



Chapter 2

The Benefits of Public Power

Public power utilities are community-owned, locally controlled and operated on a not-for-profit basis. Each utility is a little different, depending on population, geography, structure, and the community's values and goals. This ability to tailor operations and services to the local community is the foundation of public power's success.

A public power utility provides long-term value to its community and citizens. The benefits are manifold, including (to name a few) rate stability, support for jobs, policies that are in line with community priorities and financial support for local government functions. To examine these benefits, it is helpful to consider them in broad categories: local control, reliable customer service, affordable rates and economic development.

Why does local control matter?



- Increased transparency and accountability gives customers more say in how the utility is run—and ensures the utility is working for the community's best interest
- Support for local government, through direct financial contributions and in-kind contributions, means lower taxes, more robust community services, and the community is a better place to live
- Efficient operations, through integration with other municipal operations, reinforces the support for local government
- The utility can support local priorities, reflecting the values and choices of the community

Local Control

Public power is distinctly different from the investor-owned utility sector and even rural electric cooperatives because utilities are fully accountable to their customers. Public power is about serving the local community. Local control affords public power communities five distinct advantages: accountability and transparency in governance; financial support for the local government; more efficient municipal operations; the ability to tailor utility policies, programs and practices to serve the priorities of the local community; and the value of ownership.

Accountability and Transparency

Public power utilities are governed and regulated by the city council or county commissioners or an independent utility board whose members may be elected or appointed by local officials. This means customers have more say in the policies and practices of the electric utility.

Citizens participate in the governance of the utility at the ballot box and through participating in city council and utility board meetings, public hearings, citizen advisory committees and other public forums. Utility business is conducted in the open, subject to open meetings, public records laws and local scrutiny. Citizens have access to planning alternatives, cost estimates, performance and other reports. Customers know how and why decisions are made.

When citizens have concerns, they can call their elected officials; in many public power towns, customers can simply speak directly to the utility's general manager. If a citizen disapproves of the way the utility is run, he can vote the elected officials out of office—or she can run for office to take on a more direct role in the utility's future.

In contrast, customers of a private utility have little, if any, influence over or access to the company's CEO or



A rare kind of accountability

“But it surely also helps that Norwich Public Utilities’ general manager, 12 linemen and five commissioners live in the community, drive the local roads, see the overhanging branches and bump into their customers at the Norwichtown Mall. That’s a rare kind of accountability.”

“The Troubling Connecticut Power Failure,”
The New York Times, November 3, 2011.

other top officers or board members. The typical investor-owned utility has a large service territory and will likely have its headquarters located far away; board meetings are conducted in private, and decisions are made behind closed doors. While the boards of rural electric cooperatives are elected by their member-owners, turnout for electric cooperative board elections is low (even compared to off-year and municipal elections), suggesting cooperative members may feel disengaged from their utility or do not understand their rights and responsibilities in its governance.⁵

Public power utilities also face a special kind of accountability, unparalleled in almost any other business: their friends and neighbors. In an era of globalization, public power utilities stand out because every employee is a member of the community. From the lineworkers to the general manager, all utility employees take pride in their work because they know their customers are their family, friends and neighbors.

Supporting Local Government

Public power utilities provide a direct benefit to their communities in the form of payments and contributions to state and local government. The total value of the contributions made by publicly owned utilities often comes in many forms and is not always easily recognized. In addition to payments that resemble property taxes, payments in lieu of taxes and transfers to the general fund, many utilities make in-kind contributions in the form of free or reduced-cost services provided to states and cities.

The level of support and how these benefits are returned to the community is a local decision—another advantage of local control. For example, some public power utilities make transfers to the city’s general fund in an amount equal to the property taxes that would have been paid by an investor-owned utility. Others set the amount as a percentage of electric revenue or as a charge per kilowatt-hour of electricity sold. Some cities take advantage of synergies between municipal departments and use electric employees to install temporary lighting, perform electrical repairs or tree trimming services for other departments, or provide technical expertise.

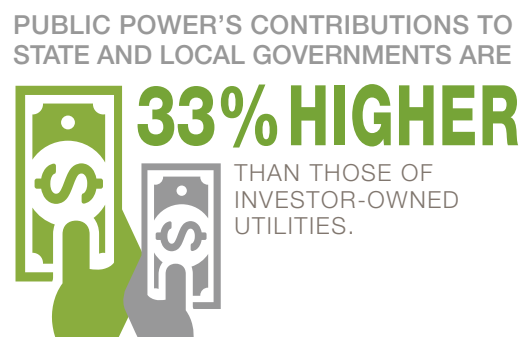
Quantifying public power’s financial support

Public power utilities make greater financial contributions to state and local governments than investor-owned utilities.

The American Public Power Association regularly analyzes payments and contributions to state and local government based on surveys of public power utilities and data submitted by investor-owned utilities to the federal government. The results consistently show that, on average, the payments and contributions made by public power utilities are greater.

In the most recent year for which data are available, the median amount contributed by public power utilities was 5.6 percent of electric operating revenues. Over the same period, investor-owned utilities paid a median of 4.2 percent of electric operating revenues in taxes and fees to state and local governments.

When all taxes, tax equivalents and other contributions to state and local government are considered, public power’s contributions, as a percent of electric operating revenues, were 33 percent higher than those of investor-owned utilities.⁶



⁵Institute for Local Self-Reliance, “Just How Democratic are Rural Electric Cooperatives?” January 13, 2016.

