



Myths and Misinformation

An incumbent investor-owned or cooperative utility will fight the formation of a new utility by trying to discredit public power, creating doubt and fear, minimizing the benefits, and highlighting risks. But their arguments do not hold up to scrutiny. In fact, public power has been so successful at its focused mission of providing communities with safe, reliable, and affordable electricity that it has earned the praise of industry analysts, the financial community, and most importantly, electric customers.

This section will examine myths, misinformation, and other false charges you may hear about public power and help you separate fact from fiction.

Myths About Public Power

As you consider forming a new utility, you may hear myths or misinformation about public power in general and the benefits it offers. Nine common myths are addressed briefly here; see the “Benefits of Public Power” for more detailed information.

1. Local governments should not be in the business of running an electric utility.
2. Public power means more bureaucracy and less protection for consumers.
3. Public power utilities can't operate as efficiently as larger utilities.
4. Public power utilities do not have the resources to provide reliable power in the event of a major storm or outage.
5. Public power utilities are not large or sophisticated enough to deliver excellent service.
6. Blanket statements that public power costs less are simply not true.

7. Public power utilities aren't regulated, so they can raise rates with impunity.
8. Public power utilities don't support local government because they do not pay taxes or franchise fees.
9. Public power would hurt economic development.

Myth #1

Local governments should not be in the business of running an electric utility.



Fact:

Communities across the country serve their citizens by offering essential services such as water, gas, sewer and electricity. The ability of a community to provide these services embodies the very meaning of “local control.”

In the earliest decades of the electric utility industry, communities formed utilities for the most practical of reasons: citizens wanted the benefits of electric lighting and the quickest way of getting it was to do the job themselves. Today, towns don't have to worry about getting access to electricity, but they are still forming municipal utilities to focus on the community's specific needs—whether it be customer service centers, options for renewable energy, underground wires, faster responses to outages, or lower rates. Public power utilities are a reasoned, pragmatic solution to a civic need.

Public power has an excellent record of performance, not just in the last few years, but throughout the industry's more than 130-year history. More than 700 of the 2,000 public power utilities in the United States have been operating for 100 years or more. Their very existence provides a yardstick against which the rates and service of private utilities can be compared.

Myth #2

Public power means more bureaucracy and less protection for consumers.



Fact:

With the increase in mergers and consolidations among private utilities, public power utilities actually provide more protection to consumers.

Public power utilities are much smaller, leaner and more efficient than large investor-owned electric utilities. Citizens direct the activities of the public power utility through the utility's governing board, which is made up of elected or appointed officials. In addition, many public power utilities appoint citizen panels to advise them on services, reliability, rates and other issues. Questions are answered and decisions are made publicly. Citizens have access to all meetings and records and, if they disapprove, they can vote the elected officials out of office.

Myth #3

Public power utilities can't operate as efficiently as larger utilities.



Fact:

Electricity distribution, as opposed to large-scale generation and high-voltage transmission, is local. Public power utilities keep costs down

through local scrutiny of operations. With their local presence, they are more responsive to customers' needs. They use strategic partnerships and joint action with other public power agencies to obtain the advantages of size in power supply activities without taking on the disadvantages of merging into larger, remote, bureaucratic institutions. Municipal utilities can also create efficiencies for their communities in billing, metering, 24-hour emergency call centers, and other operations when they provide more than just electric service to homes and businesses.

Myth #4

Public power utilities do not have the resources to provide reliable power in the event of a major storm or outage.



Fact:

Public power utilities have a strong reliability record because they focus on core operations and take care of their assets. Public power utilities can respond quickly to emergencies because local crews live in the community, are accountable to local officials and have intimate, expert knowledge of the electric distribution system. In the event of a major outage, public power utilities can get help from crews from other utilities through mutual aid programs.

Myth #5

Public power utilities are not large or sophisticated enough to deliver excellent service.



Fact:

Public power utilities get high marks for customer satisfaction because their focus is always on service to the customer, rather than profits. Service quality is not compromised by mandates from a company headquartered hundreds of miles away, which may result in staff reductions, closed service centers, deferred maintenance, or delayed tree trimming. Public power utilities match local service needs with local resources.

Myth #6

Blanket statements that public power costs less are simply not true.



Fact:

Public power's rates, on average, really are lower. Year after year, for more than 50 years, data from the U.S. Department of Energy show that investor-owned utilities and rural electric cooperatives charge more, on average, for electricity than public power utilities. In 2014, residential customers of investor-owned utilities paid average rates that were 14 percent higher than those paid by customers of public power utilities.

**RESIDENTIAL
CUSTOMERS PAY
14% LESS**

than customers with
privately owned utilities.



**COMMERCIAL
CUSTOMERS PAY
10.7 CENTS
PER KWH**
vs. 11.4 cents per kWh
with privately owned utilities

Myth #8

Public power utilities don't support local government because they do not pay taxes or franchise fees.



