

State Regulators See New Role for Munis in Deregulated Electric Markets

Prepared by Dr. Robert Wasserstrom
Neil Palmer
Susan M. Reider



Environmental Strategies and Public Affairs

P.O. Box 27386 • Houston, Texas 77227 • (713) 521-4749 • FAX: (713) 521-4748

This report has been prepared by The Terra Group, Inc., and Neil Palmer and Associates.

Dr. Robert Wasserstrom is president of Terra Group. He has an extensive background in the electric power industry, where he has directed successful campaigns to support power plants, transmission lines and non-regulated energy facilities. As divisional vice president of Browning-Ferris Industries for several years, he was also responsible for winning local approval for landfills, incinerators, major commercial contracts and other projects.

Neil Palmer is president of Neil Palmer & Associates, a Wisconsin-based public affairs consulting firm which specializes in managing public, political and regulatory approval programs for controversial projects. He previously spent 20 years with Wisconsin Electric Power Company, where he directed government relations, communications and regulatory affairs programs for transmission lines, power plants and other projects.

Susan Reider is vice president of Terra Group. She has worked as a lobbyist in state government for more than 15 years, and has assisted major clients in siting a cogeneration plant, solid waste landfills, electric substations and transmission lines.

The Terra Group can be contacted at (713) 521-4749. Neil Palmer and Associates can be contacted at (414) 821-5088.

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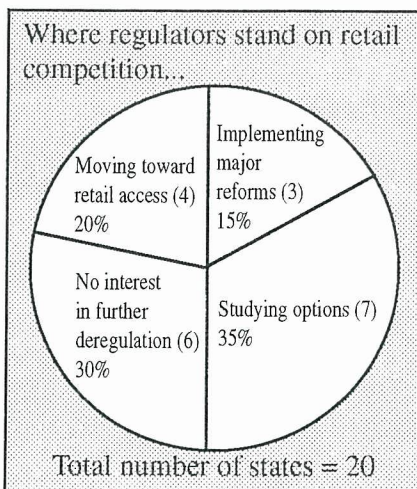
What role will public power have in the deregulated electric marketplace? Will municipal utilities disappear or be absorbed by other providers of electric service? Are such utilities merely a stepping stone on the way to full retail markets and open customer choice? Or will more munis be formed to protect residential and small commercial customers from higher rates? What steps are necessary to build public support for new municipalization efforts or, conversely, to retain existing customers?

These questions and others were put to utility officials, IPP marketing executives, public power representatives, municipal officials and senior staff members at 20 state regulatory commissions during the first three months of 1996.¹ Their answers shed additional light on the ongoing debate over deregulation and provide a range of views. Overall findings of the survey include:

Most state regulatory staff members believe that full-scale deregulation of the retail marketplace will come gradually, perhaps over the next 20 years. Regulators increasingly see themselves as *advocates* for residential and small commercial customers and tend to favor continued “protection” for investor-owned utilities (IOUs) as the best means to guarantee reasonable rates.

In the upper Midwest and other regions, municipal utilities are taking steps to *compete head-to-head with IOUs for large industrial users* as well as residential and commercial customers. Their edge (as one muni board member put it): “IOUs try to make as much money as they can; munis help their customers pay lower bills.”

The key to successful municipalization campaigns is *public support*. Most jurisdictions require a public referendum before bonds can be issued to purchase electric distribution facilities. Elected officials often require such support even before they will spend public money for a feasibility study. “We just kept at it, year after year,” said one leader of a successful campaign. “Once people got the message, we knew we would win.”



States concerned about small customers

Is retail deregulation just around the corner? With notable exceptions, senior state regulatory officials take a longer view. Their perspective was aptly summarized by one commission attorney who mentioned the often-cited analogy with natural gas deregulation (in which he played an important role) and then pointedly suggested that a better model may be found in telecommunications. “Remember

¹ State commissions included in this survey were Alabama, California, Colorado, Florida, Georgia, Illinois, Massachusetts, Michigan, North Carolina, New Jersey, New Mexico, New York, Ohio, Oklahoma, Oregon, Pennsylvania, Texas, Virginia, Washington and Wisconsin.