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ACSEP Report: Electric Utility Privatization; An Analysis of Why Municipalization Efforts Fail

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Key Terms

Municipal Electric Utility ("MEU")

A local government public utility operating on a non-profit basis. Municipal electric utilities are managed by local elective officials or city employees and can be operated by the municipality or a third party. MEUs can be vertically integrated utilities or wires only utilities often purchase power through contracts or at wholesale prices, with larger municipal electric utilities operating their own generation plants.

Investor-Owned Utility ("IOU")

A privately owned electric utility, with rates set by the state public utility commission. An IOU generates power from its own generation fleet and/or purchases power from others.

Electric Cooperative ("Cooperative")

A non-profit utility and electric service owned by the customers served. Electric distribution cooperatives purchase electricity to member customers, while generation and transmission cooperatives provide power to distribution cooperatives through their own generation plants or power purchases.

Municipalization

Municipalization, in the context of an electric utility, is the transfer of electric utility assets, either through settlement or condemnation, from an IOU to ownership under local municipal authority.

Privatization

Privatization, in the context of an electric utility, is the opposite of municipalization, wherein the municipal electric utility transfers ownership of the electric utility assets to an IOU.

Regulation

Electric utility regulation establishes and monitors the rules set for electric utilities by government or local agencies. These agencies set rules regarding rates charged to customers, service terms, reliability standards, provisions for energy efficiency and non-income assistance. IOUs are regulated by state level public utility commissions ("PUCs"), while MEUs are regulated at the city level either by a city council or a local elected or appointed regulatory board. Cooperatives are self-regulated, because the board of directors chosen by and consisting of the members.

Summary Takeaways

Introduction and Purpose

There are numerous factors that drive communities to explore municipalization (e.g., local control of the electric system, environmental goals, customer satisfaction, dissatisfaction with existing IOU rates/rates, local economic stimulus). While some of these potential goals may be achieved, the possible future benefits of municipalization must be evaluated carefully. There have been several recent instances where municipalization has not met the expectations of the municipalities, and the instances in which municipal utility assets have been privatized. This white paper highlights many common issues that any community contemplating municipalization should consider.

- The majority of the MEUs were established decades ago, often for the purpose of electrifying a large region, and were expanded over time. These legacy MEUs can have lower overall cost structures, than what is achieved through the acquisition of an established IOU electric distribution system through condemnation.
- Municipalization over the past couple of decades has been a challenge – since 2000, over 60 municipalities have considered municipalization, but only 3 have completed, and 2 have municipalized with 2 of the municipalities subsequently selling the electric utility back to the IOU.
- Differences in the underlying cost structure between cities and newly formed MEUs can affect the rates and available services to be provided to a MEU. For example, IOUs are often able to leverage economies of scale in operations to provide cost savings, address grid modernization efforts and cybersecurity threats, and have the ability to diversify risk across a broad customer base. Recent newly formed MEUs have had to develop these on their own or seek out alternatives that is achieved through IOU operations to accomplish these efforts at a similar cost as the IOUs. In practice, MEUs are often unable to capitalize on economies of scale to be operable and manage the MEU at a similar cost structure, including the ability to diversify risk across a broad customer base. This can result in unanticipated rate increases borne exclusively by the community.
  - The lengthy process of municipalization can result in escalating acquisition and transaction costs, with the length of some efforts exceeding a decade. In addition, the actual costs of municipalization often exceed initial estimates, as acquisition costs for the system are refined throughout the process.
  - The operation of a newly formed municipal electric utility faces significant challenges and incremental costs that can result in higher costs for customers.
  - While one of the goals of municipalization is often local economic development, commercial and industrial customers focus on reliability from IOU service may drive the city's efforts to continue the electric utility.
  - As a result of these challenges, there have been many recent examples of MEUs opting to sell their electric assets back to the IOU, which compensates the community into the IOU service territory.
  - The goals that drive municipalization can often be accomplished through more certain and less costly efforts than condemning the utility assets and forming a MEU.