Fact:

Public power utilities make as large or larger financial contributions to state and local governments, on average, than do investor-owned utilities. Public power utilities contribute to local governments through payments in lieu of taxes, transfers to the general fund, and free or reduced-cost services to the local government. The level of support and how the dividend is returned to the community is a local decision and another advantage of the local control of public power.

Public power pays
33% MORE
back to the community
**THAN PRIVATE
UTILITIES**



Myth #7

Public power utilities are not regulated by state public service commissions, so they can raise rates with impunity.



Fact:

Public power utilities are under more intense scrutiny than private utilities because they are governed and regulated by local officials directly accountable to the utility's customer-owners. Governance takes place at the ballot box and in public forums. Investor-owned utility customers have no direct relationship to utility management and cannot participate in board meetings, and cooperative utilities may not be subject to the same sunshine laws that govern public power utilities. Public power governing boards' local accountability gives their customers more protection than other utility models.

Myth #9

Public power would hurt economic development.



Fact:

Local control allows a community and its utility to work together to achieve common economic goals. Lower rates and a core focus on service reliability are good for businesses. Many public power utilities have taken a leadership role in preparing their communities for the future by pursuing new technologies as an integral part of community growth. A public power utility offers opportunities for efficiency gains through integration of electric operations with the operations of other city services. Public power utilities also work with their larger customers, offering them power quality, demand response programs, and other customer-defined and customer-focused programs.

Misinformation About Forming a New Utility

An incumbent utility will try to crush an attempt to form a new public power utility by spreading misinformation about the process and how it will impact the community. Not surprisingly, opponents focus on the risks but overlook the significant revenues and improved service the new utility could provide. Their goal is to scare the citizens of the community into believing that the risks and costs are so high that they are not worth the effort. But new public power communities continue to prove that public power can provide substantial net benefits to the community.

Be prepared to rebut these 15 common misrepresentations, distortions and flat-out falsehoods about forming a new public power utility:

1. Municipalization is a slippery slope to government running other businesses.
2. Forming a public power system amounts to a government takeover.
3. Conducting a feasibility study would be prohibitively expensive.
4. Municipalization will be much more expensive than the city anticipates.
5. Forming a new utility is too expensive for customers in the community.
6. The city would have to purchase the electric system at today's market prices.
7. The city would have to pay large stranded costs if they formed a new utility.
8. Forming a public power utility risks taxpayer money.
9. The city can't guarantee rates will be lower by forming a public power utility.
10. Public power utilities cannot buy or produce power cheaper than larger utilities.
11. Public power rates are lower only because of tax-exempt financing and access to federal hydro power.
12. The city would lack the money and expertise to operate a successful utility.
13. Forming a public power utility may take 10 years.
14. If the incumbent opposes selling the system, the initiative will fail.
15. More electric systems turn private than public.

Myth #1

Municipalization is a slippery slope to government running other businesses.



Fact:

Provision of electricity is an essential service that has characteristics of a monopoly, more like a water or wastewater utility than a commercial or industrial enterprise. It is a long accepted principle that government entities may provide such essential services to serve the public welfare.

Because of its monopolistic nature, electric distribution service is regulated. Private utilities are not simply businesses that charge whatever they choose. Their rates are regulated by state public utility commissions that determine which costs can be recovered from ratepayers and that set the allowed rates of return.

Public power utilities' rates are also regulated, in some states by the state commission, but generally through oversight of the local governing bodies or boards. Their rates are designed to cover the cost of service.

Public power utilities are also not in business to make a profit—they provide an essential service on a not-for-profit basis, which in turn means lower rates. In contrast, investor-owned utilities charge rates that include a profit factor, that is, the cost to provide their shareholders with a return on equity.

MYTH

"If Corona believes it can run private businesses better than our business community can, then why stop at utilities? Maybe the city should provide all its residents free health care and take over all hospitals and doctors' offices. Or perhaps Corona could take over all retail stores. Surely the city could earn a profit doing that!"

Carol Evans, Vice President, California Taxpayers' Association, December 2002.

"The private corporation, whatever its public duties, is organized for private ends and may be presumed to intend to make whatever profits the business will allow. The municipal corporation is allowed to go into the business only on the theory that thereby the public welfare will be subserved. So far as gain is an object, it is a gain to a public body and must be used for public ends."

U.S. Supreme Court decision affirming the right of municipal governments to sell electricity to private consumers, without regulation by state public utilities commissions. *Springfield Gas & Elec. Co. v. Springfield*, 257 U.S. 66 (1921).

Myth #2

Forming a public power system amounts to a government takeover.



Fact:

The government does not “take over” electric systems. Municipalization of electric service occurs because local citizens, through the democratic process, decide that public power will provide important benefits to their community.

