
Straight Answers to False Charges Against Public Power

2004



American Public Power Association

2301 M St. N.W.
Washington, D.C. 20037-1484
202/467-2900

www.APPAnet.org

What is Public Power?

About 2,000 communities across the country have created public power utilities — not-for-profit electric utilities that are locally owned and operated by the people they serve. These public power utilities provide for the electric power needs of over 40 million Americans – or about 14 percent of all electricity consumers.

All public power utilities have a common purpose: to provide necessary, reliable, not-for-profit electricity at a reasonable price with proper protection of the environment.

For more information on public power go to www.APPAnet.org and click on “About Public Power,” or contact Ursula Schryver at the American Public Power Association, 202-467-2980 or uschryver@APPAnet.org.

Straight Answers to False Charges Against Public Power

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Summary

Despite the last decade of dramatic upheaval in the electric industry, public power systems have remained true to their fundamental obligation to citizen-customers – the obligation to serve. Public power systems offer low rates, local control and commitment, public accountability, and responsive customer service to the communities they serve.

With skilled and innovative managerial and technical staffs, public power systems also are providing assistance to their communities for new infrastructure, such as community broadband services.



Over the next decade, the electric utility industry will continue to restructure. Generation and transmission supply issues, as well as environmental protection decisions, are a priority. Electric utilities also have taken on new roles in efforts to secure the nation's infrastructure. Public power utilities' special relationship with their customers gives them an advantage as they face these challenges and set a course that best serves their communities' interests.

Many communities now served by private power companies are exploring their potential for public power in order to obtain benefits that public power systems offer.

Private or investor-owned utilities (IOUs) generally oppose the formation of new public power systems because for them it means the loss of customers and profits. New public power utilities also provide high-profile examples of what communities can do for themselves, which may encourage other cities to form public power systems.

For these reasons, IOUs often employ an array of tactics to fight the formation of new public power utilities. The most common is to try to discredit public power, and to create doubt and fear about alternatives to renewing their incumbent franchise. But their arguments about the superiority of private utility ownership just don't hold up to scrutiny. In fact, public power has been so successful at its focused mission that it has earned the praise of industry analysts, the financial community, and most important, electric consumers.

This document is designed to respond to many of the common charges leveled against public power and to help separate fact from fiction.

10 Common False Charges

1. Charge: Public power's time has passed.

Not true. Public power systems continue to be fierce and successful competitors to the IOUs because they continue to provide reliable, efficient service to their customers at the lowest possible cost, even in this time of industry upheaval. Over the next decade, the electric utility industry will continue to change. Generation and transmission supply issues, as well as environmental protection decisions, will be a priority. The special relationship that public power systems have with their customers gives them an advantage as they face these challenges and set a course that best serves their communities' interests.

2. Charge: Public power means more bureaucracy and less protection for consumers.

In fact, as the recent private energy company financial scandals have painfully shown, publicly owned power utilities actually provide *more* protection to consumers. Citizens direct the activities of the public power utility through the utility's governing board made up of their elected or appointed officials. In addition, many public power utilities appoint citizen panels to advise them on services, reliability, rates, and other issues. Questions are answered and decisions are made publicly. Citizens have access to all meetings and records and, if they disapprove, they can vote the elected officials out of office.

3. Charge: Public power utilities do not have the resources to provide reliable power in the event of a major storm or outage.

Actually, public power utilities have a sterling record in terms of power reliability because they focus on core operations and take care of their own assets. Public power systems can respond quickly to emergencies because local crews live in the community, are accountable to local officials and possess expert knowledge of the system. In the event of a major outage, public power utilities coordinate with other utilities through mutual assistance programs.

4. Charge: Public power utilities are not large enough or sophisticated enough to deliver excellent service.

This statement is not true. Public power utilities get high marks for customer satisfaction – no matter what their size – because their focus is always on service to the customer rather than profits. Service quality is not compromised by mandates from a company headquartered hundreds of

miles away, which may result in staff reductions, closed service centers, deferred maintenance, or delayed tree trimming. Public power systems are able to match local service needs with local resources.

5. Charge: Blanket statements that public power costs less are simply not true.

Statements about public power's rates being lower are true. Year after year, for over 50 years, data from the U.S. Department of Energy demonstrate that IOUs, on average, charge more for electricity than public power systems. In the most recent data year, residential customers of IOUs paid average rates that were 13 percent above those paid by customers of publicly owned systems.

6. Charge: Public power utilities do not pay taxes or franchise fees.

In fact, public power utilities make as large or *larger* financial contributions to state and local governments, on average, than do the IOUs. Public power utilities contribute to local governments through payments in lieu of taxes, transfers to the general fund, and free or reduced-cost services to the local government. The level of support and how the dividend is returned to the community is a local decision and another advantage of the local control of public power.

7. Charge: Utility businesses are always most efficient when operated on a larger scale.

This statement is false. Electricity distribution, as opposed to large scale generation and high voltage transmission, is local. Public power utilities keep costs down through local scrutiny of operations. With their local presence they are more responsive to customers' needs. They use strategic partnerships and joint action with other public power agencies in power supply activities to obtain the advantages of size without taking on the disadvantages of merging into larger, more bureaucratic institutions. Municipal utilities also can provide their own advantage of community economies in billing, metering, 24-hour emergency call centers, and other customer service operations when they provide more than just electric service to homes and businesses.

8. Charge: A public power utility would thwart efforts to bolster economic development.

Just the opposite is true. Local control allows a community and its utility to work together to achieve their interrelated goals. A public power utility stimulates economic prosperity through low electric prices, translating to better living conditions for the entire community. Public power communities have taken a leadership role in preparing their communities

for the future by pursuing new technologies that encourage new businesses to locate within the community. Some public power communities have begun offering telecommunications services because private companies would not offer them to smaller towns.

9. Charge: A new public power utility would not have the money and the expertise to hire and manage skilled crews, buy and maintain equipment, and provide a call center and billing service.

This statement is incorrect. Public power utilities have electric revenues to pay for these expenses, just as the IOUs do. They purchase trucks and equipment from the same suppliers as IOUs and recruit skilled managers and other employees from the same pool of qualified electricity industry professionals as IOUs. In fact, many public power CEOs began their careers working in the distribution or power supply departments of IOUs.

10. Charge: Municipalization efforts, for the most part, are overwhelmingly unsuccessful and those that succeed may take many years.

This is not true. The number of new systems formed is noteworthy – 16 in the last 10 years, 46 in the last 20 years and 72 in the last 30 years, and over a million new public power customers with the recent formation of one New York utility. The end results are communities that have achieved substantial benefits including lower rates and better service. Many public power systems were able to form in just a year or two, and in some cases the transition price was negotiated amicably. A few of the most hard-fought municipalization campaigns took 7 or 8 years to complete, however the average is 3 to 4 years.

1. The Benefits of Public Power

A. Local Control Over Utility Policies

Public power is about serving the local community. While IOUs measure success by the profits they send to often distant stockholders, public power utilities measure success by how much money stays in the community. Public power utilities provide benefits to the citizens of their communities through lower rates, responsive service, payments in lieu of taxes, economic development and other programs that benefit the community. Decisions about the pricing of services, building power plants, purchasing wholesale power and setting service policies are made locally for the benefit of the community. In addition, unlike IOUs, these systems operate publicly, subject to open meetings and public record laws.

