

## OTEC Pays 'Tax' to Provide Power

*Nonprofit electric cooperative must pass through city franchise fees to its ratepayers*

In 2010, Oregon Trail Electric Cooperative paid local city governments nearly \$1.17 million in franchise fees. These fees are essentially a "tax" levied on OTEC by the cities in OTEC's service territory, which includes Baker, Grant, Harney and Union counties.

The city governments in these counties charge OTEC these fees for OTEC to have the right to provide electricity to residents and businesses located within the cities' limits. As a nonprofit electric cooperative, OTEC then passes that "tax" on to those members.

"When we send out the monthly electric bill to our members in these cities, we are essentially serving as tax collectors for those cities," says OTEC General Manager Werner Buehler.

OTEC pays these taxes to 21 cities. This pass-through tax to members ranges from 3 percent to 5 percent, depending on the city, and is listed each month on members' electric bills as a "Franchise Fee."

For example, if you receive electric service from OTEC and live in La Grande, you are charged a monthly pass-through tax of 5 percent of your total electric bill. Once you pay your electric bill, OTEC then pays this tax directly to the city of La Grande through a quarterly check.

When OTEC formed as a cooperative in 1988, it inherited these franchise fees from the utility's previous owner, CP National, which was a for-profit company. Because CP National customers were required to pay the taxes, OTEC members inherited the same requirements. Unlike most electric cooperatives, which typically serve rural and remote areas outside of cities, OTEC serves almost two dozen cities.

"OTEC has the very unusual circumstance of serving numerous incorporated cities, whereas most of the 950 co-ops in the United States do not," Buehler says. "That means OTEC members pay hundreds of thousands of dollars more than the members of most electric co-ops."

Because most cities impose these taxes on the electric utilities that serve them, franchise fees are a typical part of doing business for large investor-owned, for-profit electric utilities, such as Idaho Power or Pacific Power.

"It's uncommon for an electric co-op to play this role of tax collector," Buehler says, "because historically, co-ops haven't served cities."

OTEC's unusual circumstances are the reason OTEC

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opposed a bill proposed in the Oregon Legislature that would allow county governments, in addition to city governments, to require electric utilities to pay permitting fees for the right to provide electricity.

"Thankfully, the bill did not pass this year," says Ted Case, director of the Oregon Rural Electric Cooperative Association, based in Salem. "Electric co-ops recognize that Oregon's counties are cash-strapped. But shoring up county budgets through the pockets of the electric co-ops' ratepayers is not the way to solve their financial problems."

If this bill had passed, consumers of electric power in cities in Oregon would be required to pay two taxes: one to their city government and one to their county government.

As for the existing "tax" payments OTEC currently collects for the cities it serves, these taxes are used by city governments in whatever way they see fit, often for lights for its streets, parks and buildings. These funds, in essence, are a boost for economic development and community improvement.

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## Oregon Electric Co-op Comparison

Unlike most electric co-ops in Oregon, OTEC serves numerous cities. Because it is standard practice for cities to charge franchise fees to the electric utilities serving them, OTEC members pay much more—often hundreds of thousands of dollars more—than other co-op members in the state.

Name of co-op	Counties served	Total members served	Total amount of franchise fees paid in 2010
<b>Oregon Trail Electric</b>	<b>Baker, Grant, Harney, Union</b>	<b>30,006</b>	<b>\$1,166,666</b>
Salem Electric	Marion, Polk	18,516	\$754,869
Consumers Power	Benton, Lincoln, Linn, Lane, Polk, Marion	21,656	\$421,659
Central Electric Cooperative	Deschutes, Crook, Jefferson, Wasco, Grant, Lake, Linn	31,733	\$409,150
Lane Electric Cooperative	Lane	12,842	\$192,293
Umatilla Electric Cooperative	Umatilla, Morrow, Union	16,248	\$132,830
Columbia Basin Electric Cooperative	Morrow, Gilliam, Wheeler, Sherman, Umatilla	3,825	\$118,289
Coos-Curry Electric Cooperative	Curry, Coos, Douglas, Josephine	17,393	\$91,128
West Oregon Electric Cooperative	Clatsop, Columbia, Tillamook, Washington, Yamhill	4,329	\$81,816
Douglas Electric Cooperative	Douglas, Coos, Lane	9,670	\$45,250
Wasco Electric Cooperative	Sherman, Jefferson, Gilliam, Wheeler, Wasco	4,616	\$22,092
Blachly-Lane Electric Cooperative	Lane	3,615	\$0
Columbia Power Cooperative Association	Grant, Wheeler, Umatilla	1,819	\$0
Hood River Electric	Hood River	3,653	\$0
Surprise Valley Electrification	Lake, OR; Modoc and Lassen, CA; Washoe, NV	6,195	\$0
Umpqua Indian Utility Cooperative	Douglas	10	\$0
Midstate Electric Cooperative	Deschutes, Klamath, Lake, Lane	18,190	not available



## OTEC Franchise Fees

OTEC members with electric service in the following incorporated cities pay the following rates on their monthly electric bills.

OTEC collects these “taxes” for these cities to be allowed to provide electric service to these cities.

City	Added Charge	Annual Total
Baker City	5%	\$359,000
Burns	3%	\$108,700
Canyon City	5%	\$28,400
Cove	3%	\$13,300
Dayville	5%	\$4,900
Elgin	4.5%	\$47,400
Granite	3.5%	\$1,500
Haines	5%	\$16,400
Hines	5%	\$68,200
Imbler	3%	\$9,820
Island City	5%	\$46,800
John Day	5%	\$76,400
La Grande	5%	\$382,000
Long Creek	3%	\$5,900
Mount Vernon	3%	\$14,170
North Powder	3%	\$8,390
Prairie City	3%	\$17,900
Seneca	5%	\$10,600
Summerville	3%	\$2,300
Sumpter	5%	\$14,100
Union	5%	\$49,300