

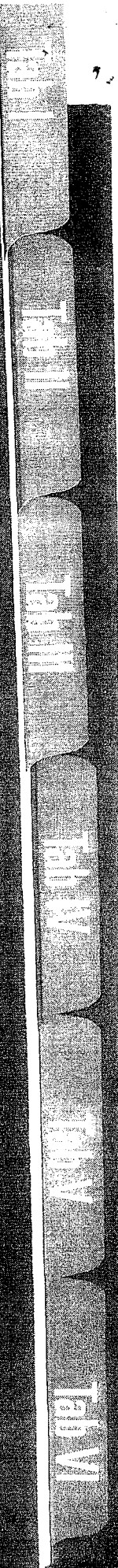
New Public Power TAKEOVERS

Strategic Resources
for Defeating
Municipalization

Defending Your
Shareholder-Owned
Electric Company Against
New Municipalization

THREATS

A Tactical Guide



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New Municipalization Threats

Municipalization campaigns—aimed at taking over local electric companies—are popping up around the country as a growing number of communities weigh the public power option. For the shareholder-owned electric companies that are facing municipalization threats, it is often extremely difficult to communicate the message that establishing a new government-owned utility in today's deregulated energy environment is costly and risky. That's because these companies are encountering local officials and customers who believe that they are paying more than they should for electricity and that taking over the local electric company's distribution system will help residents and businesses survive in a volatile energy marketplace.

So, what's a shareholder-owned electric company to do if a municipalization threat arises in its local service territory? What would you do?

When defending against a new public power takeover, there's no doubt that you'll need a solid, multi-faceted strategy. This Tactical Guide discusses the various steps you can take to nip a takeover in the bud using community education and legislative advocacy and outreach (Tab I). It outlines the basic building blocks needed to inform and assist elected officials and opinion leaders, to organize allies, and to engage the public debate about the purported benefits of public power as a solution to energy issues in your community (Tab II). If all else fails, this Guide details what you need to do to defeat a public power takeover at the ballot box (Tab III).

Because it is intended for use in a wide range of circumstances in various parts of the country, this Guide may not be specific to the particular issues facing your community. You should study the strategies and tactics discussed herein and adapt them to fit your local requirements. We encourage you to study the sample messages and campaign materials that are included in Tabs IV and V and to tailor them to your situation.

Materials in this Guide are organized under the following tabs:

- Tab I** Preventing a New Public Power Takeover Threat from Emerging
- Tab II** Blocking a Municipalization Takeover Attempt at the Local Legislative Level
- Tab III** Defeating a Municipalization Takeover Attempt at the Ballot Box
- Tab IV** Sample Campaign Messages
- Tab V** Sample Campaign Materials
- Tab VI** Additional Resources: Consultants, Public Power Checklist

Tab I

Tab II

Tab III

Tab IV

Tab V

Tab VI

PREVENTING

A New Public Power
Takeover Threat
From Emerging

Preventing a New Public Power Takeover Threat from Emerging

The best way to avoid harm is through prevention. But prevention requires the implementation of long-term strategies well in advance of a crisis. When dealing with a new public power threat, your overarching goal is to keep the takeover effort from reaching the ballot box. But, ideally, you'd like to avoid the threat altogether by resolving issues early on. The key is to educate opinion leaders about the problems and pitfalls of public power takeovers so that the issue never gains traction in your community.

The push for takeover often begins with a small group of activists. Most of these activists have been seduced by the false notion that municipalization will automatically lead to benefits and therefore have been promoting municipalization efforts for many years without success. In some cases, a takeover effort can begin with a public official, a city manager, a local administrator, or council member who may be motivated by a city budget deficit or the idea that taking over the electric system could become a source of revenue for the community. Whatever the initial motivation, any concerns about deregulation, rate increases or power problems will give takeover a higher profile in the community.

A successful avoidance strategy may allow you to nip the movement in the bud. Such a strategy is two-fold:

- 1) Provide elected officials, community leaders and customers with credible, factual information about how well your electric company and the current system are operating and how a takeover effort is fraught with financial risks and other hazards.
- 2) Identify and recruit allies who can help you convince local decision makers that takeover is not a viable option in today's volatile energy marketplace. If influential and credible community and business leaders believe takeover is not a viable option, the takeover idea can be derailed before it becomes a specific proposal that is brought before the local legislative body or electorate for action.

7 Tactics for Implementing an Avoidance Strategy

- 1) **Identify and build alliances with other utility companies, civic and business organizations, and public officials.** Identify the key opinion leaders in your service area. Determine who your potential allies are in the fight against takeover. For example, gas, telephone and cable companies are natural allies since their assets also may be threatened, either now or in the future, by municipal takeover. Other potential allies may include local chambers of commerce, major industrial and commercial customers, shareholders, company employees and retirees, union leaders, and agricultural interests. Non-utility allies are very important to your cause because they do not appear to be self-interested or motivated.

Tab II

Tab III

Tab IV

Tab V

Tab VI

- 2) **Meet with elected officials and key staff.** Some public officials oppose municipalization because they recognize the inherent problems — particularly the financial risks — that come with creating a new government-owned utility in today's energy world. Other public officials may oppose takeover as a bad business practice. Spend some time talking with your public officials — both elected and appointed — to determine their views on takeover. Once you know where they stand, what they think, and what they know or don't know, you can provide them with specific information and materials that support your anti-takeover position.

Make sure that public officials understand the fiscal and community benefits your company brings to the community. This provides an opportunity to educate decision makers and to dispel common misunderstandings about your company's operations or about municipalization. These conversations help you determine who may be for you or against you if and when a takeover issue emerges. Many public officials who are not particularly well informed about municipalization will appreciate the opportunity to become more familiar with this complex issue.

Finally, don't limit your contacts to your local community alone. Meet with county supervisors, state legislators and members of Congress from your area. Don't forget to meet with their staff members too, especially those who work at the local level. These staff members often are politically active and can wield significant influence on major issues. And, remember to tap in to other regional resources and institutions, such as economic development commissions and university experts that may have an interest in this issue.

Be brief and focused during your meetings. Be sure to cover all your key points, and be prepared to answer all questions, including potentially hostile questions, so that you won't be caught by surprise.

- 3) **Explore unusual alliances.** A union that may not be that friendly to your company under ordinary circumstances may decide to oppose a public power takeover because it will mean a loss of jobs or jobs moving to a rival union. Major customers may complain about rates, but ultimately would prefer the certainty of working with an established energy company rather than being subject to the problems that may occur with a new municipal utility operating in the deregulated marketplace. Other groups attempting to issue tax-free bonds may be severely impacted by state bond caps. Still others who depend on local government for financial support may feel threatened by the prospect of local revenue going into the electric system. Non-traditional allies may be powerful friends and influencers on your behalf.
- 4) **Research and create persuasive messages.** Persuasive messages — the key points of argument on behalf of your position — are the foundation of any successful outreach program. Public opinion polling at this early stage is important. It will give you an idea of what the community really thinks about your company, the local government agency and the idea of takeover. These views may differ from what your company thinks the community believes.

At this early stage, you can talk about how well the current system operates and about the benefits your company brings to the local community, including jobs and tax revenue. You can also create messages that explain the problems inherent with a new takeover and that address risk and problems elsewhere.

Once you've developed a set of core messages, adapt them for each key constituency with whom you will be communicating. The messages will vary because you will be speaking to the specific interests or concerns of each group. For example, the interests and concerns of the business community may be different than those of your labor allies. But all messages should reflect the basic facts.

