



Texas Public Power Association

Testimony of the Texas Public Power Association (TPPA)

Senate Business & Commerce Committee
July 10, 2012

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Interim Charge: Senate Business and Commerce Committee

- *“Study the relationship between city governments and municipally-owned utilities, including any duplicative or redundant functions, the amounts and justifications required for transfer payments between the entities, and the benefits and disadvantages of alternative governance structures.”*

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Municipally Owned Electric Utilities (MOUs) in Texas:

Overview

SERVICE, STABILITY, SUCCESS.



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72 MOUs provide power to 4.1 million Texans. Many have been serving their communities for over 50 years.

MOUs are “full service” electric utilities that own poles and wires and often power plants.

Local authorities set MOU rates and policies that are responsive to community priorities.

To date, MOUs have taken a “wait and see” approach to electric deregulation.



**Municipally Owned
Electric Utilities (MOUs)**

72 MOUs in Texas



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<u>Municipally Owned Electric Utilities</u>		
Bartlett	Floydada	Lubbock
Bastrop	Fredericksburg	Luling
Bellville	Garland	Mason
Boerne	Georgetown	Moulton
Bowie	Giddings	New Braunfels Utilities
Brady	Goldsmith	Newton
Brenham	Goldthwaite	Robstown
Bridgeport	Gonzales	San Antonio CPS
Brownfield	Granbury	San Augustine
Brownsville PUB	Greenville (GEUS)	San Marcos
Bryan Texas Utilities	Hallettsville	San Saba
Burnet	Hearne	Sanger
City of Austin Energy	Hemphill	Schulenburg
Caldwell	Hempstead	Seguin
Castroville	Hondo	Seymour
Coleman	Jasper	Shiner
College Station	Kerrville PUB	Smithville
Cuero	Kirbyville	Timpson
Denton	La Grange	Tulia
Electra	Lampasas	Waelder
Farmersville	Lexington	Weatherford
Flatonia	Liberty	Weimar
Floresville	Livingston	Whitesboro
	Llano	Yoakum
	Lockhart	

Local Control and Community Value



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The “separate model” of local control is key to the success of MOUs, whose mission is providing community value.

- **OWNERSHIP:** Community ownership.
- **MISSION:** Reasonable rates and community value. Utility policies that are responsive to community priorities.
- **GOVERNANCE:**
 - **Local governance by elected city councils and also citizen boards, both accountable to citizen/ratepayers.**
 - **Extensive public participation in the local utility governance process.**
 - **Limited PUC regulation (for transmission costs, appeals, statewide market and reliability matters via ERCOT).**
- **INFRASTRUCTURE-BASED:** MOUs own and operate utility infrastructure, including power plants and/or electric lines (unlike city “aggregators” who are just purchasing agents in deregulated areas).
- **RATES:** Set locally. Good value – stable & at the low end of the scale.
- **SERVICE QUALITY:** Reliable, local, and consumer-friendly.
- **FINANCE:** Funded by utility revenues, not taxes.
- **UTILITY PROCEEDS:** Proceeds stay in the community. A portion of MOU revenues support general municipal services like public safety, roads, parks, and libraries community services.

MOU Performance



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- **Customer satisfaction - high for fundamental reasons.**
 - MOUs are consumer owned and thus have a consumer orientation. Local employees, not remote call centers, interface with customers. Customers can participate – local processes, public meetings, etc.
- **Reliability.**
 - System Average Interruption Frequency Index (SAIFI): 0.696 average of MOUs (per TPPA), 1.071 average statewide (per PUC).*
 - Creditworthy MOUs help deploy generation to support resource adequacy.
- **Jobs and Economic Development:**
 - MOUs - significant employers in their communities – 7,044 employees.
 - MOUs are well situated to support local economic development activities – a consolidated local approach with infrastructure deployment and rate policies that help retain and attract businesses.
- **Bond ratings are among the best in the industry.**
 - Among the industry’s most creditworthy. Rating agencies cite: focus on core mission, stable service areas, affordable rates, local control. “Positive” or “stable” outlooks for MOUs despite the economy. May, 2012 S&P ratings:

Austin Energy	A+	Garland (GP&L)	AA-
Bryan (BTU)	A+	Greenville (GEUS)	A+
Brownsville PUB	A+	Lubbock (LP&L)	AA-
CPS Energy	AA	New Braunfels	AA
College Station	A+	Seguin	A
Denton	AA-		

⁸
*Reliability information: PUC Project 40078, TPPA. While comparisons may be indicative, the purpose of SAIFI and other indices is to measure individual utility performance.