⁶American Public Power Association, 2017-2018 Directory & Statistical Report, “Public Power Gives Back: Payments and Contributions by Public Power Utilities to State and Local Governments,” 2017 (2014 data). Read the full report in Appendix B.

In-kind contributions

Beyond direct financial contributions, public power utilities may support their local government and community in many ways. These may include:

- Free or discounted electricity or other services to the local government, including streetlights, municipal buildings, water or sewer treatment facilities and traffic signals
- Installing temporary lighting for special events
- Maintaining streetlights, traffic signals or stadium lights
- Electric repair or maintenance for other city departments
- Rewiring municipal buildings
- Tree trimming for other departments
- Reading water meters
- Putting up city signs or banners
- Providing technical expertise (e.g., engineering studies)
- Providing free building space
- Hanging banners and holiday lights
- Sharing electric department vehicles and equipment with other municipal departments

The myth about franchise fees



Private utilities may pay a franchise fees to the local government in exchange for the right to operate exclusively in the community. However, these franchise fees are almost always passed on directly to the customers. Instead of being a new revenue source for the community, it is no different than any other tax or fee on a customer's utility bill:

“Many years ago investor-owned utilities began to add the annual franchise fee they were required to pay the city to the rates they charged their customers in the community. Instead of treating the franchise fee as a legitimate expense, a cost of doing business in the community, the investor-owned utility simply incorporated its franchise fee into its rates and passed the costs along to ratepayers. Consumers ended up paying the investor-owned utility's franchise fee instead of sharing in its profits. This practice of including the franchise fee in rates continues to this day in most communities.”⁷

⁷“Renegotiating a Municipal Franchise,” Paul Hughes, Environmental Services Inc., July 2002.

Efficient Operations

Public power utilities keep costs down through local scrutiny of operations. They use strategic partnerships and joint action with other public power agencies to obtain the advantages of size in wholesale supply matters without taking on the disadvantages of merging into larger, more bureaucratic institutions.

Electricity distribution, unlike large-scale generation and high-voltage transmission, is local, and public power utilities find that their smaller size can be an advantage in electricity distribution. A public power utility's headquarters and operations are located near the utility's customers. Distribution lineworkers are very familiar with the utility's service territory—and thus likely to be more responsive to outages. Utility managers and customer service representatives are fellow citizens. Oversight is provided by a local governing body, which keeps the utility focused on reliability, price and service.

Municipal utilities can also create new efficiencies in local government. Some utility operations may overlap with other services the municipality is already providing; when these can be combined, the result is a leaner, more efficient operation that benefits everyone. For example, a city providing multiple utility services (electric, water, wastewater, natural gas and telecommunications services) may combine billing and metering operations and share a 24-hour emergency call center. Other examples of efficiencies that may be achieved include:

- Integration of municipal operations (e.g., shared office space for multiple city services)
- Shared personnel (e.g., human resources department that serves the city and utility)
- Lower per-person administrative costs for municipal employee benefits
- Town may avoid short-term borrowing costs due to cash flow from electric revenues

Local Priorities

When the community owns the utility, the community controls the utility's priorities. Decisions about pricing electricity, building power plants, purchasing wholesale power and service policies are made locally and reflect the values and choices of the community.

By participating in the utility governance process, citizens exercise their voice on big questions the utility may face, including:

- investments in local infrastructure—system maintenance and upgrades

- energy conservation and energy efficiency
- energy resources—renewable energy, coal, natural gas, or other sources
- environmental stewardship—pollution prevention, investing in cleaner technologies
- customer service policies—assistance to low-income customers, service extension policies
- system aesthetics and design—choosing whether to underground electric lines for community beautification or enhanced reliability
- utility finances—setting electric rates, level of financial support for the local government

Public power utilities emphasize long-term community goals and can direct utility resources accordingly, by implementing programs and timetables to achieve goals. Without local utility ownership, the community is disenfranchised, with no input on these decisions.



CASE STUDY:

Continued public ownership of utility allows community to pursue local priorities

GREENSBURG, KANSAS • 2007

LESSON LEARNED:

- *Local control over the future of the utility is a powerful benefit of owning a municipal electric utility. The utility should work together with the city to promote local priorities.*

In May 2007, an EF-5 tornado struck Greensburg, Kansas—destroying or severely damaging 95 percent of the city, leaving 90 percent of its 1,400 citizens homeless, and wiping out the town’s entire electric system. With the survival of the town very much in question, a neighboring cooperative utility offered to help rebuild the electric system, with the understanding that they would be allowed to purchase the system from the town.

Meanwhile, city leaders began formulating a plan to rebuild the entire town as sustainable, energy-efficient and “green.” The “Green in Greensburg” idea caught on; the community decided it should rebuild its town from the ground up as a model green community, powered by 100 percent renewable energy. However, this would not be possible if the cooperative took over ownership of the utility.

The city hired a consulting firm to assess the advantages, disadvantages and risks associated with selling or keeping the utility. The study recommended that the city retain ownership of its electric system and city leaders agreed.⁸

In the end, the most important factors in Greensburg’s decision were the utility’s contributions to the city and the community’s desire to control its energy destiny. Because it was able to make its own choice about its generation source, the city achieved its goal of 100 percent renewable energy and is not concerned about current and potential future regulations on coal and natural gas.