- 5) **Develop multiple ways to get your message out to potential allies.** Identify key civic and business organizations and begin an outreach program. In addition to one-on-one meetings, develop a speakers program to address civic groups like the Rotary and Kiwanis clubs, business groups like the Chamber of Commerce, seniors, and, in agricultural areas, the Farm Bureau and other similar organizations. Try to develop some visual elements for your presentation. Also develop fact sheets and other materials that you can leave behind. The goal of these presentations and meetings is to educate opinion leaders about the problems inherent in a new takeover.
- 6) **Intensify community outreach programs.** Expand your community outreach programs. Your company may have an active charitable program in the community; it may work with the schools; it may provide special services to low-income and/or elderly residents; it may contribute to a variety of civic activities. Remind folks of this. All of these outreach activities are benefits to the local community, and the organizations with whom your company interacts are potential allies. It may not be appropriate to ask a particular organization to actively support your position, but each organization is made up of individuals who may become active on your behalf. It's up to you to reach out and provide them with the information they need to understand the issue.
- 7) **Intensify advertising programs.** Explore ways to use your company's ongoing marketing program to tout the benefits the company brings to the local community. Use advertising to talk about these benefits and to highlight important community programs. Feature charitable activities in newsletters and bill inserts. Include a section on community benefits in each presentation you make — whether it's a speech to the local civic organization or a presentation to the city council.

Despite your best efforts, the avoidance strategy ultimately may not be successful, and you may find that the takeover issue is moving to a larger and more politically potent forum. However, the work that you have done to this point is not wasted, as educational and community outreach will only help your company in the long run.

Tab II

Tab III

Tab IV

Tab V

Tab VI

BLOCKING

A Municipalization Takeover
Attempt At The Local
Legislative Level

III

IV

V

VI

VII

Blocking a Municipalization Takeover Attempt at the Local Legislative Level

If the avoidance strategy has failed to keep the takeover issue from reaching the local legislative body, then it's time to step up the intensity of your program. The work your company may have already undertaken provides a good foundation for a more intense and targeted program to defeat a takeover vote by the pertinent legislative body. Now it's time to organize allies, develop a media relations campaign, expand and supplement written materials, and begin lobbying the local decision-making board.

In this section, a variety of tactics is discussed. While not all will be appropriate or relevant to your company's situation, you should remember that it is likely the takeover issue will move to the ballot box, whether by a local legislative vote or by petition. So, the activities you initiate now will lay the groundwork for a future political campaign.

At this point, your overall strategy is to build a broad-based community coalition that will be effective in opposing any takeover move by the local legislative body. Remember that it takes time to build an effective lobbying effort; so the earlier you start organizing, the better. Don't wait until an agenda item is being scheduled. The time to start is when you first suspect that the backers of takeover are gaining sufficient momentum to bring the issue to the attention of the legislative body.

10 Tactics for Blocking a Municipalization Takeover Attempt at the Local Legislative Level

- 1) **Determine whether a takeover effort has "traction."** It is not always easy to distinguish a serious takeover threat from an effort that has no real support. In this situation, access to information is the key. It is important to talk with your government and community allies and contacts and to monitor media reports so that you can recognize if and when a takeover effort is gaining momentum.

Once the takeover issue has traction, one or more of the following occur, often rather rapidly:

- Elected officials and influential community members associate themselves with takeover advocates at public events and in the media.
- Takeover advocates launch major fundraising initiatives or spend money on direct mail campaigns or advertising to communicate with voters. Many states require groups that spend money to qualify a measure for the ballot to register as a political action committee.
- Advocates initiate signature-gathering events to qualify a municipalization proposal for the ballot.
- Major newspapers editorialize either for or against a change in the local electric power distribution system.

Tab III

Tab IV

Tab V

Tab VI

- Elected officials or candidates introduce or advocate legislation to facilitate a municipal takeover.
- 2) **Retain an experienced public affairs/political consultant.** At this point, it is important to retain a public affairs/political specialist with direct experience in defeating public power takeovers or other ballot measures. During the avoidance phase, your company's local government or community relations staff likely handled much of the work. Perhaps a public affairs/political specialist provided some strategic advice. But now, with the issue moving closer to a vote, a public affairs/political consultant is invaluable in laying out a strategy to defeat takeover at the local legislative level, if at all possible, and in setting the stage for a possible election campaign. Now is also the time to begin analyzing how much a takeover would cost.
 - 3) **Form a broad-based citizens' coalition.** A coalition of local opinion leaders and other citizens often is the most effective means of convincing a legislative body either to take a particular action or not to take it. Most local elected officials are very sensitive to and responsive to constituent opinions. Look at your list of allies and identify influential community leaders. If your state or municipality requires that political contributions be reported, look to see who the major donors to local elected officials are. From these and other sources, identify those opinion leaders and influencers who might be interested in heading up a citizens' coalition in support of your company's position. Coalition leaders often will agree to serve as community spokespersons for the group with the media and at various meetings and events.
 - 4) **Grow your coalition and have it represent as broad a cross section of the community as possible.** With the leadership in place, other members can be recruited at speaking engagements, public meetings and through mailings. Your company's employees, retirees and shareholders make good coalition members and may have contacts with other community leaders. The coalition membership also should include allied organizations such as the Chamber of Commerce and affected unions.

It is important to have a one-page fact sheet and perhaps more detailed information to hand to potential endorsers. Company representatives and coalition leaders should carry a stack of endorsement cards with them to hand out at meetings, events and speaking engagements. Ask leaders of allied organizations to pass out endorsement cards to their members. Be sure to print a key message on the endorsement card. Remember, you can increase your response rate by collecting signed cards from people at the time you hand them out or by including a return postage stamp on the card so that it can be mailed back easily. Make sure you have included a telephone number, an e-mail address and/or a website address on the card for endorsers and potential supporters to obtain additional information and to have questions answered. Be sure to ask endorsers for their e-mail addresses, as e-mail is an effective and inexpensive way to communicate with your supporters.

- 5) **Conduct early public opinion research.** Public opinion research serves four purposes:
 - Research establishes a baseline level of support for and against takeover.
 - Research helps identify the segments of the community with whom your company needs to communicate to build support for its position.
 - Research helps you to identify effective messages and to develop a successful communications strategy.

- Research allows you to test the opposition's messages and determine which are the most important to rebut. The information derived from research will be helpful in directing and shaping your efforts to defeat takeover.

Determine whether focus groups would also be useful. Focus groups normally are used prior to polling to develop messages and to determine how groups of community members and voters may react to issues. Work closely with your public affairs/political consultant in developing the questionnaire for the poll so that you are sure it tests all that you need to know. Your consultant may point out additional areas and issues that should be tested.

- 6) **Develop informational materials.** Once you have tested your messages and your position through focus groups and opinion research, you can begin to prepare communications materials for your various activities and audiences. Typical materials include:

- A **media information packet** with background information, press releases, a list of supporters, key facts, brief examples of troubled takeover efforts and any other information that may be pertinent and persuasive with the media.
- **Leave-behind information** that you can hand out when you make presentations or speeches before various groups. The leave-behinds can be as simple as a one-page fact sheet, a brochure or a packet similar to the media kit that includes a list of supporters and other pertinent information.
- A **brochure** that can be given to supporters to share with friends and neighbors. The brochure also can be included in the leave-behind packet.
- **Talking points and speech outlines** for supporters to use when making presentations, recruiting supporters and talking to elected officials.

