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PUBLIC POWER MAGAZINE

AMERICAN PUBLIC POWER ASSOCIATION



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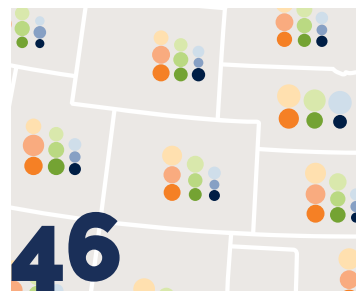
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ABOUT THE AMERICAN PUBLIC POWER ASSOCIATION

The American Public Power Association is the voice of not-for-profit, community-owned utilities that power 2,000 towns and cities nationwide. We advocate before federal government to protect the interests of the more than 49 million customers that public power utilities serve, and the 93,000 people they employ. Our association offers expertise on electricity policy, technology, trends, training, and operations. We empower members to strengthen their communities by providing superior service, engaging citizens, and instilling pride in community-owned power.

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PUBLIC POWER STRONG

SUE KELLY, PRESIDENT & CEO, AMERICAN PUBLIC POWER ASSOCIATION



“Do what is best for your customers. Be responsible stewards of both the customers’ money and the environment. Listen to your community and give back to it.”

ALEX RADIN

For most of my adult life, I have been a “recreational” or “fitness” swimmer (that’s a nice way of saying that I am not a competitive swimmer). Life as an energy lawyer and working mom, and more recently as the Association’s CEO, can be stressful. Morning workouts in the pool help reduce that stress and keep me in decent shape.

In my 40s, I got a bit more ambitious, and started doing a few open water events. My goal was not to win, but just to go the distance. One of the hardest things to do in open water swimming is to go against the current. It can be disheartening when you swim hard, but the buoy you are aiming for stubbornly refuses to get closer. It takes grit and concerted effort to make any progress — and that is when the frequent practices in the pool stand you in good stead. When you do finally make it to your marker and the eventual finish, you have a sense of accomplishment. Like Friedrich Nietzsche supposedly said, “that which does not kill us makes us stronger.”

That is true of public power as well. For well over a century, we’ve fought many battles to preserve the benefits of community ownership and our very existence as public power utilities. Those battles serve to remind

us why we are here — to provide affordable, reliable and environmental responsible electric service to our communities.

Recent years have seen considerable ebbs and flows in threats to the public power business model.

There continues to be considerable interest in moving to the public power model. In the past year, efforts in Pueblo and Boulder, Colorado; Pittsburg, Kansas; San Francisco and South San Joaquin, California; and Maine have picked up steam (read more about municipalization efforts in the Power of Local Solutions, page 6).

On the flip side, three public power communities — Frederick, Colorado; Vero Beach, Florida; and Anchorage, Alaska — moved to sell their electric utilities in the past year. Other potential takeovers have been averted or are still under consideration (see Managing Public Power Takeover Attempts, page 18).

While every community must decide what retail electricity business model is best for it — after being fully informed about the pros and cons of its options — the American Public Association works with communities considering municipalization or sellouts to educate them about the benefits of public power. And I truly believe that each such experience strengthens the national public power community through lessons learned and new trends.

In fact, even when communities consider public power but in the end decide to forego making the change, it brings to light the good that public power can do. It reminds me of what President Roosevelt said his famous

1953

FROM THE PUBLIC POWER ARCHIVES

NAEC Propaganda Attacks Public Power Program

During the past month, two general sessions of the National Association of Electric Companies and the National Association of Manufacturers, gave indications of a new attack on the cooperative and public power program.

Harry E. Karpis, president and general manager, American Public Service Company, speaking at the National Association of Electric Companies, publicly broke down the battle for private power. He pointed to the power company operation of the Federal Reserve Bank project, the Arkansas and Missouri coal electric strip steam plants, Niagara, Holy Cross and the Wang of the 14th energy on their private efforts.

Business pointed to the commercial up along the way. "The bright

light from doctors, railroad, modern, petroleum and the industries, and, however, a lot of it is a...
 sions, U. S. Chamber of Commerce, National Association of Railroad and Utility Commissioners, the Engineers and Joint Council and others."
 At the same time, E. K. Lutz, president, Public Service Company of America, stated that general and maintenance operations for work, including, "The present threat to the existence of our program and our success in the construction of main plants by the super-coop, from such activities by Congress to the N.E.A. for the purpose of 'reducing electric service in homes which were now receiving central station service.'"
 The fact is that one more additional law will be passed by this method, intended to avoid more economically by installing super-cooperative areas where... These areas, operating plants, built by local super-cooperatives, are considered for the industry's purposes and it contained uncontrolled, will spread and eventually lower the electric plants. Should they follow?"
 "The National Association of Manufacturers opened the second

session in the same vein. At that, speakers stated that a new attack should be made on the national government. However, the N.E.A. had its candidate, Dr. Herbert L. Lusk, announce members of the National Utility, declared that the Federal government should get out of all public utility fields. This should be social and distribution, to be sure about that the government's chief interest and revenue all departments and agencies.

NTEA Will Begin Anti-Cooperative Ad Plan in February
 Co-op League Issues Warning to Prepare

As the new Congress meets, the nationwide National Tea Republic Association has prepared a new series of advertisement attacking cooperative power on the tax basis, according to the Cooperative League of the USA. The ad series, to be released in February for spreading by business groups in the nation's newspapers, is primarily aimed at known members of cooperation.

The Cooperative League has advised groups to anticipate the advertisement program for them. Some of the ads are aimed at the farmer and some at the city dweller. Attacks are made on unrelated tax facilities of cooperation. Agents are made to write Senators and Congressmen to change the tax laws. Cooperatives are forced into savings and long-term investments, and are told to pay taxes on their earnings. The ads also state that Congress is "repealing" the tax laws. The fact is that the tax laws are being changed. Charles T. Hill, executive manager, NRECA, said in answer to these ads, "You'd think cooperative means water and coal companies at the privilege. This is a direct attack on the maintenance by the NTEA. They are not professional organizations. However, they have helped millions of farm families get electricity, when no one else would serve them."



Portland Speech on September 21, 1932. He described public power as a “yardstick” against which to judge private utilities’ rates and service. “The very fact that a community can, by vote of the electorate, create a yardstick of its own, will, in most cases, guarantee good service and low rates to its population,” he said. “I might call the right of people to own and operate their own utility something like this: a ‘birch rod’ in the cupboard to be taken out and used only when the ‘child’ gets beyond the point where a mere scolding does no good.”

The recent instances of changes — actual or potential — in public power ownership also remind me of a leader who has inspired me — Alex Radin, the face of public power in Washington for more than three decades. Sadly, Alex passed away right after I became CEO.

Through some of the toughest battles on the energy and environmental fronts, Alex stood up for the rights of the people — including their right to choose not-for-profit public power utilities to be their electricity providers. He believed — as the Association still does — in public power as a force for good in the electric utility industry.

Public power has survived and thrived due in good part to Alex’s untiring advocacy. He left us with the legacy of a simple yet exceptional business model for public power. Do what is best for your customers. Be responsible stewards of both the customers’ money and the environment. Listen to your community and give back to it. It’s a business model that still makes sense in the face of changing customer preferences and is consistent with the growing “back to the community” trend.

When you are faced with the force of the current, you can easily get discouraged. However, we must not forget how much we in public power have accomplished and the good works we do in our communities every day. We have much to be proud of, but we tend to hide our light under a bushel. I understand the temptation to try and stay out of the spotlight, especially given the sometimes toxic nature of public discourse today. But, as the veterans of many battles point out throughout this issue of Public Power Magazine, we need to let our light shine — to tell our story and to build relationships in the community. Our Association has many resources to help you do just that (see page 31).

Public power has faced and surmounted many challenges over the years. With every challenge comes an opportunity, if we can identify and pursue it. And as we continue to take on challenges to our very existence we should be guided, as Alex was, by what is the right result for those we serve.

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THE POWER OF LOCAL SOLUTIONS

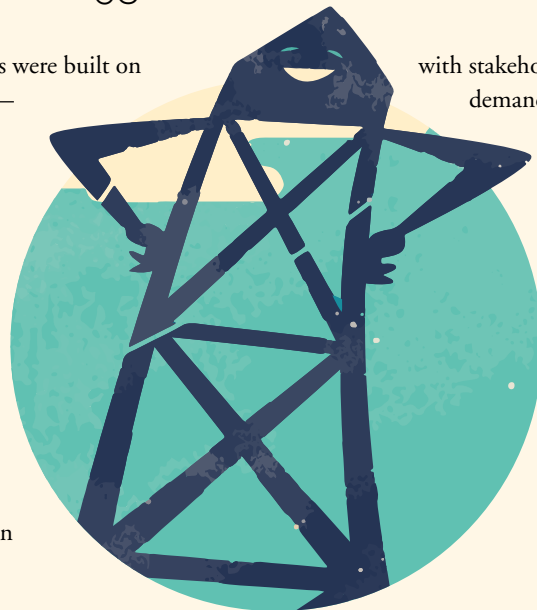
BY DAVID BLAYLOCK, SENIOR MANAGER,
INTEGRATED MEDIA AND COMMUNICATIONS,
AMERICAN PUBLIC POWER ASSOCIATION

THE POWER OF LOCAL SOLUTIONS

In the late 19th and early 20th centuries, forming a public power utility was a necessity for many communities. As larger corporations began establishing electric services in bigger cities, where the return on investment was most certain, small- and medium-sized communities across the country were left to their own devices. In many cases the pioneer spirit ran strong, and communities created their own electric utilities, commonly referred to as municipal utilities, or “munis,” because they were run by the local government.

Of the more than 2,000 public power utilities that exist today, almost 300 were established before the turn of the century, and another 1,000 were founded before the signing of the Rural Electrification Act of 1936.

These early municipal utilities were built on the core values of public power — affordability, reliability and environmental responsibility. Today, those same values are prompting other cities and towns to explore what it would take to transfer ownership of the electric utility from the incumbent shareholder-owned company to the community. Known in the industry as “municipalization,” this is a long and arduous process, often involving perfect timing, dedicated communication



with stakeholders, and a delicate balancing act with the demands of the incumbent utility. While many communities have floated the idea of becoming public power, only 13 have actually made the transition since 2000. “Throughout the year, I’m contacted by about 20 communities that are interested in establishing a public power utility,” said Ursula Schryver, vice president of education and customer programs at the American Public Power Association. “I’d estimate that there are seven to 10 in various phases of the process at any time.”



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“At this moment, municipalization discussions are happening coast to coast, from San Francisco and Davis, California, and Pueblo, Colorado, to the entire state of Maine.”

URSULA SCHRYVER

VICE PRESIDENT OF EDUCATION AND CUSTOMER PROGRAMS AT THE AMERICAN PUBLIC POWER ASSOCIATION

“At this moment, municipalization discussions are happening coast to coast, from San Francisco and Davis, California, and Pueblo, Colorado, to the entire state of Maine,” she said.

Though not every utility that has attempted to form a public power utility has been able to fulfill the dream, Schryver said, the process of exploring is a great way to get the word out about the value of public power and lay the groundwork for a future attempt. “And sometimes, talk of municipalizing incents the incumbent utility to provide communities concessions to keep them from continuing the process,” she said.