Public power is as old as the electric industry system itself: almost 300 publicly owned utilities were serving customers prior to 1900. The right of communities to form public power utilities is enshrined in the laws of most states and has been upheld by the U.S. Supreme Court. Public power utilities represent the desire and action by local citizens to have direct control over an essential service: electric power.

Many campaigns to form a public power utility begin when the private utility’s franchise agreement with the city expires. Many franchise agreements explicitly grant the city the authority to purchase the electric distribution system. A “right to purchase” clause is a critical tool to ensure the private utility provides satisfactory rates, service and reliability to the citizens of the community.

“The municipal system option has long been regarded as a cornerstone of consumer leverage because it is commonly included in franchise contracts and places competitive pressure on the private utility to perform,” wrote Scott Ridley, an energy policy strategist. “It is important that this authority not be diminished or swept aside by blind pressures to ‘clear market barriers.’ Otherwise, consumers could become literally ‘disenfranchised,’ reduced to responding to marketers without the full ability to determine the competitive terms and standards under which they would be served.”²⁵

Even if the right to purchase is not explicitly stated in the franchise agreement, the city has no obligation to renew it. “An expiring franchise is analogous to an expiring contract. A utility should have no more expectation of obtaining renewal of a franchise than of obtaining renewal of a wholesale contract. This is particularly true where a municipality (or wholesale customer) has been publicly searching for an alternative.”²⁶ Several courts have held that no unlawful “taking” of property rights results when a municipality ousts a utility that lacks a valid franchise.

Finally, when a municipality takes control of an electric distribution system, the incumbent utility is fairly compensated for any assets, by mutually agreeing upon a purchase price; or if the system is acquired through condemnation, the courts or state statutes will determine just compensation.

Local public ownership of utility service is not a revolutionary or a radical idea. It is a mainstream idea, and can be summed up in the phrase: accountability to the community. In a public power community, the electric utility belongs to the people it serves, and the economic benefits are retained locally.

MYTH

“Vote no on Prop 1. Stop a government takeover of Jefferson County’s power system!”

Sign posted by Citizens Against Proposition 1, a group opposing the ballot measure that would allow Jefferson County, Washington, Public Utility District to provide electric service in the county.

NEWS

“The records reviewed by the *Orlando Sentinel*... provide a glimpse at how a big company mixes persuasion and political muscle to keep a grip on business. The documents cover everything from broad policy positions to the way buyout attempts should be described—‘bureaucratic boondoggle’ and ‘government takeover’ are the recommended terms.”

“Power play,” *Orlando Sentinel* article on Progress Energy’s opposition to municipalization efforts in Winter Park, Florida, August 31, 2003.

²⁵ “Local Government: The Sleeping Giant in Electricity Industry Restructuring,” *The Electricity Journal*, November 1997.

²⁶ Clinton A. Vince and J. Cathy Fogel, “Franchise Competition in the Electric Utility Industry,” *The Electricity Journal*, May 1995.

Myth #3

Conducting a feasibility study would be prohibitively expensive.



Fact:

Feasibility studies usually cost significantly less than private utilities may imply when they are trying to dissuade the community from this course of action. The cost of a preliminary or full feasibility study depends largely on the scope of work. Costs vary with the size of the community, the type and condition of resources needed to serve the community, the consultant's expenses, and the length, scope and formality of the final report presentation.

A preliminary study can be completed for as little as \$25,000, and a more detailed feasibility study can be completed for \$200,000 to \$500,000. A few recent examples:

- A medium-size city (population 56,000) paid \$25,000 to look at options for providing municipal electric and gas service.
- A community with a population of 70,000 paid \$70,000 for a preliminary feasibility study in 2015.
- A community with a population of 21,000 paid \$90,000 for a second phase feasibility study in 2013.

- A community with a population of 66,000 paid \$600,000 for a second, more detailed feasibility study in 2014.
- A community with a population of 23,000 estimates a detailed feasibility study to be conducted this year, including economics, engineering, and legal issues, will cost \$200,000 - \$250,000.

When a study shows that significant savings are possible with public power, the incumbent utility is likely to dismiss the study as "flawed." This simply means the private utility does not like the results. Feasibility studies by qualified engineering firms have had an excellent track record of estimating savings and other benefits of forming a public power utility because the reputation of the consulting firm and its future business depend on their objectivity and accuracy.

MYTH

"A preliminary feasibility study, typically costing more than \$100,000, and a detailed feasibility study—required in order to determine the precise details of the utility property and equipment to be purchased—will need to be completed. A detailed feasibility study can cost \$1 million or more."

Michael McGrath, Edison Electric Institute, "The Siren Call for New Public Power Warrants a Closer Look," Public Management, August 2003.

Myth #4

Municipalization will be much more expensive than the city anticipates.



Fact:

Private utilities are disingenuous in warning cities of the risk and expenses involved in establishing a public power utility. The incumbent utility is likely to demand an outrageous price for its electric distribution system, with inflated estimates on the value of the physical assets, plus going concern, stranded costs, excessive separation costs, and more. These high estimates may have little basis in fact; the incumbent's intent is to create doubt and scare local officials and citizens into abandoning the effort.