This local control distinction has never been clearer than in recent years with all the financial scandals in the energy industry. There are many examples of private corporation executives getting rich at the expense of electric consumers. Public power is distinctly different from IOUs because it is fully accountable to the people it serves.

False Charge:

Municipalization means more bureaucracy and less protection for consumers. – Edison Electric Institute

The Truth:

Just the opposite is true. With IOUs merging with other companies at an increasing rate, many are closing local customer service offices and moving their headquarters across the country or even the world.

In public power communities, citizens direct the activities of the electric utility through their utility governing boards, made up of elected or appointed officials. In addition, many power utilities appoint citizen panels to advise them on services, reliability, rates and other issues. Questions are answered and decisions are made in public. Citizens have access to meetings and records and, if they disapprove, they can vote the elected officials out of office. In many public power towns, if you have a question about your service, you can walk downtown and ask the general manager, or wait until you bump into him or her at a local restaurant.

Customers of private power companies have little, if any, access to information or influence over the CEO or other top officers at private utilities.

Examples of abuses by private power companies further show how public power utilities actually offer more protection to their citizen-owners. Compare public power's protection to that of customers of Enron or Pacific Gas & Electric (PG&E) Corporation. Enron was incredibly complex: it had over 1,000 affiliates and its books were a mystery to the outside world (and some would claim even to its own top executives and auditors). The PG&E Corporation of California drained the assets of its IOU operating company and put billions of dollars into unregulated affiliates in order to achieve its ultimate objective of becoming one of the largest unregulated power generating companies in the nation, according to California Attorney General Bill Lockyer.



False Charge:

The people with authority over our utility service would be politicians. There is no requirement that board members have any experience or expertise in utilities. – Coalition for Affordable Public Services – a group against forming a municipal utility in San Francisco, Calif.

The Truth:

Public power utilities make good business decisions each and every day, as demonstrated by their consistently lower rates, reliable service and solid credit ratings from Wall Street. Many of these decisions are made through local democratic processes, thus preventing major errors that would threaten the future of a business and its customers.

Political pressure on public power officials, when it occurs, is pressure to provide consumers with low-cost, reliable electric service, not profits for stockholders. The elected officials who oversee public power utilities are accountable to the ratepayers, as opposed to the board members of an IOU who are accountable to shareholders outside of the utility and who are judged not on their ability to provide low-cost, reliable power but on their ability to maximize profits.

For the day-to-day operation of the utility, public power utilities hire competent, experienced managers. These managers come from the same pool of qualified electricity industry professionals as IOU managers do. In

fact, over the years many public power chief executive officers have come to public power utilities from IOU distribution or power supply departments. Moreover, many cities and their local officials also have experience owning and maintaining a water, sewer or gas utility when they decide to provide electric service as well.

False Charge:

Cities can raise rates whenever they see fit. Unlike investor-owned utilities, city-operated systems are unregulated by any state or federal agency. – Alliant Energy

The Truth:

Given the proximity of public power utilities to their customers, they are under more intense scrutiny than IOUs. Public power utilities are governed and regulated by their consumer-owners through locally elected and appointed officials. This form of governance takes place at the ballot

Municipally owned utilities, because they are actually owned by the people in the communities they serve, aren't in the business of manipulating rates or involved in financial chicanery to inflate the bottom line and, with it, executive salaries.

– Dave Zweifel, "Municipal Utilities a State Treasure," *The Capital Times*, October 11, 2002

box and by participation in city council and utility board meetings, public hearings, citizen advisory committees and other public forums. Business is conducted in the open and is subject to local scrutiny. Citizens have access to public meetings, planning alternatives, reports,

and cost estimates. Public participation in public power governance, including decisions on rates, budgets, facility siting, power supply reliability, and customer services, is a core attribute of public power. If citizens feel their rates are unreasonable they can attend any of these meetings to express their discontent. In a few states public power also is regulated by the state public service commission.

Whereas public power is regulated by its consumers, IOUs are regulated by state and federal regulatory commissions. Customers have the right to place complaints with the state public service commission, for example, but because their customers are not the owners, they have no direct relationship to utility management and cannot participate in board meetings. Customers of IOUs therefore have *less* influence on rates, service and policies than public power utility customers.

False Charge:

Shareholder-owned electric companies pay taxes and franchise fees; government agencies do not. This loss of revenue is permanent and not a one-time cost... How will this revenue be made up – new taxes?

– Edison Electric Institute

The Truth:

In fact, public power utilities make as great or *greater* financial contributions to state and local governments, on average, than IOUs. Public power utilities contribute to local governments through payments in lieu of taxes, transfers to the general fund, and free or reduced-cost services to the local government. The level of support and how the dividend is returned to the community is a local decision and another advantage of the local control of public power.

When all taxes, tax equivalents and contributions to state and local government are considered, the median amount contributed by public power systems in 2000, the most current year for which data are available, was 14 percent higher than IOUs (5.7% vs. 5.0% of electric operating revenues). Not only is the IOUs' contribution rate lower, but their median amount contributed has recently declined 16% (from 5.8% in 1998 to 5.0% in 2000).¹

And while charging that public power utilities do not pay taxes, IOU proponents neglect to mention that IOUs enjoy huge Federal tax breaks in the form of accelerated depreciation, investment tax credits and even their own use of tax-exempt financing. A 2001 report by MSB Energy Associates, *Major Federal Tax Breaks that Lower Investor-Owned Utility Costs and U.S. Treasury Revenues*, finds that IOU costs and revenue requirements would have been \$7.5 billion higher in 1998 had it not been for the benefits IOUs received from just these three major tax breaks.

¹ *Payments and Contributions By Public Power Distribution Systems To State And Local Governments, 2000 Data*, American Public Power Association, June 2002.

B. Reliable Power

Public power utilities have a strong record in terms of power reliability, quite logically because customers care about this and their utility focuses on core operations and takes care of its own assets.

PA Consulting Group's annual reliability study calculates the SAIDI index for IOUs and for public power and cooperatives combined. SAIDI – the System Average Interruptible Duration Index – measures the average length of time, in minutes, each customer can expect to be without power during a year. The PA Consulting Group's study consistently shows that customers of consumer owned utilities are without power less than half as many minutes each year as are customers of IOUs.

False Charge:

As part of National Grid, Mass. Electric has a depth of resources to help assure reliable service, with access to hundreds of line crews from its sister companies across New England and New York in the event of a major storm affecting your community. – Massachusetts Electric, in a letter asking cities to oppose a bill that would make it easier for communities to pursue municipalization.

The Truth:

Public power systems can respond quickly to emergencies because local crews live in the community and are accountable to local officials, as well as to their friends, neighbors, and probably family members. Repair crews

When storms pounded the Peninsula last winter, 27-year-old Jeanette Foster sat in the dark in her East Palo Alto apartment. Her food warmed in a dead refrigerator and her body chilled near an idled heater. Utility repair crews didn't show up for four days, she said. But across Highway 101, Carol Jansen's power was out for only minutes. In her neighborhood, work crews responded quickly to fix minor damage. Jansen is a customer of Palo Alto's city-owned power company. Foster gets her power from PG&E.
– "Cities Explore Do-It-Yourself Utilities," *San Jose Mercury News*, May 21, 1996

that are local possess expert knowledge of the system, allowing the problem to be identified quickly and allowing pre-emptive measures to be taken prior to extreme weather conditions.

In the event of a major outage, public power utilities coordinate with other nearby utilities for assistance. Public power utilities have access to hundreds of line crews from fellow public power utilities in the form of mutual assistance programs.

