



2017 FEDERAL POSITION STATEMENTS

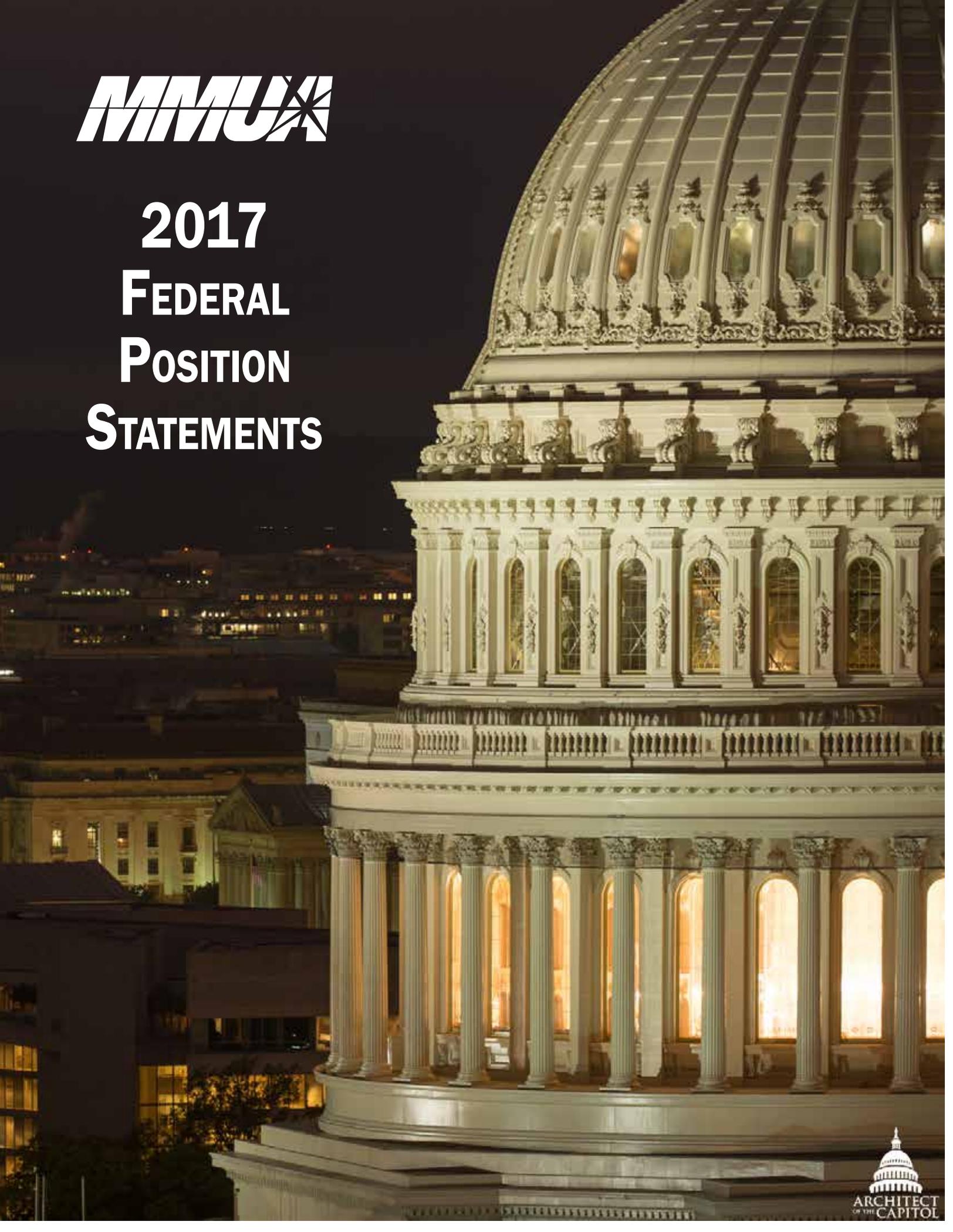




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Tax-exempt municipal bonds

Comprehensive tax reform is a top priority for Capitol Hill in 2017. As Congress embarks upon this effort, we urge all members to keep in mind that tax-exempt municipal bonds are critical financing tools for all public power utilities, which are entities of state and local governments.

Tax-exempt bonds help build utility and community infrastructure. Nearly three-quarters of the infrastructure built in the U.S.—including roads, bridges, schools, hospitals, water and wastewater treatment plants, and publicly-owned electric utility facilities—is financed with muni bonds. These bonds are desirable to investors because the earned interest is not subject to federal income tax.

General obligation bonds are backed by the full faith and credit of the issuing public entity so investors are paid even if the issuer has to raise taxes to make the payments. Municipal electric utilities and joint action agencies rely almost exclusively on revenue bonds, which are paid for out of the revenue from the project financed and are not dependent on tax revenue.