A thorough feasibility study, performed by a qualified and experienced firm, will help you get a much more realistic estimate of what the acquisition price of the utility will be. Much of the risk and uncertainty is in fact due to the incumbent utility's activities against municipalization.

Private power companies generally spend enormous resources to block formation of a new public power utility, and may use intimidation and threats of long, expensive legal battles to achieve their goals (particularly when their goal is only to dissuade the community from continuing the municipalization initiative, and not necessarily to win the lawsuits).

MYTH

"Boulder needs to acquire the electric system – the poles, wires, substation, equipment and other infrastructure. Two matters (condemnation and stranded costs) would be decided in court..."

This legal process will potentially cost millions in consulting and legal fees and take five or more years to complete. Further, we believe the city's plan does not represent the full cost of a takeover. An unbudgeted expense of more than \$112 million puts its break-even point in jeopardy."

Xcel Energy, "The challenges of municipalization," 2011.

Myth #5

Forming a new public power utility is too expensive for customers in the community.



Fact:

All utilities regularly issue debt to undertake capital projects, and the funds for repayment of the debt are collected from utility customers via utility bills over many years. There is a major difference though: public power customers are assured that the projects are for the benefit of their own community, while investor-owned utility or cooperative customers may be paying for projects that primarily benefit customers in another part of the state or region.

Local governments typically issue electric revenue bonds when they buy or build an electric distribution system. The debt is not paid back by customers in a single year. Rather, it is paid back from future electricity revenues—from customer payments over 30 years, for example.

Moreover, because the debt is repaid through future electric revenues, it is repaid by all electric customers—residential, commercial and industrial—over time, in proportion to the amount of electricity they use. Large commercial and industrial customers may contribute a higher percentage

of the total cost over time due to their higher relative electric bills.

The credit rating companies give public power utilities high marks for their management of their financial obligations, including payments on municipal bonds. This is reflected in public power's record of sound credit ratings.

The debt required for the acquisition of utility assets can be substantial, but that does not mean it is not a good investment, especially if the asset will provide net benefits for many decades.

“A hostile takeover of PG&E’s electricity distribution system is an expensive proposition—potentially costing well over \$100 million in bond debt. That’s \$5,000 out of the pocket of each electric customer in the district.”

Pacific Gas & Electric mailing sent to customers in the South San Joaquin Irrigation District.

MYTH

“I find the study to be deeply flawed in that it does not look out over the 10 or 20 or 30 years. It only looks at one year...”

Spokesman for Citizens for Local Power, critiquing an investor-owned utility-sponsored feasibility study on Jefferson County, Washington’s, proposed takeover of Puget Sound Energy’s electric service. Peninsula Daily News, July 30, 2008.



Myth #6

The city would have to purchase the electric system at today’s market prices.



Fact:

While private utilities may assert that a community must pay “market prices” for electric facilities, the most common valuation methods are original cost less depreciation and replacement cost less depreciation. The city may also have to pay costs associated with severing the distribution system in the city from the incumbent’s remaining system (reintegration costs, for example). In some cases, courts have allowed additional costs in recognition that the city is acquiring a going concern. This generally depends on the incumbent utility’s right to serve, with little or no “going concern” value awarded in cases where the utility’s franchise is nonexclusive, revocable at will, or expired.²⁷

Some franchises expressly allow the city to acquire the incumbent utility’s distribution assets upon expiration of the franchise term. The franchise agreement itself

may specify the method—or the process (for example, via an arbitration panel)—for establishing the value of the distribution facilities. State law may also set forth the method or process to be used for valuation.

If the incumbent utility refuses to sell or insists on an unduly inflated price, the city may consider condemnation action under a municipality’s right of eminent domain. State laws differ on eminent domain authority, with some states granting municipalities non-specific authority and others granting specific authority to condemn utility property. In Ohio, for example, the state constitution allows any municipality to acquire a public utility by “condemnation or otherwise.”²⁸

“Those communities that seek to take over distribution systems would have to purchase entire systems at today’s market prices.”

Edison Electric Institute, sample campaign message.

MYTH

²⁷ Vince and Fogel 1995.

²⁸ Article 18.04 of the Ohio Constitution.

Myth #7

The city would have to pay large stranded costs if they formed a new utility.



Fact:

The Federal Energy Regulatory Commission (FERC) does not automatically review the sale of a private utility's assets to a municipality.

A 1996 FERC order on wholesale transmission access does allow for stranded cost recovery from new municipal utilities (called "retail-turned-wholesale" customers in the order), but only under specific circumstances. The order provides for stranded cost recovery if the new municipal utility uses FERC-mandated transmission service to reach a new power supplier.

