

**HARVARD ELECTRIC POLICY GROUP**  
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**MUNICIPALIZATION - AN IOU  
PERSPECTIVE**

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# **THE UPSURGE IN MUNICIPALIZATION INTEREST**

## **SOME QUESTIONS:**

**What is it?**

**Why is it happening?**

**What are the forms?**

**Is it a good Idea  
for the customer and community?  
as public policy?**

**What's the alternative?**

## **MUNICIPALIZATION - WHAT IS IT?**

- **Displacement of a privately or investor-owned utility**

**with a**

**Publicly or government owned utility**

- **Classic form - local ownership of poles and wires through acquisition or condemnation**
  - \* **provides bundled service to retail customers**
  - \* **wholesale purchase of electric supply and transmission service**
- **Many other forms possible (more on this later)**

## **MUNICIPALIZATION - WHY NOW?**

**In the 1980's, little movement one way or the other**

**In the 1990's**

- **Transmission access provisions of NEPA Act**
- **In some regions, retail rates depart dramatically from market prices**

## **MUNICIPALIZATION - WHY NOW?**

**Retail rates out of line with market prices.**

**Major Causes Of The Problem: (Varies by region)**

**(We Say)                      Administration of PURPA**

**(Others Say)                High cost additions to IOU capacity**

**(But We Reply)            Excess capacity may be the real problem**

- Slow economic growth**
- PURPA-driven over-investment in supply**
- DSM?**

# **ECONOMICS OF NIAGARA MOHAWK GENERATION**

**(Based on April 7, 1994 Competition" Report)**

- **Some of our generation is higher cost**
  - **i.e. Nine Mile Two** **9.7¢/kwhr**
- **But this is offset by capacity of very low cost**
  - **NM hydro** **2.6¢/kwhr**
  - **Coal: Dunkirk 3 & 4** **2.7¢/kwhr**
- **Total average cost of NM-owned units in 1993**
  - **at actual 1993 load factors** **5.5¢/kwhr**
  - **at system load factor of 67.9%** **5.1¢/kwhr**

# NIAGARA MOHAWK GENERATION (Continued)

(Based on April 7, 1994 Competition" Report)

- **Estimated cost of new generation**

- **New combined cycle  
@ 67.9% c.f. 5.1¢/kwhr**
- **New coal  
(500mw @ 80%c.f.) 5.5¢/kwhr**

## **MUNICIPALIZATION - WHY NOW?**

**Retail Rates out of line with Market Prices**

### **Other Factors**

- **Taxation**
- **Obligation to serve (e.g. rural vs urban)**
- **Environmental requirements**
- **Public Policy "incumbent burdens"**



# **MUNICIPALIZATION - THE FORMS**

## **(A Sampling)**

- **Traditional - Eminent Domain**
  - **New York**
  - **Maine**
- **As intermediary for inter-IOU competition**
  - **Las Cruces, NM**
- **Buyer Leverage**
  - **Ford and Brook Park, Ohio**
- **"Muni Lite"**
  - **Falls Church, VA**
- **Build Your Own**
  - **Clyde, OH**
- **Annexation**
  - **Niagara Mohawk**
- **"Paper" Municipals**
  - **Suffolk County, NY**

## **MUNICIPALIZATION - A GOOD IDEA?** **(For Customer & Community)**

- **A major gamble**
  - **Stranded costs (FERC NOPR)**
  - **Extensive litigation over proper compensation**
  - **Cost and risks in securing bulk power**
  - **Operational risks**
    - **Storm emergencies**
    - **Health and safety, etc.**
  - **Regulatory requirements**

**MUNICIPALIZATION - A GOOD IDEA?**  
**(For Customer & Community)**

- **Potential reliability and quality deterioration**
- **Success possible but far from guaranteed**
- **Retail access comes anyway**
  - **Municipalization was unnecessary**
  - **Competitive risks are inherited**

## **MUNICIPALIZATION - A GOOD IDEA? (As Public Policy)**

### **Economic Efficiency**

- **Distribution**
  - **Public vs private ownership**
  - **Scale economies**
  
- **Transmission**
  - **Loss of T&D vertical economies**
  
- **Generation**
  - **Pitfalls to partial opening of markets**

# **MUNICIPALIZATION - A GOOD IDEA? (As Public Policy)**

## **Fragmentation**

- **Health and safety**
- **Consumer Protection**
- **Fair and equitable ratemaking**
- **Environmental compliance**

## **Transaction costs**

- **Legal and engineering**
- **System reconfiguration**
- **Protracted litigation**

**MUNICIPALIZATION**  
**WHAT'S THE ALTERNATIVE?**

- **Dissatisfaction with prices remains**
- **Niagara Mohawk view: Competition is best way to improve economic efficiency**
- **But, real efficiency benefits are long run**
- **In short run, prices can only be reduced (in a major way) by shifting costs to others**
- **So**
  - **Deal equitably and fairly with transition costs**
  - **Can then expand competition more quickly and effectively**