⁸Thomas A. Wind, Wind Utility Consulting, and Lynn Billman, National Renewable Energy Laboratory, “Greensburg Municipal Electric Utility Business Strategy: Analysis of Greensburg Municipal Utility Business Strategies to Become Green,” January 15, 2008.

Ownership

Public power communities receive another benefit: ownership itself. Ownership of the utility means local management and control over decisions involving investments, operations, maintenance, power supply choices and customer programs.

More than that, though, there are some options and choices available only to an owner—including asset leverage, equity borrowing, ratemaking authority, and control over future streams of income for the utility and the community.



“It has everything to do with the philosophy of whether the city wants to be sharecroppers or landowners. Do you want to own your home or rent?”

Ken Cotton, City Attorney, Wagner, South Dakota,
“Wagner OKs Municipal Power,” *Press & Dakotan*,
December 5, 2007.

Reliable Customer Service

Public power utilities are highly responsive to customers’ needs and concerns, typically getting high marks for customer satisfaction because their first and only purpose is to provide efficient, reliable service to the customers in their communities. Reliable customer service takes three forms for public power utilities: a focus on overall system reliability; quick restoration of power after an outage; and making excellent customer service a priority.

Reliability

Public power utilities have a strong record of focusing on core electric operations and delivering a reliable power supply. Because of their connection to customers, public power utilities are motivated to maintain the community’s assets to keep their local electric system operating continuously and efficiently. Maintaining the highest caliber of electric service is one of the core facets of a public power utility’s business model.




Reliability, from a systems engineering perspective, is the ability of an electric system to perform its functions under normal and extreme circumstances. In the United States, customers expect to have power at all times. But every utility experiences some power outages as a result of severe weather or natural disasters, interference from wildlife or overgrown vegetation, equipment failures, or even a car crashing into a utility pole. Realistically, a utility can make power available between 99.9 and 99.999 percent of the time.

There are many ways that electric utilities measure their reliability. Two of the most common:

- System Average Interruptible Duration Index (SAIDI) – measures the average length of time, in minutes, that each utility customer was without power during a year
- System Average Interruptible Frequency Index (SAIFI) – measures the average number of outages that each customer experiences during a year

Recent data show that public power utilities demonstrate higher reliability than the national average by any standard – frequency or length of outages, with or without major event disruptions (MED).

National Reliability Metrics⁹

	 RURAL ELECTRIC COOPERATIVES	 INVESTOR-OWNED UTILITIES	 PUBLIC POWER UTILITIES	ALL
AVERAGE OF SAIDI - with MED	430.98	282.72	117.73	314.26 minutes
AVERAGE OF SAIDI - without MED	163.13	132.92	54.73	128.62 minutes
AVERAGE OF SAIFI - with MED	2.00	1.43	1.26	1.66 interruptions
AVERAGE OF SAIFI - without MED	1.54	1.15	0.97	1.30 interruptions

⁹National reliability metrics (IEEE standard), average of SAIDI and SAIFI, with and without Major Event Disruptions. From Energy Information Administration, form 861, 2017 (2016 data).

The data show that without including “major events” (such as hurricanes or winter ice storms), customers served by investor-owned utilities experienced an average of 2 hours and 12 minutes without power each year. Cooperative utility customers were without power even more: on average, they experienced 2 hours and 43 minutes of outages. Public power customers, on the other hand, experienced less than one hour without power. When major event disruptions are included, these numbers become even more pronounced in favor of public power.

Accountability promotes reliability

Public power utilities make business decisions every day that result in reliable electric service. The elected officials who oversee public power utilities are accountable to voters, who are also the utilities’ ratepayers. In contrast, board

members of an investor-owned utility are accountable to shareholders; they are judged not on their ability to provide low-cost, reliable power or excellent service, but on their ability to maximize profits for the investor-owned utility or its holding company and to pay a quarterly dividend to shareholders.

In pursuit of short-term profits, investor-owned utilities may implement cost-cutting measures that ultimately affect reliability. For example, extensive reductions in the number of employees, maintenance expenses, or tree-trimming programs can result in longer and more frequent outages. This issue was highlighted in 2011 when Connecticut Light & Power experienced extensive outages after two storms. In an article about the outages, *The New York Times* reported that the utility had cut its maintenance spending by 26 percent between 2008 and 2010.¹⁰

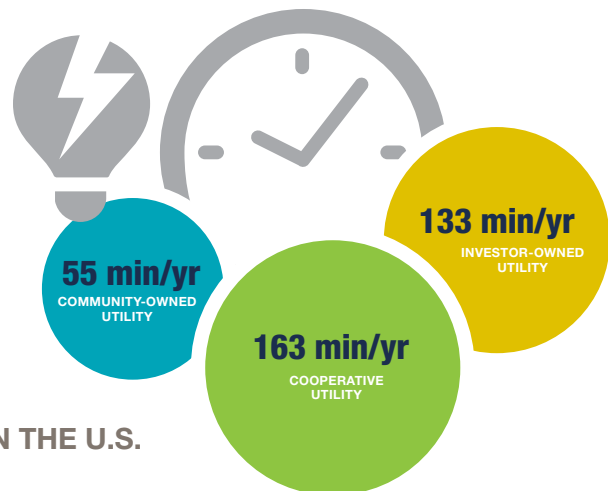


What makes public power so reliable?