In some cases, a new municipal utility chooses to sign a power supply contract with the utility that formerly served the city. FERC's stranded cost provisions do not apply in these cases because the private utility is not providing transmission access to another supplier; rather it is still supplying power to the new municipal utility. The private utility no longer owns the distribution assets in the city, but it is still using its generation resources to provide power to the city's customers at the wholesale level. Thus, FERC's requirements for open access transmission service do not "strand" the costs of the private utility's generating assets in such cases.

In South Daytona, the city chose FPL's wholesale power supply proposal, but FPL refused to negotiate the final terms of the contract until the parties came to an agreement on stranded costs. South Daytona then petitioned FERC for a declaratory order that "the commission's stranded cost regulations do not apply to a retail-turned-wholesale municipal utility that intends to continue receiving its power supply from its former retail supplier."²⁹ FERC promptly decided the case, denying FPL's arguments and granting the declaratory order. In its analysis, the commission said that its order on transmission access limits stranded cost recovery in the case of new municipal utilities "to those cases in which the new wholesale entity uses commission-mandated transmission access to obtain new power supply on behalf of retail customers that were formerly supplied power by the utility providing the transmission service."³⁰

States may award an incumbent utility stranded cost recovery or an exit fee as part of the valuation process. Typically, these decisions focus on the loss of generation load, and are often based on a determination of whether the incumbent utility had invested in power supply resources under the expectation of continuing to serve the city's customers.

In Florida, two of three circuit court decisions on stranded costs ruled that the cities (Casselberry and South Daytona) owed no stranded costs, while the third decision assessed Winter Park stranded costs of \$10 million. In the Casselberry case, the judge ruled that the investor-owned utility did not prove that there would be any stranded costs, primarily because the city's load was small relative to the investor-owned utility's total forecasted load. In the South Daytona case, the judge ruled that since the city's 1978 franchise agreement gave the city the right to purchase the utility at the end of 30 years and set the valuation method for the purchase, there could be no stranded costs.

In regard to how the private utility's other customers are affected, the incumbent will recover the costs of the city's distribution assets as part of the purchase price of the system. Therefore the private utility should remove the distribution assets from its rate base in order to ensure that customers remaining in their service territory do not pay for assets for which the utility has already been reimbursed.

MYTH

"Stranded costs are not a part of the price of purchasing FPL's [Florida Power & Light] assets and could be added to the overall value of buying out the system after the Federal Energy Regulatory Commission reviews the sale."

"South Daytona moves forward with power takeover, FPL will fight purchase price,"
Hometown News, August 12, 2011.

²⁹ Federal Energy Regulatory Commission, "Order Granting Petition for Declaratory Order and Dismissing Rate Filing Without Prejudice," Docket Nos. EL12-1-000 and ER 12-46-000, P 1.

³⁰ *Ibid.* at P. 29, citing Order No. 888-A, FERC Stats. & Regs. ¶ 31,048 at p. 30,404.

Myth #8

Forming a public power utility risks taxpayer money.



Fact:

Taxpayer money is not at risk. In almost all cases, public power utilities issue revenue bonds to purchase the electric distribution system, and these bonds are repaid from electric utility revenues. Revenue bonds, unlike general obligation bonds, are not backed by the city or by the city's ability to impose taxes; rather they are backed by the revenues of the utility. The new electric revenue bonds would have no impact on other city projects and borrowings.

Every day more than 2,000 public power utilities provide reliable electric service to their customers, setting their priorities based on the priorities of the citizens. If the citizens do not like the direction the utility is taking, they can express their views to the governing board or city council as ratepayers and voters. Moreover, a municipal utility's costs are scrutinized line by line, locally and publicly. Unlike with investor-owned utilities, costs do not include dividends or profits paid to stockholders.

In contrast, there are risks associated with being customers of an investor-owned utility. Most investor-owned utilities are part of a larger holding company structure that can invest in risky, unrelated, and unregulated ventures. Diversification into non-core businesses potentially has a negative effect on the regulated utility's credit rating. The added risk can raise the cost of the utility's business (through a higher cost of capital) and in some cases, result in the utility providing financial support to affiliates or the parent company itself.

Investor-owned utilities continue to merge, forming larger and larger holding companies. The local investor-owned utility can be bought by another utility holding company or other business or by a consortium of private investors. The new owners may be headquartered across the country or the world. The enormous salaries, costly stock options, and golden parachutes awarded the CEOs of private utilities (unheard of in public power communities) also become a factor when mergers take place. Customers of investor-owned utilities have virtually no say in these management decisions.

MYTH

"What we're talking about is a city participating with venture capitalists in a risky venture capital move... If Edison, as a public company, does that, the shareholders take the risk. But with a city utility, you're risking taxpayer money."

Charley Wilson, Southern California Edison.



"In our view, another key strength of public power is its focus on providing low-cost power to customers. We think this tends to make municipal utilities more risk-averse and less likely to put capital in danger through diversification into unregulated business ventures such as telecommunications or merchant generation plants."