There are many reasons why a community might want to shed its investor-owned utility and go to community ownership, but focus almost always comes back to the same key concept: local control.

For the residents of Boulder, Colorado, local control meant knowing where their electricity came from and having a plan to increase power from renewable sources. For Decorah, Iowa, local control meant having an opportunity to keep wealth in the form of electric revenue inside the city and stimulate the local economy. For Winter Park, Florida, local control meant saying goodbye to the lackluster reliability record of the incumbent utility and making enhancements to the electric system so people in the community could be assured of having their lights on.

In all three communities, the municipal-ization process became a long fight with the incumbent utility. Each community has taken on the fight headlong, with different levels of success so far.

BOULDER WANTED TO GO GREEN

According to city documents, Boulder, Colorado, first looked at municipal-ization of its electric utility in the late 1890s. However, more than 120 years later, the closest Boulder has ever gotten to that dream is where it is today.

At first, the talk was just about renegotiating the city’s franchise agreement with Xcel Energy as it was due to expire in 2010. “We thought that was the time to leverage those negotiations to help us meet some of our specific emissions and economic goals in Boulder,” said Emily Sandoval, communications specialist for the city. “That proved impossible because the utility was not willing to treat Boulder differently than it treated its other customers, so we found ourselves in a great place to take it a step further and explore municipalization.”

The city primarily wanted to take control of its electric utility to respond to the community’s interest in going green. In a community that features the University of Colorado, the National Oceanic and Atmospheric Administration, and multiple federal laboratories, the drive to address climate change became a central focus. Before the negotiations with Xcel Energy kicked off, Boulder was already at the forefront of emissions reductions in the residential sector, with extensive installation of solar photovoltaics across the community. But it was clear that only so much was in local control so long as Xcel was serving the city.

“When we took this to the community, three key themes emerged. The first was decarbonization, where we could put an emphasis on renewables. The second was decentralization, where we could make decisions locally and be resilient at a smaller scale. And the third was democratization, where the community could have a bigger say in how their utility runs programs and how it retains and uses the revenue it generates,” Sandoval said. “Though you could participate in the Public Utilities Commission

process to get some of this, it really would be better tailored to Boulder if these decisions happen at the city council or utility board level.”

“In an active and engaged community like Boulder, you have to listen to the citizens, and they really made it clear that these are their priorities,” added Steve Catanach, the city’s director of climate initiatives. “We, of course, also want to ensure that the lights stay on and the prices are reasonable while executing all these priorities. We have a clear plan on how to make that happen.”

The first step in the long journey began with the city council’s decision to forgo a community vote on the franchise renewal and instead offer a ballot measure to institute an occupation tax that would replace \$4 million in annual franchise fee revenue. On Nov. 2, 2010, that special tax passed by a landslide, with 69 percent of voters opting to institute it. This meant the city general fund reserves and essential services wouldn’t be affected by the franchise termination and customers would see little to no effect on their overall bills.

Leveraging the powerful research bodies in the area, the city was able to deliver a number of initial reports and studies that pointed toward how it could take over the utility and increase renewable energy usage and offer new and innovative services without adversely affecting rates and reliability for all classes of customers. Armed with this information, the council again turned to the people of Boulder to decide on its next step, adding two ballot measures to the November 2011 ballot — one to allow for bonds to be issued to pay to acquire the Xcel system, and another to increase the occupancy tax to pay for feasibility studies and legal counsel to move forward with the buyout.

“Xcel immediately came out with their initial argument that the city just wasn’t capable of operating the system,” Catanach said. “They made it seem like the city wasn’t capable of running an electric utility so we had to push back by educating the community and making it clear that there are 2,000-plus city-run public

“When we took this to the community, three key themes emerged. The first was decarbonization, where we could put an emphasis on renewables. The second was decentralization, where we could make decisions locally and be resilient at a smaller scale. And the third was democratization, where the community could have a bigger say in how their utility runs programs and how it retains and uses the revenue it generates.”

EMILY SANDOVAL,
COMMUNICATIONS SPECIALIST
BOULDER, COLORADO



“We really hope we’re forging a path that others can use.”

STEVE CATANACH
DIRECTOR OF CLIMATE INITIATIVES
BOULDER, COLORADO

power utilities out there, including 29 local electric utilities in Colorado such as our neighbors right down the road in Longmont, Fort Collins, Loveland, Estes Park and Colorado Springs. They are all recognized as really well-run electric utilities.”

“As a veteran of the utility industry for the last 33 years, 25 of which have been with municipal utilities [including Longmont and Fort Collins], I worked to assure people that these are models of how a city can run a very successful utility,” he said.

Initial messaging during the campaign leaned heavily on the “city-run is good” argument, but as Xcel pushed harder in a campaign that outspent the city by a 10-to-1 margin, the Boulder team realized that the community mainly wanted to know that this was going to be a legitimate utility operation that didn’t fall short of Xcel’s service.

“At public meetings, it became clear that we really just needed to confirm that, yes, we’d have lineworkers, meter readers, warehouses, trucks and trailers,” Catanach said. “They really just wanted to hear that they would get a real utility.”

“People didn’t really know exactly what a utility was,” Sandoval added. “We talked to the community a lot about what it means to be a utility, what services it can offer, and what is

possible when it is a utility they control. And for the commercial and industrial customers, we needed to provide assurance that reliability would not only be maintained, but enhanced.”

When the dust settled, the vote was close — the issue of bonds passed with 51.93 percent of the vote, and the occupancy tax increase passed with 50.27 percent. Despite a year of negative campaigning by Xcel, Boulder was now a step closer to making municipalization a reality.

Boulder voters have been pulled to the ballot box multiple times since then to reaffirm steps taken by the city and reject Xcel-led measures that have attempted to stall or halt the municipalization movement. Each time, though often narrowly, voters have given their approval to move forward. The next big vote is expected to come in 2020 or 2021, when Boulder voters will make the final decision on whether to form the new utility.

“Right now, we are entering into good-faith negotiations with Xcel to see if we can make this happen without issue. If that fails, we’ll move to an eminent domain proceeding [the exercise of the power of government to acquire private property for public use],” Catanach said. “As that is worked out, we’ll be able to identify the complete cost of purchasing the system and offer engineering details related to the separation plan. We should have a clear picture of the price to offer the public in the first quarter of 2020. If they vote to agree to sell bonds to fund the process, we’ll start the construction and separation process.”

If all goes as planned, the public power utility in Boulder is expected to kick off operations in early 2024.

“If we pull this off, we’ll be the first to do so in Colorado since 1910, before the Public Utilities Commission even existed,” Catanach said. “We’ve already had talks with Pueblo, Colorado, as they start looking at how they can municipalize. We really hope we’re forging a path that others can use.”

DECORAH SOUGHT TO KEEP MONEY IN THE COMMUNITY

One of the most recent attempts at municipalization occurred last year in Decorah, a city of 8,000 people in the northeastern corner of Iowa. As is the case in many communities looking at municipalizing, the effort in Decorah began because its franchise agreement with Alliant Energy was about to expire. Led by a citizens’ group called Decorah Power and the countywide Winneshiek Energy District, Decorah was looking for a way to cut ties with Alliant and spur economic development through local energy planning and revenue retention.

“We saw our mission as protecting our energy prosperity here,” said Winneshiek Energy District Director Andy Johnson, who has been consulting locally on energy planning and assistance through the district since 2010 and had a leadership position in Decorah Power. “When we pay Alliant [150 miles away in Madison, Wisconsin] for our energy, that creates a drain on our local dollars. Wherever we can plug those leaks, that’s local wealth creation and retention. A Decorah municipal utility would do just that.”

In Decorah, there is increasing interest in innovations including distributed generation and net metering, but Alliant has proved to be an unwilling and, at times, hostile partner in those initiatives, Johnson said. It has even gone so far as to repeatedly try to close the door on net metering in the state before the Iowa Utilities Board.

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“ But I cannot help but still be proud of what we did and how we got it that close. They outspent us, by some estimates, by a 5-to-1 margin, and we still got to really get out there with the community and raise their awareness of how a utility can and should work.”

ANDY JOHNSON

WINNESHIEK ENERGY DISTRICT DIRECTOR

Johnson noted that even when Alliant rolled out requested programs, it struggled to meet the needs of a rural community far from any major cities. “We have fantastic energy efficiency programs led by the state that are funded by customers, but Alliant relies on technical assistance and efficiency audits by faraway or out-of-state contractors who cannot easily make the two- to four-hour drive to us,” he said.

By 2016, frustrations over this situation had intensified among local business and city leaders, who recognized that they’d have an opportunity to take back control in two years, when the franchise expired.

“We took all of this to the city council and presented them with options and a potential road map towards a muni,” Johnson said. “We emphasized that we wanted to take a ‘study first’ approach, where Decorah Power would take on the burden of getting a feasibility study done and look into what was possible for our community.”

The citizens of Decorah raised \$100,000, putting \$75,000 toward the feasibility study, which gave a clear picture of how they could move forward with a public power utility. Resources and speakers from the Iowa Association of Municipal Utilities and the American Public Power Association got the ball rolling on the

educational component of the campaign, laying the foundation for a referendum.

However, Decorah’s citizens weren’t the only ones crafting a game plan. “Once it became clear that we were thinking about this, and before we even had a chance to get the city council’s blessings, you could already see the Alliant lobbying effort ramp up, with a push to renew the franchise years early to close off this possibility before it could even start.”

“The campaign [Alliant] put forward was about how unreliable and unaffordable municipal utilities are,” he said. “We turned out spending much of the early period just pointing out that the reverse is true in Iowa: Our municipals have, on average, lower rates and better reliability, especially among our peer group based on size.”

Things got more heated once the council approved the plan for a referendum for May 2018. Though the referendum would not establish a new public power utility outright, it would give authorization to the city to seek approval from the Iowa Utilities Board to allow for the creation of one. That step alone could prove to be problematic, as the board had rejected multiple requests for municipal utilities in the last decade.

“Even though there was still a long process ahead, once the referendum campaign started, Alliant went into a divide-and-conquer mode,

stoking existing political tensions and splitting the community to try to get people to oppose the referendum,” Johnson said. “We took a pro-community campaign rather than an anti-Alliant one. For three months, we educated community members about the savings and the value of having a municipal utility. But it was hard to counter some of the scare tactics the other side used.”

At one point, Alliant released its own report to dispute the Decorah Power feasibility study. Whereas Decorah Power’s study said the buyout would cost \$7 million and reduce rates by 30 percent, the Alliant study said the cost would come in at \$50 million and increase rates by 30 percent.

“Ultimately, I cannot fault anyone who voted against it because they were told the whole municipalization prospect was a big unknown and that it was complicated — because it was,” Johnson said. “For people in the heartland living on a low- or fixed-income, when you’re told a major change might raise your rates, you understandably worry that it’s not worth the risk.”

That worry turned out to win the day, though just barely. The final count was 1,382 votes in favor of municipalization and 1,385 against.

“When you lose by three votes, you start thinking of all the things you could have done differently just to close that small gap,” said Johnson. “But I cannot help but still be proud of what we did and how we got it that close. They outspent us, by some estimates, by a 5-to-1 margin, and we still got to really get out there with the community and raise their awareness of how a utility can and should work.”