- Focus on core utility operations—knowing your purpose and doing it superbly
- Increased accountability to local officials, friends and neighbors
- Accountability to customers, not shareholders, means there is no incentive to implement cost-cutting measures that ultimately affect reliability
- Crews live and work in the community, so they can respond faster to restore power after an outage
- Public power towns always have priority restoration; they don’t have to wait for limited crews to restore power to other parts of the service territory first
- Local crews become more familiar with the power system and can identify reliability issues more quickly
- Mutual aid agreements allow utilities to tap into the national network of public power utilities for assistance in restoring power after a major event

Outage Restoration

Many public power utilities have outage prevention programs, the most common of which are tree-trimming services. Other outage prevention programs include wildlife management (animal/squirrel guards); routine inspection and maintenance of distribution lines; other vegetation maintenance; thermographic circuit inspections; lightning arresters; reviewing poor-performing circuits; and converting overhead wires to underground.



AVERAGE OUTAGE TIME IN THE U.S.

¹⁰ “The Troubling Connecticut Power Failure,” Rob Cox, *The New York Times*, November 3, 2011.



“One big bonus of a city-owned system, Knight said, is that it can focus all its resources—police, emergency teams, tree trimmers and line crews—on making repairs in the city without waiting for a big power company to coordinate all its repair efforts. ‘It was like clockwork during the last hurricane.’”

Randy Knight, Assistant City Manager, Winter Park, Fla., discussing the drop in outages after the city formed its own electric utility. *Energy Central Professional*, December 2006.

When an outage occurs, public power utilities restore power quickly because they are located in the community. Repair crews live in the community and have a vested interest in getting service restored quickly. They are not only accountable to local officials, but to their friends, neighbors and families.

Living in the community also means they can get to the site of the outage faster; they do not have to drive long distances to start repairing damage. And unlike larger electric service territories, like those served by investor-owned and cooperative utilities, the town always receives priority service restoration; customers do not have to wait for limited crews to restore service to other towns and communities before restoring service to their community.

Local crews are intimately familiar with the local electric distribution system and can identify and correct problems quickly. If they know a storm is coming, they can step up preventative measures, such as removing overhanging or loose branches and checking known problem spots.

As an entity of the local government, public power utilities also benefit by coordinating responses with other local emergency services.

Mutual aid

Just as firefighters, police officers and other emergency responders combine forces to help rebuild cities devastated by natural disasters, lineworkers and other electric utility personnel come together in an emergency to turn the lights back on.

In the event of a major outage, public power utilities coordinate with each other for assistance through a broad network of mutual aid programs. Public power crews have responded to calls for assistance in response to all sorts of disasters: hurricanes, tornados, ice storms, severe thunderstorms and high winds.

The mutual aid network among public power utilities is strong. Public power’s commitment to serving communities extends beyond its own community, and utilities take pride in helping one another.

“Sometimes I think [municipal utilities] are worried that because of their size, the investor-owned utilities will suck up all the lineworkers and munis will be in trouble, but we haven’t found that to be the case,” said Mike Hyland, senior vice president of engineering for the American Public Power Association. After Hurricane Katrina, there were so many municipal utility crews volunteering to head down to Louisiana that some had to be turned away. “It’s a really strong network, and I think there’s loyalty there and a kind of brotherhood,” he said.¹¹

And, mutual aid is provided not only to fellow public power utilities. Public power utilities respond to calls for help from investor-owned utilities and electric cooperatives, speeding along the recovery time from disasters all over the country.



“Wellesley and other towns in the electric power business were beacons of light during the outages that left thousands of homes across the western suburbs in the dark last week. While other communities struggled with power failures that dragged on through the week, all the lights were back on in a matter of hours in Wellesley, Belmont, and Concord. The three towns run their own municipal electrical utilities, complete with crews ready to make repairs at a moment’s notice; in contrast to the majority of communities in the western suburbs, whose power is provided by the utility companies NStar and National Grid.”

“Municipal utilities shine in storm,” *Boston Globe*, on boston.com, September 4, 2011.

¹¹ “Mutual Aid Before the Storm,” *Public Power*, March-April 2007.

Customer Service

Since a public power utility's customers are its owners, there is no conflict between the needs of customers and the needs of shareholders. The utility's local accountability ensures it delivers excellent customer service, or unsatisfied customers can make their displeasure known at utility board or city council meetings.

Public power utilities receive high scores in residential and business customer satisfaction in the J.D. Power and Associates annual surveys for electric utilities. In 2017, Salt River Project in Phoenix, Arizona, ranked the highest in the large utility segment in its region for the 16th consecutive year, and both Clark Public Utilities in Vancouver, Washington, and EPB in Chattanooga, Tennessee, ranked the highest in the midsize utility segment in their regions for the 10th and 2nd consecutive years, respectively. Other top finishers in their categories included the Sacramento Municipal Utility District, Colorado Springs Utilities, Seattle City Light, and JEA in Jacksonville, Florida.¹²

Public power utilities also took home top honors for business customer satisfaction in four of the eight categories, with honors going to Omaha Public Power District in Nebraska, JEA in Jacksonville, Florida; Salt River Project and Sacramento Municipal Utility District.¹³

Customers in the driver's seat

In a public power community, customers drive customer service; the utility can tailor its programs and services to the needs and desires of its customers, instead of looking only to make a profit.