Standard & Poor's, "Regulatory Uncertainty and a Tepid Recovery Could Weaken the U.S. Public Power Sector's Credit Quality," February 16, 2011.

Myth #9

The city can't guarantee rates will be lower by forming a public power utility.



Fact:

No utility can guarantee the future, but public power utilities have a long record of keeping rates as low as possible. And experience shows that communities that have formed new public power utilities have been able to offer lower rates, among other benefits, to local residents and businesses. For some, the savings have been substantial.

A feasibility study by a qualified consultant can help determine reasonable estimates of how much an individual community could save on electric rates by forming a public power utility. The consultant examines the factors (wholesale power costs, system acquisition costs, etc.) that help determine the short- and long-term savings that are possible with public ownership. These savings can be passed on to customers in the form of lower rates.

Many communities find it worthwhile to make the change because they determine that public power can deliver responsive, reliable electric service at the most reasonable rates. Customers pay for the cost of utility operations through their electric bills; this is true whether service is provided by a public power utility or by an investor-owned

or cooperative utility. In either case, the utility sets rates to cover its costs. But through public ownership of the utility, the customer-owners have greater control over costs, prices and service. In addition, since a public power utility is directly accountable to the people it serves rather than to stockholders, a public power utility's cost of operation does not include paying profits to stockholders.

When a new public power utility forms and puts a premium on keeping rates affordable, the benefits are not just short-term savings. For example, after forming their community-owned utilities 15 and 35 years ago, Hermiston, Oregon, and Massena, New York, have kept rates significantly lower than the investor-owned utilities that formerly served their towns.

Hermiston Energy Services (HES) in Oregon began operations in 2001 after acquiring its electric distribution system from PacifiCorp. HES reduced customers' rates in its first year of operation, and the utility's average rates remain below the average rates that PacifiCorp charges its customers in Oregon. U.S. Energy Information Administration data show that in 2014 PacifiCorp's average revenue per kilowatt-hour (kWh) from its residential customers in Oregon was 59 percent higher than the HES average residential rate (11.09 cents per kWh compared to 6.97 cents per kWh). Similarly, PacifiCorp's average rate charged to commercial customers was 40 percent higher than the HES average commercial rate (9.08 cents per kWh compared to 6.49 cents per kWh).

The Massena Electric Department, formed in New York in 1981, immediately reduced electricity rates by more than 20 percent below those charged by Niagara Mohawk, the investor-owned utility that had previously served Massena customers. Massena has kept its rates low while Niagara Mohawk's [now National Grid, since 2000] rates have increased dramatically. While we expect rates to increase over time due to inflation and increased power supply costs, Massena's rates have increased much less than those charged by the city's former utility.

Since 1990, Massena's residential rates have risen from 4.6 cents per kWh to 6.85 cents per kWh, while Niagara Mohawk/National Grid's average residential rates increased from 8.9 cents per kWh to 15.85 cents per kWh—a 78 percent increase. Average rate comparisons for the two utilities' commercial and industrial customer classes are similar. (Massena's average rates in 2014 were 7.74 cents per kWh for commercial customers and 5.8 cents per kWh for industrial customers, while National Grid's average rates were 13.33 cents for commercial customers and 8.65 cents per kWh for industrial customers).³¹

MYTH

“There's no way to know what the city would do with rates, and they would no longer be under review by an oversight authority such as the PUC. There is no evidence rates would drop with the implementation of the municipal utility district.”

Millersburg [Oregon] Residents for a Responsible Government, 2015.

Myth #10

Public power utilities cannot buy or produce power cheaper than larger utilities.



Fact:

There is no reason to believe that new public power utilities would not have access to economically priced sources of power. More than 2,000 public power utilities across the country take care of the power supply needs of their customers every day. When the community owns and operates an electric utility, it has options and choices in power supply as in other areas of operations.

Public power utilities that do not own power plants purchase wholesale electricity and transmission services through contracts with other utilities, power marketers, or merchant generator companies.

Hundreds of public power utilities participate in joint action power supply agencies to gain economies of scale in wholesale supply that small municipal utilities might otherwise find unattainable. Joint action agencies obtain power supply for their member public power utilities through agency ownership of power plants or by purchasing power on the wholesale market.

Joint action is an option for most new public power utilities. For example, in 2004 the town of Huron, Ohio, established a public power utility to serve new developments. Huron

³¹ Energy Information Administration 2016, Forms EIA-861 schedules 4A & 4D, and EIA-861S, “Annual Electric Utility Report” 2014 data.

became a member of American Municipal Power, a joint action agency that provides power and other services to public power utilities in Ohio and surrounding states.

