

The Preliminary Feasibility Study for Establishing a Public Power Utility: Purposes, Scope, Costs

The purpose of a preliminary feasibility study is to determine the net benefits that could be realized by a city and its citizens from establishing a publicly owned electric utility. Benefits might include reducing electric rates, improving service levels, or funding local projects, such as the placing of power lines underground. A preliminary feasibility study is done by a qualified engineering firm, and depending on the desired scope, it might include the following:

- Estimate the electric usage of the customers located in the city service area and project forward that usage over a study period (such as 10 years).
- Project the anticipated revenues that the incumbent investor-owned utility (the IOU) will otherwise likely recover from these customers located in the city. (This is the “base case” against which the cost of a publicly owned and operated utility is to be compared).
- Project power supply requirements and costs for the new public power utility, including costs associated with transmission and ancillary services. (Power supply is the largest cost associated with owning and operating a public power utility, usually 60-80% of the revenue requirement).
- Estimate the cost of acquiring (or in the alternative building) the facilities required to serve customers located in the city service area.
- Estimate the costs associated with financing, equipment and inventory, and the professional services necessary to make the acquisition of facilities.
- Identify financing alternatives to fund the start-up costs and debt service requirements of the project.
- Project the all-in annual costs of operation and maintenance under public ownership for the study period. This includes power supply, distribution system expenses, billing and accounting expenses, administrative expenses and payments-in-lieu-of-taxes comparable to the property taxes currently paid to the community by the incumbent IOU. Identify work functions that can be integrated for efficiency with those of other city departments.
- Make the overall determination whether or not a public power utility is economically feasible. If the city’s revenue requirements for the utility’s all-in costs are less than the projected revenues to be paid to the IOU at its rates, then the city should be able to provide service at lower rates than the IOU.

Before proceeding with the establishment of a public power utility, a community should do an analysis of certain legal strategies and issues. Sometimes legal counsel will provide a legal analysis as part of the preliminary feasibility study. The analysis should determine:

- The city's right to establish a municipal electric system and to provide electric service to residents and businesses in and around the city.
- The city's right to purchase and/or develop power supply resources and to transmit power over the surrounding transmission grid.
- An estimate of the city's reasonable obligation, if any, to compensate the IOU for stranded costs.

Cost of the Feasibility Studies

The cost of a preliminary study is largely a function of the scope of work desired. Costs will vary with the size of the community, the type and condition of resources needed to serve the community, travel expenses required by the consultant, and the length, scope and formality of the final report presentation.

Recent examples:

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

If the preliminary feasibility shows that a public power utility is feasible, the community may follow up at the appropriate time with a more detailed study. This study might include a thorough analysis of power supply alternatives, including negotiation meetings and discussions with potential power suppliers; a detailed inventory and valuation of the IOU's electric facilities located inside the city; and an analysis of the costs associated with separating the facilities of the new public power utility from the bulk of the facilities which will remain with the incumbent IOU.

A list of qualified engineering and law firms that conduct preliminary assessments and a list of completed studies are available from APPA. For more information, please contact Ursula Schryver at USchryver@PublicPower.org or 202-467-2980.