- 7) **Establish a website.** Increasingly, individuals are turning to the Internet for political information. In today's world, a website is another key communications vehicle. It is important to get your site up and running early, perhaps even as early as the first-phase avoidance strategy. A website often is the first place a potential supporter looks for information about your issue. Reporters and editors will use it for background information and to see what press releases and other media information you have posted. And, a website is an effective way to collect endorsements. You can use a website to communicate with and organize your supporters quickly and effectively. You can use e-mail to refer supporters to the website for new information.

Be sure your site is easy to navigate and contains up-to-date information. Post new information regularly and establish links to other websites that support your position.

- 8) **Orchestrate a comprehensive media campaign.** A well-organized media campaign is an essential component of any successful lobbying effort. Be sure to provide accurate information and pithy quotes to reporters. Point out that public power entities would face the same problems that the present electric company faces but with the added burden of takeover costs. Identify several community and business leaders who are willing to serve as spokespersons for your company. Try to keep the community leadership out in front of reporters. Your community supporters can be much more effective with the media than perhaps your company's own spokesperson. Be sure to provide media relations training for these spokespersons if necessary. Your media program should be designed to have its greatest impact right before any vote on takeover.

Tab III

Tab IV

Tab V

Tab VI

Key media activities include:

- **Editorial board briefings.** Make sure you meet with the editorial boards — or for smaller papers, the editor or publisher — of your local newspapers to present your views and facts on the takeover issue. Have two or three key community leaders as part of your group so that the editors can hear both from your company and from the community on the takeover issue. Prepare a packet of pertinent information to leave with editors. Keep the presentation brief.

Some radio and television stations also broadcast editorials on key issues and perhaps one or more stations still do that in your community. If so, be sure to meet with the public affairs director or the station manager (the two individuals who are most likely to be involved with the editorial process) and present your position as you did with the newspapers.

- **Opinion editorials.** Opinion editorials or columns are an excellent way to communicate your position or to rebut arguments presented by opponents or by the newspaper's editorial writer. Opinion editorials or columns are more effective if prominent citizens in the community author them. Again, stick to your messages, and make your arguments in a clear and readable manner. The opinion editorial should be lively to keep reader interest. Don't waste space repeating the claims of opponents. State your own case.
- **Letters to the editor.** Ask one or two of your supporters to organize a letter-to-the-editor campaign. Depending on how many individuals are participating, have the letters appear regularly in the newspapers and have the campaign build up to the local government hearing on takeover. Remember, many editors will try to make sure that there's a balance of opinions and will not print letters advocating one viewpoint unless they can print letters supporting an opposing view. As a result, it may be wiser not to have a letter-to-the-editor campaign if the opposition has been silent. You just might trigger unwanted activity by your opponents.
- **Reporter briefings, media events and stories.** Don't overlook opportunities to make news on your issue. One way to make news and provide third-party credibility to your company's point of view with the general public is to develop various reports and studies that analyze the risks and costs involved in a new public power takeover. Perhaps a local business organization will undertake such a study on the economic impact or feasibility of takeover and its impact on electric rates. It is preferable that the studies come from an independent group rather than your company. Ask your allies to hold a press conference to announce the results of the study and share the study's findings with public officials, editorial writers, and key community and business leaders who still may be on the fence regarding takeover. Put the work of others to work for your side of the issue.

Take the time to give a background briefing on these key issues. Don't assume reporters really understand the takeover issue and other issues related to electric power. Another news making opportunity is for the citizens' coalition to issue press releases about presentations and speeches its leaders are making and to announce additional members, especially if the new members are influential in the community.

9) **Lobby public officials.** Once you have your citizens' coalition in place, have your facts to back you up and know which messages are the most persuasive, it's time to meet with those who will vote on the takeover issue. Tell them about the risks associated with new takeovers. Remind them of the benefits your company brings to the community. Share the broad base of support you have been able to develop in the community. Find out what else they need to know to cast their votes for your side. Have supporters write letters, e-mail and telephone the elected officials. It is important that they hear from their constituents because constituents are the most persuasive lobbying force you can bring to bear. Continue to count your votes. Remember, your opponents will be working just as hard on the other side, and someone who seemed to be a secure vote one day might flip-flop the next.

10) **Build supporter attendance at key local government meetings.** Make sure your supporters turn out for all public hearings and meetings on the takeover issue. One idea is to have supporters wear buttons or tags that indicate they oppose takeover: "No takeover" and "Takeover is a BAD Idea" are just two examples of button messages. Undoubtedly, you will come up with a message that fits your specific situation.

If the meeting is a public hearing where individuals in the audience may speak, organize your supporters so that they have a variety of points to make during the hearing. Provide them with talking points and background material. Make sure they understand what the procedures are for public comment. If a decision isn't made at the meeting, ask your supporters to follow up individually with the elected officials to thank those who supported the anti-takeover position, to encourage fence-sitters to move to your side, and to initiate another round of contact with those who are voting for takeover. It is important to keep reminding the elected officials favoring takeover of the large and influential group of constituents who oppose it.

In the end, despite all of your efforts and hard work to persuade your elected representatives that takeover is a bad idea, you may find that the issue continues to gain support and that the local leaders decide to move the issue to a public vote. Again, the work you have done in the lobbying phase will not be wasted. Your organizational outreach, written materials and media program all can be put to good use as you prepare to defeat a takeover attempt at the ballot box.

Tab III

Tab IV

Tab V

Tab VI

DEFEATING

A Municipalization Takeover
Attempt At The Ballot Box

Tab III

Tab IV

Tab V

Tab VI

Defeating a Municipalization Takeover Attempt at the Ballot Box

It's time to mount a full-scale election campaign against a new public power takeover. Are you ready? Most of the tactics/activities we have discussed earlier also are used in a full-scale campaign. Please refer back to Tabs I and II for more detail on a particular tactic. And please don't forget to look at Tabs IV and V for sample messages and materials. Remember, a campaign to defeat takeover is going to be difficult. Generally, takeover advocates don't go to the ballot box unless they think they can win. You can't get your campaign started too early. As soon as you realize a takeover measure is going on the ballot, gear up.

20 Tactics for Defeating a Municipalization Campaign at the Ballot Box

- 1) **Hire an experienced campaign consultant.** If you didn't hire an experienced campaign consultant during the lobbying phase, now is the time to bring one in as part of your team. For the campaign, you will need a consultant who can provide a variety of services through his/her firm or one who can put together a team of consultants to work on your behalf. Don't fool yourself into thinking that you can do all of the work in-house. A successful campaign requires specialized skills in the areas of research, general advertising, direct mail, voter targeting, message development, and, most important, campaign strategy and positioning. Establish regular (weekly or at least biweekly) meetings with the consultant(s) so that you understand the work they are doing on your company's behalf.
- 2) **Form a registered political committee as required by state and/or local law.** Most states and many local jurisdictions require political campaigns to register and to begin disclosing campaign contributors and expenditures no later than when a measure qualifies for the ballot. **It is critical that you consult legal counsel with expertise in local and state campaign law.** Understand what is required and make sure those in charge of your campaign follow the requirements to the letter. In addition to costing you money in fines, failure to adhere to the law can cost you credibility, lead to negative news coverage and perhaps cost you the election. Depending on the laws in your jurisdiction, you may be able to establish campaign committees and other legal entities to carry on separate specific campaign functions. For example, in some states, specialized third-party committees can send out direct mail independent of the main campaign committee and are not required to report contributions with the primary campaign committee. These independent entities usually reflect a broader base of support and function separately from the primary committee or your company itself. The name you give your campaign committee is important. Choose a name that is both inclusive and incorporates the campaign's major theme or message.