Utility Characterization

There are several differences between MEUs and IOUs that any community contemplating municipalization should be aware of.

Average Size of an IOU versus MEU

The average size of MEUs, which often serve a small, local community, is significantly smaller than the average size of a typical IOU of over 50 times its customer count. The average MEU in 2017 had approximately 9,200 customers as compared to approximately 500,000 customers for IOUs. On a average basis, large IOUs have the opportunity to benefit from economies of scale in power purchases and other utility expenditures.

Risk, Liability, and Oversight

Operational and financial risks of MEUs are borne exclusively by municipal customers, whereas this risk is shared between IOU shareholders and IOU customers. In addition, IOUs are regulated by a state PUC, and be commissioners experienced in energy issues and utility regulation, whose sole focus is on ensuring reliable service and ensuring that IOUs provide safe and reliable service that is consistent with industry standards. In contrast, in most cases the oversight of the MEU is at the city level, with cost regulation and set at the discretion of either the city council or a city-level elected or appointed board. The city council members are not necessarily needed to expertise leverage at electric utility. In some cases there is less oversight and experience in managing a complex electric utility system. The MEU model may result in increased risk, compared to IOUs, both in terms of cost and providing safe and reliable service. At the federal level, while the Federal Energy Regulatory Commission ("FERC") regulates certain wholesale transactions, the IOU customers benefit from the additional FERC regulation, which minimizes another layer of oversight and protection.2

IOU Modernization and Security Concerns

The electric industry is currently undergoing a transformation, driven by technological advances and customer demands to enhance grid reliability and resiliency, and to implement grid automation to allow for more granular control of energy and customer awareness and movement in energy markets, and ultimately to provide more customer choice and control. IOUs are the significant capital investment required for upgraded infrastructure and other systems that are necessary to support these advancements. Pre-existence of these programs are greatly improved when deployed to serve larger customer bases. IOUs around the country are focused on IT investments and cybersecurity efforts, particularly addressing sophisticated cybersecurity threats aimed at the electric industry. Small, local MEUs, in contrast, would require significant funds and long-term commitment to technological and process improvements that a newly formed MEU may not be equipped to address, particularly after recently acquiring an electric distribution system.

Perceived Benefits of Municipalization

The impetus for considering municipalization varies by community but often centers around four key issues.

Local Control

A municipality may desire more control of the provision of electricity, including the ability to select who supplies their power and/or operate the distribution system, the ability to establish oversight of the community level, and provide financial support to the local government. In addition, the community may view municipalization as a way to provide local employment and economic opportunities for residents.

Green Energy Supply

A municipality may have the goal of obtaining a greener electricity supply than what is offered by the IOU or achieving greenhouse gas emissions reductions that are stricter than the IOU. While many states have renewable portfolio standards that provide state-level requirements or incentives for renewable resources into the generation mix that affect the local fleet, some municipalities have renewable energy goals that go beyond these standards.

Dissatisfaction with Existing Utility

Electric customers in a community may be dissatisfied with the existing utility supplier due to a variety of reasons, including price or perceived service/reliability issues. Proponents of municipalization may view it as the opportunity to aggressively address these perceived problems.

Potential for Lower Rates through Municipal Utility Ownership

Communities may perceive that electricity prices will be lower with municipal ownership due to financing advantages or the potential to bypass costs incurred by the existing utility to provide service, including the return to the shareholders of the IOU.

Realities of Municipalization

Forming a MEU can be challenging, even when it is projected that there is a compelling economic and/or public benefits case to be made. A municipality is starting a long-term decision to finance and acquire assets from the existing utility provider, assuming the existing utility is willing to sell, and then to provide electric service for multiple classes of customers, and forming an organization and governance structure to manage and operate the utility. The municipality is not only committing to acquire existing utility assets, but to maintain those facilities according to national standards and to continue to make investments that support the services that residential and business customers expect.

