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GUERNSEY Energy

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for the energy industries



February 2004

Pole Attachments: A Growing Concern

Pole attachment and joint-use issues are a source of disagreement between electric utilities and telephone, cable and other telecommunications (telecom) providers. At issue are important questions of competition and restructuring, safety and reliability, cost of service and regulation; and many feel the respective viewpoints grow wider apart each year.

Cooperatives and municipals are exempt from FCC pole attachment regulation and generally set their own policies and rates. Each has its own cost structure, reliability and safety concerns, regulatory environment and relationship with neighboring telecom providers. GUERNSEY asked distribution cooperatives from three states for their perspectives.

Curtis Trivitt is Senior Vice President - Energy Services for CoServ Electric in Denton, Texas. CoServ has approximately 24,000 pole attachments from numerous telecom providers.

"We just completed a system inventory and discovered over 7,000 unauthorized pole attachments. Some from companies who had no agreement with CoServ," said Trivitt.

Trivitt identified ongoing mergers and consolidations in the telecom industry as a source of problems. "We have contracts with three or four companies prior to the current provider, but no contract or contact with the current company."

Trivitt provided examples of low clearance and poor telecom installation practices damaging cooperative facilities. As a result, CoServ considers pole attachments an ongoing maintenance problem that offsets pole rental as a source of income. "Our goal is to recover a

fair share of the cost of owning and maintaining our poles and the expense associated with having foreign facilities attached to our poles," said Trivitt. "We use a standard formula to calculate our rental rate and apply it fairly. We are willing to accommodate joint-users, but only if they agree to our terms and conditions and pay their fair share of cost."

According to Eric Craven, senior vice president of government relations and chief counsel of Texas Electric Cooperatives: "The cooperatives in Texas have formed a working group to address issues raised by both sides regarding pole attachments. The group is exploring innovative ways to encourage cable and telecommunications providers to do a better job of meeting their obligations. There is no doubt more and more cooperatives are beginning to focus on pole attachment issues."

Jon Joyce is Manager of Engineering for two Oklahoma cooperatives who

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A Shining Model

Cooperation among Cooperatives. Due diligence, accurate forecasting and customer service principles result in successful diversification into natural gas.

Assessing Facility Security

Vulnerability Risk Assessments help electric utilities protect personnel, facilities and critical infrastructure.

Natural Gas Price Outlook

GUERNSEY's natural gas model provides six-month outlook.

Pole Attachments: A Growing Concern

Telecom industry changes cause utilities to look closely at joint-use policies, contracts and rate formulas. Cooperative leaders weigh-in on key issues.

share his services, Central Rural Electric in Stillwater, Okla. and Indian Electric in Cleveland, Okla. Joyce serves as a member of a statewide cooperative task force studying pole attachment issues.

"In 1995 we faced a situation in which telecom providers used no engineering analysis in determining clearances and attachments," said Joyce. "We often discovered new attachments when we drove by and saw them."

See Attachments on page 3.

NRECA TechAdvantage® 2004

Thursday, Feb. 12 • 1:15-2:30 p.m.
"How to Get Facility Security Right on the First Try."
Brian McCulloch, GUERNSEY Security Project Manager

Protect utility facilities from external threats, theft, workplace violence and competitive intelligence leaks.

Saturday, Feb. 14 • 3-4:30 p.m.
"SPCC- Lessons Learned"

Trey Palmer, GUERNSEY Environmental Professional
 The complexities of Spill Prevention Control and Countermeasure Plans and averting common problems.



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Assessing Facility Security

Critical infrastructure such as electric power generation and distribution is a key area of security emphasis resulting from recent events throughout the world.

One cannot watch television, read the newspaper or peruse a periodical without being reminded of terrorist activity around the globe or our continuing efforts to combat this growing menace. In many cases, emphasis on security related practices, policies, procedures and systems to protect assets are self-defined; however, in some cases the federal government mandates this emphasis. Regardless of the reason, businesses and government entities are re-focusing their efforts on implementing upgraded, physical security measures.

When it comes to the electric power generation and distribution industry, the generation and transmission facilities are currently the only ones impacted by some form of explicit guidelines by the

Department of Homeland Security for physical security protection. The guidelines or regulations may go as far as indicating not only the type of

structure or facility that must be protected, but also what level or type of protection is to be used (i.e. security personnel, access control, closed circuit television monitoring, fencing, etc.).