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Payments and Contributions by MOUs to Local Government

The Financial Relationship Between MOUs and Local Governments



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- Municipally owned electric utilities (MOUs) provide benefit to their communities in the form of payments and contributions to local governments.
- Payments come in several forms, variously calculated and referred to as: general fund transfers, returns on investment, and/or franchise fees.
- Contributions can also be “in kind” – reduced cost or free services to the city, such as streetlighting, and electric service/maintenance at city buildings.
- Other contributions can take the form of direct MOU funding of specific community activities, for example economic development.

Part of MOUs' Value Proposition



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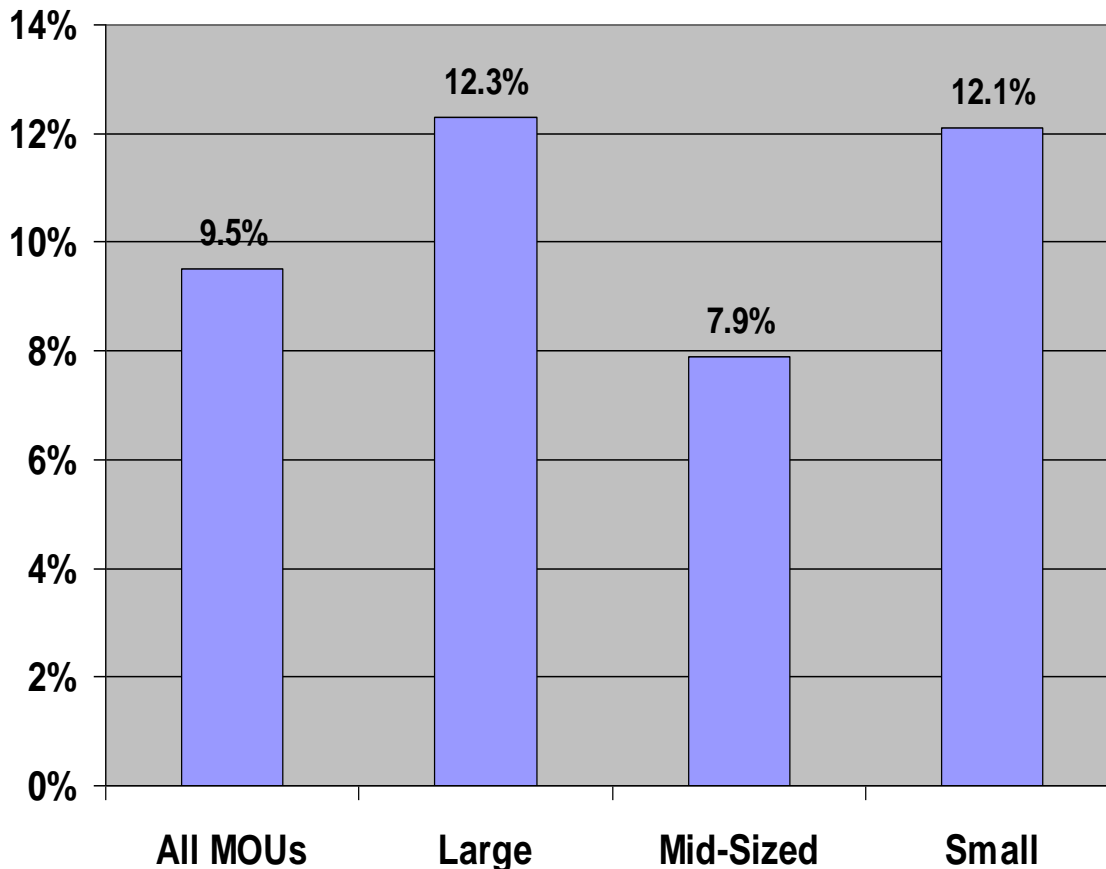
- Financial support for local government is a key component of MOUs' value proposition.
 - A long-standing, stable, well-established practice – common among the nation's 2000+ MOUs.
 - Viewed positively by the financial community (which rates MOUs among the industry's most creditworthy).
 - Helps to fund local services like police, parks, and libraries.
 - Helps to keep local taxes low.
 - Helps the local economy and jobs. MOU proceeds always stay local (unlike the proceeds of private utilities which can go to out-of-state stockholders).