Based on a review of the original MEUs, the average age is approximately 85 years old and nearly all of the 2,200 MEUs are municipalities with less than 10,000 customers (small MEUs). Many of these utilities were established in exactly one area, very rare were these systems established through an acquisition of IOU electric assets. Conditions under which public power was established nearly 100 years ago no longer exist today. These legacy MEUs have grown, but customer growth, and the related power increased, and in many instances, were able to take advantage of federally subsidized power sources. Today, many communities have large electric distribution systems in place and electric demand has moderated or is declining. To create a new municipal electric utility, the municipality would need to acquire assets of capital to be owned and expanded at a cost.

Based on the utility municipalization efforts of various communities in the past two decades, the vast majority have abandoned or proceeded to acquire and manage the local utility system. Municipalization has been a challenge – since 2000, over 60 communities have or are currently considering municipalization, and just 3 have municipalized with 2 communities subsequently returning to the IOU. Municipalizations fail to proceed for a variety of reasons, including the inability to convince the local community, rejection of proposals by a state regulatory commission, or the costs and time necessary to complete the effort greatly exceed original estimates.

Feasibility studies performed on behalf of municipalities frequently underestimate both the time and cost of completing municipalization efforts that do not have the cooperation of the existing utility. Municipalization efforts that do not have the cooperation often takes many years and considerable expense to navigate. Common issues that are based in the process are identified below.

Acquisition Cost Escalation

The costs to acquire the electric assets for a MEU can be significant and includes not only the costs to acquire the physical electric assets, but also the costs associated with the process of municipalization, but also costs related to the transaction (summarized at the right). In certain jurisdictions, the cost for a community to assume the assets of an IOU can also include the need for the municipality to reimburse the utility for the sense of the going concern in addition to the value of the assets.

The acquisition of an IOU's electric assets by condemnation or negotiation is a long-term process that involves an administrative proceeding (for market value) or an estimated market value reflecting a willing buyer and seller), not net book value (i.e., the original cost of the electric assets minus accumulated depreciation). The assets to be acquired has historically been the standard for the transaction between the IOU and the municipality, however, the state from which the municipality is formed determines how a community is highly underwritten, since many components are usually demanded by a court, and other costs (e.g., transaction costs, stamps costs) can escalate from initial estimates based on the complexity of the process. The increase in costs can have a significant effect on the perceived benefits of municipalization by serving to offset many of the forecasted rates reductions for customers.

Service Quality and Reliability

MEUs must adhere to the same state and federal reliability standards to maintain service quality and safety, which involves significant investments in technology, including hardware, sophisticated operations and access to resources to ensure reliable service. The costs associated with maintaining and restoring reliability associated with storms and other catastrophic one time events is particularly a concern when such costs are borne by a small customer base. Municipalities may be able to leverage private service territories, as is the case with IOUs, to provide municipalization efforts can have opposition from commercial and industrial customers focused on reliability concerns. In example, several entities expressed concern over municipalization efforts in the City of Boulder, Colorado, with the city having to change its view, asking the Colorado PUC to dismiss the city's municipalization aspirations.4

Ongoing Operating Cost Escalation

Ongoing costs to operate and maintain a MEU include power supply costs, operations and maintenance costs, debt service associated with the acquisition, and costs associated with implementing customer capital improvements, and the costs of energy efficiency and other programs to be offered by the MEU. On average, MEUs are typically smaller than an IOU, and as a result, MEUs may not be able to capitalize on the economies of scale the larger IOUs to lower their cost structures. Recently formed MEUs have had to develop these on their own or have contracted for outside services. Recently formed MEUs may not have the depth of management capabilities to operate and oversee the utility operations as efficiently as the established IOU. In addition, larger IOUs have greater diversity in headcount customer consumer electricity throughout the day and year that can result in less variable or lower costs. Smaller municipalities have a smaller customer base to contract, with fewer customers and less diversity loads, the electric demand of a MEU can be more variable throughout the day and year and thus result in higher grid operation costs. Furthermore, having greater diversity in the supply of power can allow the IOU to purchase power from the grid when it is more cost-effectively to larger IOUs than to smaller MEUs, subject increases in fixed operating costs that are not a function of the number of customers served in the amount of power that can have a more material effect on the rates of a MEU relative to an IOU. Finally, the IOU can leverage its larger customer base to distribute larger customer losses. In total, these additional cost drivers directly lead to increased rates for customers, thereby offsetting many of the anticipated rate reductions from the feasibility study.

