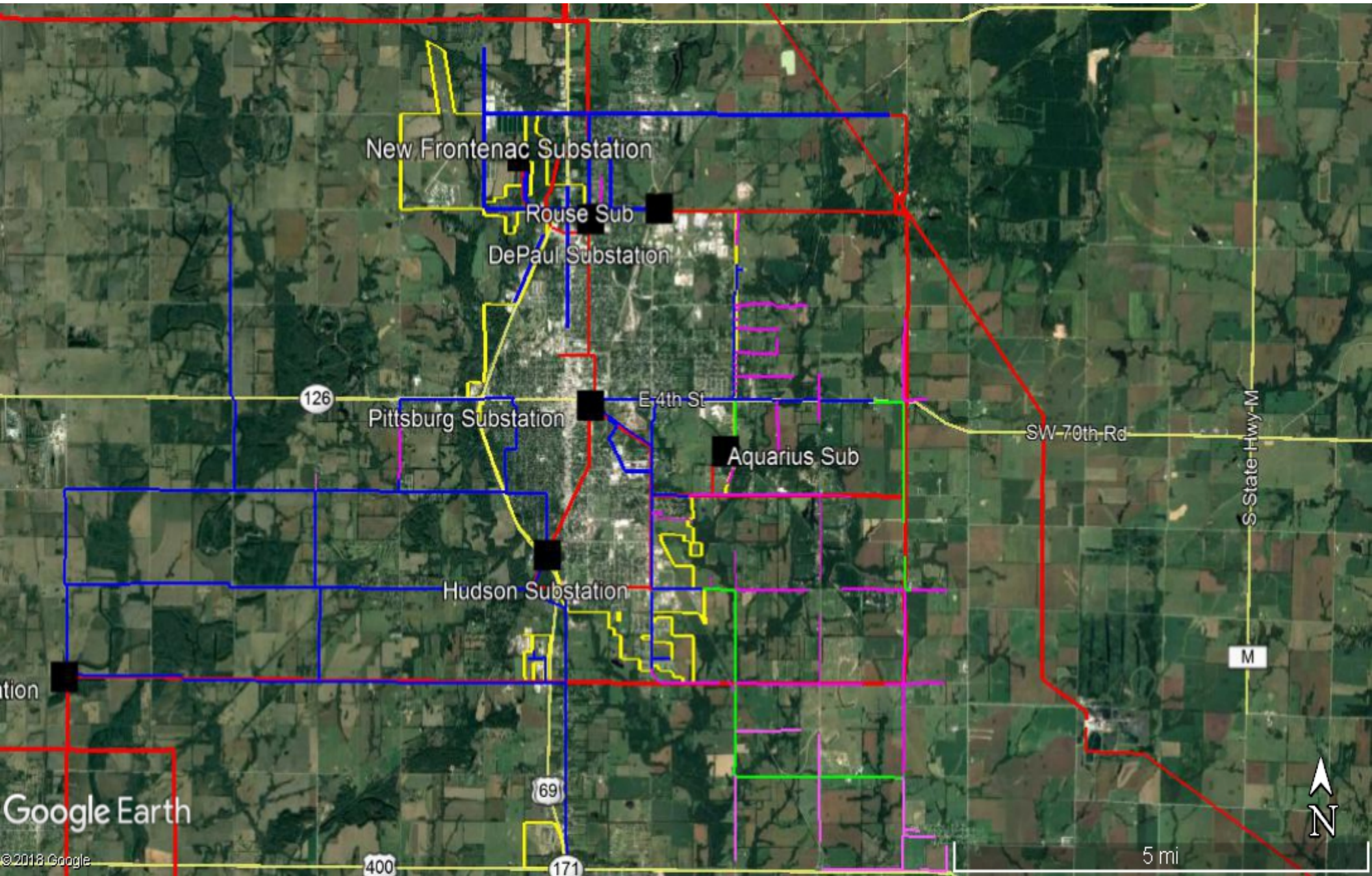


# Pittsburg Area Transmission





# S&R Related Distribution



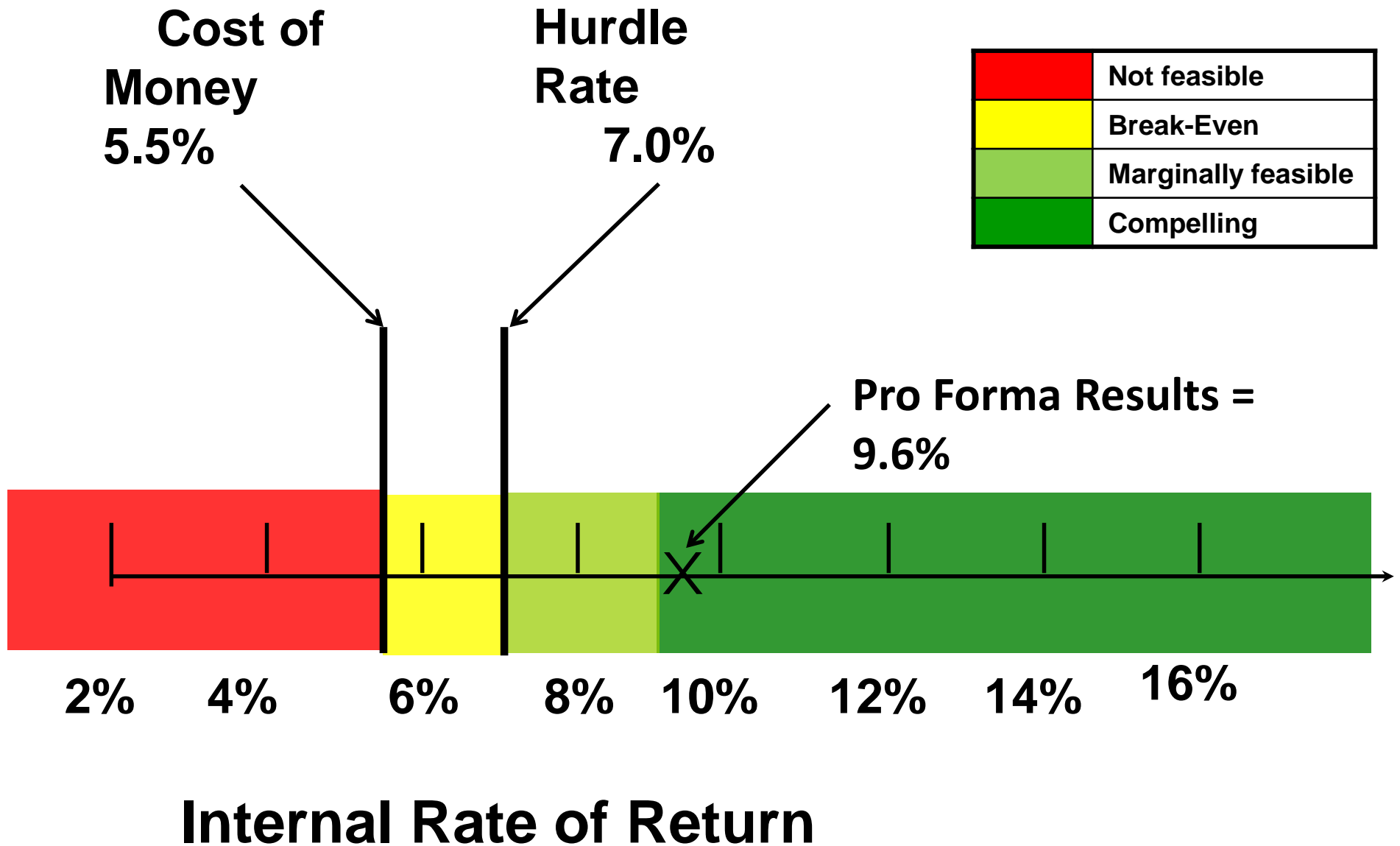
# Summary

- 20 Year Cash Flow, includes:
  - Estimated purchase price, cost to issue debt, estimated startup costs, estimated Severance & Reintegration costs & contingency;
  - Estimated revenues (sales + other)
  - All cash outflows e.g. debt service, wholesale power supply, O&M, A&G, customer service, and annual capital requirements
  - GEW considers pro forma assumptions to be conservative

# Results

- Internal Rate of Return (return on investment) 9.6%  
=1.75 x cost of debt
- 20-year cash flow model shows profitability in all years

# SUMMARY RESULTS





## Answer to THE Question...

Results are favorable for the creation of a City of Pittsburgh owned and operated municipal electric utility; suggests that the City move forward.

## Next Steps?

- Meet with current provider to discuss alternative move forward strategies
- Power Supply:
  - Feet on the ground power supply effort:
  - Meet with players in the industry
  - Generate interest in serving Pittsburg/seek generic proposals
  - Update power supply numbers
- Notify current provider of the City's intent; initiate valuation process in accordance with state law
- Select City's team e.g. lawyers, valuation experts, etc.
- Formulate case for minimizing stranded cost exposure
- Periodically update financial model

# Questions & Answers



# City Commission Discussion