



Chapter 1

What is Public Power?

More than 2,000 cities and towns in the United States light up their homes, businesses and streets with public power—electricity that comes from a community-owned and -operated utility.

Public power utilities are like our public schools and libraries: a division of local government, owned by the community, run by boards of local officials accountable to the citizens. Cities and towns own most public power utilities, but many are owned by counties, public utility districts, or states.

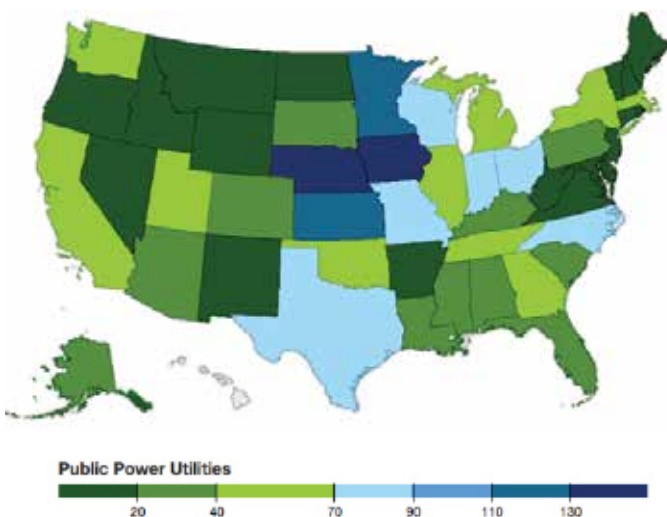
While each public power utility is different, reflecting its hometown characteristics and values, all have a common purpose: providing customers in the community with safe, reliable, not-for-profit electricity at a reasonable price while protecting the environment.

Public power today is an important American institution. From small towns to big cities, wherever public power exists, it is an expression of the American ideal of local people working together to meet local needs. It is a manifestation of local control.



A public power utility:

- Brings **electricity** to homes and businesses
- May **generate** and/or **buy** power
- Is a **not-for-profit** entity
- Is owned by the **community**
- Is usually a division of **local government**
- Is **transparent** (subject to sunshine laws)
- Involves **citizens** in decision-making



Who does public power serve?

- More than 2,000 community-owned electric utilities serve more than 49 million people.²
- Public power utilities serve small communities and large cities, including Los Angeles, San Antonio, Nashville, Orlando and Seattle.
- Public power serves customers in 49 states—all but Hawaii—and five U.S. territories.
- Three million businesses receive their power from a publicly owned electric utility.

²Based on U.S. Census Bureau statistics of 2.54 people per household/meter.

What are the other utility ownership structures?

There are three types of electric utilities: public power, rural electric cooperatives and investor-owned utilities.

Three types of Electric Utilities

	 PUBLIC POWER UTILITIES	 RURAL ELECTRIC COOPERATIVES	 INVESTOR-OWNED UTILITIES
BUSINESS MODEL	✓ Not for profit, community-owned	✓ Not for profit, member-owned	✓ For profit, share-holder owned
FEDERAL ENERGY REGULATORY COMMISSION JURISDICTION	✓ Only for interstate transmission	✓ Only for interstate transmission	✓ For wholesale rates
REGULATED BY STATE PUBLIC UTILITY COMMISSION	✓ Very limited instances	✓ Some	✓ All
GOVERNED BY	✓ Elected/appointed boards—mayors, city council members, citizens	✓ Member-elected boards	✓ Private boards
FINANCIAL CONTRIBUTION TO LOCAL GOVERNMENT	✓ Exempt from most taxes; instead make payments in lieu of taxes or transfers to the general fund	✓ May neither pay taxes nor other contributions to local government	✓ Pay taxes to local government
CAN RAISE FUNDS THROUGH	✓ Tax-exempt municipal bonds	✓ Loans from the Department of Agriculture’s Rural Utilities Service or cooperative or private lenders	✓ Stock issue or corporate debt

Public power utilities are entities of local or state government. The public power business model is based on public ownership and local control, a not-for-profit motive and focus on its customers. Because they are public entities, public power utilities can raise funds for capital improvement projects by issuing tax-exempt bonds. Public power utilities do not pay federal income taxes or most state taxes, but they support the local government through payments in lieu of taxes or transfers to the general fund.

Electric cooperatives are private, not-for-profit businesses. They are owned by their consumer-members, who elect governing board members and are required to return any excess revenue (above what is needed for operating costs) to their members. The local government and broader community generally have no involvement in the governance of the utility. Electric cooperatives can raise funds through loans offered by the Department of Agriculture’s Rural Utilities Service or cooperative and private lenders. Most electric cooperatives are exempt

from federal income tax, and may pay neither taxes nor payments-in-lieu-of-taxes to support the local government.