Iowa law states that a referendum cannot be re-held until four years have passed. Decorah Power is still considering its options, though the city council has begun the process of negotiating a new franchise agreement with Alliant.

“At this point, as we look to the future, we just hope that any new franchise agreement isn’t permanent or long-term,” Johnson said. “We hope we’ll still have that door open.”

What makes communities consider public power?



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WINTER PARK WANTED RELIABLE POWER

The decision to bring public power to Winter Park, Florida, a community of 30,000 people near Orlando, started with the city commissioners asking some questions.

“It was 2000, and our franchise agreement with Progress Energy, now Duke Energy, was set to expire the following January. A couple of our commissioners looked at the agreement’s right-to-purchase clause and asked us to explore it before we renewed the franchise,” said City Manager Randy Knight.

At that point, Progress had informed the city that any future franchise agreement wouldn’t have that right to purchase. “The commission looked at that as a creating a permanent franchise, so we knew we needed to do due diligence to make sure we were making the right decision,” Knight said.

After years of lackluster electric reliability from Progress, Winter Park leaders felt the pressure from their community members to find a solution. At that time, Winter Park’s system average interruption duration index (SAIDI), a reliability indicator for how long customers go without power after an outage, was well above 300 minutes a year. The industry average SAIDI for a utility without a major event is 142 minutes, and the average for public power is 65 minutes.

“We have a tree-lined community, and that’s one of the things people love about it,” Knight said. “It goes without saying that trees and power lines do not mix. For that reason, we wanted to look at undergrounding our lines, but that wasn’t something Progress was willing to do. We in Winter Park were unhappy Progress customers with such horrendous reliability. So, we made having control of reliability a big part of our campaign, because we knew that is what people wanted.”

“So, we made having control of reliability a big part of our campaign, because we knew that is what people wanted.”

RANDY KNIGHT

CITY MANAGER
WINTER PARK, FLORIDA

To make matters worse, the community felt it was getting an insufficient response from Progress crews when storms rolled through. Given the size of Progress’ service territory and the large areas affected by storms in the region, crews would only fix a small part of a larger outage in Winter Park before moving on to the next Progress community. They did not stay until all of Winter Park was up and running.

Armed with customer frustrations and the buy-in of key local officials, Winter Park kicked off its municipalization process with a feasibility study that showed a path to local control. From there, a referendum was set for September 2003, and the battle began.

“Progress used everything in their playbook to stop us during the campaign,” Knight said. “They rolled out billboards, television ads, newspaper ads and flyers that said we were too small, that we’d be five guys and a pickup truck trying to put the system back together after a storm. Their main argument was that if we left them, we’d be out there alone, incapable of delivering even the level of service they provided. We heard over and over again that we’d be a disaster.”

Progress tried to win the referendum by “going straight to the pocketbooks of the voters,”

Knight said. “They estimated how much the purchase of the system would cost and divided it by the number of customers so that they could scare people into thinking they’d be on the hook for \$30,000 a year in new taxes.”

As the September referendum approached, the community worked to counter Progress’ claims by talking about the new revenue municipalization would bring and highlighting the excellent city services people already enjoyed in Winter Park. They also emphasized that 2,000 other public power utilities proved the degree to which the business model can thrive.

“The support from the other public power utilities in the state was great in putting out the message of how this could all work,” Knight said. “At one rally, we even had most of them show up, each bringing one bucket truck.”

All hands were on deck in the community to make sure Progress couldn’t find any loopholes ahead of the referendum, Knight said.

Ahead of the referendum, Progress was required to disclose its financial report so people would know what the company had invested in the campaign. “They put it in the mail at midnight the Friday before the vote so that they could meet the deadline and hope that it wouldn’t be reported on until it was too late,” Knight remembered. “So, we went to the local postmaster on Saturday and asked him to go through the stack of mail for the city and get that out as soon as possible to the [Orlando] Sentinel. When they reported on Sunday that Progress had put \$523,000 — 10 times what we were able to spend — into a campaign they argued would have limited profitability, it became clear to a lot of people that municipalization was a good option.”

THE POWER OF LOCAL SOLUTIONS

On election night, the campaign for municipalization paid off — 69 percent of Winter Park residents voted in favor of creating the new electric utility. After negotiating the buyout, on June 1, 2005, five years after first starting to look at the prospect of municipalization, Winter Park joined the national public power family.

The years since have made it clear that the decision to municipalize was worth it, Knight said. The muni has been able to continue giving 6 percent of revenues to the city general fund, as had been the case in the franchise agreement with Progress. The not-for-profit utility has then used its excess revenues to make some

major capital improvements, including the underground lines that kick-started interest in municipalization. “We are now well along in the undergrounding process, with an eye toward having the entire system underground in 2026,” Knight said.

“After that, we’re excited to see what’s next with the \$3.5 million to \$4 million per year in revenue that we’ll now be able to use on something else. Will it be decorative lighting around the community? Lower rates? It will be the community’s decision,” he said. “That’s the power of local control.”

“It will be the community’s decision. That’s the power of local control.”

RANDY KNIGHT
CITY MANAGER
WINTER PARK, FLORIDA

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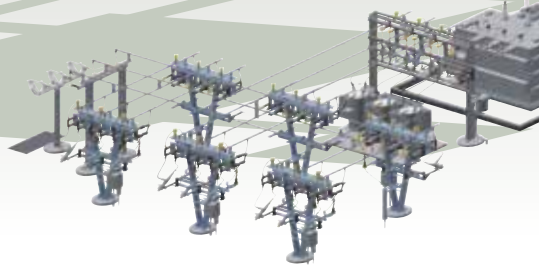
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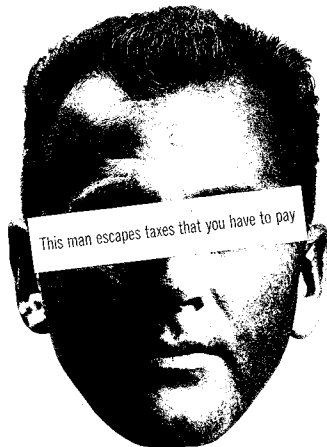


While they might not be as high-profile as the Wall Street mergers and acquisitions that make the headlines — or provide fodder for binge-worthy legal dramas on streaming services

— Main Street has had its share of takeover attempts for community-owned electric utilities run by the local (or sometimes state) government.

1950s

FROM THE PUBLIC POWER ARCHIVES



He's not dishonest — or doing anything illegal. But present federal laws give him and many other people an unfair tax advantage over you and most Americans.

Here's how:

About 23 cents out of every dollar you pay for electricity goes for taxes. But most present tax laws exempt million families and businesses escape paying most of the taxes on their electric bills that you pay in yours. They are

people whose electricity comes from federal government electric systems. Unlike you, these people pay no federal taxes on all and little or no state or local taxes on their electric bills.

What's more, the taxes they escape have to be made up by other people — including you.

Most Americans believe everyone should pay his own fair share of taxes. How do you feel about it?

AMERICA'S INDEPENDENT ELECTRIC LIGHT AND POWER COMPANIES*

*Generally states as required through this message

Sellout and buyout attempts on public power utilities date back to the very inception of public power. The first public power utility, formed in Wabash, Indiana, in March 1880, was later sold to a private company. However, the public power model quickly became popular, and by the early 1920s, there were more than 3,000 public power utilities. With acquisitions and buyouts, that number plunged to 1,900 by 1930. Then, a growing wave of resentment against private utilities reversed the downward spiral, and by the late 1930s, there were approximately 2,000 public power utilities (or “munis” — short for municipal utilities), roughly the same number as today.

From 1980–2018, 82 public power utilities were privatized. In the past decade, 10 public power utilities across the country have been sold, while four new public power utilities have been formed.

OLD THREATS HAVEN'T GONE AWAY

Privatization proposals in recent years have been directed at public power utilities in Anchorage, Alaska (sale pending); Eagle Mountain, Utah (sold); Lafayette, Louisiana; Jacksonville, Florida; Mount Pleasant, Utah; Puerto Rico; South Carolina; and Vero Beach, Florida (sold). However, there is no discernible industrywide trend, according to Mike Mace, managing director of the consultancy PFM, who spoke at the American Public Power Association’s Joint Action Conference in January 2019.

“It’s a lot of smoke, but also a little fire,” Mace said. Each of the privatization efforts reflects unique circumstances, and there is no common thread yet, in his opinion.

However, Mace noted that investors in private utilities crave and reward growth. For investor-owned utilities in a “buy or be bought” world, acquisitions provide growth opportunities. But there are fewer targets among their own kind every year. Will these companies start to look more toward public power as they con-

template how to grow their rate and asset base?

A large public power utility — especially one with several hundred millions worth of rate base assets, a low debt-to-asset ratio, and solid free cash flow — is quite an attractive target for IOU takeovers. This, says Mace, makes many of the top 100 public power utilities potential privatization targets.

“Municipal utilities that are smaller than the top 100 are probably not IOU targets but could be co-op consolidation targets,” he said.

It is, of course, possible that a community might prefer the privatization option. Sue Kelly, CEO of the Association, noted that public power utilities sometimes consider a sale in response to specific proposals or simply as part of periodically evaluating their future options. “Every community must be allowed to decide what is best for itself after knowing the facts,” she said.

Tom Heller is CEO of Missouri River Energy Services, a joint action agency that provides wholesale power and a suite of business services to public power utilities in North Dakota, South Dakota, Minnesota and Iowa. He said sometimes a sellout is considered when a new city council takes over in a smaller community or new policymakers come on board who don’t understand the value of public power.

“Municipal utilities that are smaller than the top 100 are probably not IOU targets but could be co-op consolidation targets.”

MIKE MACE
MANAGING DIRECTOR
PFM



1959

FROM THE PUBLIC POWER ARCHIVES



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How can this needless spending of your taxes be stopped? As soon as enough people learn what "public power" is really costing them, they will call a halt to it. The quickest way to bring that about is to spread the word among your friends and neighbors.

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"Sometimes they see things that they need to have done in their city — like downtown renewal or economic development — and somebody gets the idea, 'Well, let's just sell the electric utility. Look at all the cash that we can have to do all these things.' That's happened several times in the MRES membership but is relatively easy to fight."

Often a buyout attempt is not about better rates or reliability. It's about the contender's bigger plans. But if local policymakers are educated about the value the utility brings to the community in the long term, they are less likely to capitulate.

In the Association's guidebook, *Positioning Your Utility to Succeed in a Sellout Evaluation*, authors Ursula Schryver and LeAnne Sinclair note that "If a sellout attempt or buyout offer emerges, you may

be called upon to decide if the utility should be sold or leased and, if so, at what price. The sale of such a valuable asset, which reflects the investments of its past and present customer-owners over many years, is a complex issue and deserves careful consideration. ... The community needs to be kept fully informed of the formal process for considering such a sale and the citizens' role in the ultimate decision. The sale of a public power utility is a drastic measure, and those who propose selling should be required to demonstrate clearly how the community would benefit from the change."

While it's not uncommon for public power utilities to consider a sale, it is rare for them to be sold. Kathy Masterson, senior director of Fitch Ratings, noted in a news release issued on Feb. 22, 2018, that "few utility sales persist through to completion in the public sector." As she explained, "potential transactions must consider the impact to ratepayers and are not compelling unless ratepayer benefit can be credibly anticipated."