Tab IV

Tab V

Tab VI

- 3) **Develop a campaign plan and allocate necessary resources.** Once you know where you stand from your research, develop a campaign strategy and implementation plan that will lead you to victory on Election Day. Identify who your key voter targets are. Are they, for example, seniors? Middle-age men? Republicans? Homeowners? Who are the likely supporters of takeover that you will not want to spend as much effort targeting? Are they Democrats? Activists? Women? Renters? Latinos? Who are the swing voters you will need to win over on Election Day? Are there specific neighborhoods in your community that are more likely to support your position? Your opinion research and analysis of previous voting patterns should be invaluable in developing a voter-targeting program.
- 4) **Begin to raise money for the campaign.** Campaigns are expensive and your fundraising efforts must begin immediately. A campaign could be lost because of startup delays resulting from lack of funds. While your company may be prepared — and expect — to put up all or at least the majority of the campaign war chest, it is important to develop a broader funding base for the campaign to demonstrate the breadth of your support. Look to your allies to contribute. Gas companies, cable companies, telephone service providers, and other local utilities may be future targets for municipalization and should be asked to contribute to your effort. Your less-likely allies, such as labor unions, also should be approached. And, the campaign can organize a small-contributors program through which community members and business leaders can participate. With community members, you should not be interested in the amount of their donations, but rather the number of donations, as they demonstrate a broad base of support. If financial contributions from these other constituencies are not possible, make sure they officially endorse the campaign and play other roles that enhance their visibility on the issue.
- 5) **Conduct exhaustive public opinion research.** Comprehensive public opinion polling is essential in a political campaign. Even if you conducted research during the lobbying phase, roll out another poll to see where voter opinion is now. This poll should target voters only and can test a variety of messages and arguments. Opposition arguments can be tested to determine weak spots. Periodic tracking polls show how the campaign is doing as it moves closer and closer to Election Day and enable you to develop, refine or modify your messages. The more detailed discussion regarding public opinion research found under Tab II also is applicable here. Other uses of polling are noted below.
- 6) **Determine which of your arguments are most effective with each target voter group and how you are going to deliver those arguments to the key voter blocs you are trying to reach.** Your campaign won't be able to persuade all voters so it should be designed to reinforce the core anti-takeover base and to sway those voters who are identified as swing votes or who still are undecided. This is the job of your campaign consultant. Also, you need to know how much a successful campaign will cost so that you can budget and raise the needed funds. If funds are limited, a campaign plan can help you decide where best to spend your limited resources. Is it best to work on absentee voters or on a get-out-the-vote program? Is a direct-mail program likely to bring in more votes than television advertising? These are the questions you have to answer very early in the process so that you can marshal your resources most effectively.

An essential part of campaign planning is a **voter-behavior analysis**. Your consultant can examine prior voter behavior to help focus the campaign on those voters

who are most likely to support you. Targeting voters is particularly important for message delivery (through direct mail) and for the Get-Out-The-Vote program.

- 7) **Develop alternative pre-feasibility studies.** Proponents of takeover will cite studies that show takeover will be good for the local municipality. However, it is likely these studies are not feasibility studies at all but only “pre-feasibility” studies that look at all the alternatives available to the local jurisdiction and indicate that takeover is worth considering. A true feasibility study is a detailed examination of exactly how much it will cost to take over your company’s distribution system and whether rates will have to be increased to cover the cost of takeover. It also provides an outline of the process and details how long it will take to get to the end.

Make sure you have developed your own studies or white papers **authored by credible, independent, third-party experts if at all possible.** Quote excerpts from the studies in your mail and advertising. Share the material with reporters and editors. Use the information to expand your supporter base and to recruit additional allies. Even if you don’t conduct a feasibility study of your own, it is important to criticize and point out the shortcomings of the proponents’ studies. By supporting takeover, the voters may be taking on more burdens than they suspect. See Tab VI for a list of consultants who have experience in conducting feasibility studies.

- 8) **Develop key messages and a campaign theme.** Because you have been debating takeover issues for a long time, you will have a host of arguments that you believe should persuade voters to oppose takeover. Your campaign consultant may come up with some new, fresh arguments. Use your research program to test all these arguments with voters. Some arguments may resonate better with certain types of voters. Perhaps older voters may respond better to cost issues, while small business owners may be concerned about reliability of service. Republicans are likely to respond to different concerns than Democrats. **But you have to test to be sure.** Once you understand which arguments and messages work best for specific voter groups, you can design your communications to convey those messages directly to the voters through targeted direct mail. Broader themes and messages — ones that resonate with most voters — can be the basis for other forms of communication including newspaper advertising (and radio and television, if you can afford it) and can be used in debates and larger community presentations.

Your research should also lead you to an overarching, persuasive campaign theme, and one that resonates with everyone. From the theme, develop a short, snappy and memorable tagline. Be sure to use the tagline in all your materials. Examples of effective taglines include “Stop Government Bureaucracy,” “Energy Experts, not Politicians,” or “Too Risky, Too Costly.”

- 9) **Update and expand materials.** Many of the materials you have already developed are useful for this campaign. Look at all your materials and see which should be discarded and which simply need to be updated. This includes your media information packets, leave-behind information for meetings and presentations, brochures and fact sheets, and the packet for speakers including talking points and speech outlines. Add new supporter lists, updated fact sheets and additional information on cost issues. Make sure your materials reflect the themes and messages your research has shown to be the most effective. Develop a campaign logo to go with your new tagline and incorporate it into all materials. Sample materials are found under Tab V.

Tab IV

Tab V

Tab VI

10) **Don't forget about your website.** Be sure to keep your website up to date with new information, dates of campaign presentations, additional endorsers and other relevant information. Include sections for those who wish to sign up as endorsers and for those who wish to give contributions to the campaign. Keep your website fresh so that people have a reason to keep returning to it.

11) **Reactivate your citizens' coalition and identify and recruit community spokespersons.** If you haven't already organized a citizens' coalition, now is the time to do so. (Please refer to Tab II for more specific information.) If you already have a citizens' coalition actively opposing takeover, move that coalition into a campaign mode. Identify those coalition leaders who are willing to be the public face for the coalition and the campaign. This means they will be spokespersons on behalf of the campaign and will have to take a more active role by participating in press conferences, representing the campaign at political and community meetings and making speeches before civic and business groups.

Continue your efforts to expand the coalition. Ask coalition members to recruit others. Begin a fundraising campaign that targets small-contribution donors. Please note that some of the organizations and businesses that may have supported your position during earlier phases now may be concerned about being caught up in a campaign battle. Business groups are wary of alienating customers. Civic groups may have policies against participating in campaigns. If some organizations and businesses cannot endorse officially, ask the members if they will help you as individuals rather than as representatives of the organization.

12) **Develop and implement a media program.** The elements of a comprehensive media program are discussed in detail under Tab II. If you don't have an active media program, organize one. If you have let your media outreach program lapse, reactivate it. Look at what new information you can provide editors and reporters. Perhaps it's time for another **background briefing**. Share studies and white papers with reporters. Give them the complete documents, not just excerpts. Update the media information packet, and send it to all reporters and editors on your list. Work with your campaign consultant to develop new ideas for press events. Inform the media of key endorsements as they occur and include an endorsement list in the media kit.