Investor-owned utilities are private, for-profit enterprises. They are owned by investors or shareholders, who generally are not customers of the utility or members of the community, and their primary motivation is to increase the value to shareholders. As private businesses, they raise capital by issuing stock or corporate debt. Investor-owned utilities pay taxes to local governments, but customers have no voice in the operation of the utility.



1 IN **7** ELECTRICITY CUSTOMERS IN THE U.S. ARE SERVED BY **PUBLIC POWER**

The Public Power Business Model

While each community-owned utility is unique, all public power utilities share five characteristics that define the public power business model:

Public ownership

Public power utilities are owned by and operated for the citizens they serve and are accountable to their local owners.

Local control

Local, independent regulation and governance gives utility policymakers greater agility in decision-making and protects the long-term viability of the utility, while permitting customer involvement in the process. This ensures decisions reflect the community values.

Nonprofit operations

Community-owned electric utilities serve the exclusive interests of their customers, avoiding conflicts between the interests of shareholders and customers because they are one and the same. Surplus revenues stay in the local community and are invested in system improvements and utility reserves, shared with the local government, or returned to the customer in the form of lower rates. They are not distributed among outside shareholders, as they are in the case of for-profit utilities.

Low-cost structure

Public power utilities have access to lower cost tax-exempt financing and generally have stronger credit ratings than privately owned utilities. Publicly owned utilities may have more efficient operations and access to less expensive federal hydro power.

Customer-focused

Community-owned electric utilities are dedicated to the singular mission of delivering the highest level of service and value to their customer-owners for the long term. Public power utilities focus on the specific needs of customers, including high reliability and lower rates, as well as local priorities, which may include investing in new technologies, environmental concerns or supporting local businesses and development initiatives.

5 ELEMENTS OF PUBLIC POWER BUSINESS MODEL



PUBLIC OWNERSHIP



LOCAL CONTROL



NONPROFIT OPERATIONS



LOW-COST STRUCTURE



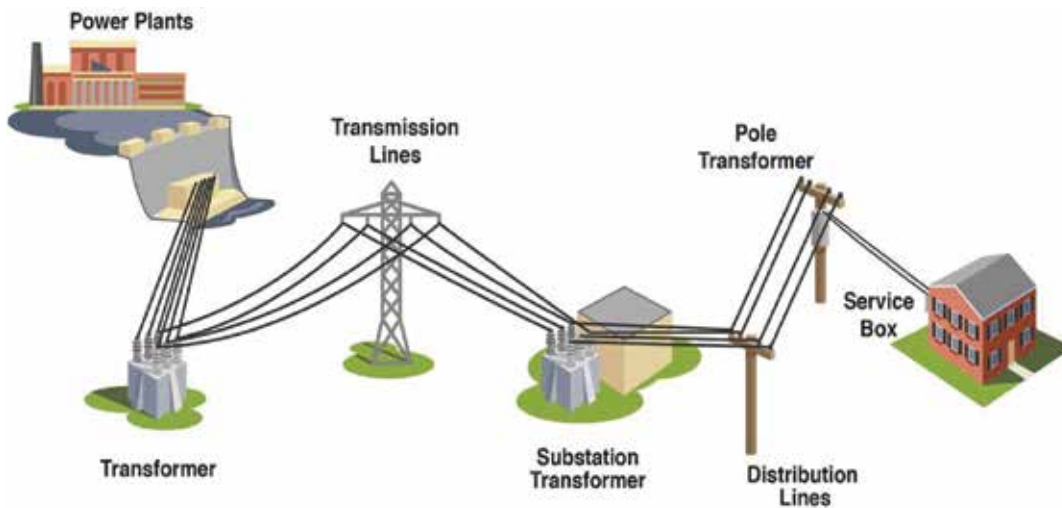
CUSTOMER FOCUSED

Who is in charge of public power utilities?

Public power utilities are owned by and accountable to the people they serve. Citizens have a direct and powerful voice in utility decisions and policies, both at the ballot box and in open meetings where business is conducted.

The governance structure for each utility varies. Some are governed by the city council; others are controlled by an independent utility board whose members may be elected or appointed by the mayor and city council.

Where does the power come from?



Electric utilities have three core functions:

- Generation of electricity;
- Transmission of electricity; and
- Distribution of electricity to customers.