NOTE ON TPPA SURVEY:

- *Conducted during April/May, 2012.*
- *Information reported for the most recent fiscal year of each MOU.*
- *All MOUs in Texas were solicited. Those responding to the TPPA survey represent over 92% of the municipal sector (number of customers, peak load).*
- *For the survey, MOUs are sometimes classified by size.*
 - *Large MOUs. Greater than 10 million MWh/year in retail sales. Two systems: Austin Energy and CPS Energy of San Antonio.*
 - *Mid-sized MOUs. Less than 3 million MWh/year and greater than 500,000 MWh/year. Eight systems, examples include Brownsville PUB, Denton Municipal Electric, Garland Power & Light, Lubbock, and New Braunfels Utilities (NBU).*
 - *Small MOUs. Less than 500,000 MWh/year. 60 systems, examples include: Boerne, Floresville, Floydada, Seguin, and Weimar.*

All MOU Payments and Contributions – Percent of Gross Utility Revenue



Each surveyed MOU makes structured payments to local government, and many also make in-kind or other contributions.

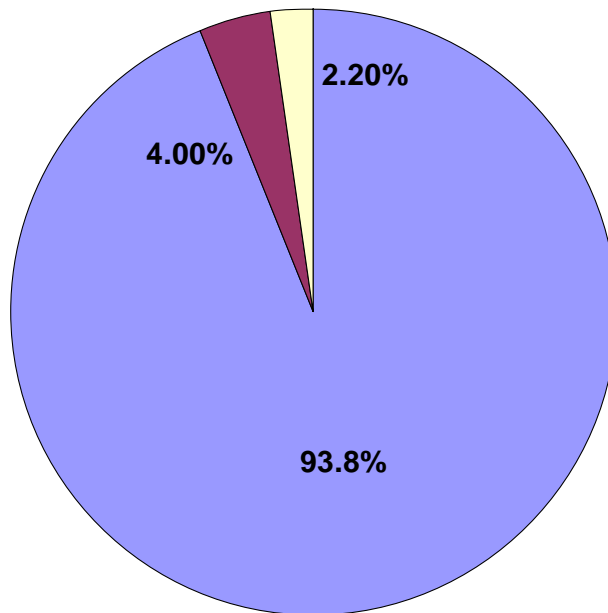
SURVEY MEDIAN:

- 9.5% - all MOUs.
- 12.3% - large.
- 7.9% - mid-sized.
- 12.1% - small.

Types and Size of Payments & Contributions



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- Payments (transfers, ROI, franchise)
- Contributions In Kind (streetlighting, etc.)
- Contributions to Community Activities (economic dev., etc.)

Most of the value stream is in the form of “payments”. In kind and other contributions are small in comparison.

TYPES:

- Payments – reported by all surveyed – transfer to general fund, return on investment, franchise, or a combination.
- In Kind Services – about half those surveyed - free or reduced cost streetlighting, electricity / maintenance for city buildings.
- Contributions to Community Activities: reported by one-in-six systems surveyed, includes economic development, youth and elderly programs, and other civic endeavors.

Payments: Policy and Method

- Formal local policies specifying how payments are calculated are more common in large and mid-sized systems.
- A significant majority of large and mid-sized systems calculate payments based on some percentage of revenue.
- Other methods, like flat amounts and year to year determinations are more common with smaller systems.
- Some use a combination of methods.

Formal policies are common in large and mid-sized municipal systems.