For example, when Hurricane Lili roared through the state of Louisiana and battered the city of Lafayette on October 3, 2002, six public power utilities from across the South assembled and deployed 85 workers and more than 75 vehicles to Lafayette to restore its generation capabilities. Their collective efforts quickly restored Lafayette Utilities System's generation facilities, allowing the municipal utility to "serve as the anchor for the region." In fact, Cleco Power, the local IOU, requested a transmission link to the Lafayette utility's power grid to help support its system.²

² "Utility Crews Flock to Lafayette, LA, in Storm's Wake," *Public Power Weekly*, October 14, 2002.

C. Responsive Customer Service

Local control promotes outstanding customer service since the focus is always on service, rather than profits. Since they are part of the community, public power utilities maintain a close relationship with their customers, and as a result, are very successful in meeting their customers' needs.

False Charge:

Municipalization can lead to higher electricity rates and poorer customer service. – Edison Electric Institute

The Truth:

Public power systems' first and only purpose is to provide efficient, reliable service to their local customers at the lowest possible cost.



Public power utilities get high marks for customer satisfaction – no matter what their size – because their focus is always on service rather than profits. They use the same technology and hire from the same pool of labor talent as the IOUs. Public power's advantage is in its local presence. Service quality is not compromised by mandates from a company headquartered hundreds of miles away, which may result in staff reductions, closed service centers, deferred maintenance or delayed tree trimming. Public power systems are able to match local service needs with local resources.

According to a national study of electric utilities conducted annually by J.D. Power & Associates, the community-owned Salt River Project (SRP) in Phoenix earned the highest ranking for customer satisfaction among big Western utilities. This is the fourth time in five years SRP has clinched the top score. Among medium-sized utilities, Colorado Springs Utilities in Colorado and Omaha Public Power District in Nebraska, both public power utilities, tied with the highest rankings.³

One of the primary reasons municipalization is often explored is because the local IOU is not providing service that meets the community's

³ Public Power Utilities Receive High Rankings in Customer Satisfaction Survey, *Public Power Weekly*, August 11, 2003.

standards. Hermiston, Oregon formed a municipal utility (HES) in 2001 following a four-year effort that began because the IOU closed its local customer service office and citizens determined that the company's service level was declining. Since HES took over, rates have decreased and customers can now pay bills and address service concerns in person at the local office.

Regarding electricity prices, public power utilities lead the way in providing their communities with low-cost and reliable energy year after year. In general, communities that have formed public power utilities in recent years have been able to offer significantly lower rates to their communities.

D. Lower Rates

Across the country, publicly owned electric utilities continue to lead the way in providing customers with low-cost energy for homes and businesses. However, public power opponents continue to make allegations questioning public power's record on providing lower cost service.

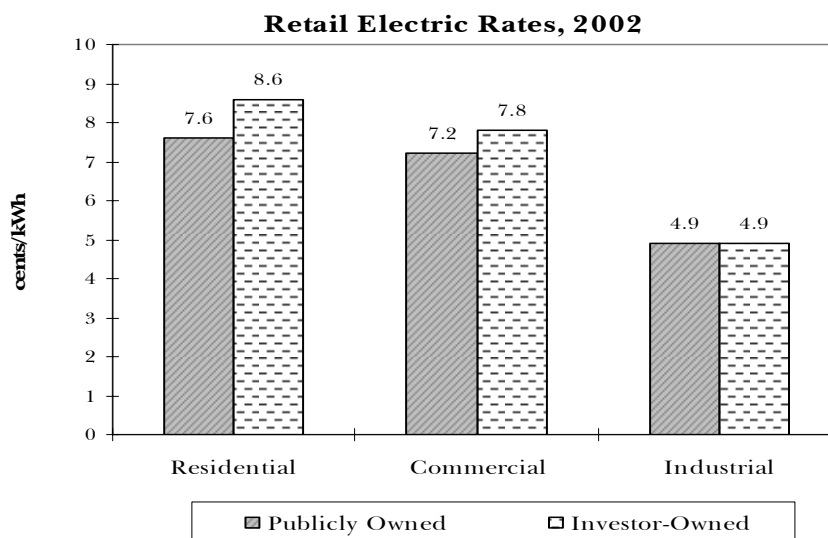
False Charge:

Blanket statements that municipal systems charge less for electricity are simply not true. – Reddy Communications

The Truth:

Year after year, for over 50 years, the data from the U.S. Department of Energy demonstrate that IOUs, on average, charge more for electricity than public power systems. In the most recent data year of 2002, residential customers of IOUs paid average rates that were 13 percent above those paid by customers of publicly owned systems. In addition, commercial customers of IOUs paid 8 percent more for electricity than public power customers in 2002. There was essentially no difference in the average rates paid by industrial customers of publicly owned and investor-owned utilities.

The following chart compares the national average revenue per kilowatt-hour paid by residential, commercial and industrial customers of publicly owned and investor-owned utilities in 2002:



False Charge:

The city makes an unsupported claim that you will save 15 percent on your electric bill if you allow it to take over the utility. In reality, there is no way the city can guarantee any long-term reduction of your rates.

– Carol Evans, Vice President, California Taxpayers' Association

The Truth:

While there is clearly no guarantee of anything, experience does indeed support such claims. Communities that have formed public power utilities in recent years have been able to offer lower rates, among their other benefits, to local residents and businesses. For some, the savings have been substantial.

A feasibility study done by a qualified consultant can help determine reasonable estimates of how much an individual community can save on electric rates by forming a public power system. The consultant would examine the factors (wholesale power costs, system acquisition costs, etc.) that help determine the short and long-term savings that would be possible with public ownership. These savings can be passed on to customers in the form of lower rates.

Consumers pay for the cost of utility operations through the rates paid in their electric bills whether service is provided by a public power system or an IOU. But through public ownership of the utility, the consumer-owners have greater control over prices and service, and they don't pay profits to others as one of those costs. A public power utility is directly accountable to the people it serves. Many communities find it worthwhile to make the change because they determine that public power can deliver responsive, reliable electric service at the most reasonable rates.



For example, Hermiston, Oregon, Energy Services (HES), one of the newest public power utilities in the country, was designed to run at cost. The city is not in business to make a profit. HES already has residential rates 3 to 9 percent lower than they were under the IOU, and after paying back a line of credit that helped with the system purchase and lawyers' fees, HES will lower rates even more or invest in system upgrades.

Newly created public power utilities, just like those which have been operating for up to 100 years or more, have lower electric prices because they:

- Are accountable to the consumer-owners they serve;
- Are not-for-profit and do not pay dividends to often distant stockholders;
- Have lower administrative costs and are more efficiently managed;
- Have rates set locally by citizen-controlled boards that operate publicly;
- Do not pay federal income tax because they are entities of state or local governments;
- Are eligible to issue revenue bonds that are exempt from federal income tax for capital expenses; and
- May have access to lower cost hydroelectric power marketed at wholesale by federal and state agencies.

False Charge:

It is important to note, however, that the city of Massena was successful in its municipalization effort mostly because it had access to inexpensive hydropower and could finance the acquisition with tax-exempt bonds. These advantages are not normally available to a city trying to municipalize today. – UtiliPoint International Inc.

The Truth:

IOUs often falsely charge that the only reason for public power's lower rates is the combination of its use of tax-exempt financing and its preferential access to federal hydropower.

However public power's rates are explained only in part by its access to tax-exempt financing and access to federal hydropower. They are in large part due to the very nature of its not-for-profit, cost-scrutinized, locally controlled operations.

