AMERICAN PUBLIC POWER ASSOCIATION
Powering Strong Communities

EXECUTIVE SUMMARY

Staying Competitive:

Why Public Power Needs to Pay Equitably

Public power utilities provide reliable electric service at comparably low cost, and they do so because they are staffed by dedicated, qualified individuals with years of experience. Employees of public power utilities understand their local communities and take pride in keeping the lights on for their neighbors. Many have chosen public service, and that is why they work for public power.

However, public power utilities are at risk of losing these advantages because they frequently pay less than competitive wages. Cooperatives and investor-owned utilities at times pay 20-30 percent more than public power utilities for similar positions. Furthermore, the skill sets of many utility jobs are transferrable to other industries, and often these industries pay significantly more. In an environment with a low unemployment rate, the workforce in the United States today has more leverage in improving their positions.

Technological changes may exert even more pressure on public power utilities to pay competitive wages. The rapid deployment of distributed energy resources such as rooftop solar photovoltaics, energy storage, and electric vehicles is likely to accelerate in the years to come. Public power utilities must attract and retain talented professionals who understand these new technologies and how to integrate these resources. With these technologies, customers also will have new relationships with and expectations for their utility, and it will be important for public power employees to understand these dynamics.

The most obvious consequence of not paying competitive wages is employee loss. Loss of talent can impose a financial burden on the utility, as the cost of replacing an employee can be as high as 200 percent of their salary. Losing employees also puts strain on other employees and diminishes the institutional knowledge of the utility's workforce.

Some public power employees might be willing to accept lower salaries or hourly pay because of other lifestyle considerations or benefits to working for public power, but talented workers might not be willing or able to stay with public power when competitors are willing to provide substantial pay increases.

Public Power Provides More

Public power utilities, on average, have lower rates, provide more reliable service, and give more back to their communities than cooperatives and investor-owned utilities.

Lower rates
Rates for residential customers of public power utilities are about 13 percent lower than those for customers of investor-owned utilities, and about the same as those for rural electric cooperatives.

Higher reliability
Data from the Energy Information Administration show that in 2017, customers of public power utilities experienced on average half the number of outages of customers of IOUs and cooperatives, and that when outages did happen, it took public power utilities less than half the time to restore power than IOUs or cooperatives.

Higher community investment
Because public power utilities are usually exempt from local taxes, a common misperception is that they have a competitive advantage over IOUs. However, public power utilities provide direct payments and contributions to their state and local governments. The most common type of contribution is a payment in lieu of tax (PILOT), which is a payment made to the state or local government, usually based on a proportion of total revenue. Other types of contributions include property-like taxes, transfers to the general fund, and free or reduced cost services, such as street lighting. The median value of these contributions was 5.6 percent of total operating revenues. In comparison, the median tax payments IOUs made to state and local governments was 4.4 percent of total electric operating revenues. In other words, public power utilities provided payments and contributions that were 27 percent higher than the taxes paid by IOUs.

Public power utilities also provide other advantages, including:

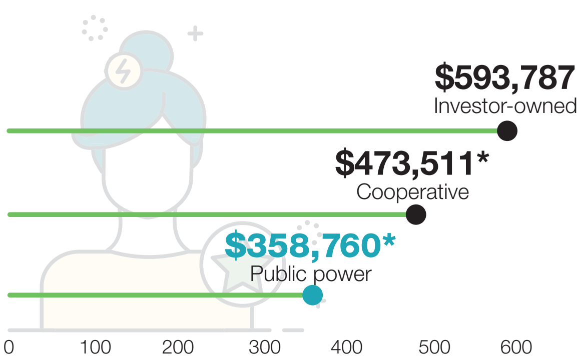
- Local control over electricity assets, investments, power supply choices, and programs
- Citizen participation in utility decision-making and long-term planning
- Improved efficiency of local government through sharing of personnel, equipment, and supplies
- Added community leadership in innovation and development due to local management and operations
- Recognized commitment to conservation, safety, and the environment
- Local choice over special programs (energy conservation, rate relief for certain customer classes, etc.)
- Local control over the electric distribution system aesthetics and design
- Local decision-making that allows matching local resources to local needs
- No economic bias toward high cost, capital intensive techniques or technologies
- Innovative techniques and technology to meet energy needs
- Primary mission of providing least-cost, reliable service instead of an objective to maximize profit
- A competitive standard against which the service of all utilities may be measured

Public Power Pays Less

Public power utilities continue to struggle to keep salaries on par with the rest of the industry. Though many public power utilities have taken measures to develop retention programs and to improve their compensation packages, public power utilities still pay on average much less than comparable cooperatives and IOUs.