When it comes to power distribution, there are no hard and fast regulations that must be followed.

Upcoming guidelines may detail new changes to regulations and possibly give some indication of minimum requirements. Distribution cooperatives are given the autonomy to determine their own physical security needs. This determination should be made in conjunction with the cooperative's

emergency plan and vulnerability and risk assessment (VRA).

Each cooperative should consider conducting its own VRA or having one conducted for them. While not mandated by the government, a VRA is an important tool in securing cooperative personnel, facilities and service continuity. Although a VRA will take into account any critical areas served such as military facilities, chemical and pharmaceutical plants, concern must also be given to protecting the business aspects of the cooperative. Examples of issues that should be considered are member records, local monitoring capability, workplace violence, liability issues such as negligent failure to act, control center protection, proprietary information, warehouses and branch offices.

While potential terrorist activity is and must be a primary focus, we should remember potential risks to the cooperative are not limited to terrorist action. Robbery, vandalism, fire and water damage and industrial espionage are growing concerns, and cooperatives may not be able to rely on their rural location alone for protection. It is far better to accurately assess risk in advance and prepare rather than wait for the need to be demonstrated.

Brian McCulloch

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A Shining Model

Expanses of mesquite trees and caprock canyons spotted with cows and an occasional town does not sound like a premier location for utility diversification.

Greenlight Gas, a wholly-owned, not-for-profit subsidiary of Greenbelt Electric Cooperative headquartered in Wellington, Texas and Lighthouse Electric Cooperative headquartered in Floydada, Texas; however, are an example of successful electric cooperative diversification.

When TXU Energy, the Dallas based investor-owned gas and electric utility, decided to sell its natural gas distribution and pipeline assets in the region, an opportunity was presented to Bill Harbin and Stan McClendon, general managers of Lighthouse and Greenbelt respectively.

"Our interest was primarily motivated because the community needed natural gas service and we wanted to keep that service local. Many customers are our members and all are our neighbors," said Harbin.

The desire to maintain their commitment to community service was not the only factor driving their decision. "We asked ourselves: how would we manage this? Would this be good for Lighthouse, Greenbelt and our members? Would this be good for existing gas customers? Would this provide an opportunity to bring back local service? We came away with positive answers to those questions," said McClendon. "A final question was the most critical: how should the

cooperatives evaluate the potential acquisition?"

Harbin and McClendon relied upon an outside consultant to help evaluate the opportunity. "GUERNSEY provided the initial financial evaluation and cash flow analysis to help us place an interest bid," said Harbin.

"Throughout the process, our consultants' experience in natural-gas helped us get our arms around the value of the assets and place a successful bid for the system. We relied on their

expertise to help evaluate the transaction," said McClendon.

A key concern was effective management. Brent Wheeler, Greenbelt's longtime manager of member services, was selected to lead the new company to provide natural gas service to 4,200 customers in 11

communities. "We were confident he could manage the gas company. He has been a key to our success," said McClendon.

Other issues pressing Wheeler and the gas company board of directors - comprised of Harbin, McClendon and two directors from each electric cooperative board - were operational issues and the regulatory and rate-making process. Texas regulates natural gas and electricity very differently. "There is a high degree of regulation both on the rate side and operational side of a gas utility," said Wheeler. "I was very

fortunate to have highly trained and committed employees previously employed by TXU. They are longtime members of the community and fundamental to our success."

Greenlight is the smallest not-for-profit gas utility in Texas that owns both pipeline and distribution assets. Any profit earned by the system does not go to investors but rather into a gas infrastructure badly in need of repair. This has been a point of distinction for Greenlight Gas with the regulatory commission. "The regulatory process, which can be a challenge, went smoothly. The cost of service and rate design services indicated we needed a small rate increase to fund system improvements. They represented Greenlight before the commission," said Wheeler. There are other challenges for the utility. "We anticipate increases in franchise, production and gross receipts taxes as well as more pipeline regulation from the state," said Wheeler.

Greenlight's most compelling story is its customer service commitment. In communities that had long since lost IOU electric, telephone, cable and gas offices, Greenbelt and Lighthouse restored a local presence.