Environmental Issues

Thirty states have adopted renewable portfolio standards, while numerous other states have voluntary renewable goals. Utilities are obligated to follow state renewable energy targets, while MEUs are generally not subject to the state renewable requirements, (from their relative size, stability, and access to capital. IOUs may provide for the quickest and most efficient way to reduce greenhouse gas emissions from the electric power generation. Beyond renewable portfolio standards, IOUs are also building and procuring renewable energy due to customer demands and economics. IOUs have long track records of financial stability which can help them provide renewables at low cost and at economies of scale (e.g., Nextera Energy Resources and NRG). For example, various parties, including renewable developers and environmental groups, have emphasized the importance of large credit worthy utilities in California in order for the state to meet its aggressive climate goals.3

Lengthy Process

An extended process to municipalization can increase uncertainty and cause acquisition costs to escalate significantly. Municipalization can take years, and in certain cases has taken over a decade. Protracted processes reflect legal and other costs related to the transaction. The initial step of municipalization often involves the commissioning of a feasibility study to evaluate the financial, technical, legal, and economic potential of municipalization, including a comparison of future costs and rates between a newly created MEU versus the existing IOU. These preliminary studies, which can have multiple phases, often exceed $100,000. The municipality must then decide if it wants to continue with municipalization before the rates it is regular in special elections, through the process, and thus finishes, various is jurisdiction.5

If the utility supplier has decided to proceed with selling the IOU assets, the process typically involves significant discussions and negotiations between a municipality and the IOU, or an attempt to find a mutually agreeable solution and potential just compensation. In cases where the parties cannot agree on the value of the electric assets (which is often the case), the amended costs, in the form of legal fees, can be significant. In addition, the municipality needs to contract the services and engineering firm.

Assuming the legality of the acquisition and just compensation are resolved and condemnation of the IOU's assets occurs, the community prepares to assume responsibility for management and operation of the utility. This process can take a year or more to establish the necessary contracts, properly staff the new municipal utility, establish a governance process for the new utility, and prepare for day-to-day operations and planning.

The timeline below shows key steps throughout a typical municipalization process.

Acquisition Costs

Physical Assets: The costs to acquire the IOU electric assets in service in the community at the fair market value.

Stranded Costs: Costs incurred by the IOU to serve the community that are no longer needed as a result of the municipalization (e.g. previously procured power to supply the departing municipal customers).

Separation and Reintegration: Costs to separate the MEU system from the IOU system and ensure that the IOU can operate the same level of safe and reliable service to its remaining customers that was delivered prior to the municipalization.

Startup Costs: One time costs to begin operation as a municipal utility, including communications, billing, customer service, setting up a new billing system, and hiring and/or contracting of a third party to operate the MEU.

Transaction Costs: The costs to execute a financial transaction to acquire an IOU's utility assets, including consultants and debt issuance costs, as well as legal, engineering and accounting costs.

Going Concern: The additional value above the value of the assets that takes into consideration the lost value of the IOU's business that is not otherwise recovered in the transaction.

Recent Privatization Cases

As a result of the challenges associated with operating and maintaining a MEU, there have been several cases of privatizing MEU assets (i.e., the sale of municipal assets to IOUs) since 2000.