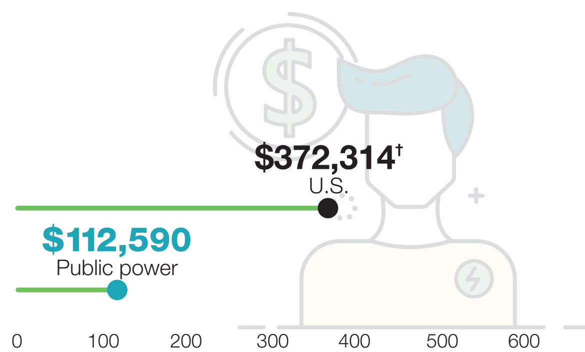
A comparison of just the top position (usually the General Manager or CEO) at each of these utility types shows the relative disparities in pay.

Median total compensation top utility executive
(General manager, CEO)



*among utilities with more than 100,000 customers

Median pay Chief Financial Officer



†Source: Salary.com [July 2019]

Public power

As reported in the Association's annual salary survey

General Manager Total Annual Compensation by Revenue, May 2019

Revenue (in millions)	Mean	Median
Less than $3	80,554	81,056
$3 to $6	94,896	91,500
$6 to $10	123,713	119,083
$10 to $15	132,649	128,584
$15 to $25	147,775	132,837
$25 to $50	155,610	161,442
$50 to $100	202,605	193,181
$100 or more	309,283	280,612

Cooperative

As reported to the Internal Revenue Service, Form 990.

Top-Level Executive Annual Compensation by Revenue, December 2017

Revenue (in millions)	Mean	Median
Less than $6	132,724	120,765
$6 to $10	132,413	125,816
$10 to $15	146,206	137,963
$15 to $25	171,770	162,133
$25 to $50	197,883	188,606
$50 to $100	255,698	227,885
$100 or more	370,481	334,856

Public power

As reported in the Association's annual salary survey

General Manager Total Annual Compensation by Customer Count, May 2019

Customers	Mean	Median
Less than 1,000	67,801	69,805
1,000 to 2,000	87,949	87,610
2,000 to 4,000	116,877	114,570
4,000 to 10,000	138,170	136,315
10,000 to 20,000	176,020	170,000
20,000 to 40,000	189,395	185,400
40,000 to 100,000	240,761	227,617
100,000 or more	413,706	358,760

Cooperative

As reported to the Internal Revenue Service, Form 990

Top-Level Executive Annual Compensation by Customer Class, December 2017

Customers Served	Mean	Median
Less than 2,000	131,273	123,291
2,000 to 5,000	144,246	137,087
5,000 to 10,000	163,579	156,024
10,000 to 15,000	186,271	185,760
15,000 to 20,000	203,527	189,843
20,000 to 40,000	238,925	221,711
40,000 to 100,000	337,136	297,250
100,000 or more	498,597	473,511

These tables show that median compensation for cooperative GMs is about 20-30 percent higher across all revenue and customer classes. It's important to note that cooperative salary data are only available as of calendar year 2017. That means there is a 20-30 percent disparity even though the public power data are more current by 18 months. Meanwhile, the median compensation for IOU CEOs was $593,787 as of December 31, 2018.

Cooperative and IOU salaries are also generally higher for all positions. For example, for the largest utility revenue class (over $100 million), the median Chief Financial Officer annual salary is $177,035 for public power utilities, while it is $222,301 for cooperatives and $402,502 for IOUs.

Public power utilities compete with more than other utilities in attracting and retaining talented employees. Many utility employees — such as financial, customer service, legal, human resources, and administrative positions — have skills that are transferrable to other types of businesses and organizations. In addition, as the utility industry continues to digitize, utilities are increasingly finding individuals with a software or information technology background that is outside of the utility industry.