NEW THREATS LOOM LARGE

Clearly, threats to the public power business model are not new. However, buyout offers are coming from new sources. In 2018, we saw the emergence of a new kind of contender, a private equity management firm in the Deep South.

Jim Bernhard, founder and partner of Bernhard Capital Partners, a Baton Rouge, Louisiana-based company, made a bid to manage Lafayette Utilities System in Louisiana under a 40-year agreement. The Lafayette City-Parish Council eventually voted to oppose the possible sale, lease or third-party management of LUS.

During Bernhard's solicitations, local news outlets in Lafayette reported that he envisioned acquiring LUS and building up a Fortune 500 company, possibly headquartered in Lafayette. "We would be the largest utility — larger than Entergy — at the end of five years," Bernhard said.

Before the council vote, Bernhard said in a speech to the Rotary Club, "We are going to invest about \$15 [billion] to \$20 billion in municipal utilities throughout the Southeastern part of the United States." His company formed a subsidiary, NextGen Utility Systems, "to manage public power systems." At that time, Jeff Baudier, a director of NextGen, said that if the LUS takeover did not go through, "We are going to get on our horse and ride to the next town."

Is Bernhard's reported plan for the Southeast a foretaste of things to come? While there is no clear picture, many industry veterans warn that no public power utility is immune from privatization attempts.

A public power utility that wants to foil any potential takeover attempts must address three key local groups — policymakers, people in the community, and the press.

COMMUNITY-POWERED IS COMMUNITY SUPPORTED

Veterans of buyout wars emphasize that a public power utility that wants to foil any potential takeover attempts must address three key local groups — policymakers, people in the community, and the press.

Shane Ward, power superintendent of Mount Pleasant City Power in Utah, says that when his public power utility received a buyout offer from the investor-owned utility, Rocky Mountain Power, in 2016, the city's then-mayor did not understand the value of public power. "The biggest thing was to educate our council members and the people in charge. We let them know the value that we bring to the city, and I think this actually opened their eyes," he said.

The best time to step in to meet with policymakers is when there's turnover, according to Heller. "When you've got a new city council, a new utility commission, a new city manager, or newly elected or appointed council or board members, you need to get in there right away and educate them on the value of the public power system."

If the utility manager is a nuts-and-bolts person, this might not be his or her favorite thing to do. But not building relationships with policymakers will cost the utility.

MRES helps member utilities with policymaker education. The agency hosts an annual day and a half Municipal Leadership Academy to which it invites new mayors and council members. MRES staff are appointed as member

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service delegates who stay in touch with utility managers and track local election results. As soon as there is turnover, the delegates try to meet with the new leaders and get information packets to them.

“We want to make sure our members understand we’re here to help them educate their city council and their mayor. It’s their community, and we’re a resource,” said Heller.

“The best defense you can have is not the one that comes from the utility itself, but from the people and the leaders in the community,” said Terry Huval, retired director of Lafayette Utility Systems in Louisiana. “If your customers are saying, ‘Look, public power’s been a great thing for our community, so we’re not at all interested in selling it,’ that carries a lot of weight.”

Throughout his 23-year tenure as director of LUS, Huval paid special attention to engaging with the community. He joined various civic clubs and business organizations at his own cost to develop relationships with community leaders. He always made himself available to present information to these city organizations about what was going on with the utility and its plans for the future. Sometimes it was just a garden club wanting to discuss the utility’s tree-trimming practices. “Those interactions worked out very well and earned us a great deal of trust and respect by the citizens of our community,” Huval said.

Utility staff can always engage with customers and address small group meetings to provide useful information about a variety of topics, such as energy efficiency or developments at the utility, he suggested. Transparency and dialogue by Huval and his staff helped to build strong relationships in the community that really came in handy when Bernhard’s management proposal was presented.

Ward concurred. “It was actually the citizens that shut this whole thing [Mount Pleasant takeover attempt] down. It wasn’t the power department, though we gave our message.”

The council meeting that voted to turn down the offer from Rocky Mountain Power

“Public communication needs to be part of the culture, just like reliability and safety.”

TERRY HUVAL
RETIRED DIRECTOR
LAFAYETTE UTILITY SYSTEMS

was packed with residents. The utility told people, “Hey, this is your system. We need you to come and support it.” And the people did. “The citizens actually spoke up and said, ‘Hey, this ain’t right.’ Because they’re the ones that own the department,” said Ward.

Now, Mount Pleasant is regularly engaging with the community. The utility has programs in elementary schools and educates council members “so they’re aware of the decisions they’re making,” Ward said. The utility also does a biannual column in the paper titled “Your Local Power Department at Work” to describe upcoming projects and benefits to the community. Ward does not have a dedicated communications staff. He and his billing clerk manage all media and community outreach.

Heller said MRES helps member utilities educate larger industrial and commercial customers. As part of the joint action agency’s energy efficiency program, Bright Energy Solutions, agency staff meet with the utility’s manager and its bigger retail customers on energy efficiency. “And we also talk about the value of public power whenever we can insert that into the discussion,” he said.

MRES also helps member utilities instill pride of ownership in residential customers. The agency partially funds energy efficiency kits for fifth-graders in local schools. The kits include information the students can take home and work on with their parents to save electricity, and the kits spell out the benefits of

public power. “We think it’s good to start to educate kids at an early age, and that’s a great way to educate their parents as well,” said Heller.

Huval found the local media to be an unsolicited ally in LUS’ battle against the Bernhard takeover attempt. “Our local press had trust in us just because of the many years that we had worked with them, whether it was on stories that were critical or complimentary of us. Through the decades, I consistently made myself available to them to help them so they could feel comfortable writing their stories. When they had questions, I was able to give them precise responses to put everything in proper perspective.” This mutual trust went a long way in helping tell the LUS story to the community.

“Sometimes, the media doesn’t know who to trust. You have to develop your reputation with them to build that trust so they feel confident you’re giving them the straight scoop. Always be available for them,” Huval said.

Good relationships make it easier to reach out to the media in bad situations and say, “Look, we have a situation here and we just wanted to let you know.” They can take it from there.

If utilities aren’t connecting with the community, they’re already behind the eight ball, said Huval. “Public communication needs to be part of the culture, just like reliability and safety,” he emphasized.



HOW TO DEFLECT TAKEOVERS: TIPS FROM THE VETERANS



1 Live and breathe the community in community-owned.



2 Instill pride of ownership in your customers — they are your best defense.



3 Take time to educate your policymakers about the benefits of public power.



4 Show the value of your utility — go beyond poles and wires.



5 Toot your horn — talk about benefits of public power everywhere and all the time.



6 Build relationships with local media, be responsive to their requests.



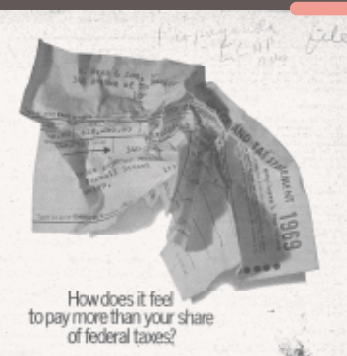
7 Get help from the public power ecosystem — your joint action agency and state/regional and national associations.

Huval also advises utilities to look for “natural opportunities” to toot their horn. Whenever LUS went before the city council each year to present the utility’s budget, it gave a presentation on the state of the utility and its plans for the future. The meetings were an open forum and were even televised. “So, when you’re having this important conversation with the council members, you’re also giving a chance to the public to hear this, giving them an opportunity to weigh in. As a public power entity, it’s our responsibility to find effective, innovative ways to effectively communicate with the public we serve,” Huval explained.

While the effort to move to private management may be behind LUS, it’s more important than ever for the utility to remain engaged with the community, to tell its story, and to be involved. Give customers and stakeholders confidence in the utility, Huval urged.

1969

FROM THE PUBLIC POWER ARCHIVES



Perhaps it's news to you that many people do find it happening because government is at the electric power business in a very big way. On the one hand, investor-owned electric light and power companies serve about 80% of electric users in the U.S.A. and are among the largest payers of federal taxes in the nation. Government power projects, on the other hand, though they sell hundreds of millions of dollars worth of electricity that goes to utilities of residential, commercial and industrial users, do not yield any tax revenue to the national treasury. For example, from 1953 to 1968, more than \$4.411,000,000 of federal tax revenues were lost through this operation. This is because consumers who use government

electric power are not required to pay in their electric bills the same taxes that other Americans pay. Obviously, overpaid taxes help to make up the difference. That is one reason why so many people are paying more than their share of federal taxes. What is suggested is that government electric power businesses assume federal tax paying responsibility as do the investor-owned electric power companies. This would spread the federal tax more fairly among electric users and open an added source of revenue to help meet the costs of government.

Investor-Owned Electric Light and Power Companies*
*The names of investor-owned companies, whether Public Companies, Ltd. or others, are available in the Appendix, New York, April 1969.

SHOW ME THE VALUE

Kelly pointed out that when communities have conducted sellout evaluations, they have often found that “the utility is worth far more to the community than it is to a potential buyer.”

Ward provided further perspective: “You wouldn’t sell a family car to pay for a family vacation. Why sell the municipal utility that provides long-term benefits to the city for a one-time financial windfall? Once it is gone, that’s it.”

MRES offers members a Municipal Power Advantage Study that Heller described as “retail rate comparison on steroids, where we come in and we look at all the benefits that a municipal utility provides.”

The study tries to quantify all services a muni provides — joint meter reading and shared services with other city utilities, donated labor and free electric service to city buildings, economic development, street lighting, and more. “We put that into a report for the city council that they can send to their local newspaper and to all their citizens to say, ‘Hey, if the municipal utility didn’t exist, it would cost you \$300 a year more in electric rates, and we also have local control with elected or appointed representatives making decisions in the best interest of our community.’”

Ward concurs about sharing the value of the utility. He recounted that Rocky Mountain Power offered to buy out Mount Pleasant City Power for \$8 million. However, valuations currently under way show that the public power utility is likely worth more than \$25 million.

Ward’s joint action agency, Utah Associated Municipal Power Systems, provides member utilities with a Municipal Value Toolkit which

suggests that utilities get their systems evaluated to know what they are worth. Every public power utility should make valuation a priority and do it at least once every five years, counsels Ward.

“We actually hired a company. I budgeted it and hired a company to come in and count poles, sectionalizers and secondary boxes, and actually number and GPS everything on our system.” As a bonus, the valuation also helped Mount Pleasant get good maps, which were missing before, and bring everything up to speed.

The value of a public power utility is more than poles and wires, explained Ward. “Every one of us that worked for the power department here, we live in the city. We buy groceries at the grocery store. We do a lot of electrical work inside the buildings that saves city money. Right now, we’re in the process of changing all the lights in all the buildings out with LEDs to help the city save money and energy. I don’t think the council and the mayor actually see everything that we do.”

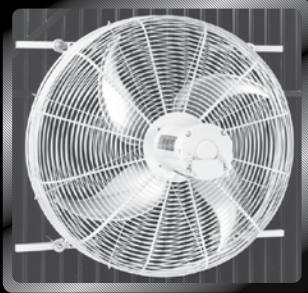
Heller reiterates the value of public power utilities, including lower rates, local control and investment back into the city. There is also strength in numbers. “Being part of a joint action agency means that they’re not just this little system out there by themselves.