ELK CITY, OK

Fuel cells increases in Elk City occurred a municipalization effort that began in 2002. The initial effort failed a vote in December 2002, but the city council continued to explore municipalization and ultimately taking ownership of the assets that served eight customers from Public Service Company of Oklahoma ("PSO"). However, the city's efforts to stabilize electricity prices ultimately failed and ownership proved difficult, and Elk City needed a request for proposals in May 2006 to sell the system back to a municipal utility. The sale between PSO's proposal in Oct.2009 and the sale was completed in February 2010 with PSO assuming a total of 87 customers through the privatization.7

CITY OF FORT MORGAN, NE

Since the 1970s, Indiana Michigan Power Company ("IMPC") had leased the electric distribution assets in the City of Fort Morgan in 2011, the parties were considering renewal of the lease or the ownership by either the city or IMPC. After months of negotiations, the city and IMPC reached an agreement for the city to take control of the electric system, citing an end to expensive litigation as a key factor in the decision. The transaction was valued at $15 million, upfront and $54 million spread over multiple years, and the transfer was completed in 2011. A significant driver for the sale was that the city would be able to provide its City Light Trust established over 25 years earlier with an approximate value of $34 million, which would provide substantial benefits to the community. In addition, IMPC paid $8 million over the last value of the City's electric distribution assets. This privatization example highlights that often confounding processes have to occur before MEUs, in this and, the city determined funds were best spent elsewhere than on the electric system, and privatized.8

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REASONING, ST

The Raseborg PUC experienced significant rate increases in the late 2000s, which resulted in the municipal utility unfavorably pulling the utility up for sale. Prior to the sale, the city had raised three times on whether to sell the electric utility assets. The Raseborg Municipal Council voted to sell the electric utility to Central Sentinel Public Service Corporation ("CSPS") in an effort to reduce rates. The proceeds from the sale to CSPS were to be used by the municipality for power restoration following a major storm, with the remaining balance available for town use.

As shown in the chart at the right, the Raseborg PUC governing body approved several large increases in rates prior to the sale of the utility. The PUC approved a combined 15% rate increase effective after requesting a nearly 21% increase and a 19% increase again in 2009. Raseborg's rate increases were largely to update accounting procedures and cover capital improvements. In comparison, CSPS's rates increased by just over 2% in 2007 and by 0% in 2010.

Despite the rate increases, the PUC still reported negative net utility operating income on a per-customer basis, indicating that Raseborg's costs still exceeded revenue on a per-customer basis. As shown in the chart at the right, Raseborg's operating income was negative in the years before the sale. The municipality had made no improvements was expecting a further 20% rate increase to cover up for operating losses. This financial instability contrasts with the stable operating income per customer achieved by CSPS (approximately $120-$140/customer) during this same period.

HERCULES, CA

In 2002, Hercules municipalized the electric assets of Pacific Gas and Electric Company ("PG&E") citing the opportunity to increase revenue. Once completed, the city began purchasing wholesale power from the Hercules Municipal Utility ("HMU"). HMU was able to do so at competitive rates while making profits that flowed to the general fund. However, the economic was based on assumptions of growth in revenues that did not materialize. Instead, operating expenses greatly outweighed revenues and the city was forced to continually subsidize the HMU from the city's general fund. This was also had difficulty with its utility investments, having canceled a major transmission line project and experiencing a major power outage. Standard & Poor's downgraded two of the city's bonds to junk or near-junk and placed the city on credit watch negative in June 2012, due to cost escalation and the operational issues that increased HMU customer rates, a measure to set the municipal utility on a sustainable path. In 2013, the municipal electric system was subsequently sold back to PG&E in 2013, with the accumulated capital and operating losses cost through 2011 estimated to be $11 million (1).