Develop **opinion editorials** and draft **letters to the editor**. Then ask your community supporters to personalize them and submit them to the local newspapers. (Please note that the campaign staff can submit the opinion editorials and letters to the editor on behalf of the community supporters, but it is important that each person who agrees to sign an article or letter have the opportunity to participate in its drafting. Some may just wish to sign off on something that has already been prepared. Others may prefer to add their own ideas — which is fine as long as the ideas are consistent with campaign messages.)

Don't assume that just because you met with **editorial boards** during the avoidance or lobbying phases that you don't have to meet with them again during the campaign. Schedule meetings with all editorial boards and ask them to support your campaign in an editorial.

13) **Implement a speakers program and organize community outreach activities.** You may have organized a speakers program during the avoidance and/or lobbying phases of your anti-takeover effort. If so, you may have a core group of speakers whom you can ask to go out on the circuit again. If you need to recruit new speakers, look to your citizens' coalition for individuals to take on this task.

Review and update your list of political, civic and business organizations. Assign someone on the campaign staff to contact each organization and ask if a campaign representative can make a presentation at an upcoming meeting. Recruit speakers and match them to the organizations. Make sure everyone has updated talking points and speech outlines. All speakers should have leave-behind materials (enough for each attendee) and endorsement cards to distribute at each speaking engagement. If the organization typically endorses campaigns, send your strongest speakers (preferably a member of the organization) to seek the endorsement.

If your campaign has the resources and manpower, **organize neighborhood coffees and house parties**. Coffees and house parties are useful to recruit supporters and volunteers to work on the campaign. Each event generally follows these steps:

- A host is identified by the campaign and that host agrees to invite friends to his or her home or an easily accessible and casual neighborhood location.
- The host mails letters to all frequent voters in the neighborhood or precinct inviting them to the event.
- At the event, the host introduces the campaign representative who speaks for no more than 15 minutes and then answers questions.
- At the end of the talk, the campaign representative asks for endorsements and for volunteers to hold additional house parties or to walk precincts.
- After the event, the host sends a follow-up mailing to everyone who was invited that informs the voters about the key points that were made and why it is important to oppose takeover on Election Day.

If the campaign staff decides to organize coffees and house parties, try to cover as many neighborhoods in the community as possible.

- 14) **Implement voter contact programs.** Another way to reach out to voters is to have volunteers **walk precincts**. Volunteers are provided with a list of voters who have been targeted by the campaign as worth contacting. Volunteers walk their assigned precincts during the last four-to-six weeks of the campaign, providing information about the anti-takeover campaign and asking whether the voter supports or opposes takeover. The information is recorded and entered into a database that is used to get out supporters on Election Day. Company employees and union members make excellent precinct walkers.

While walking precincts is the most effective thing volunteers can do, in some areas it may be difficult to reach voters. In these cases, **phone banks** should be implemented. Volunteers are recruited to call targeted voters. If enough volunteers cannot be recruited, paid phone banks are used. Voters who are contacted are given a brief pitch on the issue and are asked if they have a position on takeover. Again, the information is recorded and entered into a database for future use.

- 15) **Implement an absentee voter program.** In many areas, absentee voting is increasing in popularity with more and more voters using absentee ballots as a way of voting more conveniently than going to the polling place on Election Day. Because absentee voters can return ballots weeks before Election Day, it is very important to make contact with these voters early in the campaign — before they cast their vote. Most campaigns now execute an absentee voter program as a basic campaign activity.

Tab IV

Tab V

Tab VI

It may be possible to find out which voters have voted absentee or are listed as permanent absentee voters. In addition to targeting voters who naturally vote absentee, you should urge all your supporters to vote absentee if that is allowed in your area. Voting absentee ensures that those votes are cast and will be counted no matter what happens on Election Day.

Absentee voter programs have two main components. The first is to encourage those voters whom the campaign has identified (through precinct walks and phone banks) as supporters to vote by absentee ballot. Mail an absentee ballot application to all identified voters early in the campaign. Include a campaign brochure or other material with the application form. Most campaigns now make the form part of a piece of direct mail. (See Tab V for a sample.)

The second component of the absentee voter program is to make sure the targeted voter actually returns the application and subsequently returns the completed ballot. The election office in your community will supply the campaign with a list of those voters who have applied for absentee ballots. This information is a matter of public record. Usually, the campaign will have to pay a small fee to cover the costs of compiling the lists. Your campaign won't be the only one asking for absentee applicant lists; it's a common tactic in today's campaign world. The next step is to follow up with mail to those absentee voters the campaign believes it can persuade. In addition, organize a phone contact program for absentee voters. You also can track those absentee voters who have not returned their ballots. If targeted voters fail to return the ballot by mail in sufficient time to be counted, the campaign phone bank should contact the voters and ask them to turn in their ballots at their polling place.

- 16) **Design the campaign's advertising program.** A major portion of the campaign budget will be allocated to the advertising and direct mail programs. While you may have worked hard to obtain media coverage with media events, opinion editorials and letters to the editor, advertising ensures your messages will be conveyed exactly as you want. (Remember outdoor signs, billboards, and bus and taxi signs generally only build awareness; it is difficult to use them to convey complex or emotional messages.)

Outdoor signs. Outdoor signs are a cost-effective way to make sure your message is seen throughout your community. Typically, outdoor signs come in two forms: window and lawn signs that supporters can post at their homes or in store windows, and signs that are posted by a professional political sign company along the community's main streets. Since these signs are small (even house and lawn signs have limited space), the message should be pithy and simple. Often the campaign's tagline works well. Be sure to use graphics that are easy to read at a distance and don't try to say too much on the sign. A message such as "Don't waste our \$\$." Vote No on Measure X" with the campaign logo is more than sufficient. Make an effort to get signs posted in the store windows of local merchants as well as in the front windows or yards of all your endorsers. This demonstrates the grassroots nature of your campaign.

Billboards. In some communities, billboards are another good way to promote your campaign. Again, billboard messages need to be simple (not too many words), to the point and easy to read. Be sure to look at each billboard that is being offered by the outdoor sign company as some may be in locations that aren't useful to you or may be difficult to read either by those walking or in cars or buses.

Bus and taxi signs. Bus and taxi signs also can be a good campaign investment if they are used in areas where they will have high visibility. The same criteria apply in regard to readability, visibility and message.

Newspaper advertising. Newspaper ads can be a very effective advertising medium. In many communities, voters — especially those who have yet to make up their minds about the issue — look at newspaper ads that list endorsers to see who in the community is supporting or opposing a particular ballot proposition. If community leaders they respect are listed on the endorsement ad, the voters often will follow their lead. Newspaper ads usually are run during the last two weeks of the campaign when voter attention has turned to the upcoming election.

Radio and TV ads. Radio and television advertising also can be very effective, but can be more costly. If money is available, a well-written radio ad campaign can be very persuasive while also being cost effective. Some of the best political ads on radio are humorous. They catch the listener's attention and make a telling point using humor. Because of that, they remain memorable. Radio ads usually are run during drive time and on sports shows and popular talk shows.

Television advertising may or may not be cost effective or affordable, depending on your media market and the effectiveness of television advertising to your target audiences. If the campaign can afford television and chooses to use it, the campaign should retain a specialist in political television advertising to help you get the best impact for your money. Don't hesitate to spend money on production. A well-written and well-produced spot generally increases its effectiveness.