They’re part of a larger network, so they’re just as big as — or even bigger than — some of our private utilities in Minnesota.”

When a small municipal utility in South Dakota faced a takeover attempt by Otter Tail, an investor-owned utility, the muni contacted MRES, and the agency offered to do a discounted rate study for it. “They didn’t have the staff to do such a study, but if you’re a member of a joint action agency, it’s that agency’s duty to come in and help the member. That’s one of the great things about joint action agencies; you’re working together, you’re a part of a bigger system, you have that backup,” said Heller.

Kelly concurs that there is tremendous value in the public power ecosystem. In December 2018, she visited with Austin Utilities and Owatonna Public Utilities in Minnesota and

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spoke to their business customers. “Austin and Owatonna are local utilities embedded in their communities, but that does not mean they are isolated. Rather, they are part of a larger community of public power utilities, participating in a joint action agency, a state association (the Minnesota Municipal Utilities Association), and our national Association. Together, we provide a full array of resources that allows these utilities to provide very reliable, affordable and environmentally responsible electric service to their communities,” Kelly explained.

Of course, a utility cannot ignore the basics. A strong track record of safety, reliability, customer service and efficiency in restoring power after an outage will go a long way toward deflecting takeover attempts. Huval pointed out that LUS’ significant history of receiving and providing mutual aid after storms earned tremendous goodwill from the community.

A LEADER'S PASSION

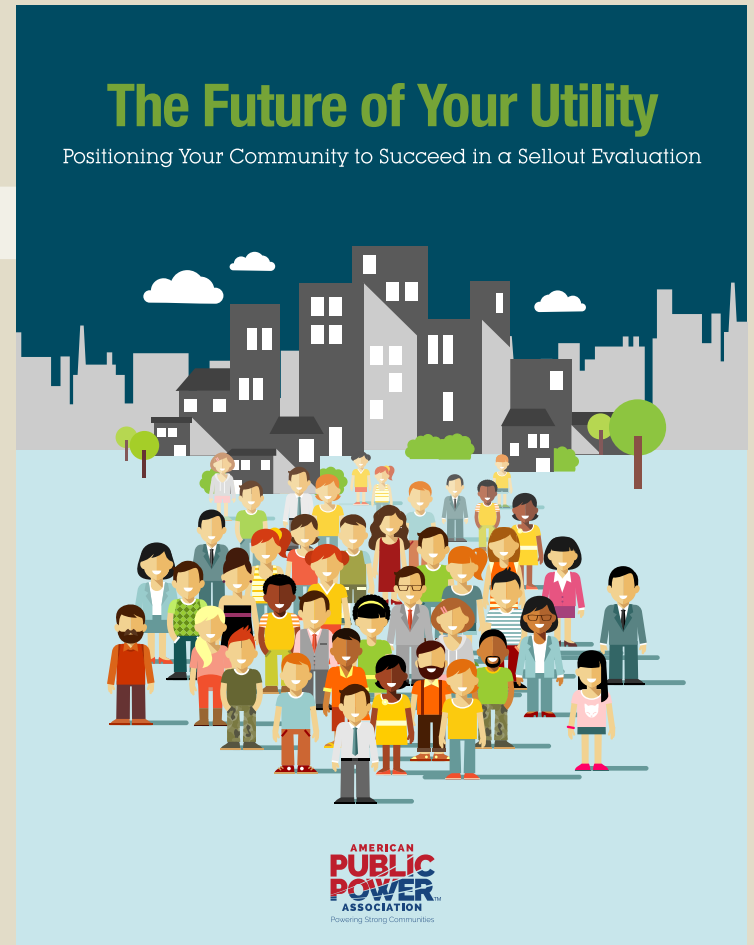
Often, CEOs and general managers of community-owned utilities have a passion for public power and are willing to go to great lengths to protect the business model. Some have even resigned to support the battle to retain the public in public power.

When one local news entity published a major story on the bid to take over LUS, Huval said, “I decided to retire so that I could properly deal with the issue on behalf of our community. As long as I was still employed by the city, it would have been awkward to properly engage on an initiative being driven by the city administration, like this one.”

He added, “I was nearing retirement age, and although I really wanted to lead LUS for several more years, I was very concerned that our city might very well lose this 122-year-old jewel of a utility system. I decided it was time to divest myself from the city so I could provide the facts to the press and our citizens in order for them to get a better understanding of what was involved.”

At the end of the day, “there are going to be new threats, but I think the fundamentals are still the same,” Heller said.

Utilities that want to keep the public power business model intact must not let their guard down. They must live and breathe the “community” in community-owned and continuously engage with customers, the media and local leaders to emphasize their value.

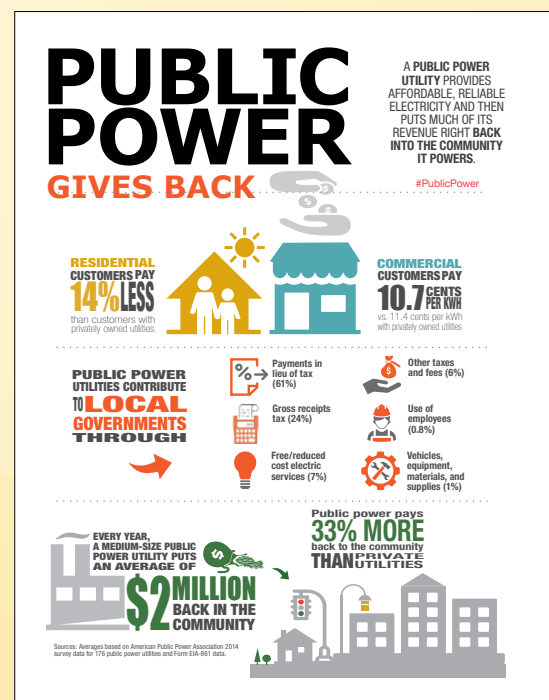
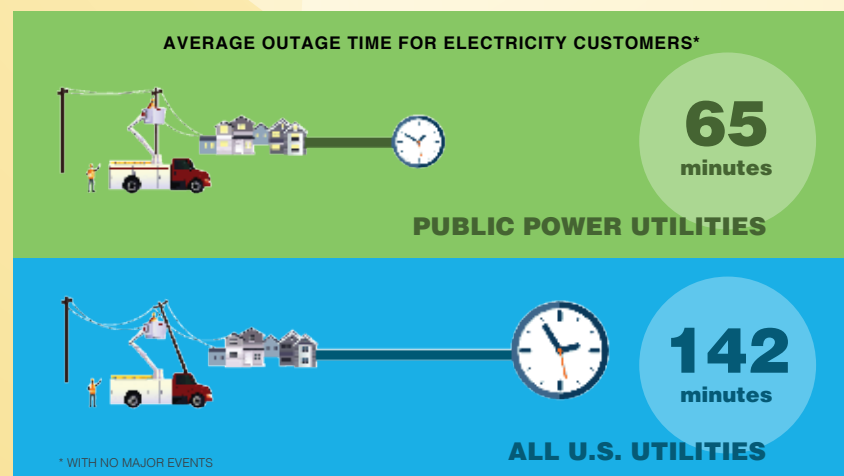
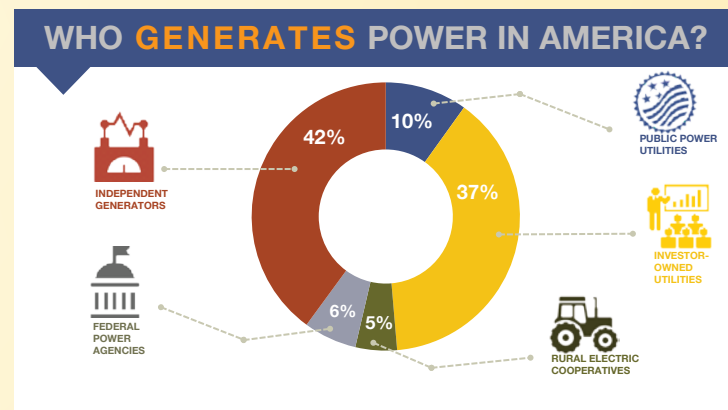


The American Public Power Association stands ready to help public power utilities preserve your business model. Public power utility members of the Association can request a copy of our free Positioning Your Utility to Succeed in a Sellout Evaluation, which tells you how you can anticipate, prevent, and respond to proposals to sell your community-owned utility. Take a look at this guide even if you see no specific proposals on your horizon right now. It pays to be prepared, and to explain the benefits of public power to your community all the time. **Email Products@PublicPower.org to request a free PDF.**


Tell Your Community About the Value of Public Power

CHECK OUT RESOURCES YOU CAN USE

The American Public Power Association makes it easy for you to tell your community about the benefits of public power. Here are samples of infographics, slides, fact sheets, and videos you can download from our website and use in your social media, newsletters and more. Go to www.PublicPower.org and then click the red MEMBERS tab at the top right. Click on Communication Templates in the MEMBERS dropdown to download resources listed by topic or by month.



5 KEY VALUES OF PUBLIC POWER



2,011 public power utilities provide electricity to 49 million people in 49 states and five U.S. territories. While each utility is unique, public power is characterized by some key values.

COMMUNITY OWNED

Public power utilities are owned by the communities they serve. They provide local jobs and support the local economy. You'll see your friendly utility staff at the ball games and the grocery store.



LOCALLY OPERATED

Public power utilities are run by the city. They are regulated and governed by the city council or a board with local representatives. If you live in a public power community, you have a voice in decision-making for your utility.



RESPONSIVE

Public power utilities focus on delivering the highest level of service and value to customers. They are committed to meeting the needs of the community through environmental stewardship, high reliability and economic development.



NONPROFIT

Surplus revenues stay in the community and are invested in system improvements, shared with the local government, or used to lower your electric bills. Revenues are not distributed among outside shareholders.



LOW-COST

Public power utilities have access to tax-exempt financing and generally have stronger credit ratings than privately owned utilities. Community-owned utilities operate efficiently, and many have access to less expensive federal hydropower.



KNOW YOUR WORTH, SHOW YOUR WORTH DETERMINING THE TRUE VALUE OF A PUBLIC POWER UTILITY

BY PAUL CIAMPOLI, NEWS DIRECTOR
AMERICAN PUBLIC POWER ASSOCIATION





It is a best practice for every public power utility to conduct a periodic valuation of its services and assets, even when the skies are blue and there is no threat of a potential sale looming.

A valuation usually underscores the core benefits of public power — competitive retail rates, a track record of reliability, and a wide range of economic contributions.

However, the real value that public power brings to the table goes beyond dollars and cents and keeping the lights on. Community relationships, local control, and high standards of customer service are factors that add intangible but immense value that sets public power apart.

The traditional methods of valuing utilities have many limitations for public power.

DIFFERENT APPROACHES TO UTILITY VALUATION

Mark Beauchamp, president and founder of Utility Financial Solutions, a company serving public power for many years, outlined three approaches to valuating a utility. Each method has its shortcomings, he said.

The first approach is depreciated replacement cost. Beauchamp said this method only looks at the asset investments and the age of the assets. It does not consider the fact that a lot of the assets that are depreciated in the books are still in service and working fine. This approach also does not consider the contribution margins generated by customers. “It only looks at the

assets, and it doesn’t consider the goodwill that the utility has built up by providing service for a hundred years,” he said.