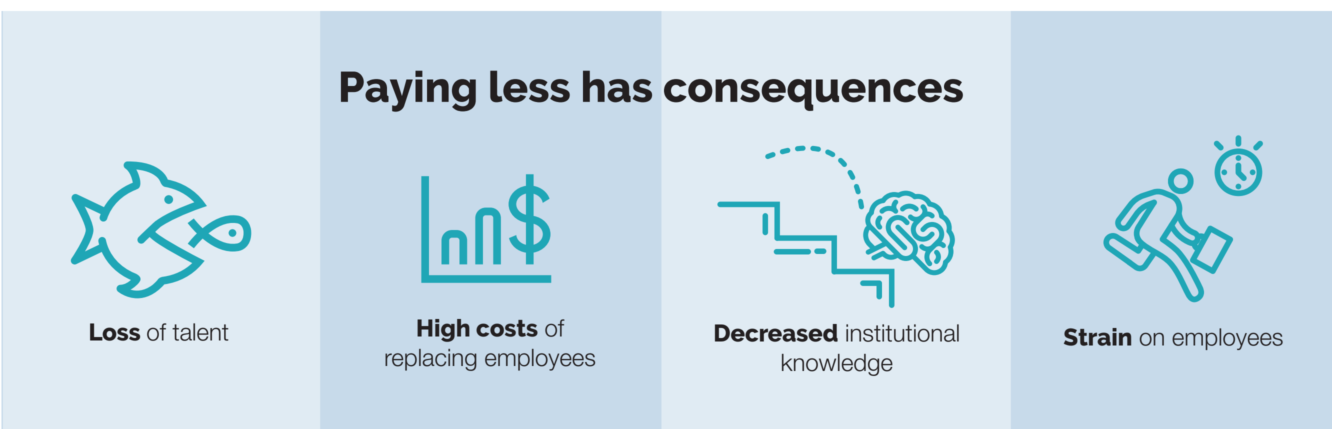
Communicating the Need to Pay Competitively

The decision to pay utility employees more competitively cannot be made in a vacuum; it requires buy-in and ongoing commitment from the city council and board members and may even require buy-in (or at least understanding) from the public. If the utility undertakes an effort to adjust employee pay, then it is important for the utility to communicate its reasoning for any adjustment with these stakeholders.

Utility leadership should be prepared to make the case on why competitive pay is essential to the future of the utility and community to the utility's governing body. Managers should also be ready to dispel any misconceptions about public power members of the governing board may have or factors which might make the board resistant to increasing compensation.

Utility leaders should try to:

- Gather comparative data on the utility's salaries and wages with other organizations that are likely to be competing for talented employees - including nearby utilities, large or high-tech employers in the region, or industries that draw on some of the same in-demand skillsets.
- Explain the risks – loss of talent and inability to recruit new employees, increased pressure on those who stay, and inability to adapt to a changing industry – if the utility does not pay competitively.
- Quantify the dollar costs of high turnover and continuously training new employees.
- Show the connection between retaining and recruiting talent and the utility's ability to provide reliable service.

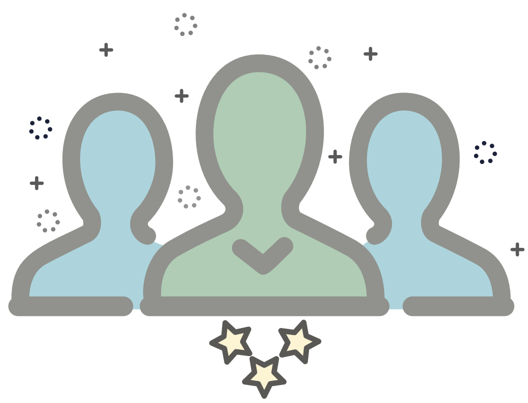


The Association provides resources (including this report) to help utility managers make this case. Other resources include:

- Information and communication templates about the benefits of public power, including the guide, Public Power for Your Community.
- Statistics about public power utilities, including a report on average revenue per kilowatt-hours for electric utilities in the United States.
- The Public Power Lineworker Hourly Wage Estimator, which can help utilities determine where their pay falls relative to the average hourly rate for public power utilities of similar size in their region.

There are many other resources to help utilities communicate the need to pay competitive wages, including the utility's own benchmarking data. Utilities should not assume that their governing bodies have all of the information they need to make informed decisions regarding utility pay, and so must be prepared to provide this information.

Pay is one of the many motivating factors behind people's career choices, and public power utilities and their governing bodies must scrutinize their pay structure to determine if they are paying competitively. Depending on a utility's circumstances, it may not be possible to pay as much as other electric utilities or industries. But if significant disparities in pay persist, a utility runs the risk of losing key employees or never attracting them in the first place. When this occurs, the public power advantage will decrease or even disappear. To stay competitive, public power must pay competitively.



Read the full report at www.PublicPower.org/resource/staying-competitive-why-public-power-needs-pay-equitably.