EAGLE MOUNTAIN CITY, UT

In November 2011, residents in Eagle Mountain City voted to sell the electric and gas MEUs, a transaction that had been in negotiations for nearly a year. The city had concerns surrounding its debt from establishing the MEUs and saw proceeds from the sale as a way to reduce current and future debt and enhance the potential for rate stability through increased efficiencies associated with larger IOU operations. Rocky Mountain Power ("RMP") purchased the MEU electric system to Rocky Mountain Power and sold its gas system to Questar Gas (1).

VERO BEACH, FL

Vero Beach had owned and operated its MEU since 1919 as a component fiscal year. Vero Beach expressed concerns over the MEU's rates, use of electric utility funds, and customer representation. At that time, driven by poor management decisions, the MEU's residential rates were approximately 20-30% higher than comparable electric rates of Florida Power & Light ("FPL") in neighboring IOU (1)

Two of the reasons the component cited for rate increases were that the city had not conducted a rate and service study since 1991, and that the city was using the MEU's electric system as a source of revenue to the general fund. The component noted that contributions from the MEU represented over half the city's entire budget. In addition, the MEU was also criticized for being in offer energy conservation incentives that were offered by the IOU, and for not being able to offer competitive rates due to transmission costs. Vero's point of service was the fact that around 60% of the MEU's customers lived outside the municipal borders, which was the largest proportion of customers outside the city limits for an municipal utilities in Florida. As a result, these customers felt they had no voice in the governance and challenge utility decision-making. While Vero expressed regret regarding its attempts to address this issue, all of them failed (1)

The customer higher rates and resulting customer complaint prompted the city to pursue privatization. After around a decade of effort, Vero Beach completed the privatization of its municipal electric utility in 2018, selling the MEU to FPL.

Examples of Municipalization Issues

The following are case studies illustrating the risks associated with municipalization.

Long Island, NY – Asset Mismanagement

Jefferson County, WA – Cost Escalation

Boulder, CO – Protracted Municipalization Process

Jacksonville, FL – Changing Energy Landscape

LONG ISLAND, NY – ASSET MISMANAGEMENT

Long Island Power Authority ("LIPA") was originally created under the Long Island Power Act in 1986 as a state-wide agency and it owns electric transmission and distribution systems along Long Island's Nassau and Suffolk counties. LIPA's service area is the Long Island nearly 37 million in terms to Nassau and Suffolk counties of the transmission and distribution systems of the former Long Island Lighting Company ("LILCO") and refinance portions of its debt, including costs associated with the Shoreham Nuclear Power Project, which was completed but never began commercial operations.

However, by the mid-2000s, LIPA's debt costs became onerous, resulting in the need for several financial restructuring efforts. In 2005, LIPA's debt was rated "A" by Fitch, and by the end of 2009, with projections of $8 billion by 2018, in addition to its substantial debt load, between 2006 and 2013, short-costs (excluding Superstorm Sandy costs) increased annual budgets by an average of 20%. These increased costs resulted in higher electric rates (1)

A report filed by the New York Public Interest Research Group that LIPA's average residential retail rate in 2013 was 22% higher than the New York State average, and that LIPA's average residential electricity retail prices were even higher at 70% above the national average. In 2015, the state enacted legislation to stabilize rates, improve service, and improve accountability at LIPA. In 2016, after significant cost escalation, asset mismanagement and metabolic issues, LIPA was required to cancel its contract with Keyspan to electric system, showing Public Service Enterprise Group ("PSEG") Long Island Holdings LLC ("PSEG") was chosen. Customer rates have increased significantly, and PSEG has also made record-level system improvements, including 700 miles of underground lines, reduce its reserve requirements (1)

