

ISSUE BRIEF

Publicly Owned Electric Utilities: Frequently Asked Questions (FAQ)

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Many communities and policymakers are asking questions about publicly owned electric utilities. Here are common questions and answers.

What are publicly owned electric utilities (POUs)? What kind of service do they provide?

POUs are not-for-profit public agencies that supply and deliver electricity to their communities. POUs are governed by locally elected officials, such as city council members or, for some agencies, regionally elected directors. There are four main types of POUs in California: 1) city municipal departments, such as the Pasadena Department of Water and Power; 2) public utility districts (which typically serve unincorporated county territory), such as the Trinity Public Utilities District; 3) municipal utility districts (which typically serve an entire county), such as the Sacramento Municipal Utility District (SMUD); and 4) irrigation districts (which also provide water services), such as the Turlock Irrigation District.

The four different legal forms of POUs all share the same attributes of local governance and accountability, and oversee the generation and purchase of electricity, the distribution of electricity over powerlines to their communities, and the implementation of local energy efficiency and renewable energy programs.

How are POUs formed?

Most POUs formed early in the 20th century and have provided exclusive electric service in their local or regional territory. Since then, several POUs have formed, and some communities have shown interest in creating a new publicly owned electric utility. California's state Constitution authorizes cities to provide electric services, and a number of well-established state laws authorize the formation of other POUs. Forming a POU can be a complex process, particularly if the POU plans to acquire the incumbent utility's facilities. If a community is interested in forming a POU, generally the first step is to undertake a feasibility study, which helps the community determine if a POU would be a viable option. If it's determined a POU could be a viable option, the next step is to pursue arrangements with the incumbent utility whereby existing electric

system facilities are acquired. If the POU merely plans to provide service in undeveloped areas of a city (so-called "spot" POUs), the process for forming and starting a POU is much simpler.

How many POUs are in California?

There are more than 40 POUs around the state, from Trinity County in the north to Imperial County in the south. Many POUs serve urban areas, some serve desert or mountain communities, and others serve agricultural areas. In addition to their geographical diversity, POUs vary in size; some serve hundreds of thousands of people, while others may only serve less than ten thousand people. The Los Angeles Department of Water & Power, providing electricity to 1.5 million residential and business customers, is the largest POU in the continental United States.

Why are there so many POUs?

The answer is historical and goes back to the beginning of electricity. Street lighting was the first widespread use of electricity, and cities brought streetlighting to their communities. At one point in the early 1900s, there were more than 10,000 POUs nationwide. Over the last century there has been consolidation, and today there are more than 2,000 POUs across the U.S. Their success is attributed to their close relationship with their communities and achieving joint, public goals.

How are POUs governed? Who regulates POU electric rates?

While other electric utilities are subject to oversight by the California Public Utilities Commission (CPUC), POUs are accountable to locally elected officials, who also set electric rates and provide policy direction. POU electric rates are governed by the California Constitution and California law, and must reflect cost-of-service. As a result, and the fact that POUs are not-for-profit, POU rates are about 18 percent lower on average than other electric utility rates. In addition to local oversight, POUs coordinate on a variety of key energy planning issues with the California Public Utilities Commission (CPUC), the California Independent System Operator (CAISO) and the California Energy Commission (CEC).

How do POU's supply power?

Some POU's take full responsibility for their power supply and delivery, while others work jointly to purchase power. Two principal Joint Power Authorities serve POU's across the state. The Northern California Power Agency (NCPA) serves medium-size and smaller utilities in the north; the agency generates, buys and schedules power, as well as other utility and customer services. In the south, the Southern California Public Power Authority (SCPPA) provides similar services for POU's in the region. Both agencies take advantage of economies of scale, allowing them to share costs and deliver efficient services to their members.

How do POU's ensure safety and reliability of the electric grid?

Like all electric utilities that operate interconnected network transmission and generation facilities, POU's are subject to strict federal reliability standards to ensure continuity of service. POU's are not under the jurisdiction of the CPUC, but POU's do follow safety standards established by the CPUC as an industry practice and actively collaborate with the CPUC. In addition, POU's are governed by locally elected officials and are subject to California's public disclosure laws, which promote accountability and ensure that POU's remain vigilant and adapt to an ever-changing environment.

What are POU's doing to achieve the state's carbon-reduction goals?

Like all electric utilities, POU's are subject to California's laws governing greenhouse gas (GHG) emission reductions, including the Renewables Portfolio Standard (RPS), Cap and Trade and energy efficiency. California's electric utilities are the tip of the spear for California's GHG emission reduction efforts; GHG emissions from the electric sector declined by 18 percent between 2015 and 2016, the largest decline of any sector. Also, as locally governed electric providers, POU's have the ability to tailor green energy programs to meet community needs.

When it comes to wildfire liability, how are POU's treated?

All electric utilities in California are subject to no-fault, strict liability — instead of assigning liability based on fault. California is one of only two states to do so (the other is Alabama). This legal standard means a POU is liable for damages even if it adheres to all established safety and maintenance requirements.

This system is unsustainable in the face of increasingly severe weather. Updating the liability standard is essential to ensure that California's electric utilities can continue to provide affordable and reliable service, as well as make investments in programs designed to achieve California's climate goals.