While there are restrictions on local government's use of tax-exempt financing to buy privately owned assets, feasibility studies take these financing costs into account. In addition, with today's low interest rates,

the difference between tax-exempt and taxable financing rates is relatively small. In most cases, forming a public power system still makes economic sense, even with the use of taxable bonds.

Furthermore, while a federal hydropower allocation is beneficial, many public power utilities provide low rates without this benefit. In fact, if federally generated hydropower were spread equally over all customers in states where federal hydropower is marketed, on average, public power's rates would increase from this allocation by 2.6 percent, a small proportion of public power's rate advantage.

Massena did have access to hydropower and tax-exempt bonds, but that is not the sole reason they have been very successful. Massena Electric Department formed in 1981 and dropped its rates 28%. Total savings to Massena's customers from 1981 to 1998 have exceeded \$90 million. In 2002, residential rates were 62% below the IOU's.

False Charge:

Even the best new efficient gas fired generation units will not produce power cheaper than the hydro and nuclear units retained by the IOU's. And, it will be a risky challenge for the new MU's [publicly owned municipal utilities] to buy cheaper power in the wholesale market.

- "The Economics of Electric System Municipalization," Bay Area Economic Forum, October 2001.

The Truth:

Not true. There is no reason to believe that new public power utilities would not have access to these sources of power. More than 2,000 public power utilities across the country take care of the power supply needs of their customers each and every day. They build power plants and purchase power in order to supply electricity at the lowest possible cost.

Many public power utilities find it beneficial to work in partnerships with each other through more than 60 joint action agencies to jointly own power plants or purchase power supplies. This is an option for most new public power utilities as well.



E. Efficient Local Operations

False Charge:

Utility businesses are most efficient when operated on a larger scale, and small cities like Mitchell would “be about as inefficient as you can get in our business.”

– Gary Drook, President and CEO of NorthWestern Corp.

The Truth:

Of the over 2,000 public power utilities in the U.S., 1,400, or about 70 percent of the total, serve communities with populations of 10,000 or fewer.

Public power utilities find that their smaller size can be an advantage in electricity distribution. Relatively smaller public power utilities have done an outstanding job with reliability, price and service during the recent turbulent times in the electricity industry. They have been able to adjust quickly to changes in the marketplace while keeping their focus on their core utility mission – providing low-cost, reliable service to their consumer-owners. Also, municipal utilities provide their own advantage of community economies in billing, metering, 24-hour emergency call centers, and other customer service operations when they provide more than electric service to homes and businesses.



Electricity distribution, as opposed to large scale generation and high voltage transmission, is local. Public power utilities keep costs down through local scrutiny of operations. With their local presence they are more responsive to customers’ needs. They use strategic partnerships and joint action with other public power agencies to obtain the advantages of size in wholesale supply matters without taking on the disadvantages of merging into larger, more bureaucratic institutions.

The most likely reason for public power’s efficient performance “appears to be that retail distribution may be performed better by enterprises rooted to the customer community,” Professor John Kwoka, Jr. concluded in his comprehensive book, *Power Structure: Ownership, Integration and Competition in the U.S. Electric Utility Industry*. “Such proximity may yield greater

knowledge of local customer needs and a greater sense of responsibility for addressing those needs.”

False Charge:

Local governments should leave this specialized business to the existing electric companies and instead should focus on providing the public those services that they are uniquely equipped to handle.

– Edison Electric Institute

The Truth:

Communities across the country have decided that they can best serve their citizens by offering essential services such as water, gas, sewer and electricity as a not-for-profit service to their citizens. The formation of early public power utilities was for the most practical of reasons: the communities wanted the benefit of electric lighting and the quickest way of getting it was to do the job

themselves. Subsequently, municipal utilities were formed in order to escape the price gouging at the hands of private operators. Now, as then, public power utilities are a reasoned, pragmatic solution to a civic need.

Municipals, generally, are established and well-run enterprises that offer good services at competitive rates. And a competitive environment has forced many to control costs, streamline operations and boost productivity.

– Ken Silverstein, “Credit Quality: Financing the Future,” *Sciencetech*, July 25, 2003.

Public power has an excellent record of performance, not just in the last few years, but through the industry’s 120 year history. There are more than 2,000 public power utilities operating throughout the U.S. and nearly 500 of them have been in operation for over 100 years. Their very existence provides a yardstick against which the rates and service of IOUs can be compared. Many cities with public power systems also have experience owning and maintaining water, sewer or gas utilities and obtain even greater efficiencies by operating these additional services.

F. Local Economic Development

A public power utility spurs economic development in the community by meeting the interrelated needs of residential, business and industrial customers, thereby making the community a more pleasant place to live and allowing it to compete more successfully in attracting business and employment. Public power utilities are able to focus on the overall needs of the communities and provide efficiencies in achieving the overall community goals.

False Charge:

A government takeover of the utility system would thwart efforts to bolster economic development in the community. Business today increasingly depends on technology and needs a highly reliable power supply... In addition, it is quite common for municipal utilities to subsidize residential rates by charging companies higher prices... All of these factors will discourage new businesses from locating or expanding in the city and could even drive existing jobs away. – Alliant Energy

The Truth:

On the contrary, local control allows a community and its utility to work together to achieve their economic goals. A public power utility stimulates economic prosperity, translating to better living conditions for the entire community. Besides offering the advantage of lower rates and hence lower business costs, public power communities have taken a leadership role in preparing their communities for the future by pursuing new technologies as an integral part of community growth. They serve as information sources in a variety of technology fields such as environmental stewardship, high-speed Internet capability, safety, and community technology development. Some public power communities have begun offering telecommunications services, which encourage economic development, because private companies would not offer them to smaller towns at competitive prices, if at all.

The public power utility, with its skilled managerial and engineering staff, offers many opportunities for efficiency gains through integration of electric operations with the operations of other city services. A locally controlled utility is part of a public service community team that cooperates on public works projects, downtown renovations, extension policies, business development, industrial parks, and energy efficiency programs. Public power utilities work with their larger customers, offering

them power quality, demand-side management, alternative pricing structures, special communications during outages, and other customer-defined and focused programs. Businesses enjoy the streamlined “one-stop shopping” customer service that public power towns offer.

Public power stimulates the local economy. Lower electric prices allow consumers to spend more money on other goods and services, in addition to attracting business and industry to the community. Local dollars stay at home in public power communities. They are not sent to companies and shareholders out of the city, state, or in some cases country. The public power systems do business with local financial institutions and make purchases from local businesses. Salaries earned by local utility employees are spent in the community for housing, groceries and other services. Payroll dollars multiply in value to the community as they are spent locally by businesses and their employees. Economists estimate that based on the multiplier effect, each payroll dollar circulates through the local economy five to ten times.



Finally, public power utility rates are set by the local governing body which is often limited in its ratemaking authority by bond covenants and by its obligation to base rates upon the cost of serving the different customer classes. Regardless, public power utility boards are very responsive to all their customers – residential, commercial and industrial. Large power users are often integral to the community’s economic vitality, and their needs would undoubtedly be heard by the utility’s governing board during the local ratemaking process. In establishing a public power utility, the city would have greater flexibility to offer incentives to large businesses that could promote the expansion of business and attract new business, while still protecting residential and commercial customers.

2. Forming a Public Power Utility

A. The Right Time for Public Power

Despite years of upheaval in the electric industry, public power systems have remained true to their fundamental goal of providing reliable, efficient service to their local customers at the lowest possible cost.

