

2018 STATE POSITION STATEMENTS



Minnesota Municipal Utilities Association





Table of Contents

Why Municipal Utilities?3
 Preserve the Regulatory Compact4-6
 Preserve Local Control of Municipal Electric Utilities7-8
 Sustainable Conservation Improvement Program
 Updates for Consumer-Owned Utilities 9-10
 Municipal Electric and Natural Gas Utilities 11

Photo/graphic credits: All photos/graphics by MMUA, except:
 Front cover:Shutterstock
 Inside front coverMoorhead Public Service
 Page 5American Public Power Association
 Page 6, topNew Ulm *Journal*
 Page 9General Electric
 Page 10, topShutterstock
 Back cover:Courtesy: MN Dept. of Admin. Cathy Klima photographer.



Many municipal utilities have worked with their customers to develop community wind and/or solar programs, including Moorhead Public Service, which last fall celebrated an expansion of its solar program.



Owned By
The People
We Serve:
The sign at
Wells Public
Utilities says
it all for a
municipal
electric
utility. The
utility has
about 1,400
electric,
water and
wastewater
customers
and has
served its
community
since 1894.

Why Municipal Utilities?

One hundred twenty-four Minnesota cities benefit from having a locally owned and operated municipal electric utility. Thirty-three cities have a municipal natural gas system. Of Minnesota's 87 county seats, 50 are served by a municipal electric or gas system. A municipal utility is a tremendous community asset. Here are some of the reasons why:

- *Municipal utilities have great service.* You don't need to call an 800 number to talk to someone and get answers. Municipal crews are always on hand in the event of an emergency. Municipal utilities lead the industry in reliability.
- *Municipal utilities are locally regulated.* Municipal utilities are part of the community, and their policy makers, managers and workers are also part of the community. Members of the community set rates and service practices. If a customer has a problem, they know who to talk to.
- *Municipal utilities are owned by their customers.* There is no tension between the interests of customers and the interests of stockholders. Municipal utilities focus on Main Street, not Wall Street. Municipal utilities literally work for their customers.
- *Municipal utilities are not in it for the money.* Municipal utilities are not-for-profit and are operated in the public interest. The goal of a municipal utility is long-term community benefit, not short-term monetary gain. Municipal utilities work hard to save the public money.
- *Municipal utilities will be there.* Many of Minnesota's municipal 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 municipal utilities to be there whenever needed.

Preserve the Regulatory Compact

- *Municipal utilities in Minnesota date back to the 1880's and continue to provide excellent service in the 21st Century.*

- *Minnesota's regulatory framework for utilities has served our state successfully for nearly half a century and is well-positioned to meet the needs of customers for the foreseeable future.*

- *Utilities, particularly municipal utilities, are holding up their end of the regulatory compact as Minnesotans expect from a public service provider.*

- *Unregulated third-parties do not offer the consumer protection and safeguards required for a utility.*

- *On average, deregulated states have significantly higher rates than regulated states.*

Background

Beginning in the 1880s, as soon as electric service was possible, Minnesotans in cities like Ada, Ortonville, Springfield, Le Sueur, Alexandria and New Ulm began installing electric generators and connecting their homes, schools and businesses to power. Many of the 124 municipal electric utilities operating today were established through their city charters well before the state gave cities formal statutory authority to provide electric service beginning in 1901.

In 1974 the Legislature authorized the establishment of electric utility service areas “to encourage the development of coordinated statewide electric service at retail, to eliminate



Stable regulatory policies are necessary to encourage the tremendous investments needed to provide the safe, reliable electrical service needed by modern society. Pictured is the Minnesota Municipal Power Agency's Shakopee Energy Park.

or avoid unnecessary duplication of electric utility facilities, and to promote economical, efficient, and adequate electric service to the public.”