Ads should be tested prior to placement or airing. Remember, all advertising and direct contact (mail) efforts should be integrated with the messages of the overall campaign and not conducted in a vacuum.

17) **Design and implement a targeted direct mail program.** A general rule of thumb is that a campaign should send at least three pieces of direct mail to targeted voters. This mail is in addition to whatever mail may have been sent out by the campaign for the absentee voter program or field operation (precinct walks and phone banks). Direct mail allows the campaign to target messages to specific voter groups. The research program will help you determine which messages are most effective for each targeted voter group. A basic direct mail package likely would include: an education piece that presents the case against takeover and dispels common myths; a second piece that is focused on endorsers and key issues; and a third which can serve as a get-out-the-vote piece or, if necessary, a response to attacks or claims by takeover proponents. Additional pieces with more specific messages and arguments also can be sent to targeted voters if the campaign has the funds. If your community includes ethnic groups with significant numbers that speak other languages, you may want to produce bilingual mail pieces (and newspaper/radio/TV ads).

18) **Use slate cards.** Another way to reach voters is by slate cards. Political groups and some campaign professionals publish slate cards to promote one or more candidates or ballot measures. Depending on your community, slate cards can be useful and cost-effective tools. Because third parties produce them, slate cards can add breadth of support to your campaign. Depending on the laws in your jurisdiction, it may be possible for a friendly third party or campaign consultant to create a slate card that takes positions on your measure and others.

Tab I

Tab II

Tab III

19) **Implement an Election Day Get-Out-The-Vote program.** Using the information gathered during precinct walks and phone banks, an organized Get-Out-The-Vote (GOTV) effort can make the difference between winning and losing on Election Day. The basic strategy is to make sure anti-takeover voters get to the polls by monitoring polling places to see which of the identified voters have not yet voted. These voters are then telephoned by campaign volunteers and urged to go out and vote. Sometimes a GOTV effort also includes driving elderly voters or others who have difficulty getting to the polls.

20) **Thank your volunteers.** Be prepared on election night with winning and losing statements for the media. And, win or lose, don't forget to thank your volunteers and the community leaders who have assisted you during the campaign. Host a party on election night or shortly thereafter to recognize and thank them.

A final note: Keep records of who your endorsers and supporters were and how precincts voted. Even if you won this time, you may have to defend your company again in the future from another municipalization takeover campaign.

Sample Campaign

MESSAGES

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Sample Campaign Messages

Following are some sample message points¹ compiled to give you an idea of the various arguments that your company can develop to defend against a new municipalization threat. Please feel free to take these ideas and adapt them to your local circumstances. Tab V contains examples of fact sheets, flyers and other materials that have been used successfully in past anti-takeover campaigns. You can see from the sample products how we've adapted the message points to work in persuasive materials.

Here are 10 simple messages that you can use in your anti-takeover campaign:

1. A new public power takeover will be costly and is fraught with hidden risks and uncertainties.
2. A takeover would involve the electric company's distribution system only; city governments still will have to buy their own power in the deregulated wholesale market.
3. New government-owned utilities are not immune to the ongoing transformation of the electric power industry.
4. Those communities that seek to take over distribution systems would have to purchase entire systems at today's market prices.
5. Municipalization means more bureaucracy and less protection for consumers.
6. Municipalization can lead to higher electricity rates and poorer customer service.
7. Creating a new government-owned utility is not realistic or economically viable in today's new energy environment.
8. Local government inefficiency and inexperience in managing an electric company could lead to a deterioration of service.
9. A takeover may adversely impact other city services.
10. The established publicly owned utilities cannot be replicated today because the conditions under which public power was created in the early years of the 20th century no longer exist.

¹ These messages are excerpted from our study *Municipalization in a New Energy Environment: It Doesn't Work*, prepared for the Edison Electric Institute, September 2002.

Tab V

Tab VI

Here are 10 more detailed messages that you can tailor for use in your anti-takeover campaign:

1. Municipalization is a movement whose time has passed. Conditions that worked for public power in the early 20th century no longer exist. Federal limits on municipal bond financing, the absence of additional low-cost federal preference power, the fully built-out nature of many of today's electric distribution systems, and the newly deregulated wholesale power market all nullify any advantages that may be available to older municipal utility districts, public utility districts and electric cooperatives.
2. Local officials have other options available to help consumers manage their electric energy costs, including aggregation, power pooling and providing incentives for efficient use of energy.
3. A crucial factor in the early development of public power systems was the availability of low-cost federal "preference power," electricity generated primarily by hydroelectric dams built by the federal government during the first half of the 20th century. Hoover Dam and Grand Coulee Dam, for example, were built by the federal government and they generated far more electricity than was needed by the small communities located near them. The federal government sold surplus electric capacity at low prices to other entities—primarily government-owned electric systems in the West—that needed the electricity. Today, however, that low-cost federal electricity is all spoken for, committed under long-term contracts for decades into the future. Any excess federal hydropower that is available can be purchased only at current market prices, not at the below-market preference rates.
4. There are very large expenses and risks associated with municipalizing that are hard to predict accurately. The full cost of a takeover and its impact on electricity prices may not be known until it's too late. Unless a comprehensive, detailed feasibility study is completed before the measure is put on the ballot, voters won't know what the impact of takeover will be—on their electric bills or on their local government's budget. In the end, the final costs of takeover may be so large that they actually require that a city raise electric rates to cover the expense.
5. New municipal utilities will have no advantage in the deregulated wholesale marketplace. Indeed, the cost of purchasing distribution systems likely would create severe financial burdens from the onset. Most important, a government takeover doesn't address the root cause of the problems that have fueled much of the municipalization fever to begin with—flawed retail market rules, supply shortages and transmission constraints.
6. Today's newly deregulated wholesale electricity markets are difficult to navigate. And, new government-owned utilities will have to purchase power at market prices or acquire generation capacity. But even experienced players have been fooled by fluctuations in the market. Public officials who are not energy experts may make serious and costly mistakes that will be paid for by local consumers—in the form of higher rates or higher taxes.

Example: Rural Lassen County in California organized its electric utility district in 1988, much later than most of the other municipal utilities in the state. Unable to secure long-term discounted federal power, Lassen was forced to rely on other sources. When the energy crisis hit in 2000, the district had no long-term power purchase contracts in effect. As a result, in 2001, the district was forced to raise rates 70 percent. Rates would have increased 162 percent if Lassen had not been able to persuade a neighboring utility district to pick up a significant portion of Lassen's load.

7. Municipalization may require a city or town to assume large amounts of new debt, which can lead to the downgrading of the city's or town's bond rating. This may cause other activities funded by bonds, like roads and schools, to become more expensive or even obsolete.
8. Shareholder-owned electric companies pay taxes and franchise fees; government agencies do not. This loss of revenue is permanent and not a one-time cost. It must be factored into the cost of takeover. Taxes paid by shareholder-owned electric companies include income taxes to federal, state and local authorities where applicable, property taxes to local authorities and franchise fees to local authorities. The loss of this income must be determined and included as lost revenue to various taxing authorities. How will this revenue be made up—new taxes?
9. The takeover process typically takes years. By the time all studies are completed, legislation is passed, voter approval is obtained and outstanding lawsuits are settled, as many as 10 years may have passed. During this period, circumstances change and the original impetus for the takeover may no longer be a factor. The energy market conditions that sparked the takeover movement may be quite different than they were. This uncertainty itself should be a major red flag for those considering takeover.