Over the next decade, the electric utility industry will continue to change. Generation and transmission supply issues, as well as environmental protection decisions, will be a priority, as will efforts to build and secure the nation's infrastructure. The special relationship of public power systems with their electricity customers gives them an advantage as they face these challenges and set a course that best serves their communities' interests, providing low rates, local control and commitment, public accountability, and excellent customer service.



Despite public power's consistent and impressive record, its critics continue to charge that public power hurts the community.

False Charge:

When local governments go into the electricity business, other government agencies lose. – Carol Evans, Vice President, California Taxpayers' Association

The Truth:

Having a public power utility is extremely valuable to a local community in attaining its overall goals. The utility is part of the public service community team that deals cooperatively with public works projects, downtown renovation, business development and industrial parks, line extension policies, and energy efficiency programs.

The local electric utility can integrate its day-to-day operations with the provision of other city services, such as water, gas, sewer, garbage and community broadband. This may include combining or coordinating meter reading, billing, payment processing, and call center operations. The electric utility may share personnel, office space, equipment and

supplies with other government services. The flow of cash from the electric system may be channeled through the local government treasury. As always, cost and revenue allocations are accounted for thoroughly and publicly.

Other city agencies also benefit because public power utilities contribute payments in lieu of taxes, transfers to the general fund, and/or free or reduced-cost services for the city. The amount of financial support for other city services is set by the local governing board of the public power utility. Schools and other government offices also directly benefit from the lower electric prices of a public power utility.

False Charge:

If Corona believes it can run private businesses better than our business community can, then why stop at utilities? Maybe the city should provide all its residents free health care and take over all hospitals and doctors' offices. Or perhaps Corona could take over all retail stores. Surely the city could earn a profit doing that!

– Carol Evans, Vice President, California Taxpayers' Association

The Truth:

This argument is fatally flawed because electricity is completely different than retail stores and doctors' offices. Electricity is an essential service to all on a nearly constant basis, as are water and sewer service, and street maintenance. Local government has been offering these services and providing reliable, responsive service to their communities for well over a century.

Further, public power utilities do not provide "free services" and are not in business to make a profit – they provide service on a not-for-profit basis which in turn means lower rates. They charge rates designed to cover the cost of service, as opposed to the IOUs whose higher rates include profits sent to shareholders around the country.

False Charge:

Municipalization is a movement whose time has passed. Conditions that worked for public power in the early 20th century no longer exist. Federal limits on municipal bond financing, the absence of additional low-cost federal preference power, the fully built-out nature of many of today's electric distribution systems, and the newly deregulated wholesale power market all nullify any advantages that may be available to older municipal utility districts, public utility districts and electric cooperatives. – Edison Electric Institute

The Truth:

Municipalization, and public power in general, is far from a movement whose time has passed. In fact, just the opposite is true. Public power continues to be a fierce and highly successful competitor to the IOUs.

On March 2, 2004, Standard & Poor's released a report entitled "Stable Outlook Expected for U.S. Public Power Sector in 2004." As S&P noted, "the stability of the public power sector in 2003 resulted from the continued commitment of public power utilities to conservative business strategies, and prudent responses to volatile commodity prices for both fuel and power, including improved hedging activity that mitigated the

impact of price swings. Public power utilities nationwide continue to adapt both operationally and financially to new challenges, which bodes well for credit quality."

"There are a lot of people," like those in Corona, who are "just fed up with what's gone on over the last five years, who decided to take their future into their own hands – and I say, more power to them... I get calls from other cities weekly, if not daily."

– Gary Saleba, EES Consulting, *Los Angeles Times*, December 27, 2002

S&P further states that "traditional strengths of the sector that provide a solid credit foundation include the autonomy of public utilities'

governing bodies in rate-setting matters; their focus on the mission of providing low rates to customers; and the general lack of direct competition for retail customers. The absence of state or federal rate regulation enables these utilities to enact and implement rate increases or rate cuts quickly, and as necessary in response to changing cost or competitive structures, if they are willing to do so. By comparison, their investor-owned utility (IOU) counterparts lack this flexibility."

While there are restrictions on the use of tax-exempt financing by local governments to buy privately owned assets, and although there may be no available federal hydropower, the required feasibility studies associated with creating a municipal utility take these issues into account. And given today's low interest rates, the cost differential between tax-exempt and taxable financing is relatively small. In most cases, forming a municipal electric system still makes economic sense, even with the use of taxable bonds.

Moreover, while a federal hydropower allocation can be beneficial, it is not necessary in order for new municipals to be cost effective. For example, when Clyde, Ohio, formed a public power utility in 1989, it had no federal hydropower program but still was able to set its rates 25 percent below the IOU's rates. In 2002, Clyde's rates were 38 percent below those of the local IOU. The half of public power utilities without the advantage of power purchased from the federal power marketing administrations still provide electricity at lower rates.

As to the "fully built-out nature of many of today's electric distribution systems," in fact, municipal utilities are relatively less expensive to form now than in the early days when there was no existing infrastructure. Today the grid connections, distribution facilities, technology, procedures, and work force pools are already in place.



In addition, public power communities provide added value to their communities with the deregulated wholesale power market. Public power systems commonly pass on the cost of wholesale power (two-thirds or more of the total cost of electric service) directly to their customers without any markup. As public power utilities shop for less expensive wholesale power in the new marketplace, they pass the savings along to their retail customers.

False Charge:

Creating a new government-owned utility is not realistic or economically viable in today's new energy environment.

– Edison Electric Institute

The Truth:

Not only is creating a new publicly-owned utility realistic and economically viable in today's market, it is, and always has been, a tremendous option for communities. Over the last decade, 16 new public power utilities were formed and over one million public power customers added. These utilities currently provide significant benefits to their communities through local control, lower rates, and improved service and reliability.

One recent example is the Long Island Power Authority (LIPA), which is the largest of the new public power utilities. LIPA replaced the investor-owned Long Island Lighting Company in Nassau and Suffolk counties in New York. In May 1998, after LIPA purchased the IOU's transmission and distribution system, it successfully reduced electric rates across the board by an average of 20 percent. Since then, LIPA's customers have saved

more than \$2 billion. LIPA's rates have remained low in the face of several jumps in home heating, oil, and natural gas prices that have occurred in the past five years.



In addition, LIPA put special attention on the distribution system's safety and reliability. LIPA has spent nearly \$900 million in system upgrades, most of it locally. Another \$140 million has been spent on programs to promote

energy efficiency and renewable energy. Employee morale improved dramatically with LIPA's fresh start, its nonprofit, public service outlook, and its new emphasis on safety.

Public power is as viable as ever due to its many distinct advantages:

- It is *owned by* and *accountable to* the people it serves;
- It offers lower electric prices because it is not-for-profit;
- It measures success by how many dollars are invested in the local community, not how many dollars leave in the form of dividends to stockholders;
- It brings decision-making back to the local community where it carries out the community's goals, such as investing in the local infrastructure, energy conservation, renewable energy, pollution prevention and safety;
- It provides more efficient utility management with local scrutiny over electric operations;
- It provides the local employment and service reliability that comes with using local service personnel; and
- It is generally better able to insulate its customer-owners from the expensive market flaws and abuses that have characterized the electricity and gas industries in recent years.