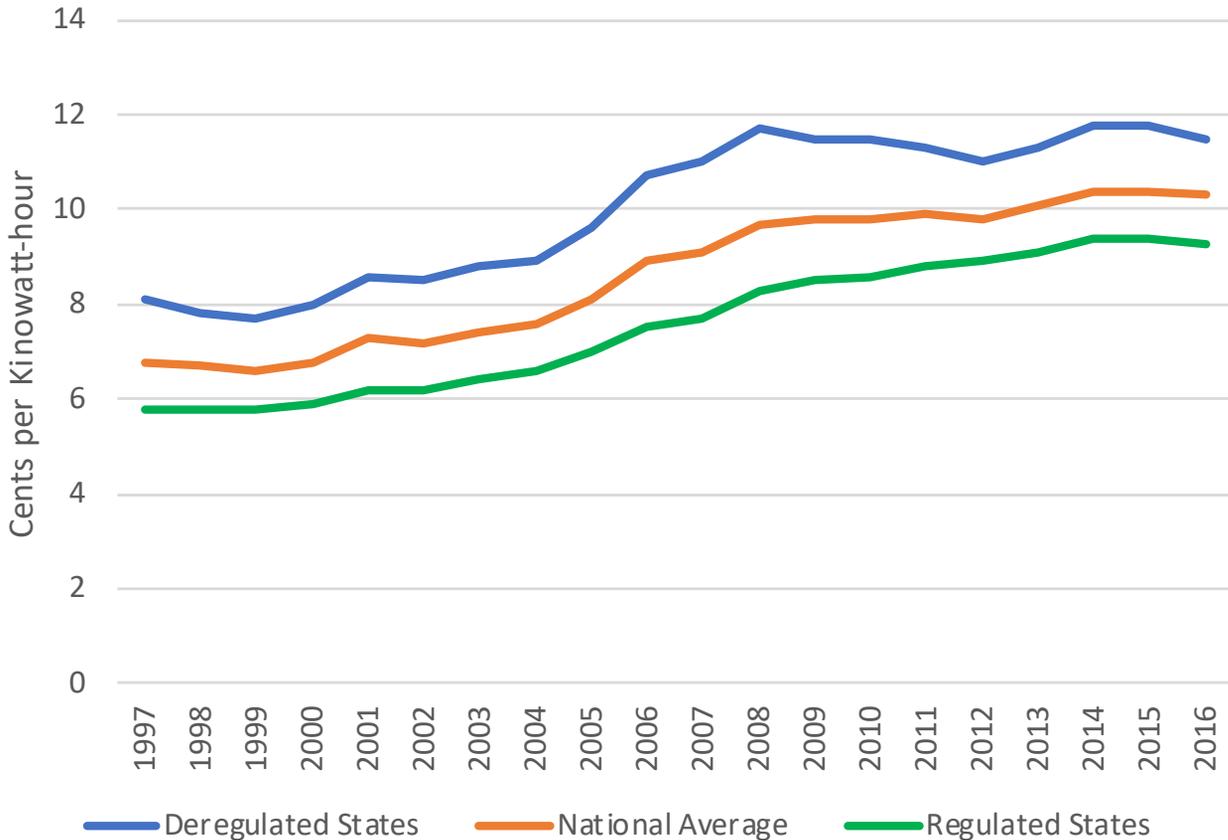
In the 1990s, many states, including Minnesota, debated whether to break their regulatory framework and allow unregulated companies to sell electricity to end-use customers. This



Renewable energy has flourished under our current policies and regulatory structure.



Average Revenue per Kilowatt-hour: Deregulated vs. Regulated States



Source: Energy Information Administration, Forms EIA-861 and EIA-826. Information courtesy of American Public Power Association.

is known in the industry as deregulation or “providing retail choice.” Sixteen states followed the deregulation route while seven more states started down the retail choice path and stopped when they saw what was happening in other states (particularly California)—namely rate spikes, brown-outs and market manipulation by pseudo-utility financial speculators like Enron. Minnesota, after earnest study and debate, wisely resisted efforts to allow third-party electricity sales at the retail level.

