



SOLVING THE
CHALLENGES
AHEAD

BY **MARTIN ROSENBERG**
PHOTOGRAPHS
BY DANIEL ERATH

Public Power Braces for Change

From upper left, clockwise, John Twitty, Lonnie Carter, Jessie Tilton, Terry Huval, Maude Grantham-Richards and Marc Gerken discuss the leading issues confronting public power.



LEADERSHIP ROUNDTABLES



Public power entities from small hamlets to large metropolitan systems are confronting an array of complex challenges that promise to redefine their business in coming years. More generation is needed. Strategies must be developed to deal with whatever carbon emissions regime the federal government may devise. There is the promise of the smart grid. And there is the threat of a dwindling workforce as many workers face retirement.

To better assess the challenges to public power today, *EnergyBiz* recently sat down with six senior executives of public power utilities at the annual meeting of the American Public Power Association, which has 2,000 members serving 45 million customers. Most are members of APPA's board, and the group included the current chairman of the organization, Maude Grantham-Richards, and chairman-elect, Marc Gerken. Their wide-ranging comments, edited for style and length, follow.

ENERGYBIZ What are the most pressing challenges facing the power sector?

CARTER I am the president and CEO of Santee Cooper, the South Carolina Public Service Authority. We are an electric generating company that's fully integrated. About half of our business is wholesale. We have pretty much every type of generation except for wind, which we hope to have soon. But we're predominantly a coal-based utility. We see the world changing in the way that it acquires and uses energy. Coal prices doubled within a 12-month period of time. The way that consumers consume energy is changing. We hope to change that some more so that they'll do it more efficiently.

HUVAL I'm from Lafayette, La., the fastest-growing large city in the state with about 120,000 people. We own our own generation. About two-thirds of our generated power comes from coal and the rest from natural gas. As the price of natural gas is going up our investment in coal has become a much greater asset to us.

GERKEN I'm president and CEO of American Municipal Power of Ohio in Columbus, Ohio, which deals with 122 municipal electric systems in Ohio, Pennsylvania, West Virginia, Virginia, Michigan and Kentucky.

We need to own our assets and diversify in different types of assets. We are currently involved in the Prairie State coal plant, a planned mine-mouth, 1,600-megawatt plant in Lively Grove, Ill. We currently have a permit to build our own 1,000-megawatt coal plant on the Ohio River in Ohio. And we're constructing 190-megawatts of hydroelectric generation. We're on the market to buy 65 percent of our baseload needs. We are hoping to bring that

down to 12 percent by 2013. Our big concern is climate change. A lot of folks think that you don't need coal and you don't need nuclear and you can keep the lights on. I'm not so sure that you can accomplish that.

GRANTHAM-RICHARDS I'm the electric utility director for the Farmington Electric Utility System in Farmington, N.M., a vertically integrated utility that serves about 45,000 customers. We are on the market for about 20 percent of our power supply. Our peak is 220 megawatts.

TWITTY I'm the general manager of City Utilities in Springfield, Mo., serving a population of about 250,000 people. We generate most of the electricity we distribute ourselves. We have about 800 megawatts of installed capacity and we're building a new 300-megawatt coal unit next to one of our existing units. Energy prices are rising rapidly and they're not going to return to normal. I don't think electricity is going to be generated and distributed for 5 cents a kilowatt-hour any longer, and that's a real shift for our customers to understand.

TILTON I'm chief executive officer of Electricities of North Carolina. We're about 2,500 megawatts of load. We have ownership interests in five nuclear units and two coal-fired units. Public power is in a challenge-rich environment. Our biggest challenge is that we lack a long-term federal energy policy that is based on science and economics and produces an acceptable environmental result. If we had that we would be able to make reasonable, rational decisions for new generating plants that might have a life of 30 or 50 years and might take 10 years to construct. Without that, we are in an extremely difficult position when it comes to investing in generating plants.



LEADERSHIP ROUNDTABLES

ENERGYBIZ Is there enough generation in this country today?

ALL No.

TWITTY It's only going to get worse because you're having such difficulty today in siting new generation.

GERKEN We just raised over \$900 million for the Prairie State Project, so the investment world does want to invest in coal plants. But it's been an uphill battle. Every time we turn around if it's not Citizens Actions it's the Sierra Club, it's the Natural Resources Defense Council, and they paint a very pessimistic view of public power and the ability to manage these large projects.