Example: The town of Las Cruces in New Mexico and El Paso Electric Company battled for more than 12 years on a proposed municipalization before reaching a settlement – the town ultimately opted not to municipalize.

10. Establishing a new government-owned utility requires adding a whole new layer of public bureaucracy. Moreover, it is unlikely that a local government will be able to manage an electric system better than a shareholder-owned electric company with experienced staff. If experienced utility staff decide not to transfer to a new, municipal entity, linemen, troubleshooters, maintenance and repair crews, emergency service workers, billing clerks and customer service representatives, among others, would have to be hired and trained. Cities may discover it a tremendous challenge to run an electric system.

Sample Campaign

MATERIALS

MATERIALS

MATERIALS

Sample Campaign Materials

News ad

This is a full-page newspaper ad used successfully to oppose two takeover measures that were on the San Francisco ballot in November 2001.

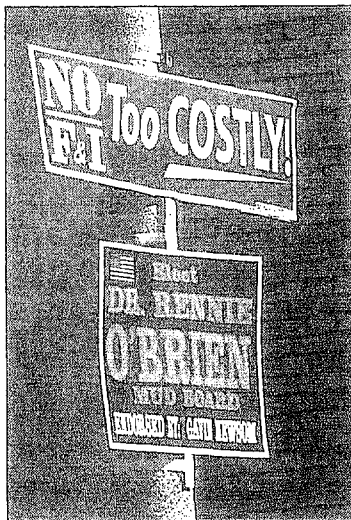
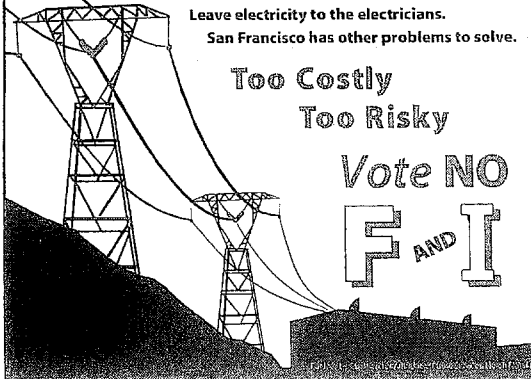
**No Time for Risky Power Play
by Politicians and their Backers**

When it looked like we were on the edge of permanent blackouts last spring, a small group of politicians and insiders saw an opportunity to exploit the situation to increase their own personal power. But they forgot to put any new electricity into the system they proposed to buy from PG&E.

- Propositions F and I put politicians in charge of our electricity.
- Under Prop F, a city government agency could issue a billion dollars in bonds without voter approval. Under Prop I, these bureaucrats can create new taxes, raise rates, seize property and overrule the Board of Supervisors and the Mayor.
- Neither measure would generate any more power than we have today.
- With the economy slowing and San Francisco facing a \$100 million deficit, now is not the time for a risky power play.
- More senior housing, rebuilding SF General and fixing our aging sewer system should be our first priority, not a risky power play!

Leave electricity to the electricians.
San Francisco has other problems to solve.

**Too Costly
Too Risky
Vote NO
F AND I**

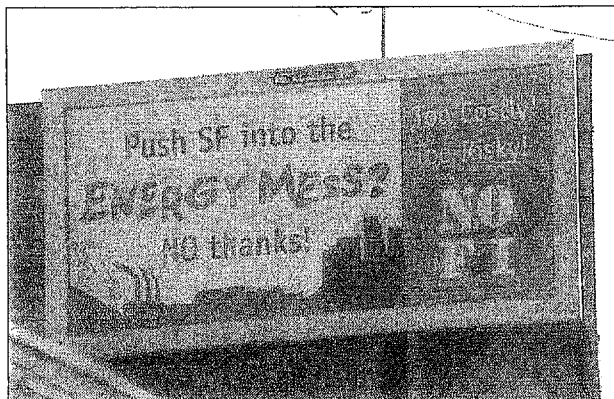


Street sign

This is a street sign used in the same campaign. Note the unifying theme of "Too Costly, Too Risky".

Billboard

Billboards can help reinforce your message.



Absentee ballot

Once you have identified people who are committed to voting your way, you should encourage them to vote by absentee ballot. This is an absentee ballot request form produced by the campaign but with the specifications required by law.

PROTECT YOUR INVESTMENT

PG&E Corporation

P.O. Box 770000
San Francisco, CA 94177

Vote by Mail Application for:
PROPOSITION F AND MEASURE J

APPLICANT'S NAME: _____
DATE OF BIRTH: _____

1. PRINT NAME: _____ DATE OF BIRTH: _____

2. PRINT RESIDENCE ADDRESS: _____
City State ZIP Code

3. TELEPHONE NUMBER: _____

4. PRINT MAILING ADDRESS FOR BALLOT (IF DIFFERENT FROM ABOVE): _____
City State ZIP Code

5. SIGNATURE: _____ DATE: _____

I hereby certify that the information provided on this form is true and correct. I understand that if I am not a resident of the City of San Francisco, I must be a registered voter in the City of San Francisco to be eligible to vote in the election.

I understand that if I am not a resident of the City of San Francisco, I must be a registered voter in the City of San Francisco to be eligible to vote in the election.

I understand that if I am not a resident of the City of San Francisco, I must be a registered voter in the City of San Francisco to be eligible to vote in the election.

YOUR UTILITY IS UNDER ATTACK.

Just as Pacific Gas and Electric (PG&E) announced plans to renege from its obligation to San Francisco operations are being threatened. Proposition F and Measure J on the city ballot this fall want the government to condemn and take over PG&E's electric wires, poles and equipment in San Francisco.

Under the guise of fixing the energy crisis, they want the government to take over the one part of the system that has worked well through the energy crisis: the local electric distribution system.

You can act to stop this from happening. Vote NO on Proposition F and NO on Measure J.

Proposition F would enable politicians to appropriate \$1 billion or more in bonds without voter approval. Both Proposition F and Measure J would put a new layer of politicians in charge of electric service with no assurance that they have any experience or competence in utilities.

You can vote from the convenience of your own home. Just sign and return the enclosed form. Do it today to make sure you get your ballot in time.

TO RECEIVE YOUR BALLOT BY MAIL:

CHECK TO MAKE SURE YOUR FORM IS COMPLETE

SIGN AND DATE THE ATTACHED APPLICATION.

MAIL THE APPLICATION IMMEDIATELY, NO LATER THAN _____

NO POSTAGE
NECESSARY
IF MAILED
IN THE
UNITED STATES

(Did you sign & date your application?)

BUSINESS REPLY MAIL
FIRST CLASS MAIL PERMIT NO. 22117 SAN FRANCISCO CA
POSTAGE WILL BE PAID BY ADDRESSEE

COALITION FOR AFFORDABLE PUBLIC SERVICES
550 KEARNY ST STE 1010
SAN FRANCISCO CA 94108-9805

Letters

Here are sample pitch letters used to recruit supporters from targeted groups, in these cases utility company shareholders and local public officials.

PG&E Corporation

Robert D. Glynne, Jr.
Chairman and President
100 California Street
San Francisco, CA 94111

October 9, 2001

Dear San Francisco and Irishane Shareholders,

There are two measures on the November ballot that fall that threaten to harm you as a consumer of electricity and as a PG&E Corporation shareholder.