In 2001, the Legislature established new fundamental service standards and customer protections for all utilities in the state, to ensure that all Minnesotans could rely on their provider’s service and to ensure reasonable

rates. Non-utilities offering electric or other services are not subject to these consumer protections. Today, few in the state would complain about their electric provider in light of their customer service experiences with the deregulated telecom and airline industries.

Despite the fact that Minnesota consciously rebuffed the deregulation threat of the ‘90s, advocacy efforts for deregulation persist to this day. Bills continue to be introduced and heard in committees for such ideas as having the state allow unregulated third-party electricity sales from generators directly to the customer, circumventing long-established consumer

see next page please



protections. In some cases, municipal utilities would be required to “wheel” energy from third parties across their power lines to retail customers in violation of the utility’s exclusive service area rights.

Another way to arrange third-party sales is by selling electricity from solar panels or other generating equipment sited on a consumer’s own property to retail customers, while maintaining ownership of those panels or equipment. The equipment owner would charge for electricity it provides, yet rely on the local utility to provide reliable service to the customer at all other times. While such arrangements may seem convenient to an unregulated third-party, they come at a significant cost to the utilities and subsequently, to the rate payers.

Providing reliable municipal utility services comes with certain unavoidable expenses such as electric generation, power lines, poles, substations, water treatment equipment and chemicals, pipes, etc. These types of fixed costs are ongoing and should be equitably shared by the local customers. However, both current and previously proposed changes to state law would give third-party providers an advantage subsidized by the remaining rate payers and/or taxpayer.

And the bottom line for consumers is that deregulated electricity markets do not produce lower prices. As the graph on page 5 shows, since the beginning of electricity deregulation in the 1990s, the average price per Kilowatt-hour in deregulated states has consistently been above the national average, while the average price in



Under the current regulatory structure, utilities—and their customers—have made massive investments to bring windpower from the plains to the population centers. These investments now need to be paid for.

regulated states has consistently been below the national average. In 2016 the average price in deregulated states was 2.2 cents per kilowatt-hour higher than in regulated states, a difference of 23.7 percent.

MMUA Position

A regulatory model that ensures all customers pay an equitable rate for access to and use of municipal utility services should be maintained. Persistent pressure from non-regulated third-party business interests such as has been seen in the solar community, undermines regulated utilities, particularly in terms of a municipal utility’s finances. Privatizing municipal utilities is not the answer and would likely create more expenses. The Legislature should support and maintain the current regulatory compact, and recognize the value of the dependable services provided by municipal utilities, and the fact that municipal utilities are accountable directly to the citizens. And the Legislature should reject giving third-party providers any advantage over municipal utilities, as well as any other effort to de-regulate utilities.

Preserve Local Control of Municipal Utilities

- *Municipal electric and gas utilities aren't unregulated – they are locally regulated, by commission or council members who know the community and its needs.*

- *As a part of local government, municipal utilities' operations and governance are open and accountable.*

- *It is very difficult to craft a regulatory policy that works equally well for a utility with more than a million customers and one with a few thousand or a few hundred customers.*

- *Minnesota's framework of local regulatory control for municipal utilities is the right framework and needs to be recognized and preserved by the Legislature.*

Background

Municipal utility service in Minnesota dates to the 1880's. Cities have a long tradition of providing



Local proposals often receive intense scrutiny from policymakers and citizens.

clean drinking water, providing reliable electric and natural gas service, and treating wastewater to meet the needs of their residents and businesses.

Municipal utilities are locally governed, either by the city council or a city public utilities commission. Rates and service practices are set locally, by

public servants who know the community and the customer base.

Commission and council meetings are open to anyone and often available on the internet or broadcast on local cable television. Financial information and other documentation is publicly available. Construction contracts for major projects and purchases are awarded under the public bidding law.



Many 'one size fits all' policies provide very real administrative challenges for a typical municipal utility.



Seventy-four percent of Minnesota's municipal electric utilities have served their communities for over a century.