B. Studying the Feasibility

The first step in forming a new public power utility is to determine if the new utility is likely to be economically viable and has community support. Feasibility studies are designed to answer the initial question: what savings will result from forming a public power utility or exercising other local control options? The study may identify legal requirements to be fulfilled, methods for valuing the utility property to be acquired, alternative sources of wholesale power, and projections for capital and operating costs for the new utility. Often the IOU will make an offer to do an alternative study at little or no cost to the city. Obviously such IOU-sponsored studies do not produce objective results, and in fact are created to dissuade a city from pursuing municipalization.

The incumbent IOU may attack the concept of public ownership even before the feasibility study is begun. As citizens begin to learn about the alternatives available to them, the IOU typically begins a high price campaign to discredit public power and the idea of establishing a public power system. For example:

False Charge:

A preliminary feasibility study, typically costing more than \$100,000, and a detailed feasibility study – required in order to determine the precise details of the utility property and equipment to be purchased – will need to be completed. A detailed feasibility study can cost \$1 million or more.

– Michael McGrath, Edison Electric Institute

The Truth:

Feasibility studies usually cost significantly less than this charge implies. The cost of a preliminary feasibility study or full feasibility study depends largely on the scope of work defined. Costs will vary with the size of the community, the type and condition of resources needed to serve the community, the consultant's expenses, and the length, scope and formality of the final report presentation.

A few recent examples:

- Two communities, populations of 4,000 and 34,000, joined together to commission a preliminary feasibility study of both for a total of \$50,000.
- A small village (population 1,900) paid \$5,000 for a preliminary study.
- A medium-size city (population 56,000) paid \$25,000 to look at options for providing municipal electric and gas service.
- A municipal utility district (population 700,000) spent \$150,000 to study its potential role as an electric provider.

When a study shows that significant savings are possible with public power, the IOU is likely to dismiss the study as “flawed.” Of course, it is not that the study is flawed, but that the incumbent IOU does not like the results. Feasibility studies by qualified engineering firms have had an excellent track record of estimating savings and other benefits from forming a public power utility because the reputation of the consulting firm and its future business depend on their objectivity and accuracy.

False Charge:

Those communities that seek to take over distribution systems would have to purchase entire systems at today’s market prices.

– Edison Electric Institute

The Truth:

This charge is intended to intimidate communities that are trying to form a public power utility by suggesting “market prices” would be paid for electric facilities. This is not the case.

There are several valuation methods that may be used, including original cost less depreciation and replacement cost less depreciation. A negotiated purchase price is likely to be a compromise between the price deemed appropriate by the city, and the price desired by the IOU. If the IOU refuses to sell or insists on an unduly inflated price, the city may consider condemnation action under its rights of eminent domain. However, the simplest way to form a public power utility is through a voluntary agreement between the city and the IOU in which they come to agreement on a purchase price.



C. Weighing the Risks, Costs, and Benefits

If after completing the appropriate feasibility studies, forming a public power utility is determined to be feasible, the overall issue, along with the costs and benefits, is typically discussed at public meetings and in the media.



Not surprisingly, opponents focus on the risks but overlook the significant revenues and improved service the new utility could provide. Their goal is to scare the citizens of the community into believing that the risks and costs are so high that they are not worth the effort. But the newest public power communities have demonstrated success and have continued to prove that public power can provide substantial net benefits to the community. Citizens of these communities now have the advantage of owning a distribution asset, rather than paying rental fees to someone else. The assets give the community control, options and a stream of revenue benefits on into the future.

False Charge:

What we're talking about is a city participating with venture capitalists in a risky venture capital move... If Edison as a public company does that, the shareholders take the risk. But with a city utility, you're risking taxpayer money. – Charley Wilson, Southern California Edison⁴

The Truth:

Taxpayer money is not at risk. In almost all cases, public power utilities issue electricity revenue bonds to purchase the IOU's facilities, which are repaid from electric utility revenues. Revenue bonds, unlike general obligation bonds, are not backed by the city or by the city's ability to impose taxes. The new electric revenue bonds have no impact on other city projects and borrowings.

Every day more than 2,000 public power utilities provide reliable electric service to their customers, setting their priorities based on the priorities of the citizens. If the citizens do not like the direction the utility is taking, they can express their views to the governing board or city council as

⁴ David Hermann, "Interest Dims for Utilities," *Press-Enterprise*, December 28, 2003.

ratepayers and voters. Moreover, a municipal utility's costs are scrutinized line by line, locally and publicly. Electric rates are lower and there are no dividends or profits that must be added to the consumers' basic costs to be paid to stockholders.

In contrast, being a customer of an IOU in the current environment can be a risk. Companies are investing in risky unrelated ventures and with the threat of merger mania going on in the industry, there is no way of knowing when the local IOU will be bought out by an even larger company that is headquartered across the country or the world. The enormous salaries, costly stock options, and golden parachutes awarded the CEOs of private power companies (unheard of in public power communities) also become a factor when mergers take place.

False Charge:

A new public power takeover will be costly and is fraught with hidden risks and uncertainties. – Edison Electric Institute

The Truth:

This is not true, as demonstrated by the newest public power utilities. They are providing stability, lower rates and improved customer service.

IOUs like to focus on the cost of new public power operations but consumers pay for the cost of utility operations through their electric bills – whether service is provided by a public power system or an IOU. With public ownership of the utility the consumer-owners have greater control over the electric rates they pay and the service they receive. A public power utility is directly *accountable* to the people it serves. Many communities find it worthwhile to make the change because they determine that public power can deliver responsive, reliable electric service at the most reasonable rates.

IOUs are disingenuous in warning cities of the risk. Much of the risk and uncertainty is in fact due to the IOU's activities against municipalization. The private power company generally expends enormous resources to block the formation of a new public power utility using intimidation and threats of long, expensive legal battles to achieve its goal. In fact, some communities have abandoned the public power initiative because the private utility threatened legal action to discourage local officials. But despite legal costs, other communities with a commitment to public power have continued to push forward because of the net benefits to be had.

False Charge:

Under a municipal utility system, the risk of buying power is transferred to local residents and higher power costs are immediately reflected in utility bills. – Alliant Energy

The Truth:

This charge assumes that wholesale power costs will be so high that they will result in increased retail rates. But this is not the case with new systems – otherwise they would not pursue the public power option. Public power systems commonly pass the cost of wholesale power directly to their customers without any markup. Even better, when they arrange less expensive wholesale power in the marketplace, they pass those savings along to their retail customers.

When the community owns and operates a public power utility it has options and choices in power supply as in other areas of operations. Public power utilities that do not own power plants purchase wholesale electricity at prices that are beneficial to their customers. They purchase the wholesale electricity and transmission services through contracts with other utilities or companies. Some public power utilities build generating facilities to serve their load. A strategy mixing both plant ownership and wholesale purchases allows many cities to hedge risks and benchmark one source against another to achieve cost, reliability, and social/environmental benefits.

In addition, hundreds of public power utilities participate in joint action power supply agencies to gain economies of scale in wholesale supply that small municipal utilities could otherwise find unattainable.

False Charge:

It is doubtful the city will have the money and the expertise to hire and manage skilled line crews, buy and maintain a fleet of special trucks, dispatch enough employees to rapidly repair downed lines after a major storm, provide a call center and billing service, along with a control center and meter readers. It's a big, tough job. – Alliant Energy

The Truth:

Public power utilities have electric revenues to pay for these expenses, just like the IOUs do. They purchase trucks and equipment from the same suppliers as IOUs, and they recruit managers and other employees from the same pool of qualified electricity industry professionals as IOUs. In fact, many public power CEOs began their careers working in the distribution or power supply departments of IOUs.