TWITTY We're building a plant to serve citizens in Springfield, Mo. and the immediate surrounding area. They can see it. They can drive down that particular street anytime they want and see the cranes and see the construction. They know that's for them.

ENERGYBIZ What are some innovative ways public power is working with other segments of the power industry?

transmission. That's been very successful and has been done for a fraction of the cost of the efforts of the regional transmission organizations that we've seen around the country.

ENERGYBIZ The APPA wants the Federal Energy Regulatory Commission and Congress to fix what it believes are problems in regional transmission organization markets. What exactly is the problem and how should it be fixed?

GRANTHAM-RICHARDS APPA members in and near RTO regions have grown increasingly concerned over the past few years about the high rates in RTO-run energy and capacity markets. In our view, the limited number of generators selling into those markets and their specific design features combine to produce

unjust and unreasonable rates. We have a number of proposals about what can be done, starting with much more data transparency, but our immediate goal is to get FERC, the federal agency charged with overseeing these markets, to acknowledge the problem and to do a thorough investigation.

John Twitty
City Utilities of Springfield, Mo., general manager



Jesse Tilton
ElectriCities of North Carolina, chief executive officer



Lonnie Carter
Santee Cooper, S.C.,
president and chief executive officer

TILTON Transmission has been a historic issue that has divided utilities. We developed in North Carolina several years ago a transmission collaborative comprised of investor-owned, municipal utilities and cooperatives. We all sit down together and jointly plan or consider the things that need to be done in terms of building new

ENERGYBIZ There are 2,000 public power entities in this country that belong to this organization. Is that too many?

CARTER What you have seen is this industry is far ahead of maybe some of our other counterparts. You see it represented around this table, with Jesse Tilton and what he does in North Carolina. Municipals have come together as a group to buy power, to gain economies of scale. That's exactly what Marc Gerken is doing, coming together to achieve economies of scale to build power plants.

GERKEN In 2002, our load was about 1,800 megawatts peak, today it exceeds 3,600 megawatts peak. A lot of other

municipals have joined us because we have a large financial base and we can raise capital.

ENERGYBIZ Can the power industry look to public power for some of the solutions to our long-term energy problems?

HUVAL There's no question. The premise of our existence is that our customers are also the owners of our system. We have one master to serve, so we're always looking at what is in the best interest of the consumer.

TILTON History in North Carolina shows that our cities were providing electric service in the late 1800s before many investor-owned utilities were even created. The electric cooperatives did not come along until 1930, so if you want to look at the people who have been here forever, and who have been close to the customers – that's us.

ENERGYBIZ How do you view proposals to limit carbon emissions?

TILTON For our power agency in western North Carolina, about 90 percent of our electricity is from nuclear. So, we are not likely to be dramatically impacted directly by cap and trade. We're certainly hopeful that Congress will come out with a better solution than the proposed Lieberman-Warner bill, which would have a dramatic negative impact on the economy of the United States. It would take the few textile and furniture jobs we have left in North Carolina and finish exporting them to China where most of them have gone already.

ENERGYBIZ Is it a foregone conclusion that we will have a program to reduce carbon emissions?

TILTON We will have climate change legislation. We all want to be at the table in crafting this policy so that we can truly accomplish a benefit to the environment that balances economic impacts.

GERKEN Do I think that cap and trade is a slam-dunk? I

don't. I think that the longer we go and the higher fuel prices get some people are going to say maybe it should be a little bit more broad-based, universal, and a tax would work better.

CARTER If you create a cap-and-trade system where you don't have readily available technology to truly cap what your cost is as an operator, and you bring in these other parties that simply are there to trade and to take money, any money that they make, any money that's made by the third parties, leaves the system to go to investors.

That is not a terrible thing in our capitalistic system. But it doesn't allow those dollars that had been extracted effectively from this market and from the customers to go toward fixing the problem.

ENERGYBIZ So a tax would work better?

CARTER A tax would be a much more efficient system. And if you listen to the economists that have talked about this — even Congress's own economists have told them that a tax would be a more efficient method.

ENERGYBIZ What do you think about the intelligent grid?