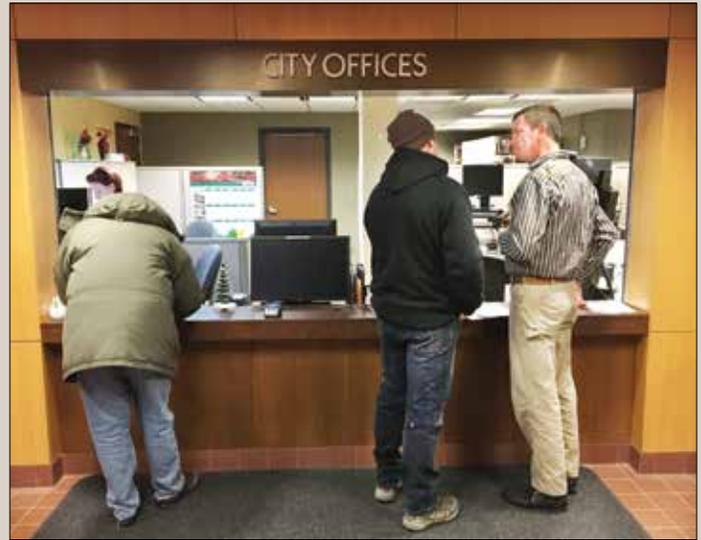


In 1974, the state Legislature implemented rate regulation by the Minnesota Public Utilities Commission for investor-owned utilities providing electric and natural gas service. But municipal utilities retained their tradition of local governance, which is just as, if not more, effective and responsive as one-size fits all regulation by state agencies in St. Paul.

Most state and federal mandates municipal utilities must comply with are intended to provide a basic level of consumer protections (generally for problems identified at non-municipal utilities). Complying with mandates intended for very large organizations can be problematic for municipal utilities, especially the smaller ones, as they place a significant administrative and financial burden on the utilities. Local leaders, however, strive to implement these mandates in the most effective and efficient manner possible. As members of the local communities, municipal utility operators have a vested interest in providing quality service while protecting health, safety, and welfare, and enhancing the general quality of life.

MMUA Position

Local governance and open, accountable operation for the good of the community works just as well today as it has for generations. Rather than implementing “one-size fits all” policies, the Legislature should allow locally-governed



Municipal utilities are open and accessible to customers.

municipal utilities to develop programs that further policy goals in ways that are appropriate and effective for their communities, yet manageable for their respective organization. Regarding net metering, municipal utilities should be able to charge net metered customers a modest, cost-based fee to help recover the cost of operating the distribution system without having to invest in a full-blown cost of service study.



Municipal utilities are not unregulated, they are locally regulated. This form of regulation affords a great level of scrutiny for issues of local importance.



Sustainable Conservation Improvement Program Updates for Consumer-Owned Utilities

Background

Minnesota's Conservation Improvement Program (CIP) has achieved significant success toward reducing Minnesotans' energy spending, catalyzing green industries in the state, postponing new electric generation construction and reducing greenhouse gas emissions, including carbon dioxide. From a cooperative and municipal utilities' point of view it has helped our members and citizens use electricity more wisely and has facilitated the successful widespread adoption of new efficient technologies.

Current Status

The continuing effectiveness of the program however, depends increasingly upon incremental changes to it and the law governing it. Its scope and design no longer match its purposes, given its successes, its limitations and the evolution of our energy industry and society. Many of the things it incentivizes have now been deployed to a point of saturation. People buy energy-efficient appliances without rebates. LED lighting is increasingly not only the preferred option, but the only option. Perversely, beneficial electric usage (including electric vehicles) is discouraged since it results in

higher energy sales. The existing CIP program fails to support and advance emerging green technologies. Many consumer-owned utilities are only capable of advancements the current program does not recognize. In its current format the CIP program is unsustainable and increasingly ineffective.

The current CIP has reached maturity. In order to continue meeting the multiple goals of the program we need to develop an improved, sustainable Conservation Improvement Program for our new energy environment.