The second method is discounted cash flow. This method reviews the margins that would be generated by a purchasing entity by buying the local utility and compares those margins with the price that is being paid to determine net present value. But this method is “of little relevance to the local utility. It’s only of relevance to the purchasing entity,” Beauchamp said.

The third approach is to look at what the sale prices have been for other utilities. The problem is that it is difficult to compare utilities because the age of infrastructure, types of customers, density of service territory, and generating resources are different. “That all affects the value, so when you go to compare the sale somewhere else, it may not be relevant to the local utility,” Beauchamp said.

Florida Municipal Power Agency General Manager and CEO Jacob Williams said the fundamental question should be, “What value does a utility provide to the community it serves?” Looking at the book value of assets is the wrong way. One needs to look at the rate advantage, the benefits of local jobs, the utility’s reliability record and how it compares with the competition. Public power utilities tend to have a better environmental footprint as well, noted Williams.

There are other intangibles. Many times, for example, a city has shared services, and the electric utility pays for most of these. “If you

take away the electric utility’s contribution, the city’s got to find those shared services from somewhere else because the utility’s not paying for it anymore,” pointed out Williams. Often, public power utilities put up holiday lights, go into the schools, screen movies in the park, and have many other projects that focus on the local community.

What are the other common missteps when public power utilities determine their worth? Beauchamp said that the financial impacts on the city as a whole are often overlooked. “They don’t consider the impacts on other utility services, because when you eliminate the electric utility and you’re still providing water and wastewater, you’re going to have shared services that the electric utility was absorbing, and now it’s going to be going only to the water and the wastewater, so it’s going to increase their costs.”

The same thing happens in relation to shared services for the city. The city general fund is going to have additional costs because it can’t continue to share those costs with the electric utility.

Another common misstep is neglecting to highlight reliability of service. Public power utilities, because of their local presence and proximity to customers, tend to have a far better reliability track record than cooperatives or investor-owned utilities. This can be lost in the mix when a utility determines its worth, Beauchamp said.



"...the fundamental question should be, 'What value does a utility provide to the community it serves?'"

JACOB WILLIAMS
GENERAL MANAGER AND CEO
FLORIDA MUNICIPAL POWER AGENCY

HELP FROM JOINT ACTION AGENCIES

Many public power utilities might not have the expertise or resources to conduct their own valuations. Therefore, some joint action agencies help member utilities conduct such valuations or at least provide valuation templates.

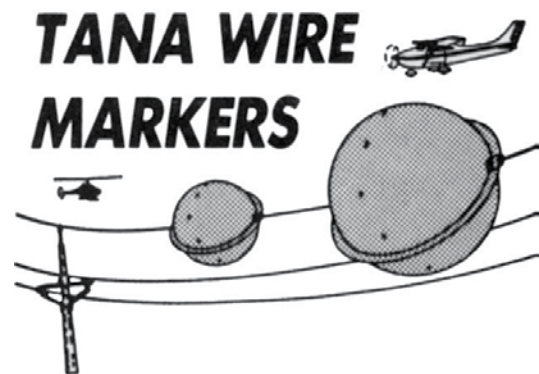
Missouri River Energy Services has 61 member public power utilities in Iowa, Minnesota, North Dakota and South Dakota. MRES offers the Municipal Power Advantage program to help its members communicate the economic value of all the benefits the local electric utility provides to the community.

The program also educates policymakers and staff about their utility's value to the community and increases the public's awareness of its public power utility.

The toolkit helps members identify benefits such as local governance and policy-setting, access to tax-exempt financing, a high level of reliability, operational efficiencies through integrated utility operations, local customer service, key account programs for commercial customers, and other benefits.

Karen Olofson, a senior rate analyst at MRES, noted that the primary goal of the MPA program is to educate the community about the total benefits — financial and non-financial — its electric utility provides.

The MPA program does not calculate the value of the utility for a potential sale. It takes a proactive approach to stave off any potential buyout



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Transfer to the City of Barnesville and the Transfer as a Percentage of Revenues

	2014	2015	2016
Transfer to the General Fund	\$195,500	\$220,000	\$221,785
Operating Revenues	\$2,243,848	\$2,111,692	\$2,286,727
Transfers as a Percentage	8.7%	10.4%	9.7%

Total Transfers and Donations as a Percentage of Operating Revenues

	2014	2015	2016
General Fund Transfer	\$195,500	\$220,000	\$221,785
Donated Utility Usage	\$44,545	\$35,811	\$32,101
Donated General Fund Usage	\$111,915	\$112,582	\$114,115
Donated Labor	\$2,000	\$2,000	\$2,000
Total Transfers, Donated Usage & Labor	\$353,960	\$370,393	\$370,001
Electric Operating Revenues	\$2,243,848	\$2,111,692	\$2,286,727
Transfer & Donations as a % of Revenues	15.8%	17.5%	16.2%

Source: MRES 2017 updated valuation report on Barnesville Municipal Utilities

threat and is not reactive, Olofson said. “It is a tool to educate and inform the governing board, utility staff and the customer-owners about the gem the stakeholders have in the community and all of the services and support it provides to help the community thrive.”

Barnesville report catalogs all services to the city

In 2017, Olofson completed an updated valuation report on Barnesville Municipal Utilities for the City of Barnesville, Minnesota.

The report noted that the city received approximately \$365,000 per year in financial benefits from the electric utility. The utility makes an annual operating transfer to the city’s general fund, averaging \$212,430 per year from 2014 to 2016.

The report said benefits that might be harder to quantify have real value to Barnesville. MRES noted that the city council has control of the electric rates and the utility’s policies and objectives, making them very responsive to the needs of Barnesville customers. “Other benefits that cannot easily be measured include purchasing supplies and services locally, achieving operational efficiencies by working with other city departments, providing local customer service, and being good stewards of the environment,” the report stated.

Olofson said that some of the non-financial benefits of public power utilities tend to get forgotten or simply taken for granted.

It might be difficult to attach a dollar value to the in-kind services the utility provides to the city or other utility departments. However, if the community was served by an investor-owned utility or cooperative, the city may need to contract for these services, which might result in higher property taxes or other taxes and fees. The city might not be able to provide certain services to the residents and businesses.

“In-kind services would include donated labor and electricity for festivals and other local events and shared equipment and staff among other utilities and city departments to reduce overall operating costs,” Olofson said.

She noted that Barnesville’s 2019 residential customers’ bills are now 5.2 percent lower than the average bills of the three Minnesota IOUs and a neighboring rural electric cooperative.

Olofson said customers tend to focus foremost on reliability and a fair and affordable bill that is cost-based. She said that customers also pay attention to the competitiveness of their utility rates compared to surrounding municipal utilities, IOUs and cooperatives.

It is difficult to compare apples to apples when it comes to utilities, so it is important to educate stakeholders on the revenue requirements unique to their utility — given variables such as power supply and transmission service costs, reserve and capital financing policies, transfer levels, and donations to the city and other entities, Olofson noted.

“In several of our communities, they basically say if we didn’t have the utility, the city doesn’t exist.”

JACOB WILLIAMS

GENERAL MANAGER AND CEO
FLORIDA MUNICIPAL POWER AGENCY

KISSIMMEE SAVES CUSTOMERS MONEY

FMPA, in a January 2018 report for Kissimmee Utility Authority, said that KUA provides an estimated \$25 million in annual economic benefit.

The report noted that KUA transferred approximately \$16.7 million into the city’s general fund in fiscal year 2016, amounting to a 10 percent transfer of total retail revenue.

In addition, the report said that KUA’s competitive rates save customers money. “KUA and neighboring IOU retail sales and revenue data suggest KUA has a residential rate advantage,” FMPA said. Most customers of KUA are residential. “Since KUA has lower residential rates, the net rate savings is positive.”

The report highlighted KUA’s solid reliability performance. KUA outperforms a neighboring IOU in three key reliability indexes.

Intangible benefits provided by KUA include people having a voice in the community, local control, a localized customer service experience, and high ratings on customer service satisfaction.

FMPA, which has 31 municipal member utilities, has done over 20 valuation reports in recent years.

“We’ve given them to the utilities, and the utilities have sometimes presented the material to their board. Sometimes they’ve asked us to

come in and assist them presenting to their boards, city councils, and even other community leaders to explain what they are worth and highlight the great things that are going on,” explained Williams.

In January 2019, FMPA completed a valuation report for Ocala Electric Utility and presented the highlights at a meeting for the Ocala/Marion County Chamber & Economic Partnership.

Ocala Electric Utility contributes approximately \$19 million in annual economic value to the local economy. Its electric rates are lower than those of neighboring utilities, saving approximately \$385,000 for customers annually. The utility outperforms neighboring utilities in keeping the lights on and restoring power faster after storms and hurricanes. The value of more reliable service is estimated to be \$913,000.

“In Florida’s case, it’s quite easy to see that during hurricanes, the municipals have put the lights back on one to four days faster than other utilities. That’s because the municipals focus on their city,” Williams said.

He also highlighted the significant financial payments public power utilities make to cities. “In several of our communities, they basically say if we didn’t have the utility, the city doesn’t exist.”

VALUATIONS CAN HELP EFFECTIVELY RESPOND TO SELLOUT PROPOSALS

Valuation reports that public power utilities can pull off the shelf when faced with an attempted takeover are invaluable.

A 2018 guidebook from the American Public Power Association, *Positioning Your Community to Succeed in a Sellout Evaluation*, says public power utilities should understand and communicate the value they provide to their communities before a sellout question arises.

“The ‘value’ of your utility to the community is much more than the price tag that someone would attach to your poles and wires. It is the cumulative (often intangible) benefits your utility brings,” the report said.

Benefits to consider include financial support for local government, in-kind contributions, savings through more efficient municipal operations, lower rates, and supporting local business. Other benefits to consider include community sponsorships, community engagement and economic development.

The Association also said that public power utilities should not forget the intangibles. “You may not be able to put a price tag on these benefits, but that doesn’t make them any less real,” the report noted.

ENVIRONMENTAL RESPONSIBILITY: THE CORNERSTONE OF PUBLIC POWER

BY BETSY LOEFF, CONTRIBUTING WRITER





Public power has always rested on the three-legged stool of affordability, reliability, and environmental responsibility. Municipal utilities are nimble, able to respond quickly to the needs and preferences of their customers. These utilities are not answerable to remote shareholders or driven by profit margins. Whether it's the generation mix or electricity rates, all decisions are driven by the community's best interests.



The American Public Power Association, in a news release responding to the proposed Affordable Clean Energy rule, notes that carbon dioxide emissions from the U.S. power sector have declined 28 percent since 2005. Public power utilities have supported this decline by investing in low- and non-emitting generation from solar, wind, hydro and nuclear sources, and natural gas. Many Association members continue to actively reduce emissions in coordination with local, state and regional programs targeting standards exceeding those in the proposed ACE rule.

The efforts of three public power utilities in different parts of the country are testaments to public power's commitment to sustainability.

FROM WASTE TO WALLBOARD

The U.S. could fill up its landfill space within the next two decades, according to a 2018 study by a solid-waste standards organization. Muscatine Power & Water in Iowa won't have that problem. The public power utility has barely touched the capacity of its coal combustion residue landfill space because of a robust capture and reuse program for coal ash by-products from coal-based generation units.