The federal tax exemption on municipal bond interest has been in place since enactment of the very first federal tax code in 1913. It has allowed state and local governments to save, on average, an estimated two percentage points on their borrowing, which translates into a 25 percent savings in public infrastructure costs over time. The municipal bond market gives close to 42,000 governmental issuers access to investors, of which over 70 percent are individual households. Nearly 60 percent of this household tax-exempt interest is earned by taxpayers over 65 years old. Over the past few decades, tax-exempt financing has generated trillions of dollars of investment in vital public infrastructure, saving state and local governments hundreds of billions of dollars in interest costs.



Tax-exempt bonds help build infrastructure necessary for health and economic growth.

An outright repeal of the tax exemption for municipal bonds would increase borrowing costs by 47 percent. Prior White House budget proposals sought to soften this effect by capping the tax value of the exclusion on muni bonds rather than repealing it; this would amount to a surtax on the interest of those bonds and still would increase

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photo courtesy of the Metropolitan Council Environmental Services

The St. Croix Valley wastewater treatment plant is one of eight owned by the Metropolitan Council. Total projected capital cost, through 2030, for the Metropolitan system was recently estimated at approximately \$3.8 billion.

borrowing costs by 32 to 35 percent. Further, some proposals would apply retroactively to \$3.7 trillion of existing bonds, imposing a significant financial burden on public power communities. Replacing the exclusion for municipal bonds with a direct payment bond, as others suggest, would increase borrowing costs by 16 percent (assuming a direct payment percentage of 25 percent of the issuer's interest expenses).

In short, any proposals to tax municipal bonds would impose higher borrowing costs on cities and other local governments and discourage investment in critical infrastructure. Increased borrowing costs would lead to higher taxes and higher rates for municipal electric, water, and wastewater services.

It seems counterintuitive that while Congress and the White House seem to recognize the urgent need for public infrastructure replacement, some are looking to limit the one tool that local governments have to control costs as they make the necessary investments.

MMUA Position

We urge Congress to preserve the traditional tax-exempt financing tools used by local governments since the development of the federal tax code more than a hundred years ago, and to reject all proposals that would limit or eliminate the tax-exempt status for municipal bonds, including replacing muni bonds with tax credits or "direct payment bonds."

Preserve Local Control of Pole Attachments

Across the nation, wireless service providers are making legislative and regulatory efforts to restrict local governments from regulating access to their utility poles, traffic signals, streetlights, and signs for attaching antenna equipment to increase wireless service. In Minnesota, providers are seeking unrestricted access to public rights-of-way, as well as pushing to cap local cost recovery and impose timelines for local governments to approve permits.

Legislative Efforts

Municipal utilities are currently exempt from Federal Communications Commission (FCC) jurisdiction over pole attachments. However, the legislation introduced in Minnesota would cap the annual rates local governments would be allowed to charge wireless providers for collocating small cell wireless facilities to the Federal Communications Telecommunications Pole Attachment Formula rate under 47 CFR, §1.1409 (e) (2). This state legislation would have the practical effect of removing local control and tying Minnesota municipalities to the FCC rate. With the FCC pole attachment rate having been lowered to the cable rate, a municipality is unlikely to recover the maintenance and management costs for the attached facilities. It is appropriate that local technical, health, and safety considerations be considered when establishing appropriate pole attachment rates and that these decisions are best made locally. MMUA opposes efforts—at both the federal and state level—to subject municipalities to the FCC pole attachment rate.

Regulatory Efforts

Concurrently, the FCC is seeking comments on a petition from Mobilitie for a declaratory ruling interpreting the “fair and reasonable compensation” provision of the Federal Telecommunications Act (TCA), Section 253. This section provides the FCC with some authority to preempt enforcement of any state or local government action that may inhibit the ability of an entity to compete effectively in providing telecommunications services. In its request for comments, the FCC expanded the



Electric linework is a hazardous, highly technical, and physically demanding job. Adding additional infrastructure in close proximity to high voltage lines would create additional hazards and potentially violate the National Electric Safety Code.

inquiry to include Section 332 of the TCA, which addresses the expansion of wireless facilities.

The FCC is looking for input on several items, including local government practices that may have an effect on prohibiting providing wireless service, whether the “reasonable period of time” for small

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cell siting should differ from macro cell siting, and what qualifies as a small cell.

MMUA is joining with the League of Minnesota Cities in submitting comments to the FCC to emphasize the need for maintaining local control of siting wireless facilities. Minnesota statute rightly provides local governments the authority to manage telecommunications in public rights-of-way. Each municipality has zoning, land use, and technical considerations (including National Electric Safety Code requirements) that warrant local authority over the use of its infrastructure. In a docket also involving Mobilite, the Minnesota Public Utilities Commission recently affirmed a municipality's longstanding authority to regulate activities in its right-of-way.

