

# Utility Provider Options: A Brief Exploration

## Municipal Utilities

In Colorado, municipal utilities are nonprofit or governmental operations owned by the communities they serve. There are 29 such utilities in Colorado. Local Citizens are elected (or appointed) to a Board of Directors. Professional staff, together with the Board, make policy and operational decisions in the best interests of both utilities and communities. Municipal utilities are self-supporting (not funded through taxes), and they qualify as enterprises under the Colorado Constitution. The local city councils or utility boards set the rates for the utilities. The rates cover the costs and expenses of providing the electric service, including generation and/or power purchase costs, electric transmission and distribution costs, capital expenses, debt service and operating costs. ***A municipal utility is not required to own its own generation***, but can purchase power on the open market. Excess revenues can be reinvested into the community. The Public Utilities Commission does not regulate municipal utilities. Rates and tariffs are set by the local governing board, elected by the citizens.

## A Municipal Utility Enterprise

A municipal utility enterprise would function as a unit of municipal government under authority of the City Charter and Code of Ordinances (and would likely require a vote of the people for the charter amendment to create it). Similar to the Pueblo Board of Water Works, it would have powers granted to municipalities by the Constitution and Laws of the State of Colorado, but not the power to levy and collect taxes directly or indirectly. The utility's board would execute contracts, maintain a separate legal presence, and manage property. The enterprise might generally operate independently of municipal budget processes, and the City Council might or might not exercise control over the utility board. The enterprise could engage in extraterritorial service delivery outside the City under contracts with other units of local government. Revenues and expenses would not be reflected in the municipality's general fund chart of accounts but would be a self-sustaining entity that is funded through user charges. Thus the utility enterprise would not be subject to TABOR restrictions. The City of Pueblo currently has utility enterprises for storm water and wastewater, with similar entities for bus service, golf courses and other enterprise functions. As of 2013, there were 2,006 municipal enterprise electricity providers existing in the US.

## A Cooperative Electric Utility (aka "co-op")

A cooperative electric utility is a private, independent, non-profit business that is owned by its customers. Each co-op is governed by a board of directors that is elected by members. Unlike investor-owned utilities, which seek to generate profits for outside investors, electric co-ops put the interests of their customers/members first by selling their electricity at a price that covers the cost of power and maintenance.

There are 22 co-ops in Colorado today providing electricity to roughly one-fourth of the metered customers in the state. The "newest" co-op is White River Electric, established 75 years ago. The two largest are Intermountain REA and United Power, with 150,000 and 85,000 metered customers respectively. Both are examples of co-ops that have both significant population centers and extensive rural areas within their service territories; physically, their mix of high and low density resembles that of Black Hills.

Customer density: the number of customers per mile of electric lines varies from 48 for municipal electric utilities to 34 for investor-owned utilities to 7.4 customers per mile for electric co-ops. That means a typical co-op's costs per mile of line are typically higher and their revenues per mile of line are lower.

There are over 900 electric coops in the U.S. serving an estimated 19 million metered customers in 47 states. Most were created by the New Deal during the 1930s and 1940s to supply power to rural areas where the nearest investor-owned utilities would not provide service, believing there would be insufficient revenue to justify the capital expenditures involved.

Likely the newest co-op in the nation is Kaua'i Island Utility Cooperative in Hawaii. It serves 24,000 member-owners. Purchased in 2002 for \$215 million, KIUC's fuel mix in early 2017 is 56% fossil fuels, 9% hydropower, 12% biomass, and 23% solar. By next year, KIUC will have invested in 43 megawatts of power generation capacity from (solar-charged) batteries—roughly equivalent in size to Black Hills' latest natural-gas-fired peak power generator.

The Cooperative Finance Corporation was incorporated in 1969 as a member-owned, non-profit financing cooperative charged with raising funds from capital markets on behalf of electric cooperatives. At present, CFC has upwards of \$20 billion in loans outstanding to member electric co-ops.

#### **Option #4: Some Variation of The Above**

Once the City has secured ownership of the city's electric distribution system, it can simply issue a Request For Proposals (RFP) to a range of qualifying existing electricity service providers to manage the system and purchase power. Depending on who responds and what their offer looks like, this could result in a merger with an existing utility entity. Depending on the governance arrangement selected above, one could turn the current Black Hills service territory over to specialist third party to run. Denver-based Guzman Energy LLC is an example of a utility-focused entity that could provide some services, such as financing and purchase-power agreements.

It is possible that portions of the existing Black Hills service territory might break up and go different ways. For example, if Pueblo acted alone to become a municipal utility, the significant number of metered customers located elsewhere in the service territory, in communities from Rocky Ford to Canon City, might ask to join existing neighboring electricity service providers such as San Isabel Electric Association, Southeast Colorado Power Association, Sangre de Cristo Power Association, etc. Or other units of local government within the Black Hills service territory could opt to take the "off-ramp" from their franchise agreements and go in one direction together, depending on the timing of their franchise agreements.

In all cases here, as well as in Options 1 through 3, the assumption is that existing field staff (line crews) and many support staff currently working for Black Hills Energy would be offered positions with the new utility entity, whatever form or forms it might take.