"We have a long history with making good use of our coal combustion byproducts," said Brandy Olson, general counsel for the utility and director of its legal and regulatory services department. Muscatine was one of the earliest generation companies to employ flue gas desulfurization technology, a move it made in the early 1980s.

Flue gas desulfurization systems reduce sulfur dioxide emissions using lime or a limestone reagent, which produces synthetic gypsum via a chemical reaction. The product is

nearly identical to the natural stone and has multiple uses in agriculture and industry.

The utility's synthetic gypsum goes to farmers, who use it as a soil amendment, and has also gone to a local wallboard manufacturer. Fly ash, the lighter particles that get captured, is used as an additive in products such as concrete. "It's very sought-after because it makes a strong, durable product," Olson explained.

"As an early user of that FGD system, we spent a lot of time working out the bugs in our processes so that we would have a marketable byproduct," said Olson. "We've always looked for opportunities to recycle, reuse, and keep materials out of the landfill."

Other coal-burning byproducts such as bottom ash, a heavier residue that settles to the bottom of the generator's boiler, and slag, which is the melted form of coal bottom ash, can also find a useful second life. Some products can be used to manufacture asphalt and roofing shingles; some may go into sand-blasting processes.

This is how Muscatine has been able to preserve its landfill space far beyond original expectations. The original permit from the 1970s covered 30 years. Today, the utility still has more than 30 years' worth of capacity available. This saves the utility expenses associated with opening new landfill cells, buying more landfill space, or managing landfill operation. When synthetic gypsum is used for wallboard, it also spares the local wallboard manufacturer from having to rely on gypsum mining that scars the land.

The recovery and reuse program for coal combustion by-products is operating in all three of Muscatine's local electric generating units, which together have a production capacity of some 293 megawatts.

The coal-ash reuse program produces some cost savings for the utility, but Olson said its biggest values are environmental stewardship and its ability to support local business. "We're making good use of the materials and helping other industries at the same time," she said. "The biggest benefit is that we are able to keep material from becoming a waste."

HAVE A DIVERSE PORTFOLIO? TALK ABOUT IT

Sustainability isn't a new initiative for Southern Minnesota Municipal Power Agency, a joint action agency that provides wholesale power and other services to 18 public power utilities in Minnesota. Since 2005, SMMPA has reduced some 5.5 million tons of carbon dioxide emissions, which is equivalent to pulling 1.2 million passenger cars off the road or planting 6.5 million trees.

Here's what's different: Now, the organization is talking about it.

"Our member utilities are aware of what we're doing, but that doesn't always translate down to the retail customers," said Christopher Schoenherr, SMMPA's director of agency and government relations. "We felt it was important that our members' customers understand what their wholesale energy provider was doing on this front. Twenty years ago, it wasn't something people talked about, but, in the last five years, climate change has gotten increasing attention."

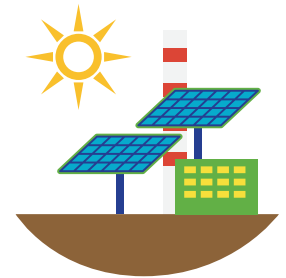
To help member companies communicate, SMMPA has a sustainability report online, drives people to its website with online ads, and communicates through member utilities. These materials "talk about what we're doing on the renewable energy

side, the diversification of our portfolio, and stress energy efficiency programs" that SMMPA helps member companies provide, Schoenherr said.

SMMPA is a joint action agency charged with building and operating coal-fired generation for its member utilities and the 119,000 customers they serve. Now, 17 percent of the organization's power comes from renewable resources. According to Schoenherr, the agency couldn't achieve that renewables percentage without considerable diversification in its generation portfolio.

"If you look at the carbon emissions from a coal facility, a natural gas facility produces roughly half as much CO₂," he noted. "The natural gas facilities that we have don't run a ton, but they match up very well with the intermittent wind and solar resources that we have."

SMMPA has four gas engine plants that "come on-line and change their output very quickly," Schoenherr



"Twenty years ago, it wasn't something people talked about, but, in the last five years, climate change has gotten increasing attention."

CHRISTOPHER SCHOENHERR

DIRECTOR OF AGENCY AND GOVERNMENT RELATIONS
SOUTHERN MINNESOTA MUNICIPAL POWER AGENCY

An advertisement for Tech Products, Inc. The top section has a dark blue background with the company name "TECH PRODUCTS, INC." in large, bold, yellow letters. Below this is a yellow banner with the text "SIGNS, TAGS & MARKERS" in black. The main part of the ad features a photograph of "FOC Cable Markers" (Fiber Optic Cable Markers) attached to power lines. The markers are orange and black with white text. One marker in the foreground is labeled "078043". To the right, a close-up shows three markers with labels "VH2F-192", "VHF-48", and "VHF-192". At the bottom, the phone number "1-800-221-1311" and website "www.TechProducts.com" are listed in yellow. Below that, it says "MADE IN USA SINCE 1948" and "A VETERAN-OWNED BUSINESS" in white.



said. How quickly? Two of the gas engine plants can “go from zero to full load in less than 10 minutes.” That flexibility enables SMMPA to balance rapid changes in the power output of the renewable resources.

Another resource SMMPA uses is a methane-fueled plant that burns waste gases from a landfill. “You’re either going to have to flare that methane, or you can use it to generate electricity,” Schoenherr said. This resource operates as baseload capacity, but he said it still helps the

utility balance out other renewables.

“We have natural gas, we have wind, we’ve got solar, and we’ve got waste-to-energy generation resources,” he concluded. “Each one of those things made sense from a reliability perspective, but they also made sense from an environmental perspective and contributed to our reduced carbon footprint.”

RESILIENCY FOR TODAY AND TOMORROW

Like SMMPA, Seattle City Light has been focused on addressing climate change and cutting carbon emissions since 2005, when it became the first utility in the nation to reach carbon-neutral status. Partly, that achievement reflects a clean system. The utility currently produces 91 percent of its electricity from hydropower.

But producing power from waterways has its own environmental challenges. “We’re looking at the different impacts from climate change,” said Ronda Strauch, a city climate advisor and researcher. “Loss of glaciers, loss of snow melt — how those things affect our hydropower generation or the safety of our facilities.”

The utility is also looking at how hydropower generation affects fisheries, which require specific water depths and temperatures for spawning Coho salmon and threatened steelhead trout. To ensure clean cold-water habitat for these fish, Seattle City Light purchased 154 acres in the Cascade Mountains of western Washington as part of a voluntary program. The acreage was logged in 2012, and the utility is replanting it.

“We wanted to do three things,” Strauch explained. “We wanted to make the genetic diversity higher, make the species diversity higher, and increase redundancy in case some species didn’t make it.”

The surrounding area is mostly populated by Douglas fir trees. Seattle City Light and the organizations it partnered with on the project will plant more Douglas fir and added cedars, pines, oaks, and grand fir species to the mix. In addition, the utility sourced the trees from different areas in anticipation of rising temperatures. “We’re getting seed stock from Oregon and Northern California. These are warmer, drier climates, so planting some trees in from there may help the trees survive better in the future,” Strauch continued.

The goal of such diversity and redundancy in plantings is a hardier forest. “We wanted to plant something that is resilient today but also will be resilient into the future, as conditions change,” she added.

To achieve its carbon-neutral status, Seattle City Light also has a robust program for purchasing greenhouse gas offsets.

“We do have some power transactions that incur emissions, so we purchase offsets to achieve neutrality. We prepare greenhouse gas inventory every year and report it publicly to the Climate Registry,” a nonprofit organization that designs and operates voluntary GHG reporting programs, said Oradoña Landgrebe, strategic advisor in the utility’s natural resources and permitting division. This inventory dictates how many offsets the utility will buy.

While each offset represents reduction of one metric ton of carbon dioxide emissions, Seattle City Light researches its offset sources carefully and targets GHG heavy hitters. They buy registered and verified offsets from commercial composters and dairy farmers who capture and destroy the methane they produce. Methane is a GHG 28 times more potent than carbon dioxide. The utility also purchases offsets from a manufacturer that uses sulfur hexafluoride, or SF6, which has a global warming potential 23,900 times that of carbon dioxide.

“We have SF6 in our substations to prevent arcing,” Landgrebe explained. “Because we use that gas, it’s meaningful for us to help another organization use something else.”

Landgrebe explains offsets this way: “We reduce emissions as much as possible, and for those we can’t yet eliminate, we pay someone else to reduce emissions on our behalf.”

Like Muscatine and SMMPA, Seattle City Light is making impressive investments that are paying off for the community it serves and for future generations.

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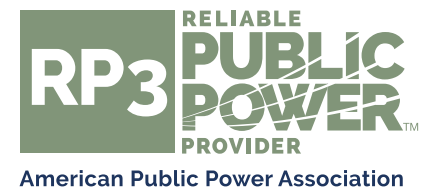
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It's Time to Update Public Financing of Public Infrastructure

BY JOHN GODFREY, SENIOR GOVERNMENT RELATIONS DIRECTOR,
AMERICAN PUBLIC POWER ASSOCIATION

As the 116th Congress gets underway, there is a general consensus that lawmakers should work on infrastructure legislation. That consensus comes without a lot of agreement on what Congress should do. Much of the debate centers around transportation infrastructure — gasoline taxes, toll roads and other ways to raise new revenue for highway projects. Nonetheless, the American Public Power Association and other stakeholders see this as an opportunity to update and improve an already powerful tool — tax-exempt municipal bonds.

The message is simple and clear — a Municipal Bond Modernization Act would make it easier and less costly to finance the investments that make our communities livable and commerce possible in the cities, towns and villages that public power serves.

In the last decade, tax-exempt municipal bonds have financed more than \$2 trillion in investments in roads, bridges, schools, hospitals, airports, ports, water systems and the like — and are on track to finance another \$3 trillion in such investments over the next decade. Likewise, public power utilities have used tax-exempt municipal bonds to finance roughly \$75 billion in investments in the last decade and to continue



to make roughly \$5 billion in additional investments every year. However, the tax treatment of municipal bonds is behind the times, with the last major review made more than 30 years ago.

Sadly, the Tax Cuts and Jobs Act of 2017 missed the opportunity to improve upon this incredibly powerful financing engine. We should not allow another chance to slip by. That's why the Association and other stakeholders are calling for a Municipal Bond Modernization Act. Such an act could undo damage done in recent legislation and update provisions that have been left untouched for decades. These changes would make the public financing of public infrastructure simpler and more affordable. That means more time — and resources — to tackle

the day-to-day responsibilities of governance.

We propose eliminating the new tax that was placed on advance refunding bonds by the Tax Cuts and Jobs Act. This new tax is making it harder — and more expensive — to refinance existing debt and more costly to issue new debt — both steps in the wrong direction if Congress wants to encourage new infrastructure investment.

The bill should also stop federal budget sequestration of tax credit payments to Build America Bond issuers. These payments were promised to public power utilities and other BAB issuers willing to undertake new projects at the lowest point of the global financial crisis. Instead, Congress has reneged on that deal by

imposing \$1.6 billion in across-the-board “sequestration” cuts to these payments.