While municipalities are strong supporters of improved internet access, additional federal regulations regarding the siting of wireless facilities would provide confusion, increase local costs, and remove necessary local public safety considerations.

MMUA Position

MMUA urges Congress to oppose any effort to remove the municipal utility exemption from the federal pole attachment rate.

MMUA also opposes any federal regulatory action that would impede a municipality's ability to manage the deployment of telecommunication facilities within its right-of-way. The FCC should not make any declarations as to the process and fees local governments use for siting wireless facilities in their communities.



AT&T's Project AirGig (pictured in an AT&T photo above) would attach antennas onto power lines. Municipal electric utilities have concerns that this type of installation would run afoul of the National Electric Safety Code, and be a potential hazard for our lineworkers.

Distributed Generation

Distributed generation (DG) is power that is produced at the point of consumption. Electricity is generated on-site at a utility customer's own property. Distributed generation resources can include solar photovoltaic, small wind turbines, combined heat and power (CHP), fuel cells, and micro-turbines. Over 90 percent of installed DG in the U.S. today is solar. The amount of solar generation has increased significantly in the last several years. Driving this growth is the dramatic decrease in the price of solar panels, with the installed costs of residential

and commercial photovoltaic declining by over 70 percent since 2008. Federal and utility incentives for solar panel installations, state renewable energy standards and other state-level incentives, including net-metering requirements, are also contributing to the increase in solar generation.

Under a net-metering program, a utility will credit generating customers for their electricity sales to the grid and charge them for periods when electricity consumption from the grid exceeds their generation. Under Minnesota's net-metering statute, the customer is both charged and credited at the utility's full retail rate of electricity.

Net metering creates an inherent revenue challenge for electric utilities. Residential electric bills have been based primarily on a customer's electric consumption, and the associated "customer charges" rarely reflect the full amount of fixed costs utilities incur to provide retail electric service. Under current billing practices, net metering



Most distributed generation resources rely on the electrical grid to supply all or part of their power at various times. Municipal utilities are intent on not having other customers subsidize their distributed generation customers.

exacerbates the problem of under-collecting for the cost of providing service. As a result, other retail customers subsidize customers with distributed generation. Utility efforts to adapt their rate and fee structures accordingly are sometimes wrongly decried as discriminatory. The reality is that equal customer treatment requires such revenue collection adjustments, as solar DG penetration becomes a more significant part of the mix in utility service territories.

Customer-owned rooftop solar involves challenges for customers as well. Out-of-town contractors selling unfamiliar products involving somewhat complicated financing issues can lead to unmet expectations and other problems. Increasingly, municipal utilities are providing customers an alternative option to rooftop solar through utility-scale community solar projects that alleviate uncertainty and reduce solar installation

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Municipal utilities are increasingly pursuing “community solar gardens.” This ribbon-cutting for the second phase of the Moorhead Public Service solar plant occurred in October 2016.

and maintenance costs. Customers in public power cities trust their locally-owned utility, and community solar projects can help them achieve environmental stewardship while removing problematic rate cross-subsidization concerns that impact others, most particularly low and fixed income customers.

MMUA Position

As many states do, Minnesota allows the local governing bodies of consumer-owned municipal and cooperative utilities to design their rates based on factors specific to the utility system and the characteristics of the customer base it serves.

Decisions on how to fairly distribute the cost of providing all customers with a fully accessible and reliable electric system are best made at the local level. Congress should fully resist proposals that attempt to federalize decision-making about how utilities design their rates and charges. Congress should also resist attempts to limit or remove utilities’ ability to create and operate community solar projects.



Protecting the Interests of WAPA Customers

The four federal power marketing administrations (PMAs) deliver reliable, cost-based hydroelectric power to various regions of the United States. Approximately 1,200 public power systems and rural electric cooperatives throughout the country buy low-cost, zero-emissions hydropower from the PMAs, that market this power from the federal multi-purpose dams.

The Western Area Power Administration (WAPA) is the PMA that delivers power to a 15 state region of the central and western United States that also includes the western third of Minnesota. WAPA's 17,000-mile transmission system carries electricity from 55 hydropower plants operated by the Bureau of Reclamation, the U.S. Army Corps of Engineers and the International Boundary and Water Commission. Minnesota is served by WAPA's Upper Great Plains Region office, which provides electricity from the seven dams of the Pick-Sloan Missouri River Program established by Congress in 1944.