Method of Payment by System Size			
	Large	Mid	Small
% of revenue or adj. revenue	100%	69%	25%
KWh basis		8%	7%
Return on investment		15%	
Franchise fee basis		8%	7%
Year to year			50%
Flat amount			11%

Transparency

- MOU payments and contributions to local government are set and regularly reviewed via a public and transparent local process.
- Surveyed MOUs variously report the following transparency methods:
 - Annual city budget process and utility budget process, including public notice, public hearings, governing body consideration, and web/media information.
 - Public presentations to council, utility boards, and or advisory boards.
 - Annual utility audits, financial statements, monthly financial reports.
 - Utility communications including utility newsletter, bill stuffers, and utility website.
 - Other city and community reports.
 - Coverage by the local media.

Overlapping Functions

- MOU and general city functions – overlapping and allocated.
 - For example: administration, fleet, finance, personnel, etc.
 - Surveyed MOUs report that shared functions are allocated on a cost basis, with apportioned costs paid for on a relative basis by the MOU and general government departments respectively.
- MOU and general city functions – separate, analogous, but not redundant. Larger MOUs, including those with board governance, are more likely to have in-house utility-specific functions, for example utility-specific billing, accounting, and information technology. These in-house MOU functions may be analogous to, but are not duplicative of certain general city functions.



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MOU Governance

The Form of MOU Governance is a Local Decision

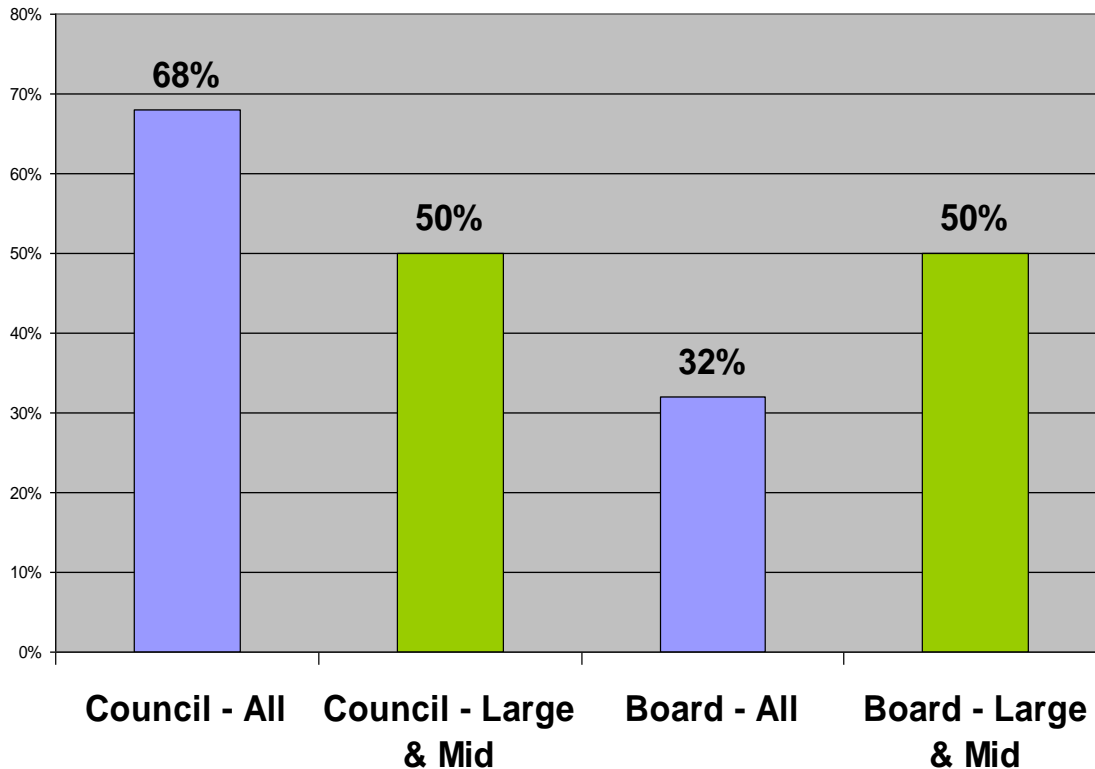
Three MOU Governance Models in Texas:

- City Council Governance by local elected officials.
- “Legacy” MOU Governing Board. As authorized in Sec. 1502 of the Government Code. Board of Trustees has 5-7 members, including the Mayor Ex-Officio. Examples include: Brownsville PUB, CPS Energy, Kerrville PUB, New Braunfels Utilities, etc.
- “Contemporary” MOU Governing Board. As authorized on Sec. 552 of the Local Government Code. Board may be created and its composition and powers specified by ordinance (or charter). Empowered to varying degrees to manage and control the MOU, sometimes sharing authority with city council. Examples include: Greenville - GEUS, Lubbock - LP&L.