Additionally, this plan would revisit limits set in 1986 to increase the number of smaller towns, villages and utilities from which banks could purchase debt — a significant cost-savings to these issuers. The plan would also simplify “private use” rules

that needlessly complicate bond financing and, in some instances, are intentionally punitive to public power. Again, these are rules that were set more than 30 years ago and need to be reconsidered.

The Association is taking these proposals to the Hill. So are allied stakeholders, such as the Government Finance Officers Association. Working together, we can ensure that these good ideas are included in whatever infrastructure legislation Congress advances in the 116th Congress.

You, too, can help by making the case for bond modernization in your conversations with your Congressional delegation and its staff. We will gladly provide any materials you need to make that case — email us at Policy@PublicPower.org.

PUBLIC POWER IS AFFORDABLE

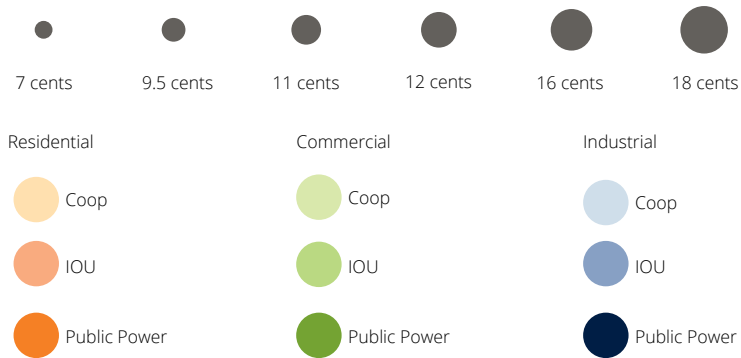
Keeping electricity costs low is a priority for public power. Nationwide, the average residential customer served by public power pays 11.8 cents per kilowatt-hour, compared to 11.9 cents for cooperative utilities and 13.5 cents for customers served by investor-owned utilities.

For the average U.S. household, that amounts to \$176.79 saved each year, or about \$15 less per month.*

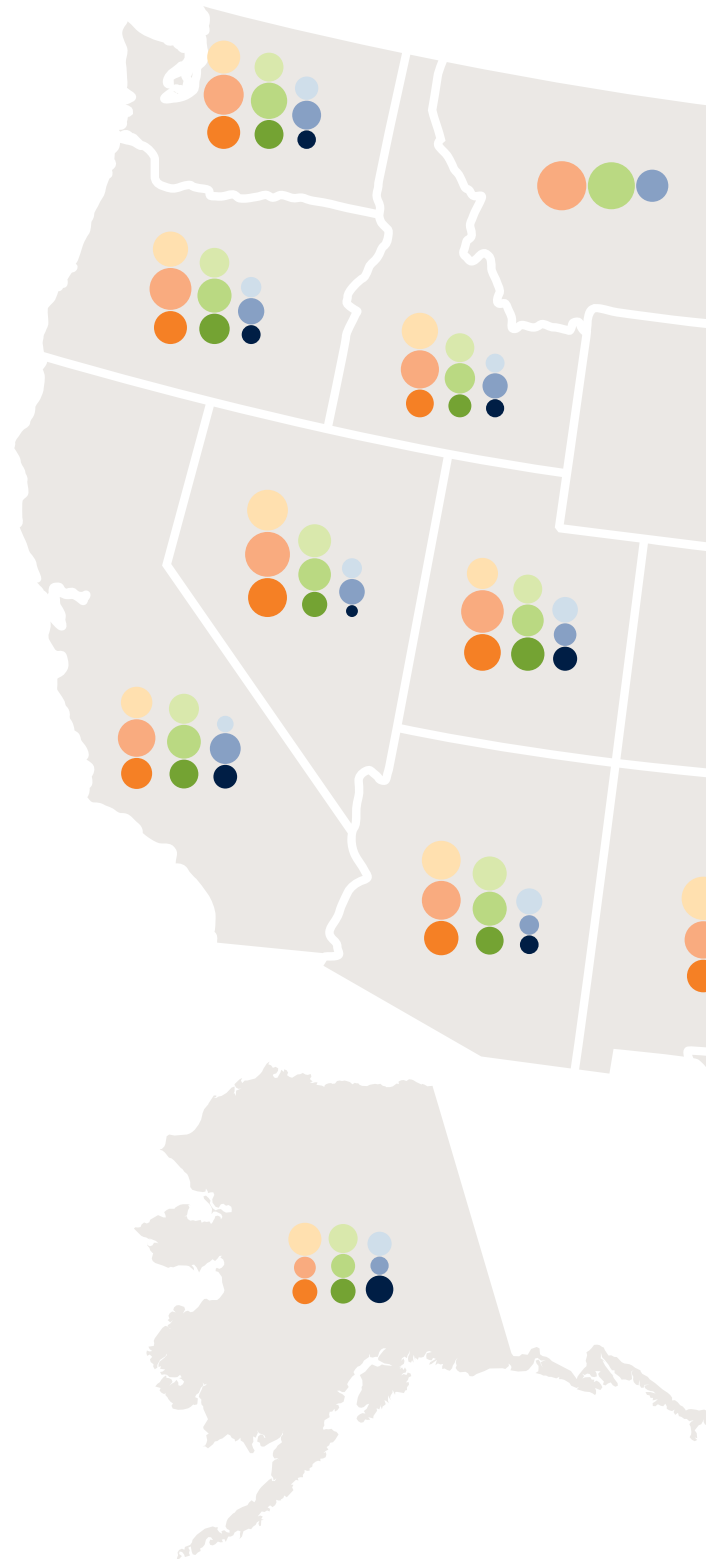
U.S. average retail electric rates, in cents per kWh

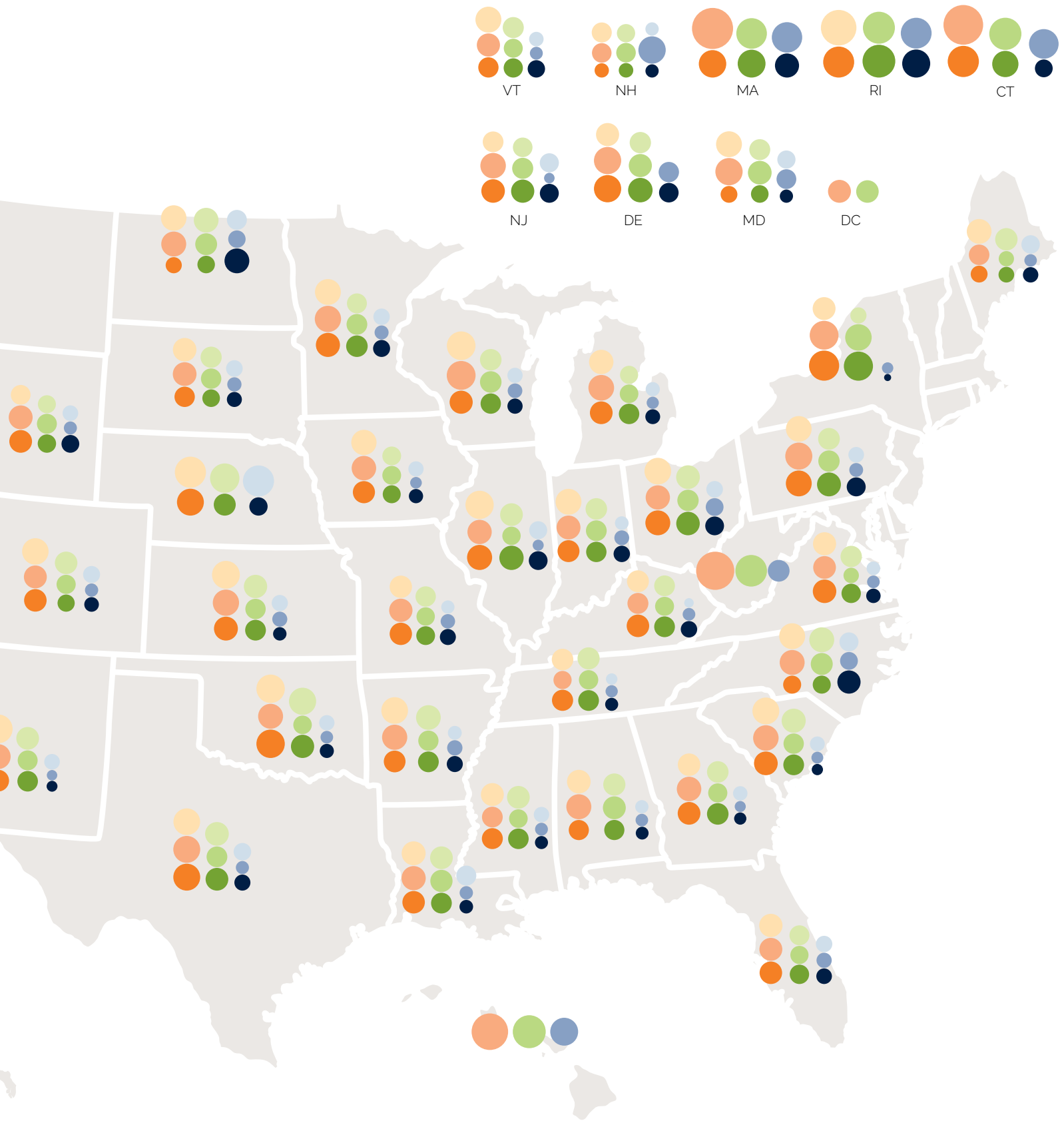
	Residential customers	Commercial customers	Industrial customers
Public Power	11.8	10.8	7.4
Cooperative	11.9	10.7	7.2
Investor-Owned	13.5	10.9	7.0

State to state, public power rates are competitive. This map shows the average revenue from bundled sales per kWh for residential, commercial and industrial customers served by public power, cooperative and investor-owned utilities in 2017. Take a look to see how your state compares.



*Based on the Energy Information Administration's estimate of 10,399 kWh of annual average electricity consumption per U.S. residential customer in 2017.





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"I have been able to raise my family in an area that I love and get home almost every night to see them. I have always had the feeling that I was working directly for my friends and family since they vote for my bosses."

TERRY LIND,
operations superintendent,
PUD #1 of Clallam County

COMMUNITY!

"You get to know the community and the people that make it wonderful. I like to think of it as a family-run business for the community by the community."

MIKE VINYARD, journeyman,
New Braunfels Utilities

COLLEAGUES!

"Thanks to my colleagues, not a day goes by that I'm not learning something intriguing. I'm also proud to say that I'm happy to work for a utility that cares greatly about its community."

VARINDER SINGH,
accountant, SMUD

CUSTOMERS!

"I know my position directly affects the customers' wants and needs. The benefits and pay are great as well."

PAM PILKO, customer account representative II, Grand Haven Board of Light and Power

COMMITMENT!

"We live and breathe our communities and have a commitment to our communities, family and friends that we serve."

TAMMIE KRUMM, manager of human resources,
Missouri River Energy Services

NEIGHBORS!

"We work for our neighbors and our community, not stockholders. At the end of the day, I know I've served real people, and that's a good feeling."

KEVIN SCHNEIDER, electrical test and repair specialist, SMUD

INNOVATION!

"We can talk about different ideas on how to provide more reliable power, we are more open to innovation and new ideas, we aren't scared to try something new. Everybody takes ownership of what they do."

DENNIS STRITCHKO, warehouse manager,
Longmont Power & Communications

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