JEFFERSON COUNTY, WA – COST ESCALATION

In 2008, driven by the desire to obtain local control over its electric system, Jefferson County, Washington ("Jefferson") began to initiate a municipalization process to acquire the electric distribution assets of Puget Sound Energy ("PSE"). As part of the process, JPUD contracted for a preliminary feasibility study of an electric system acquisition. The feasibility study provided a 10-year financial forecast based on the assumed purchase price between PSE and the projected cost of service for a PUD. The study estimated that JPUD would be able to acquire PSE's assets for $47.2 million, with total financing requirements of $ten million including initial acquisition costs, separation, start-up and legal costs, working capital and financing expenses. The study concluded that JPUD could provide service beginning in 2011 at rates that would be lower than PSE's rates. However, PSE's rates were in operation, but that rates would increase notably in the future year, when low cost power from Bonneville Power Authority ("BPA") became available. The study further noted that the acquisition would result in lower rates for PSE electric service in ten years. However, the study also noted that JPUD would need to work closely with the BPA power supplier and if the parties relied on "more realistic" acquisition costs for the PSE assets and different financing assumptions (1)

JPUD acquired the electric distribution assets of PSE in 2013 through a negotiated sale agreement, approximately five years after the acquisition was originally approved by the electorate. The sale was finalized at $ten million, which was lower than the estimated in the feasibility study. In addition, actual operating costs and resulting electricity rates under JPUD operation have been higher than projected, allowing JPUD's rates relative to PSE on average, estimated in the feasibility analysis, while JPUD was successful in securing power from BPA, the rates' electric distribution rates currently exceed the rates charged by PSE. JPUD's initial rates for PSE's former customers were approximately 10% higher than PSE's. However, PSE increased rates an average of 1.4% per year over the past five years, while JPUD increased rates twice in 2017 totaling 4.9%, and increased rates an 4.8% in 2018 (1)

JPUD contracted a feasibility study for the purchase of PSE's electric distribution assets, varying from an approximately $10 million – which was less than half of the final acquisition cost of over $100 million (excluding start-up costs).

BOULDER, CO – PROTRACTED MUNICIPALIZATION PROCESS

Boulder's municipalization efforts to acquire the distribution system of Xcel Energy ("Xcel") within the city started about a decade and a half ago and remain unresolved. The city currently has an expected municipal utility start date of 2026, through after nearly 15 years and over $ten million expenses to date. Several factors contribute to this outcome.

Boulder's estimated costs to acquire the Xcel electric utility assets have escalated considerably throughout the process, rising from less than $140 million in the 2008 preliminary feasibility study to between $300 and $350 million in current estimates depending on the range of separation costs to be incurred. Furthermore, the 2019 feasibility study indicated that the Xcel system's condition was originally estimated at $20 million in 2014 dollars, but since the city and Xcel remain far from determining acquisition costs for the system, Xcel and the city estimate buyout costs could reach $900 million (1)

Given the protracted negotiation period and ongoing court battles, estimates for legal costs alone have risen dramatically over the past several years. Whereas the city's 2009 preliminary feasibility study did not estimate legal fees, the city's 2015 Xcel feasibility study estimated legal fees at $ten million, and the city's current Xcel Boulder had already incurred $20 million in costs associated with its municipalization efforts, and city orders had approved another $17 million to be spent over the next five years, for a total of $30 million by 2023 (1)

Renewables Plan

Boulder's municipalization efforts were primarily driven by the goal of achieving more renewable power supply than was offered by Xcel at that time. However, as a result of the lengthy legal process, Boulder's renewable power supply has not materially changed since the start of the effort. Current renewable energy mandates in Boulder's 2019, have pronounced a goal, which was codified in Colorado legislation in June 2019, of 100% zero-carbon electricity by 2030, including adding an additional 100 MW wind, 100 MW solar, and 25% MW storage, with a goal of 5% renewables by 2025. Xcel's Clean Energy Plan includes wind power at 511-596 MW, solar at 1,000-1,200 MW, and 275-300 MW of battery storage, which is a significant costs have been borne by the municipality, and the city has pursued to the existing utility of a more cost-effective course (1)

JACKSONVILLE, FL – CHANGING ENERGY LANDSCAPE

Jacksonville Electric Authority ("JEA") is the current MEU for Jacksonville, Florida, but is currently exploring options to privatize its system. The decision is based on low sales driven by efficiency gains and distributed generation, which has led to rate increases, with more expected in the future.