Non-Governing Citizen Advisory Bodies:

- Advisory Bodies: For some MOUs with each type of governance, citizen advisory boards supplement the governing body but have no authority and only offer advice. Examples include: Austin’s Electric Utility Commission (EUC), Denton’s Public Utilities Board, and CPS Energy’s Citizens Advisory Committee.

Governance Types



City Council Governance:

- 68% of surveyed MOUs – the rule among small systems.

Board Governance:

- 32% of surveyed MOUs.
- 50% of the large and mid-sized systems.
- Most Board members are council appointed. Mayors (and rarely council members) can serve as voting ex-officio members.

Governing Body Terms and Compensation



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- MOU Board members have a longer term of service and are more likely to be subject to term limits than Council members.
- Whether on a Board of Council, members of a MOU governing body are just about as likely to get paid.
- The median compensation for MOU council members or board members is \$1,025 and \$300 per year respectively.

	MOUs with City Councils	MOUs with Boards
Average term of office.	2.4 years	3.6 years
Subject to term limits?	32%	66%
Paid?	63%	56%
Median annual compensation.	\$1,025	\$300

Authority:

Council-Governed MOUs

- For MOUs that are governed by City Councils, almost all of the authority is with the Council.
 - Rate setting.
 - Bond issuance (exception – one by voters).
 - Eminent domain.
 - Set utility budget.
 - Enter into purchased power agreements.
 - Authorize utility investments.
- The authority to hire and set the salaries of key MOU executives can be with the Council (58% of respondents) or with the city manager (42%).

Authority:

Board-Governed MOUs

- Even in the systems that have a governing board, 88% of the time, the city council retains the three major authorities.
 - Rate setting, bond issuance, and eminent domain by Council.
 - Only the GEUS does all three at the Board level. The KPUB Board sets commercial but not residential rates.
- Essentially all MOU boards exercise the following authorities:
 - Set utility budget (exception – one MOU gets council approval).
 - Determine salaries of key MOU executives.
 - Enter into purchased power agreements (PPAs).
 - Authorize utility investments (exception – one MOU does this via the city investment office and council policy).



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Outside-City MOU Ratepayers

Outside City Ratepayers

- The vast majority of MOUs have some outside city ratepayers. The reason: MOU electric service territory boundaries were drawn by the PUC in the 1970s based mainly on where utility infrastructure was located at the time – city limits, county lines, and other demarcations were minor considerations in that PUC process.
- Only the PUC, not MOU cities, can change service territory boundaries. This occurs rarely, only under certain circumstances, and usually by mutual agreement between two adjacent utilities.
- The vast majority of the MOUs surveyed by TPPA serve customers outside their city limits.
 - For those MOUs, an average of about 12.8% of their customer base is outside the city.
 - Some of those MOUs serve within other suburban cities. Of those who do, 88% pay a franchise fee to suburban cities averaging 3.4%. All but one fund suburban franchise fees on a system-wide basis.

Outside City Ratepayers – Fair Treatment



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- Rates: Virtually all MOUs with outside city customers charge them the same rates as customers within the city.
- Payment to MOU Local Government: All report that a payment to the MOU's local government (transfer, ROI, etc.) is included in both outside and inside city rates.
- Process:
 - In all cases, outside city MOU ratepayers (just like in-city ratepayers) have access to local public processes regarding utility policies and rates.
 - 3 MOUs have a board structure which can include outside city ratepayers – two do so currently.
 - 5 MOUs have outside city ratepayers in an advisory role, for example on utility advisory commissions (Austin Energy, CPS Energy, FELPS, Georgetown, and GEUS).
 - State law provides that outside city ratepayers can petition the PUC to set their rates instead of the MOU on appeal.



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