Some cities outsource the operation of their new public power system in the early years of operation. They contract with an experienced electricity provider to operate and manage the system. The electricity provider is held accountable to city officials for its performance in reliability and responsiveness. Although this is a viable option for the city to consider, it is not essential to outsource operations.



In fact, public power utilities generally have been found to be at least as efficient as IOUs, if not more so. Most cities have experience owning and maintaining a water, sewer or gas utility which, in addition to providing electric service, provides many economies to the city. Often utilities are able to combine billing, meter reading, call centers, and other functions with those already being offered by the city for other services.

Cities have only to look at the existing public power utilities – more than 2,000 of them nationwide – to learn how they manage their operations. Nearly 500 of them each have more than 100 years of operating experience that they can share.

False Charge:

The reality is that very few completed takeover attempts have reached completion. The vast majority of these initiatives are “defused” along the way as cities realize the true complexity of the process.

- UtiliPoint International Inc.

The Truth:

There have been quite a few successful initiatives, including 16 in the last 10 years, 46 in the last 20 years and 72 in the last 30 years. The end result is often a community that has achieved substantial benefits including lower rates and better service.

For example, residents of Hermiston, Oregon – site of one of the newest public power utilities in the country – now pay lower rates than they were paying under the local IOU and customer service has improved. As Hermiston City Manager Ed Brookshier says, “We’re now a local service with self-determination – a lot of people believe in the long-term benefits of this system. That’s not to downplay the short-term benefits, but people have a solid understanding of local ownership.”



Another recent success is one of the largest public power utilities. Long Island Power Authority (LIPA) replaced the investor-owned Long Island Lighting Company in May 1998. After LIPA purchased the IOU’s system, it reduced electric rates across the board by an average of 20 percent. Since then LIPA’s customers have saved more than \$2 billion, and it is estimated that the rate cut has “expanded the region’s economy by some \$12 billion. Even more important, it has built a strong base for the future by making Long Island competitive once again.”⁵

Even those communities that do not go all the way and succeed in forming a public power utility often receive valuable concessions. These include lower rates, improved service and reliability, and other concessions from the incumbent utility because they pursued the public power option. Most importantly the city learns the true value of its electric franchise, and that whoever the provider, the electric utility should meet the citizens’ price and service requirements.

⁵ Irwin Kellner, Hofstra University, “LIPA Adds Energy to Long Island’s Economy.”

False Charge:

The takeover process typically takes years. By the time all studies are completed, legislation is passed, voter approval is obtained and outstanding lawsuits are settled, as many as 10 years may have passed. During this period, circumstances change and the original impetus for the takeover may no longer be a factor.

- Edison Electric Institute

The Truth:

Ten years is an exaggeration – the average is 3 to 4 years. Some public power systems have been formed in a year or two, and in some of these cases the price was negotiated amicably. A few of the most hard-fought municipalization campaigns took 7 or 8 years to complete.

Of course, because communities that establish public power utilities sometimes have a long history of dissatisfaction with the incumbent IOU's rates or service, they already may have spent many years fighting in many different ways for electric service that meets their needs. For dozens of communities across the country today, local control and ownership is the goal – and the benefits are worth a considerable investment of time and money.

When it does take years, it is because the IOU continually puts up roadblocks and fiercely fights the city for the system. Las Cruces, New Mexico and Massena, New York each spent about 7 years trying to overcome legal hurdles put up by the IOU. Massena saved its customers \$25 million in the first 10 years of operation and millions more since. Las Cruces did not form a system, but it did win important concessions with a short-term franchise, a hefty settlement payment, and future options for the purchase of facilities.



When forming a public power utility, a feasibility study is conducted initially to identify projected costs and retail rates if the city were to remain with its current supplier, and to identify power supply alternatives for the community. The comparison between the city's current supplier and alternative suppliers may be updated over time as wholesale power and other costs or situations change.

False Charge:

Municipalization may require a city or town to assume large amounts of new debt, which can lead to the downgrading of the city's or town's bond rating. This may cause other activities funded by bonds, like roads and schools, to become more expensive or even obsolete.

– Edison Electric Institute

The Truth:

These are two separate issues. In fact, local government typically issues electricity revenue bonds rather than general obligation bonds when it buys or builds an electric distribution system. The debt is paid back from future electricity revenues and is not an obligation of the city or its tax base. The debt for a major capital project is substantial, but that does not mean it is not a good investment, especially if the asset will provide net benefits for generations to come.

As for the charge about negative spillover effects, in the midst of private financial scandals in the energy business, the local control distinction between public power and IOUs may never be clearer than it is today. Public power is a business model that works, a fact that is reflected in the financial outlooks provided by credit rating agencies. In 2003, Standard & Poor's credit rating agency upgraded the ratings of 5 public power systems while downgrading four. In contrast, Standard & Poor's upgraded the debt of 8 investment-owned utility holding companies or operating subsidiaries while downgrading the ratings of 139 others. As of year-end 2003, two percent of Standard and Poor's public power bond ratings were below investment grade, compared to 18% of IOU ratings.

The Truth about Las Cruces' Quest for Public Power

The story of Las Cruces, New Mexico, and its quest for a public power utility deserves a close and honest look. Las Cruces historically paid some of the highest electric rates in the nation and local officials fully supported forming a public power utility. Although El Paso Electric, the incumbent IOU, spent more than six times as much as public power proponents in the campaign preceding the referendum, the citizens voted 2 to 1 to pull the plug on the investor-owned utility.

As the IOU mounted one legal blocking action after another, the city continued to win every case. When all other options failed and it appeared that the city would succeed in forming a utility, El Paso Electric offered the city a \$21 million settlement – precisely the amount the city spent in the legal battles. Anxious to avoid the cost of still more litigation, the city council accepted the offer along with other important concessions. But it expressed concern about how the IOU would recoup this money from the already burdened ratepayers.

Although Las Cruces has not yet formed its municipal utility, the city won some important legal cases and got some valuable concessions in the settlement. In 2000 the city obtained a relatively short (7-year) franchise with the option to purchase El Paso Electric's distribution system for book value plus 30% at the end of that franchise. Also, the city will not have to deal with the stranded cost issue if it chooses to form a municipal system at the end of the franchise.⁶

Unfortunately for the citizens, the City of Las Cruces did not form a municipal utility. Recently El Paso Electric increased its rates again. Citizens continue to complain to City Hall about the high cost of electric service and some businesses are complaining about unreliable and spotty electric service.

⁶ Las Cruces and many other cities in the 1990s were presented with the threat of "stranded costs." These have been defined as those revenues (above market price) that the incumbent utility might forgo if it loses a customer for capacity in place. Many states and the federal regulator, FERC, allow for stranded cost recovery upon the formation of a new utility under certain conditions. The FERC allows payment of stranded costs by the new public power system: where the former retail supplier had a "reasonable expectation" to continue to serve the municipality; where the municipality continued to take transmission service from the former retail supplier; and where there were stranded costs as measured by the FERC formula.