In November 2017, a member of the JEA Board of Directors originally suggested contemplating privatization, but progress in the matter paused for most of 2018 due to executive turnover. In May 2019, JEA's Board of Directors voted to sell the utility, but voters noted that pursuing privatization would be the best way to avoid layoffs and rate increases. According to JEA's estimates, JEA would have a $2.5 billion sum paid in 2030. In order to optimize this gap, JEA would need to increase rates by 52%, or increase rates by 40% and reduce operating costs by 25%. The latter option would have to need to lay of a significant portion of its staff. The rate gap was caused in part by increasing operating expenses and decreasing revenues (2)

JEA understandable the effect of energy efficiency and other trends on its business. Specifically, the utility experienced flat to declining growth between 2007 and 2017 largely due to energy efficiency and the 2008 recession, which reduced demand for JEA's services. In the past five years, JEA's operating expenses have increased by ten percent and have been driven in part by higher union wages. Distributed generation is also poised to continue to affect the utility, as JEA is currently losing more than $2.5 million in annual net income to distributed system growth and the utility's participation is expected as customer-owned distributed generation plus storage is projected to reach parity with the grid by 2030. Finally, JEA's rate has increased twice. The initial 2014 rate increase of 8% was in response to these trends (2)

A formal process to solicit interest in the privatization of JEA was launched on August 5, 2019. JEA is looking for potential buyers to demonstrate how they will embrace industry changes, add new revenue streams, and "future-proof" the business. Proposals are due in mid-October, with agreement negotiations slated to start mid-October 2019 (2)

"Online" initiative with challenges such as revenue loss driven by energy efficiency and distributed generation, new disruptive technologies and competitors, when combined with JEA's unique government constraints, make it impossible for the utility to optimally address changing customer demands and capitalize on the forces that are reshaping the industry today to create value (2)

Source: JEA, "Florida's Largest Municipally Owned Utility Formally Launches Competitive and Open Solicitation Process to Transition Northeast Florida," August 2, 2019. Available at

Energy efficiency gains account for the loss of JEA's reduction in sales, resulting in $1.4 billion in net free cash flow between 2002-2017.

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Ms. Bullins is a certified general appraiser with expertise in the valuation of utility property. Ms. Bullins has managed valuation teams with investors seeking to acquire utility assets, providing valuation services including an understanding of regulatory, market expected returns, and the assessment of utility risk factors. She has also managed valuation teams providing valuation services in preparation for underwriting, purchase and sale considerations, and variant tax assessments, and accounting and financial purposes. Ms. Bullins has also evaluated the feasibility of municipalization in several cities across the country. In addition, Ms. Bullins has more than two decades of management and economic consulting experience in the energy industry, with extensive state and federal regulatory experience. Her clients have included investor-owned utilities, including rate of return, cost of equity, and capital structure issues.

Briana Adams

Project Manager

Ms. Adams analyzes energy asset value issues, municipalization trends, mergers and acquisitions in the energy space, utility of the future initiatives, fuel procurement, gas electric optimization and infrastructure issues. Her recent work efforts have focused on valuing utility energy assets for municipalization proceedings.

Jennaire Pressler

Senior Analyst

Ms. Pressler has experience conducting research and analysis in support of a range of regulatory proceedings. Her work includes the development of cost of capital exhibits and testimony, innovation and technology research, regression models, and research on service regulatory issues.

1 S&P Global Market Intelligence.

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Casey DeMoss
Louisiana, Americans for Common Sense Energy Policies

Hi, my name is Casey DeMoss. I am a ratepayer advocate from Louisiana, and I work with a group called Americans for Common Sense Energy Policies. I would like to submit this report which highlights the folly of municipalization. I strongly oppose this effort because it will likely raise utility rates for most Maine residents. Thank You, Casey