WAPA is critical to Minnesota municipal utilities, providing about one third of the wholesale power needs of 47 public power systems serving over 200,000 people in the western part of the state

Congressional Action

Every few years, various interests and agencies propose to use WAPA and the other PMAs for purposes that depart from the original, vital goals of the federal power marketing program. Several proposals that have been rejected over the years include: reallocation of Pick-Sloan irrigation costs to power customers; an administrative increase in the interest paid on new PMA investments; and the requirement that PMAs to sell power at market rates.

Though President Trump has not yet released his budget recommendations, there are again rumblings that the new Administration questions the role of PMAs and a proposal to sell PMA power at market rates could be forthcoming.



The Fort Randall dam on the Missouri River in South Dakota.

In accordance with federal law, PMA “cost-based” rates are set at the levels needed to recover the costs of the initial federal investment (plus interest) in the hydropower and transmission facilities. The PMAs annually review their rates to ensure full cost recovery. None of the costs are borne by taxpayers. If a deficit is projected, rates are adjusted to eliminate any deficit. Power rates also help to cover the costs of other activities authorized by these multipurpose dams such as navigation, flood control, water supply, environmental programs, and recreation. PMA power is generally low-cost in relation to other sources of electricity because hydropower is a renewable resource and most dams were constructed long ago, when material and labor costs were much lower than today.

MMUA Position

MMUA urges Congress to reject proposals that would disrupt the stable, low-cost, and emission-free power that WAPA provides to so many Minnesota communities. For well over half a century there has been a successful partnership between federal Power Market Administrations and the communities that receive a federal hydropower allocation. This has helped keep costs low for our customers. Requiring PMA power to be sold at market rates will lead to uncertainty in municipal utility budgeting and resource planning and rate increases for our customers.

Grid Security

Public power utilities, along with the rest of the electric industry, take seriously their responsibility to maintain the very high degree of electric grid security that is absolutely essential to the welfare and security of the nation. That is why the industry worked together to reach consensus on a mandatory reliability plan in the Energy Policy Act of 2005 (EPA05).

The electric utility industry is the only critical infrastructure sector, along with nuclear power plants, that adheres to federal mandatory and enforceable reliability and cyber security standards; this is known as the FERC-NERC process (Federal Energy Regulatory Commission and North American Electric Reliability Corporation), which oversees the standards as prescribed in the EPA05.

We take threats to the electric system very seriously. We know that we need to be on constant guard against cyber-attacks. We also understand how critical it is to protect our physical assets—our power plants, transmission lines, and substations.

Electric utilities have worked diligently with regulators to develop the necessary standards and are making sure that they are upgraded to ensure that our defenses are up to date. Critical Infrastructure Protection (CIP) Version 5 was approved by FERC and became enforceable on April 1, 2016. FERC also approved a new physical security standard to protect our most critical substations which became enforceable beginning on October 1, 2015.



The electric utility industry is the only critical infrastructure sector that adheres to federal reliability and cyber-security standards.

The public power community supports NERC’s Critical Infrastructure Protection standards and FERC’s physical standards, as well as efforts by the Electricity Sub-sector Coordinating Council to improve cyber standards throughout the industry. We also encourage our local utilities to adopt the cyber security framework outlined in the White House’s Executive Order that went into effect in February 2014.

MMUA Position

The regulations and standards (FERC-NERC) process set up in the 2005 Energy Policy Act continue to provide a solid foundation for strengthening the industry’s security posture. These mandatory standards evolve with input from subject-matter experts from across industry and government. MMUA believes that close coordination among industry and government partners at all levels is imperative to deterring attacks and preparing for emergency situations and, as such, will continue to invest considerable resources into this effort.

Why Public Power?



photo courtesy of the Owatonna People's Press

One hundred twenty-five Minnesota cities benefit from having a locally owned and locally operated municipal electric utility. Thirty-three cities have a municipal natural gas system. Of our 87 county seats, 50 are served by a municipal electric or gas system. A not-for-profit municipal electric or gas utility is a tremendous asset. Here are some of the reasons why:

We have great service. We're part of the community and our policy makers, managers and workers are part of the community. Our crews are always on hand in the event of emergency. You don't need to call an 800 number to talk to us.

We're locally regulated. Members of the community who live in the community set rates and service practices. If you have a problem, you know who to talk to.

We're owned by our customers. There is no tension between the interests of customers and the

interests of stockholders. Our focus is Main Street, not Wall Street. We work for you.

We're not in it for the money. Municipal utilities are not-for-profit and operated in the public interest. Our goal is long-term community benefit, not short-term gain. We work hard to save *you* money.

We're the yardstick for the industry. For generations, public power systems have set standards for rates and service that other utilities have had to meet.

We'll be there. Most Minnesota's municipal electric utilities have served their communities for more than a hundred years. In an era when new competitors come and go faster than we can learn their names, you can count on us. We will be there when you need us.

We're Public Power.



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