For example, most public power utilities have a customer service center located in town, where customers can pay their bills in person, discuss any questions, and learn about other utility programs. Many investor-owned utilities have eliminated their walk-in customer service centers as a cost-saving measure, but when customer service, not making a profit, is the goal, service centers stay open.

Energy-efficiency programs are another example where public power's not-for-profit, customer-focused business model shines. A for-profit utility is in the business of selling electricity to make money; spending utility money to run an energy-efficiency program to help customers use less electricity does not make sense when you are answering to investors and stockholders. But because public power

utilities share their community's values and are accountable to customers, the calculation is different: why would you not want to help your friends and neighbors save money on their monthly utility bill?

Local control and public power's not-for-profit business model promote outstanding customer service. A public power utility and its governing body are part of the community and can easily maintain a close relationship with utility customers. As a result, the utility can tailor its services to meet the needs of its customers and the community.



"Here at MED, we often talk about being your hometown power provider. We live here with you, and of course we want to provide the most reliable service possible because we benefit from that as much as anyone else.

But hometown power means more than that to us. It also means we are always actively working in our community to improve the lives of the people around us and contribute to the traditions that make Murfreesboro such a great place to live."

Steve Sax, former general manager, Murfreesboro Electric Department, "My Hometown Power" newsletter, November 2015.

Affordable Prices

Across the country, publicly owned electric utilities continue to lead the way in providing customers with low-cost energy for homes and businesses. The most recent data from the U.S. Department of Energy show that public power customers pay less, on average, than do customers of investor-owned utilities or electric cooperatives, as they have every year since the federal government began keeping electricity rate statistics more than 70 years ago. Public power's historically lower rates are the result of the low-cost structure central to its business model, supported by its not-for-profit status, access to tax-exempt financing, higher credit ratings, and its ability to contract for low-cost power supplies.

¹² J.D. Power and Associates, 2017 Electric Utility Residential Customer Satisfaction Study, as described in J.D. Power and Associates press release, July 12, 2017.

¹³ J.D. Power and Associates, 2016 Electric Utility Business Customer Satisfaction Study, as described in J.D. Power and Associates press release, January 13, 2016.



Why is public power more affordable?

- Public power utilities typically have lower rates than investor-owned and cooperative utilities
- Low-cost structure due to not-for-profit operations and increased accountability and operational efficiencies
- Access to tax-exempt municipal bonds to finance capital needs
- Credit ratings are higher, on average, for public power than other types of utilities
- In some areas, public power utilities have access to low-cost federal hydro power
- Joint action agencies help public power utilities achieve economies of scale for power supply and other essential services

Lower Rates

Across the country, publicly owned electric utilities continue to provide customers with low-cost energy for homes and businesses. The following chart compares the national average residential, commercial and industrial revenue per kilowatt-hour (kWh) paid by customers of publicly owned, investor-owned and cooperative electric utilities in 2015.

Residential customers in investor-owned utility service territories paid average rates that were **15 percent above** those paid by customers of publicly owned systems during 2015. Public power customers paid an average of 11.5 cents per kWh for residential electric service, compared to 13.2 cents per kWh paid by residential customers of investor-owned utilities, and 11.6 cents per kWh paid by residential customers of electric cooperative utilities.

Commercial customers of investor-owned utilities paid slightly more for electricity than public power customers in 2015, while cooperative commercial customers paid roughly the same. Public power commercial customers paid an average of 10.7 cents per kWh, compared to 10.9 cents per kWh paid by commercial customers of investor-owned utilities and 10.6 cents per kWh paid by commercial customers of cooperatives.

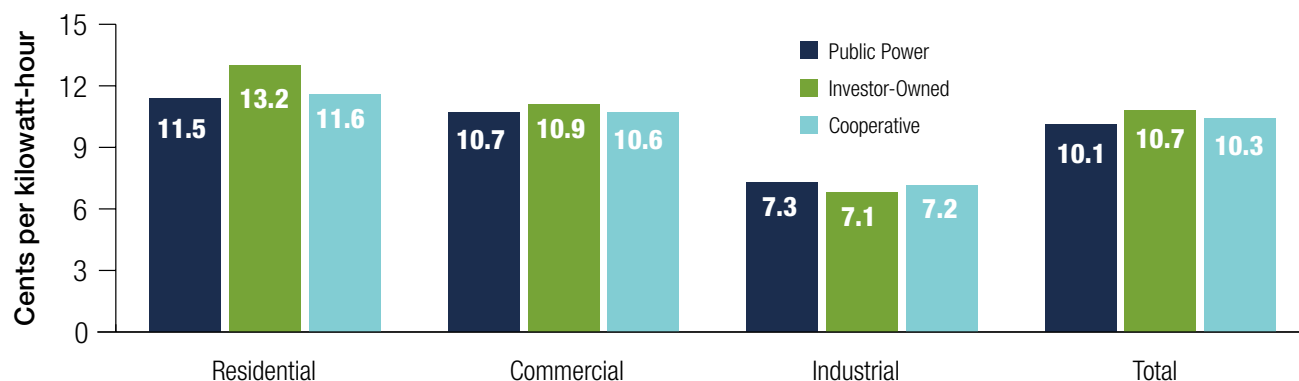
On a national basis, average electricity rates for all investor-owned utility customers in all customer classes are **6 percent higher** than average rates paid by public power customers. Average electricity rates for all cooperative utility customers are **2 percent higher** than those paid by public power customers.¹⁴



RESIDENTIAL CUSTOMERS OF INVESTOR-OWNED UTILITIES PAY 15% MORE FOR THEIR ELECTRICITY THAN PUBLIC POWER CUSTOMERS.