At that time, FERC said Las Cruces must pay a declining amount of stranded cost (\$53 million if it began serving customers in 1999 and nothing if it started operations in 2007). Such declining stranded costs for the future are supported by both the theory for stranded costs and related facts. Stranded costs were allowed for the transition period between regulated generation sales and unregulated sales. Those stranded costs dramatically decrease with time because: the years of reasonable expectation have decreased; generation capacity has generally become more valuable; the competitive cost of power has increased dramatically; and some utilities have already recovered stranded cost through state deregulation plans, such as in California. In addition, some municipalities may have special circumstances, which could lead to a decision that no stranded cost need be paid. (Cathy Fogel, "Formation of Municipal Electric Utilities: A Strategic Approach," presented at APPA's Taking Charge: Options to Protect Electric Consumers Conference, April 2001).

D. Legal and Public Relations Challenges

If one community is able to establish a public power utility and save money for its citizens, then so can other communities. This means a loss of electric load and profits for the IOU. Not surprisingly, the IOU is likely to do everything it can to stop a community from forming a public power system.

When an IOU talks about a costly legal challenge to forming a public power system, it is really part of a public relations battle to stop the

Edison mounted an aggressive public information campaign that included a full-page newspaper ad and direct mailings to convince residents that forming a utility was a bad idea... The city has calculated that Edison made about \$77 million in revenue last year from the portion of Morena Valley that it serves. "They are a business and their business is to make money."

–Tom Breitkreuz, Energy Services Manager, Moreno Valley, Calif., "Interest Dims for Utilities," *Press-Enterprise*, December 19, 2003

initiative. The IOU's goal is not necessarily to win the legal battles, but to exhaust city funds or frighten policymakers into abandoning the idea. Cities often win the lawsuits, either because there is no merit to the IOU's claim, or as with the case of Las Cruces, N.M., because the company decides to settle at the last minute rather than risk a result that sets an undesirable precedent.

As with the start of any new business, legal and financial expenses are to be expected. Experience shows that such expenses are not always excessive and often are recovered in a short period after the municipal utility begins operations.



Another hurdle is the IOU's use of its considerable economic and political clout to sway public opinion against the formation of the new public power system. IOUs use brochures, newspaper editorials, television, and presentations by company officials to minimize the benefits of public ownership and highlight the risks. Often the purpose is to create fear and confusion about important issues related to the start up of the new public power system. Local officials need to be prepared for such IOU campaigns from the very beginning of a public power evaluation.

To respond local officials, citizens and business leaders who support public power need a well-coordinated public education campaign to set the record straight. Supporters may not be able to match the IOU's spending, but armed with the facts, they are more likely to prevail. With knowledge

of the legal and economic feasibility of creating a public power utility, they can respond quickly and effectively to attempts to spread misinformation.

Once a community begins to evaluate the public power option, politics almost certainly will play a role. The pros and cons of municipalization may become the focus of political campaigns. IOUs intentionally may thrust the issue into elections by putting up candidates to run against those local policymakers who support public power evaluation.

The political will to pursue the public power option is strengthened through the information gathering, planning, and organization in the process. Local officials are most successful when they pay attention to citizens' concerns, document the legal and economic feasibility, and explain the advantages clearly and succinctly. The educational campaign is strengthened by encouraging support from community groups, speaking at community events, and keeping the local media well informed.

3. More Electric Systems Turn Public than Private

Currently, dozens of communities are studying the public power option for electricity service, while only one or two are looking at selling. During the last decade 16 new public power utilities were formed. Eleven communities sold their public power systems, most of these to neighboring rural electric cooperatives, not IOUs. With more than 3,100 electric utilities operating nationwide, these sales do not represent a statistical trend in either direction. But most important, these changes do not indicate that there is a trend toward privatization, as the IOUs so often suggest.

False Charge:

Municipalities should privatize their assets like [governments in] other countries around the world have done, and let somebody else deliver energy to their citizens.

– Michael Morris, President and CEO of Northeast Utilities

The Truth:

Overall, privatization efforts around the world have not been very successful. The United Kingdom was widely pointed to as a model of introducing private ownership into the electric power business. However, the need for consumer protection safeguards became readily apparent as profits skyrocketed and management salaries increased six or seven fold.

Privatization in South America has also not helped electric consumers. In Brazil, the rates charged by Eletropaulo and all other newly privatized electric power and phone companies have soared, creating a consumer backlash that has swept across the hemisphere.⁷

Overall, no one serves citizens better than community-owned utilities because the community has local control over how electricity is provided to their homes and businesses and the city sets its own priorities for the most reliable, responsive electric service at the lowest reasonable price.

⁷ “Privatization Blues,” *Newsweek International*, 03/17/03.

False Charge:

Despite the fact that a growing number of U.S. cities have expressed interest in municipalizing their electric systems, for the most part such efforts remain overwhelmingly unsuccessful when taken to court or a public ballot. – UtiliPoint International Inc.

The Truth:

This simply is not true. Many public power ballot initiatives have passed by wide margins.

As for court cases, if the public power feasibility study has been thorough and actions have been based on legal authority, the city will probably win the lawsuit, but there will be a cost in time, money and perhaps political will. The IOU's goal is not necessarily to win in court, but to run the city out of money or scare city officials into abandoning the idea.

Several new public power utilities have avoided some of these court battles by establishing partial systems serving new developments or industrial parks. Other cities have begun by establishing a municipal utility to take on various money-saving endeavors. These include community energy conservation projects, acquiring and operating the street lighting system, and where state law allows, becoming an official energy services provider to serve an aggregation of customer accounts. Also, some utilities partner with existing municipal utilities on projects to bring low-cost, reliable electricity to citizens.

While many public power initiatives do not result in new systems being formed, these initiatives have not been altogether unsuccessful. In almost every case, the community and its residents receive valuable concessions (i.e. lower rates, improved service and reliability) from the incumbent utility because they have pursued the public power option. Therefore, many communities end up choosing not to form a public power utility because the IOU improves service in response to the new competitive pressure.





Communities that have pursued the public power option have benefited greatly from their experience. When IOUs spend huge sums of money to defeat the municipalization initiative, citizens learn that their local electric market is a prize of great value and are less likely to be taken advantage of in future franchise negotiations. Most importantly, the citizens learn that they have alternatives to the incumbent utility.

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What are Public Power's Benefits?

Lower prices from:

- Not-for-profit status.
- Local cost consciousness, including review in a public process of policy decisions, expenses, salaries, and management compensation.
- Ability to borrow using tax-exempt bonds, exempt from federal income taxes.

Ownership of the asset:

- Local management control over decisions involving investments, operations, maintenance, power supply choices, customer programs.
- Options and choices available only to an owner, including asset leverage, equity borrowing, ratemaking, financial contributions to local government.
- Future streams of income.

Local control:

- Community control over management decisions with success measured by how many dollars stay and are invested in the local community, not how many dollars leave in the form of dividends to often-distant stockholders.
- Citizen-owners with direct say in policies through elected or appointed officials.
- Local citizen participation in meetings and access to information on planning alternatives, cost estimates, performance and other reports.
- Responsiveness to customers' needs and concerns.
- Quick response to outages from crews located in the community.
- Power reliability, power quality, safety and efficiency that come from being singly focused on local operations.
- Emphasis on long-term community goals with control over special programs (conservation and renewable resources, assistance to low-income, service extension policies, industrial parks, etc.).
- Control over electric distribution system aesthetics and design, including undergrounding choices.
- Economic development and jobs from lower rates that attract businesses.
- Local employment with payroll dollars spent in the community.
- Utility management for leadership in innovation, community technology development, environmental stewardship.
- Improved local government efficiency through integrated utility operations with electric, water, gas, sewer, garbage, and community broadband.

Customer Service

- In sum, responsive and reliable customer service.