Some public power utilities build generating facilities to serve their load. Corona Municipal Electric Utility in California began operations in 2001, serving direct access customers under California's retail choice law and serving customers in newly developed areas of the city. In 2005, Corona completed construction of a 32-megawatt gas-fired power plant. The city benefits by having its own source of power supply, and it also uses excess heat from the plant to solidify bio-waste at the city's wastewater facility, thereby reducing the cost of transporting the waste.

A strategy mixing both plant ownership and wholesale purchases allows many cities to hedge risks and benchmark one source against another to achieve cost, reliability, and social and environmental benefits.

Another way to hedge risks is to diversify power supply, for example, by building a diverse portfolio of energy sources, counterparties to contracts, and length of contracts. These are the same strategies used by private utilities, which face the same fluctuations in the cost of energy.



"Fluctuations in the cost of energy will leave Santa Maria ratepayers at the mercy of the market. And that would quickly translate into higher energy costs."

"Municipalization Hurts Taxpayers," Santa Barbara County Taxpayers Association, March 5, 2005.

Myth #11

Public power rates are only lower because of tax-exempt financing and access to federal hydro power.



Fact:

Investor-owned utilities often falsely charge that public power rates are only lower due to tax-exempt financing and preferential access to federal hydro power. However these factors explain only part of public power's rate advantage. Other important factors are public power's not-for-profit status and its local presence and local control.

While there are restrictions on local government's use of tax-exempt financing to buy privately owned assets, feasibility studies take these financing costs into account. In addition, with today's low interest rates, the difference between tax-exempt and taxable financing rates is relatively small. In most cases, forming a public power utility still makes economic sense, even with the use of taxable bonds. Going forward, the new public power utility will be able to use tax-exempt bonds for new investments in infrastructure and other long-term capital expenses.

Some new public power utilities may be eligible to receive hydro power allocations. For example, the Jefferson County Public Utility District in Washington has been providing low-cost hydro power to county residents since it began operating in 2013, thanks to an allocation from the federal Bonneville Power Administration.

While a federal hydro power allocation can be beneficial, it is not essential in order for new municipally owned utilities to be cost-effective. Again, a thorough study by a qualified consultant can examine these issues and provide the needed economic analysis.



"People confuse the fact that existing municipal utilities have a cost advantage because they don't pay taxes and they have access to cheap federal power," [Pacific Gas & Electric vice president] Richard continued... "Well, guess what, you cannot use tax-exempt financing to condemn property, and there's no more cheap federal power because it's all been sopped up."

"Cities charting paths to energy independence,"
Greenwire, May 2005.

Myth #12

The city would lack the money and expertise to operate a successful utility.



Fact:

Public power utilities obtain the revenues needed to pay for the utility's operating expenses through their electric rates, just as private utilities do. They purchase trucks and equipment from the same suppliers as other utilities, and they recruit managers and other employees from the same pool of qualified electricity industry professionals as investor-owned utilities. In fact, many public power CEOs and other management employees began their careers working in the distribution or power supply departments of investor-owned and cooperative utilities.

Some cities outsource the operation of their new public power utility in the early years of operation. They contract with an experienced electricity provider to operate and manage the utility. The electricity provider is accountable to city officials for its performance. Although this is a viable option for the city to consider, outsourcing is not essential.

Many cities already have experience owning and maintaining a water, sewer or natural gas utility. A new municipal electric utility can combine billing, meter reading, call centers, and other functions with those already offered by the city for other services.

Cities have only to look at the existing public power utilities—more than 2,000 of them nationwide—to learn how they manage their operations.

MYTH

"It is doubtful the city will have the money and the expertise to hire and manage skilled line crews, buy and maintain a fleet of special trucks, dispatch enough employees to rapidly repair downed lines after a major storm, provide a call center and billing service, along with a control center and meter readers. It's a big, tough job."

Alliant Energy.



"There's even a near-perfect model of how Connecticut Light & Power could have done the job better. Norwich, Conn., a city of 40,000, has owned its own electric utility, as well as those for sewage, gas and water, for 107 years. Norwich Public Utilities' customers pay, on average, a bit less than Connecticut Light & Power's. Yet, after this past weekend's snow dump, power was out for only about 450 of its 22,000 customers—and for no more than an hour. As of Thursday morning, nearly half a million Connecticut Light & Power customers were still waiting for the lights to go on."

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

Myth #13

Forming a public power utility can take 10 years.



Fact:

Ten years is an exaggeration—the average is four to six years. Some public power utilities have been formed in a year or two, and in some of these cases the price was negotiated amicably. A few of the most hard-fought municipalization campaigns took eight to 10 years to complete.

Of course, because communities that establish public power utilities sometimes have a long history of dissatisfaction with the incumbent utility's rates or service, they may have already spent many years fighting for electric service that meets their needs. For dozens of communities across the country, local control and ownership is the goal—and the

benefits are worth a considerable investment of time and money.