¹⁴ American Public Power Association, 2017-2018 Directory & Statistical Report, “Public Power Costs Less,” 2017 (based on Energy Information Administration Form EIA-860, 2015 data).

Average Retail Electric Rates by Customer Class, 2015



Local regulation

Public power utilities are under more intense scrutiny than investor-owned or cooperative utilities because they are governed and regulated by their customer-owners through locally elected and appointed officials. Governance and regulation happens at city council and utility board meetings, public hearings, citizen advisory committees and other public forums; accountability is ensured at the ballot box. Business is conducted in the open and is subject to local scrutiny.

Public participation in the utility's governance, including decisions on rates, budgets, facility siting, power supply reliability, and customer service, is a core attribute of public power. If citizens feel their rates are unreasonable, they can attend public meetings held in their own town to express their discontent. In a few states, public power utilities' rates are also regulated by the state public service commission.

While public power utilities generally are regulated by a local governing body accountable to its citizens, investor-owned utilities are regulated by state and federal authorities. Investor-owned utility customers have the right to file complaints with the state public service commission, but because they don't own the utility, they have no direct relationship to utility management and cannot participate in board meetings.

Regulation for rural electric cooperatives varies across the country; they are subject to oversight from state regulators in some, but not all, states. Where they are not regulated,

cooperative utility customers may find that making their voice heard is more difficult because the utility is not subject to the same sunshine laws that govern public power utilities.

Compared to customers of investor-owned utilities and rural electric cooperatives, public power customers have significantly more influence on rates, service and policies.

Low-Cost Structure

The biggest determinant in public power's lower rates is its not-for-profit status. Public power works for Main Street, not Wall Street.

In his comprehensive study of factors affecting performance in the U.S. electric industry, Professor John Kwoka concluded that public ownership confers both cost and price benefits. He found that the most likely reason for public power's advantages over their privately owned counterparts "appears to be that retail distribution—of electricity and perhaps other goods and services—may be performed better by enterprises closely rooted to the customer community. Such proximity may yield greater knowledge of local customer needs and a greater sense of responsibility for addressing those needs."¹⁵

¹⁵ John E. Kwoka, Jr., George Washington University, "Power Structure: Ownership, Integration, and Competition in the U.S. Electricity Industry," Kluwer Academic Publishers, 1996, p. 143.



Public power utilities can offer lower rates because:

- The utility does not pay dividends to often-distant shareholders.
- They are accountable to the customer-owners they serve.
- Local cost-consciousness and public scrutiny over expenditures keep the utility's budget in check.
- Administrative costs are lower, due to improved efficiencies through sharing personnel, equipment and supplies with the local government.
- Rates are set locally by citizen-controlled boards or city councils that operate publicly.
- There is no economic bias for high-cost, capital-intensive technologies.
- They can borrow money for capital expenses using tax-exempt bonds, holding borrowing costs down.
- They consistently earn higher credit ratings from the three major credit rating companies.
- In certain parts of the country, they may have access to lower cost hydroelectric power marketed at wholesale by federal and state agencies.
- Joint action agencies give smaller utilities access to economies of scale in generating and purchasing power and other services.

Municipal Bonds

For more than 200 years, state and local governments have relied on municipal bonds as a means of financing. Nearly three-quarters of all core infrastructure built in the United States is financed with municipal bonds. Interest paid on these bonds has been exempt from federal tax since the inception of the federal income tax in 1913, just as federal bonds, bills and notes are exempt from state and local taxes.

State and local governmental entities—including public power utilities—have limited means to raise funds for their communities' capital needs. The municipal bond market gives towns, cities, counties and publicly owned utilities access to investors. Municipal bonds are ideally

suited to finance capital-intensive public infrastructure, such as the assets of a public power utility.

While the median corporate bond issue is \$210 million, the vast majority of municipal bonds, including those for public power investments, are far smaller: the median municipal bond issuance is \$7 million. Only about 5 percent of all municipal bond issuances are for \$200 million or more. The federal tax exemption on bond interest reduces the cost of borrowing for municipal bond issuers. Over the past 20 years, the average yield of Standard & Poor's Corporate Bond (Aaa) Index has been 130 basis points higher than that of Moody's High-Grade Municipal Bond Index. Adjusting for the cost of call provisions common in municipal bonds (but rare in corporate taxable bonds), the spread is closer to 180 basis points. The difference can save municipal bond issuers **25 percent** over the 30-year life of a project. These savings result in more critical investments in infrastructure and essential services by state and local governments and lower costs for the services they provide.

ACCESS TO TAX-EXEMPT
MUNICIPAL BONDS ALLOWS
PUBLIC POWER UTILITIES –
AND ULTIMATELY, THEIR
CUSTOMERS – TO

SAVE 25%

ON THE COST OF INFRASTRUCTURE
PROJECTS OVER A 30 YEAR PERIOD.



