



# National Conference & Public Power Expo

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*Explore Together*

# The High Cost of Low Wages!

American Public Power Association

June 18, 2018

## **Underlying Assumptions on Why Public Power Exist.**

- 1. Initially, for-profit utilities would not provide service.**
- 2. Now, Public Power is a viable, competitive service provider.**
- 3. Public Power is not-for-profit, but should not operate at a loss.**
- 4. Stakeholders in Public Power are due a return for their investment.**
- 5. For-profit shareholders receive their return in dividends. Public Power stakeholders receive their return in payment-in-lieu of taxes, shared service allocations, and lower rates.**

# A well-run utility is measured by:

1. **Safety:** Employees and customers go home every day alive and with all their parts. Lost time accident rate.
2. **Environmental Compliance:** A utility that is prohibited from operating is worthless.
3. **Reliability:** Outages are of more concern to customers than rates
4. **Cost/Rates/Profit/Stakeholder value.**

# Tacoma Public Utilities 2014 Performance

|  |               |
|--|---------------|
| What TPU customers paid for electric service   | \$315 million |
| What TPU customers would have paid under Puget Energy's rate schedule                  | \$436 million |
| What TPU paid to the city of Tacoma for shared services                                | \$18 million  |
| What Tacoma would have received from Puget Energy in franchise fees and property taxes | \$18 million  |
| How much Tacoma residents saved (38% of TPU revenues).                                 | \$121 million |

# Henderson, Kentucky Municipal Power & Light 2016

|   |                |
|---|----------------|
| What HMPL customers pay for service.  | \$35.3 million |
| What HMPL customers would pay under KU's rate schedule                          | \$44.5 million |
| What HMPL provided in free services and transfers to the city of Henderson      | \$1.9 million  |
| What Henderson would have received from KU in franchise fees and property taxes | \$1.9 million  |
| How much Henderson residents save in rates and taxes.                           | \$9.2 million  |

# What is the compensation paid for these results?

1. 2018 Compensation study of western and northwestern municipally owned, cooperative, and investor-owned utilities.
2. 2017 Compensation study of southeastern municipally owned utilities and rural cooperatives.
3. 2017 Compensation Study of 21 municipally owned joint action agencies and 23 rural generation and transmission cooperatives.
4. 2015 Compensation Study of comparably sized southeastern municipally owned utilities and rural cooperatives.

## 2018 Compensation study of western and northwestern municipally owned, cooperative, and investor-owned utilities excluding California.

| Position           | Public Power Utilities by Governance |               | Rural Cooperatives | All including IOUs |
|--------------------|--------------------------------------|---------------|--------------------|--------------------|
|                    | City Council; City Manager           | Board         | Board              |                    |
| CEO                | \$ 170,000.00                        | \$ 263,000.00 | \$ 242,000.00      |                    |
| Line Crew Foreman  | \$ 98,000.00                         | \$ 98,000.00  | \$ 99,000.00       | \$ 99,000.00       |
| Journey Lineperson | \$ 88,000.00                         | \$ 91,000.00  | \$ 91,000.00       | \$ 90,000.00       |



## 2017 Compensation study of southeastern municipally owned utilities and rural cooperatives.

|                    | Public Power Utilities     | Rural Cooperatives |
|--------------------|----------------------------|--------------------|
| Position           | City Council; City Manager | Board              |
| CEO                | \$ 115,000.00              | \$ 199,000.00      |
| Line Crew Foreman  | \$ 70,000.00               | \$ 78,000.00       |
| Journey Lineperson | \$ 56,000.00               | \$ 66,000.00       |

## 2015 Compensation Study of comparably sized southeastern municipally owned utilities and rural cooperatives.

| Type of Utility                 | Governance                | Average GM/CEO annual compensation |
|---------------------------------|---------------------------|------------------------------------|
| Rural Distribution Cooperatives | Board of Directors        | \$377,000.00                       |
| Municipally Owned Utility       | Board of Directors        | \$265,000.00                       |
| Municipality Owned Utility      | City Manager/City Council | \$179,000.00                       |

## **Potential Solution: Aggregate additional services under the joint action agencies.**

- 1. Missouri River: hires and dispatches line personnel.**
- 2. Oklahoma Municipal Power Agency hires and dispatches line personnel.**
- 3. ElectriCities of North Carolina provides General Managers to member cities.**

## 2017 Compensation Study of municipally owned joint action agencies and rural generation and transmission cooperatives.

| Type of Utility                                | Average GM/CEO annual compensation |
|--|------------------------------------|
| Rural Generation and Transmission Cooperatives | \$696,000.00                       |
| Municipally Owned Joint Action Agency          | \$363,000.00                       |

**Who were the consumers for this talent in 1978?:  
Demand side of the equation.**

**Investor Owned Utilities**

**Public Power entities**

**Rural Cooperatives**

**Consultants**

**Vendors**

# Who are the consumers for this talent today?

**Traditional Investor Owned Utilities**

**Rural Cooperatives**

**Public Power: under acquisition fire from coops, IOUs, and private equity players.**

**Consultants**

**Vendors**

**Independent Power Producers**

**Independent System Operators/Regional Transmission Organizations**

**Reliability Organizations**

**Private equity investors**

**KKR (Texas Utilities)**

**McQuarrie (Puget Sound Energy; Duquesne Light; Central Louisiana Electric)**

**Berkshire Hathaway (MidAmerican Energy; Nevada Power)**

**Large industrial customers**

## Supply side of the equation.

**Baby Boomers: about 78 million and declining;**

**Generation X: about 50 million;**

**Generation Y “Millennials: about 76 million; motivated to be rich and famous.**

## How does public power not become a farm club for the rest of the industry?

- Municipalities are consumer owned and provide non-profit services that have no competitors except their public power utilities. Public Power utilities provide funding for non-profit services.
- Competing rural cooperatives are also consumer owned.
- Attempts to manage compensation by equating non-profit managers with utility managers is defeating the ability of municipalities to optimize their stakeholder's value.
- Why is it important to pay the front line competitively, but not the intellectual capital that optimizes stakeholder value?



# **Method of valuing Public Power utilities contribution to the community they serve. What is measured is produced.**

- 1. Safety goals.**
- 2. Environmental Compliance.**
- 3. Reliability goals.**
- 4. Financial goals.**

**If Public Power management was incented to meet these goals, what would their communities get?**

# Hypothetical: What if Henderson, Kentucky Municipal Power & Light shifted customer savings to investing in local infrastructure?

|  | 2016           | 2024           |
|--|----------------|----------------|
| What HMPL customers pay for service. (\$35.3 million Cost of Service)  | \$35.3 million | \$40.6 million |
| What HMPL customers would pay under KU's rate schedule   | \$44.5 million | \$44.5 million |
| What HMPL provided in free services and transfers to the city of Henderson   | \$1.9 million  | \$1.9 million  |
| What Henderson would have received from KU in franchise fees and property taxes  | \$1.9 million  | \$1.9 million  |
| How much Henderson residents save in rates and taxes.  | \$9.2 million  | \$3.9 million  |
| Amount available for additional city transfers for infrastructure, HMPL capital investments, and economic development. |                | \$5.3 million  |
| Total Henderson resident savings.  |                | \$9.2 million  |

# Questions