When it does take years, it is because the private utility continually wages a fierce fight. Las Cruces, New Mexico, and Massena, New York, each spent about seven years battling legal hurdles erected by the incumbent utilities. Massena saved its customers \$25 million in the first 10 years of operation and millions more since. Las Cruces did not form a city-owned electric utility, but it did win important concessions with a short-term franchise, a substantial settlement payment, and the option to purchase electric distribution facilities in the future.

When forming a public power utility, an initial feasibility study identifies projected costs and retail rates if the city were to remain with its current supplier and power supply alternatives for the community. As the process unfolds over several years, it may be appropriate to update cost estimates as wholesale power and other costs or situations change.

MYTH

“The takeover process typically takes years. By the time all studies are completed, legislation is passed, voter approval is obtained and outstanding lawsuits are settled, as many as 10 years may have passed. During this period, circumstances change and the original impetus for the takeover may no longer be a factor.”

Edison Electric Institute.

Myth #14

If the incumbent opposes the formation of a new utility, the initiative will fail.



Fact:

There have been many successful initiatives to form new public power utilities, including 20 new utilities formed in the last 15 years, and 50 in the last 30 years. The end result is often a community that has achieved substantial benefits, including lower rates and better service.

Many more communities are studying the public power option and actively working toward creating a public power utility.

Many public power ballot initiatives have passed by wide margins. For example, residents of Winter Park, Florida, voted overwhelmingly (69 to 31 percent) authorizing the city to issue bonds to buy the local distribution facilities of the incumbent investor-owned utility in 2003. In 2008, citizens of Jefferson County, Washington, voted to authorize the county’s public utility district to provide electric service in the county. And in 2011, citizens in Boulder, Colorado, voted to authorize creation of a municipal electric utility if customer rates would be the same as the investor-owned utility’s rates at the startup of the municipal utility.

In other cases, the city’s governing body has approved the purchase of the local distribution facilities. In 2009, the board of the South San Joaquin Irrigation District (SSJID) in California unanimously voted to proceed with a plan to provide retail electricity service in the district.

While opposition from the incumbent utility can increase the costs of a municipalization effort—in terms of time, money or political capital—it is still possible to establish

a new public power utility that provides real benefits to consumers.

For example, South San Joaquin Irrigation District has persevered in its effort to acquire Pacific Gas & Electric’s distribution system, despite disapproval of its initial application to the San Joaquin Local Agency Formation Commission (LAFCo), an adverse court decision, and opposition from PG&E. More recently, the news has been good. The district’s board voted to proceed with the plan and the expert study required by the LAFCo concluded that SSJID’s plan to acquire the electric distribution system and reduce rates by 15 percent was feasible and financially viable.

Several new public power utilities have avoided court battles by establishing municipal electric utilities that serve only new developments or industrial parks. Other cities have begun by establishing a municipal utility to take on various money-saving endeavors. These include community energy conservation projects, acquiring and operating the streetlighting system and, where state law allows, serving as an aggregator of customer accounts. Several states, including Ohio, Illinois, Massachusetts and California, allow municipal governments to aggregate residential and business electric utility customers, subject to approval by referendum. In Ohio, 324 cities, counties and townships have chosen electric aggregation since the state enacted legislation allowing it in 2001.³²

In cases where municipalization initiatives do not result in the formation of a new public power utility, those initiatives should not be considered “failures.” Often, the process of evaluating and considering the public power option will incentivize the incumbent utility to offer favorable concessions to the community, leading the community to choose to end the initiative. These concessions would not be achieved without the competitive pressure that the public power option brings, meaning these so-called “failed” initiatives are actually successful in their primary purpose of achieving electric utility service that meets the community’s needs.

MYTH

“In the last several decades, nearly all attempts at forming an electric municipal system have failed when the takeover was contested by the incumbent utility. The causes of failure run from financial difficulties to lack of popular support.”

UtiliPoint International Inc., “Feasibility Considerations for the Potential Public Utility District’s Takeover of Puget Sound Energy’s Electric Utility Business within Skagit County,” June 2008.

³² Public Utilities Commission of Ohio, Regulated company list for Electric – Government aggregators, as of March 2016.

Myth #15

More electric systems turn private than public



Fact:

Changes in electric utility ownership are relatively rare. Over the last 15 years, 20 new public power utilities were formed. Seventeen communities sold their public power utilities (mostly to neighboring rural electric cooperatives, which are also owned by their consumers).

With more than 3,000 electric utilities operating nationwide, there is no statistical trend toward municipalization or privatization.

While industry ownership and sector shares are relatively stable, communities across the country continue to show interest in public power. The local officials spearheading these efforts know it will take considerable time, money and effort, but they are aware of the long-lasting benefits of public power in communities that succeed.

MYTH

“No Colorado city or town has municipalized its electric system for nearly 40 years. It is an extremely rare event. The same is true nationwide. In fact, most transfers occur when a city sells its electric utility to the surrounding private company.”

UtiliPoint rebuttal to Boulder's Feasibility Study, August 2011.