"People want service and they expect it. In the past, IOUs closed offices and set up call centers citing efforts to keep rates low and improve customer service. They were wrong. People want local service and they want local

contacts. We now have our headquarters and three pay centers in smaller towns and 25 percent of our customers use them. They come into our office if they have questions and stop us in the community to discuss business. They won't hear Greenlight tell them to call an 800 number for service. We provide one-on-one contact, just like electric cooperatives always have," said Wheeler.

Many Greenlight Gas customers are also members of Greenbelt or Lighthouse. "It is my goal to be recognized as one with Greenbelt and Lighthouse," said Wheeler, "I want people to know we will always be here to serve them just like the electric cooperative. Bill Harbin and Stan McClendon should be commended for their foresight and diligence. Deregulation has hurt many well-established companies as IOUs - too concerned with their revenue streams - reduce customer service."

According to Wheeler, accurate financial projections from knowledgeable consulting analysts have been key. "We are on track with our financial projections provided by GUERNSEY," said Wheeler. The key to Greenlight's success has been assembling a team consisting of key leaders, industry consultants, experienced employees and the same commitment to customer service cooperatives have demonstrated for nearly 70 years.

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Attachments

cont. from page 1.

Language was added to joint-use agreements requiring engineer approval on all new or existing attachments and setting a new standard rental formula. "Some providers had more difficulty with the engineering standards, others with the rental cost," said Joyce. "We worked with them to resolve issues and felt our rental fee should recover our costs."

Sid Sperry, director of public relations and communications for the Oklahoma Association of Electric Cooperatives, commented, "Electric cooperatives are committed to working with telecom providers and cable television companies to improve dialogue between all entities and ensure properly documented, engineered and safe pole attachments are made."

James Byrne is Engineering Manager for Poudre Valley Rural Electric in Fort Collins, Colo. He serves on an NRECA committee

studying issues relating to pole attachments.

"We have some 9,000 pole attachments. Some telecom providers expect us to keep track of their attachments. Joint-use has become a big and costly job," said Byrne.

According to Byrne, some telecom providers do not install anchors or compute stress levels. They often violate clearances.

Byrne identifies competition as a cause. "Telecom companies are in a competitive world and don't think

they can spend a dime on capital items; they have laid off many key employees; some are so big they don't know where their own facilities are," said Byrne.

Byrne stated ongoing difficulties and increasing costs were causing Poudre Valley to re-evaluate rental charges. "We want to be fair, but members shouldn't have to subsidize costs," said Byrne.

Ray Clifton is Executive Director of the Colorado Rural Electric Association. He commented: "We are concerned the telecom industry may be considering state legislation that would make Colorado electric cooperatives

subject to FCC pole attachment rules and regulations. If so we would vigorously resist that, because we believe cooperatives must be able to customize their joint-use agreements to recognize differences in service area and operating cost. What is right for an urban region would not be right for a rural one."

As industry change continues, greater pressure for standardized contracts and

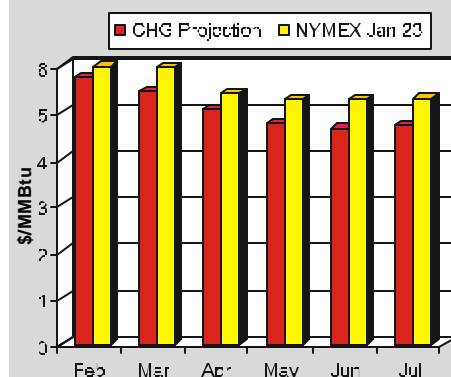
pricing models seems inevitable. Some telecom companies have chosen the route of law suits or proposed legislation, while others are working with electric cooperatives to reach solutions. Cooperatives should consider reviewing their pole attachment policies, contracts and rate formulas regularly to ensure they correctly meet current reliability and expense needs.

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"...they expect it... People want local service and they want local contacts."

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Six-Month Natural Gas Price Outlook



Colder than normal weather conditions throughout most of the country prompted gas prices to increase during the last month. According to GUERNSEY's long-term natural gas model, the high prices will not remain at current levels. In the short term, Henry Hub spot prices will likely be around the \$6 level. They are expected to decline near the end of the heating season.

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The GUERNSEY forecasts are based on the most recent weather forecasts for the next two weeks and normal weather after that. The price forecasts have a band of +/- \$0.50.