Most public power utilities are distribution-only, meaning they do not own and operate their own power plants and bulk transmission. Instead, these utilities purchase power and transmission services at wholesale to distribute to their customers. Many distribution-only utilities purchase power and transmission from joint action agencies.

Together, public power utilities and joint action agencies generate two-thirds of the electricity they distribute to their customers. The rest of the electricity they distribute is purchased from investor-owned and cooperative utilities, independent generators and federal power agencies.

Overall, public power utilities and joint action agencies own 10 percent of electricity generation and transmission in the United States and 16 percent of all electricity distribution.

Public Power's Share of the U.S. Electricity Market³



10%
OF GENERATION



10%
OF TRANSMISSION



15%
OF DISTRIBUTION

³ Energy Information Administration Form EIA-860, 2017 (2015 data).



What is a Joint Action Agency?

Joint action agencies are membership organizations formed by groups of local community-owned utilities. These agencies, often authorized by state legislation, are governed by boards comprised of member representatives. The agencies buy or generate power and provide other services for their constituent utilities. With the combined leverage and purchasing power they get from representing multiple utilities, these agencies give their members the advantage of economies of scale and allow public power utilities to exercise strength in numbers.

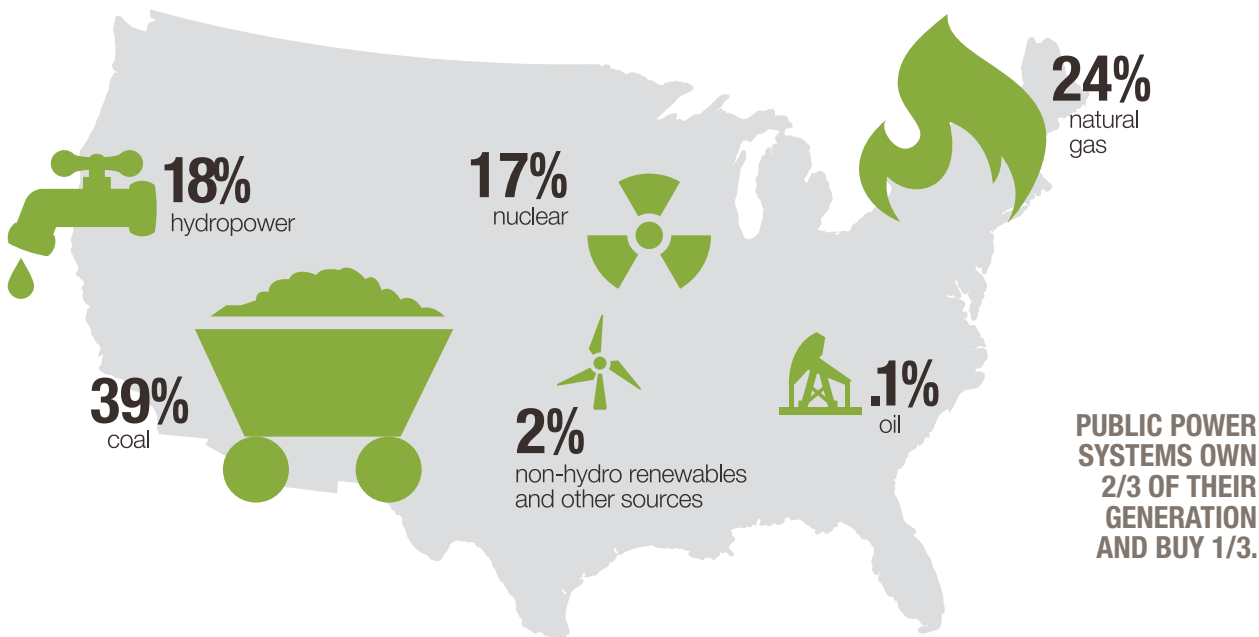
Energy resources

Electricity is created from the conversion of a fuel or other source of energy into electrons. This process occurs on a large scale in a power plant or on a smaller scale through distributed energy resources (e.g., rooftop solar).

The primary electricity generating technologies used in the United States are coal, natural gas, nuclear and hydro power. A small but growing portion of the generation portfolio comes from renewable resources, such as solar, wind, landfill methane gas and geothermal power. Public power utilities around the country rely on all of these energy resources to varying degrees.

Each of the various generating technologies has its advantages and disadvantages, which is why having a diversified portfolio of fuels—particularly generation sources that can be relied on most of the time—is a priority for electric utilities.

Electricity used by public power is generated from⁴



⁴ Energy Information Administration Form EIA-860, 2017 (2015 data).