GRANTHAM-RICHARDS It's very important. I think it's going to restore service quicker, it's going to give customers more choices, and it's also going to make us work smarter.

ENERGYBIZ How long until time-of-day rates come to South Carolina?

CARTER They're already there. We actually have real time priced rates that are priced hourly. Large industrial customers have had them since 1994. We have time-of-use rates for residential customers. The challenge is getting customers to think about changing their habits and being able to use those rates more effectively.

ENERGYBIZ What about the aging workforce? Do you have trouble finding workers in Lafayette, La.?

HUVAL Yes, just like our investor-owned and cooperative

American Municipal Power-Ohio

CUSTOMERS Wholesale only
2006 OPERATING REVENUE \$468 million
GENERATION 485 megawatts
EMPLOYEES 101-500

City Utilities of Springfield, Mo.

CUSTOMERS 104,314
2006 OPERATING REVENUE \$211 million
GENERATION 890 megawatts
EMPLOYEES 290

ElectriCities of North Carolina

CUSTOMERS Wholesale only
2006 OPERATING REVENUE \$1.1 billion
GENERATION 1,646 megawatts
EMPLOYEES 43

Farmington Electric Utility System, N.M.

CUSTOMERS 42,070
2006 OPERATING REVENUE \$88 million
GENERATION 194 megawatts
EMPLOYEES 157

Lafayette Utility System, La.

CUSTOMERS 58,920
2006 OPERATING REVENUE \$170 million
GENERATION 542 megawatts
EMPLOYEES 204

Santee Cooper, S.C.

CUSTOMERS 156,496
2006 OPERATING REVENUE \$1.5 billion
GENERATION 4,840 megawatts
EMPLOYEES 1,760



LEADERSHIP ROUNDTABLES

counterparts. We look at the number of folks who are going to retire in the next five to 10 years and at the interest level of young people in those types of jobs and it is pretty low. We're able to get to the schools, to the job fairs around our communities, we go to the universities and go to the trade schools and recruit people.

ENERGYBIZ How many of your organizations are affected by renewable portfolio standards?

TILTON I have one in North Carolina that applies to both public power and investor-owned utilities.

TWITTY In Missouri there's an initiative issue on the ballot in November that only applies to investor-owned utilities. If it passes — and it is hard to imagine that it won't — then the legislature will probably add the co-ops and community-owned utilities in.

GRANTHAM-RICHARDS We are exempted.

CARTER South Carolina does not have a standard.

HUVAL We don't either.

GERKEN Ohio just passed an RPS and the co-ops and public power are exempt.

ENERGYBIZ What kind of a national energy policy do we need?

TILTON Energy policy needs to be long-term and it has to have sound fundamentals to work. The consumer and the economy of the United States are facing three big challenges. One is environmental legislation. Another is the challenge of rapidly rising fuel prices. The third is the rapidly increasing cost in materials. It's not just power plants; it's wire and transformers for our cities, distribution systems, and for transmission. Is the U.S. economy really so robust we can take those three big hits, and are consumers going to be able to pay the bill?

CARTER We tend to look for short-term solutions in this

country, there's no short-term solution to this issue. And we really need to look at every possible opportunity that we have. The coal-fired facilities that we're building today are modern, state-of-the-art facilities and they're not your father's coal plants. If we could take a careful, scientific, economic approach to all this

we could end up with some very good solutions.

GERKEN Coal has a bright future. Politicians are just afraid to utter the word.

HUVAL There is a lot of room for optimism. It's a matter of what the focus is. We need to make sure that the consumers of this country are fairly certain about what it is that we do. If we do something unilaterally that supposedly is good for the world, but yet it hurts the economy of our country and it hurts our citizens and our business, then that's not a good solution. Managing emissions, the whole issue of the cost of fuel, the issue of smart grid, all those

things coming together can work to make this a good outcome in the end.

Marc Gerken
American Municipal Power, Ohio,
president and chief executive officer



Maude Grantham-Richards
Farmington Electric Utility System, N.M.,
electric utility director

Terry Huval
Lafayette Utilities System, La., director of utilities



TILTON We're trying to solve the environmental problem politically. It needs to be solved with science and economics. We can get to a good environmental result, an improved environmental result, and get there with a much lower cost than the political direction we're going in now. Those of us in public power are interested in getting a good environmental solution, and it can be done. ☒

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