Principles For a New Approach

For municipal utilities and cooperative electric associations, the Conservation Improvement Program should be replaced with an initiative that:

- Reflects that consumer-owned utilities have a valuable role to play in Minnesota energy policy that can be better actualized through an improved approach

see next page please



Many of the items the legacy CIP promoted, including efficient appliances, have been deployed to the saturation point.



- Recognizes multiple purposes: generation (kW) avoidance, end use carbon emissions reduction, customer cost savings, utility efficiency, economic growth
- Emphasizes end use emissions reduction and energy efficiency rather than an absolute reduction in kilowatt hours
- Rewards efficiency and end use emissions reduction caused in other problem sectors beyond the Electric and Industrial sectors (e.g., Transportation, Agriculture, Public, etc.)

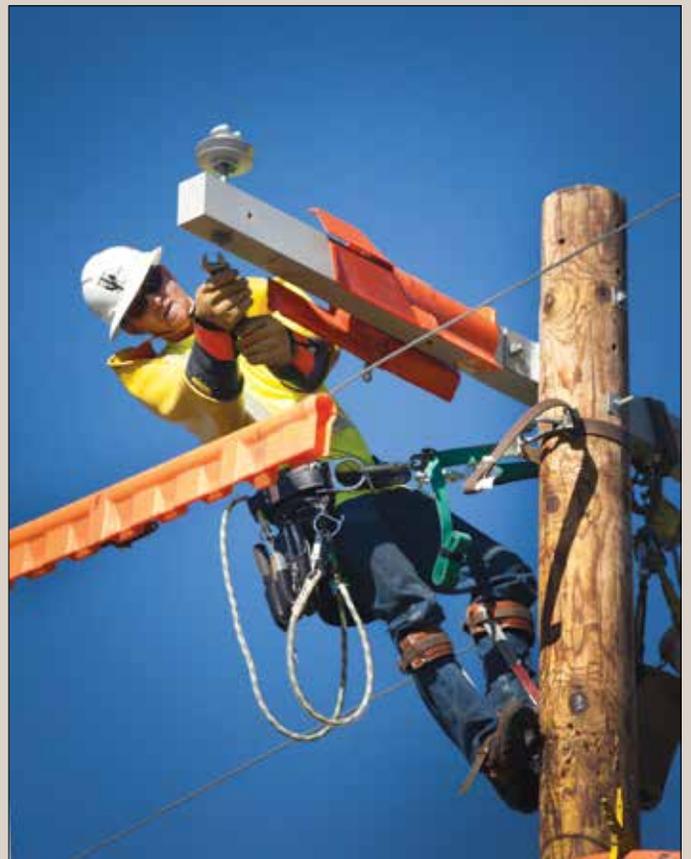


The existing CIP program fails to support and advance emerging green technologies, such as electric vehicles.

- Recognizes efforts that advance any of Minnesota's energy policy priorities, including utility innovation, distributed generation support, consumer education, Minnesota energy sustainability and resiliency
- Establishes safety and reliability as bedrock concerns
- Uses reasonable, credible metrics for illustrating success
- Ensures the needs of low-income consumers are effectively addressed while placing an increased focus on multi-family residential buildings.

Requested Action

The goal of MREA and MMUA is to develop a sustainable CIP for cooperative and municipal utilities. MREA and MMUA will work with their respective memberships and stakeholders on improvements to CIP in 2018. MREA and MMUA hope to bring a cooperative and municipal CIP to the Legislature in the 2019 session. MREA and MMUA appreciate legislative support of a sustainable CIP for cooperative and municipal utilities.



It comes down to this for a local utility: Any initiative must address bedrock safety and reliability concerns.



Municipal Electric and Natural Gas Utilities of Minnesota



Electric

Electric and natural gas

Natural gas



The capitol rotunda is a wonderful place to visit, and is often used as a rally point by various groups.



Minnesota Municipal Utilities Association

3025 Harbor Lane N., Suite 400, Plymouth, MN 55447

St. Paul Office: 161 St. Anthony Ave., Suite 800, St. Paul

MMUA Training Center: 1004 Michigan Rd., Marshall

www.mmua.org