Today, there are \$3.7 trillion in municipal bonds outstanding, more than \$200 billion of which finance electric power related investments. These include investments in power generation, distribution, reliability, demand control, efficiency and emissions control—all of which are needed to deliver safe, affordable and reliable electricity.

In addition to infrastructure for public power utilities, tax-exempt bonds finance roads, bridges, sewers, hospitals, libraries, schools, town halls, police stations and every other sort of government-purpose investment made by state and local governments. In fact, nearly three-quarters of the core infrastructure investment in the United States is financed by state and local government bonds.

Credit Ratings

The three largest credit rating companies acknowledge the advantages of public power's business model and assign

much higher ratings, on average, to public power than to investor-owned utilities.

Public power utilities share several fundamental, structural characteristics that contribute to these higher ratings:

- Local, autonomous rate approval authority
- Electricity is an essential service
- Defined service area, with near monopolistic characteristics
- Residential and commercial customer base is highly concentrated
- Public power utilities have a relative cost advantage over investor-owned utilities
- Local regulation is generally faster and more responsive to changing conditions than the lengthy process that investor-owned utilities experience before state commissions
- Customers/ratepayers are the ultimate stakeholders¹⁶

Fitch Ratings' 2016 Outlook for the public power sector assessed public power's strengths in the face of challenges confronting the electric utility industry: "Municipal power utilities... are well positioned to cope with near-term challenges including recently enacted carbon regulations, persistent rate pressures and long-term threats."¹⁷

Access to Federal Hydro Power

Hydro power accounts for 6 percent of the nation's electricity supply and is the most abundant source of renewable energy. Because the fuel (water) that turns the turbines to make electricity in a hydroelectric plant is free, the cost of operating a hydro power facility is low compared to other sources.

The federal power marketing administrations (PMAs) sell federally generated hydro power with a statutory right of first refusal granted to not-for-profit entities, including public power utilities and rural electric cooperatives (called "preference customers"). This hydro power is sold at cost. The hydroelectric power is produced at federal dams operated by the U.S. Army Corps of Engineers and the Bureau of Reclamation.

As one of the few providers of cost-based wholesale power, the PMAs assist in keeping power rates low for millions of electricity customers.

Joint Action Agencies

Being small and focused on local customers is one of the strengths of public power—but survival often hinges on being big. Joint action agencies are the convergence of small and big for public power utilities, banding utilities together to achieve economies of scale.

Joint action agencies are typically formed under an act of the state legislature to provide wholesale power supply and services to their public power members. Like the utilities they serve, these agencies are also not-for-profit organizations.

Joint action agencies have traditionally served as vehicles to consolidate power generation or purchasing, rate negotiation and facilities construction of many smaller utilities into a larger unit, thereby leveraging their combined size to gain added market advantage. This helps keep power rates competitive and provides an avenue for offering enhanced services through the economies of joint purchasing.

The beginning of joint action

Some of the earliest joint action ventures were undertaken to battle high wholesale rates. In Florida, an investor-owned utility was selling bulk power to 10 municipal utility customers at a higher rate than to rural electric cooperatives, ostensibly because the co-op loads were larger. When the cities tried to negotiate a better rate, the company pursued a divide-and-conquer strategy, trying to negotiate separate power sales agreements with each of the 10 cities. But the cities stood firm as a group and negotiated rates that satisfied all. The resultant aggregate savings of \$500,000 for the 10 cities were huge at the time—it was the 1960s.

"We have learned what can be accomplished through a united effort," wrote Wallace Sturgis, the city attorney for Ocala, Florida, in 1968. "But this is just the beginning. We must think big and from such thinking, big results will come." Individually, municipal utilities are small, he said, "but collectively, we are large and growing larger, despite all obstacles."¹⁸

Joint action today

While power supply and the opportunity to capture the benefits of economies of scale drove the creation of many

¹⁶ "Rating Agency Outlook for Public Power," Fitch Ratings, webinar, March 16, 2016.

¹⁷ "2016 Outlook: U.S. Public Power and Electric Cooperative Sector," Fitch Ratings, in a press release, December 9, 2015.

¹⁸ "The Evolution of Joint Action," *Public Power*, January 2014.

joint action agencies, the agencies have evolved to provide a wide range of shared services to help public power utilities keep costs down while providing the highest level of service to their customers.

Today, many joint action agencies plan and implement energy-efficiency and demand-side management programs for their members. Some agencies hire “circuit riders,” individuals who work on-site for member utilities one or two days a week, then spend another part of the week at other member utilities. For example: WPPI Energy in Sun Prairie, Wisconsin, hires energy services specialists who fulfill this role. American Municipal Power in Columbus, Ohio, has tree-trimming crews that support member needs. The arrangement enables the agency and its members to recruit and hire highly qualified personnel whom cities individually may not be able to afford.

In places where significant state-level regulation of publicly owned electric utilities remains in effect, joint action agencies like Vermont Public Power Supply Authority offer significant regulatory and legislative services to support member utilities.

Among other services, many agencies support their members in economic development, rate design, fuel purchasing, training, telecommunications, lobbying, information technology, engineering, project management, finance and equipment testing. Local public power utilities pool their resources, working together to achieve substantial savings for their communities.

Joint action agencies allow public power utilities to join forces to take advantage of economies of scale and shared services to boost efficiency. They are a lifeline for public power utilities that want to retain the benefits of owning and operating their own electric utility while not losing out on the economic advantages of a larger organization. The agencies facilitate the best of both worlds—small and large—for their members and their customers.

Local Economic Development

Public power utilities are an integral part of the economic development of their communities, working closely with new and existing businesses to provide the highest levels of reliability, customer service and development assistance. Public power utilities are local and are invested in the success of the customers and communities they serve.

A public power utility spurs development in the local economy as a local employer operating in the community, and through the benefits that the utility affords the community. In some public power communities, the utility may also directly support the town’s economic development efforts.

Hometown Jobs and Business

Public power utilities benefit their communities by providing employment opportunities for local residents. The local utility is headquartered in town and creates local jobs for customer service representatives, lineworkers, engineers, mechanics and administrators. Kids growing up in public power communities can find a career right in their hometown. Each dollar of a public power employee’s paycheck circulates through the local economy an estimated four to five times.

More than just being a local employer, public power utilities also support the local economy as a business operating in the community. Utilities may implement policies to “buy local” and support local businesses whenever practical, including purchasing materials and services from local companies and using local financial institutions for their business operations.



EVERY DOLLAR PAID TO A PUBLIC POWER EMPLOYEE CIRCULATES THROUGH THE LOCAL ECONOMY **4 TO 5 TIMES.**

Stimulating the Economy

Public power utilities are good for the local economy. Lower electricity prices allow consumers to spend more money

on other goods and services, in addition to attracting business and industry to the community. Local dollars stay at home in public power communities. They are not sent to companies and shareholders out of the city, state, or in some cases, country.

Investments made in the utility and its infrastructure also support the local economy. By meeting the interrelated needs of residential, business and industrial customers, a public power utility makes the community a more pleasant place to live and allows it to compete more successfully in attracting business and employment. For instance, utility investments to improve power quality and service reliability make the community more attractive to businesses that may locate or expand there.

The contributions utilities make to the local government, whether in the form of payments in lieu of taxes, transfers to the general fund, or other in-kind contributions to the local government, also help the community economically. Because public power utilities typically make greater financial contributions to the local government than investor-owned or cooperative utilities, these benefits may be felt more strongly in a public power town.

Direct financial contributions provide real, tangible benefits to the community, helping to pay for police officers and firefighters, teachers and schools, the municipal library and parks, road repairs and other city services. In-kind contributions—free or discounted services provided to the local government and other operational efficiencies—save money for the local government.

The financial contributions made by public power utilities give the community a choice: to collect less in local tax revenue to support its services; or to increase the number (or improve the quality) of services it provides. The community and local economy benefit either way: from more money staying in citizens' pockets, or from the enhanced municipal services.

Technological Leadership

Many public power utilities take a leadership role in preparing their communities for the future by pursuing new technologies as an integral part of community growth. They serve as information sources in a variety of technology fields such as environmental stewardship, high-speed internet capability, safety and community technology development.

Some public power communities offer telecommunication services because private companies may not offer them to smaller towns at competitive prices. Access to high-speed broadband encourages economic development.

How does public power help the local economy?



- Local employment
- Utility patronizes local businesses
- Lower rates means more money in customers' pockets
- Not-for-profit means money isn't sent to distant shareholders
- Investment in infrastructure and reliability helps other businesses in the community
- Contributions to local government allow more robust public services without raising taxes
- Technological investments can help support community economic growth
- Utility key accounts and economic development programs help business in the community

Economic Development Programs

Public power utilities are logical partners in economic development. A locally controlled utility is part of a public service community team that cooperates on public works projects, downtown renovations, extension policies, business development, industrial parks and energy-efficiency programs. The utility has an inherent interest in promoting the community's well-being and prosperity.

A 2015 survey indicated that the most important thing an electric utility can do to attract business to the community is offer high reliability and competitive prices.¹⁹ While public power excels in both these areas, many public power utilities go beyond, working with city officials to promote economic development.

¹⁹ "Building Community: Economic Development Best Practices," Greenville Utilities Commission and East Carolina University, 2016. Data from APPA Economic Development National Survey, 2015.

Tools that may be offered by public power utilities with their communities include:

- special economic development rates for the first few years of operation
- special connection fees or line extension rates to make extending electric service to a new business site more affordable
- key accounts programs for large commercial, industrial and institutional customers
- additional service redundancy to enhance electric reliability
- backup generation
- rebates
- discounts and fee waivers
- tax credits/abatements
- zoning assistance
- grants
- low- or no-interest loans

Other economic development initiatives include technical consulting, infrastructure improvements, enterprise zones and tax increment finance districts, energy-efficiency programs and account management services.

Many utilities also take advantage of strategic priorities to promote the community to businesses with similar interests. For example, a utility that invests in green energy technology can make the community more attractive to businesses that value sustainability.

Working to bring new businesses to the community is only the first step. Public power utilities work with their larger customers, offering them power quality, demand-response programs, alternative pricing structures, special communication during outages and other customer-defined and customer-focused programs. Businesses enjoy the streamlined, one-stop shopping customer service that public power towns offer through key accounts and other large customer programs.