Proposition F in San Francisco and Measure J in San Francisco and Irishane would start the process of municipal takeover of Pacific Gas and Electric Company's (PG&E's) electric system and replace it with a government-run electric utility.

- The energy crisis in California is being addressed by building new power plants to supply the energy we need. Taking over PG&E's local distribution system in San Francisco and Irishane will do absolutely nothing to address the need for more power.
- Rates would not go down. The government agencies created by these two measures would have to pay PG&E more than \$1 billion for our system. The money would come from revenue bonds issued without voter approval and paid back by electric customers in their regular monthly bills on top of the charges for electric service.
- The government utility would have to buy power. Currently, city-owned power is used to serve government operations and, through sale, hold down taxes. At best, only about a third of the electricity could come from city-owned sources. The rest would have to be purchased on the open market. The government-run utility and its customers would face the same risks that have plagued PG&E and the State of California.
- Customers would not be able to choose whether they stay with PG&E or be served by the government-run utility and PG&E would no longer be able to provide maintenance, repair and emergency electric services to its customers in San Francisco and Irishane.

Proposition F and Measure J must be defeated. Please support PG&E and your fellow consumers by VOTING NO on Proposition F in San Francisco and Measure J in San Francisco and Irishane.

Sincerely,
Robert D. Glynne, Jr.
Robert D. Glynne, Jr.
Chairman, CEO and President

[SAMPLE LETTER TO A LOCAL OFFICIAL]

August 26, 2001

Honorable Councilwoman XXXX
Valley Grove City Council
City Hall
Valley Grove, CA 90000

Dear Councilwoman XXXX:

There has been much discussion lately about ways our community can weather the current energy crisis, including proposals to "municipalize" local utility services. You may recall that my colleagues and I met with you on this issue several weeks ago.

I understand that on September 11, the City Council will hold a public hearing on energy issues and may vote to appropriate \$2.2 million to study the cost and feasibility of a municipal takeover of local power, telephone and cable systems. As the Chairwoman of the Valley Organizing Committee for Affordable Local Services (VOCALS), a coalition of more than 1,100 local residents and businesses, I am writing to express our strong opposition to the municipalization approach.

VOCALS members believe that any city takeover of utility would be a grave disservice to residential ratepayers and could have a disastrous effect on the local business environment. The study will be a waste of taxpayers' money and will do nothing to address the energy crisis or improve utility service. I am enclosing a fact sheet that provides information about why a municipal takeover would be a mistake for Valley Grove. We strongly urge your opposition to this costly and ill-conceived study, and hope that you and your colleagues will take this opportunity to reject the notion of putting essential city services in the care of a new city bureaucracy.

Several members of our organization will attend and testify on this issue at the upcoming hearing and share our views with the City Council. We remain available to answer any questions about this issue. Please do not hesitate to contact me if I may be of service.

Very truly yours,

Antonita Carrera
Chairwoman
Valley Organizing Committee for Affordable Local Services

Enclosure

TBM

Additional

RESOURCES

Consultants
Public Power Checklist

Public Power
Consultants
Checklist

Additional Resources

Consultants

Following is a partial list of consulting firms that have been active in conducting municipalization feasibility studies.

R.W. Beck, Inc.
1001 Fourth Avenue, Suite 2500
Seattle, WA 98154
(206) 695-4700

**Conducts studies nationally for local governments*

CH2M Hill
6060 South Willow Drive
Greenwood Village, CO 80111
(303) 771-0900

**Conducts studies nationally for shareholder-owned electric companies*

EES Consulting
570 Kirkland Way
Kirkland, WA 98033
(425) 889-2700

**Conducts studies nationally for local governments*

Henwood Energy Services
2710 Gateway Oaks Drive, Suite 300
North Sacramento, CA 95833
(916) 569-0985

**Consults for businesses*

Navigant Consulting, Inc.
615 N. Wabash Avenue
Chicago, IL 60611
(312) 573-5600

**Consults for shareholder-owned electric companies*

Scientech RCI
4501 Indian School Road, N.E.
Albuquerque, NM 87110
(505) 244-7600

**Conducts studies for shareholder-owned electric companies*

Stone & Webster Division
The Shaw Group
8545 United Plaza Blvd.
Baton Rouge, LA 70809
(225) 932-2500

**Conducts studies nationally for shareholder-owned electric companies*

Public Power Checklist

Even if you are not currently threatened by a municipal takeover, it's a good idea to have an understanding of public power issues in your community.

- ✓ Study local government-owned utilities in your area.
 - Compile a list of all government-owned utilities in your area or state.
 - Determine the year each was established.
 - Look at the average rate each charges. Be sure to use comparable figures.
 - Analyze this information to see what facts stand out.
 - If any of these districts were formed more recently than others, do they charge higher rates? Detail what is happening in those newer districts that make them different from older ones.
 - Do the lower-cost public power entities have access to low-cost federal preference power currently fully allocated?
- ✓ Analyze feasibility studies that may have been conducted in your region, either commissioned by local government agencies evaluating takeover, or commissioned by shareholder-owned electric companies to counter takeover efforts.
- ✓ Compare the quality of service offered by local governmental agencies and by your shareholder-owned electric company.
 - Is there a good story to tell?
 - Are services currently provided by local government agencies well managed, safe, reliable and responsive? Look at municipal bus service, water service or others.
 - How does the public feel about electric utility service? If electricity service is not a problem, should that service be put at risk by changing to a government-run system?



EDISON ELECTRIC
INSTITUTE

Municipalization in a New Energy Environment

IT DOESN'T WORK

Prepared by:
Solem & Associates

Prepared for:
Edison Electric Institute

September 2002

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me at debpenn@APPAnet.org
if you have questions.

Get The Facts About Our Nation's Publicly Owned Electric Utilities

FACT: Over 90% of Publicly Owned Electric Utilities Serve Fewer Than 20,000 Customers.

- The “average” municipal utility serves 9,260 customers.¹
- According to the American Public Power Association (APPA), 1,733 municipal utilities – or 86.3% of the total number (2,009) – serve 10,000 customers or fewer, while 1,872 munis – or 93.2% of the total – serve 20,000 customers or fewer.²
- Only 24 municipal utilities – or 1.2% of the total number – serve more than 100,000 customers, while 65 munis – or 3.2% of the total – serve 10 customers or fewer.³

FACT: Over 1,500 Public Power Utilities Generate \$10 Million or Less in Annual Revenue.

- Of the 2,009 municipal utilities, 1,523 – or 75.8% – generate less than \$10 million in annual revenue; 569 munis – or 28.3% – generate less than \$1 million.
- Only 72 public power utilities generate more than \$100 million in annual revenue.

FACT: Over 1,900 of Our Nation's Public Power Utilities Were Formed Before 1960.

- According to APPA, the number of municipal utilities has not changed significantly since 1988.

Year	Number of Municipal Utilities⁴
1988	1,997
1989	1,994
1990	2,011
1991	2,007
1992	2,017
1993	2,007
1994	2,005
1995	2,014
1996	2,010
1997	2,013
1998	2,009
1999	2,012
2000	2,009
2001	Data not available as of 8/29/02

- More than 500 municipal utilities will have celebrated their 100-year anniversaries by 2005. That means 500 munis – or about 25% of the total number – were formed by 1905.⁵

¹According to the Energy Information Administration, there are 2,009 municipal electric utilities in the U.S., serving a total of 18,604,131 ultimate customers (all residential, commercial, industrial, etc.).

² American Public Power Association, *2001 Annual Directory and Statistical Report*.

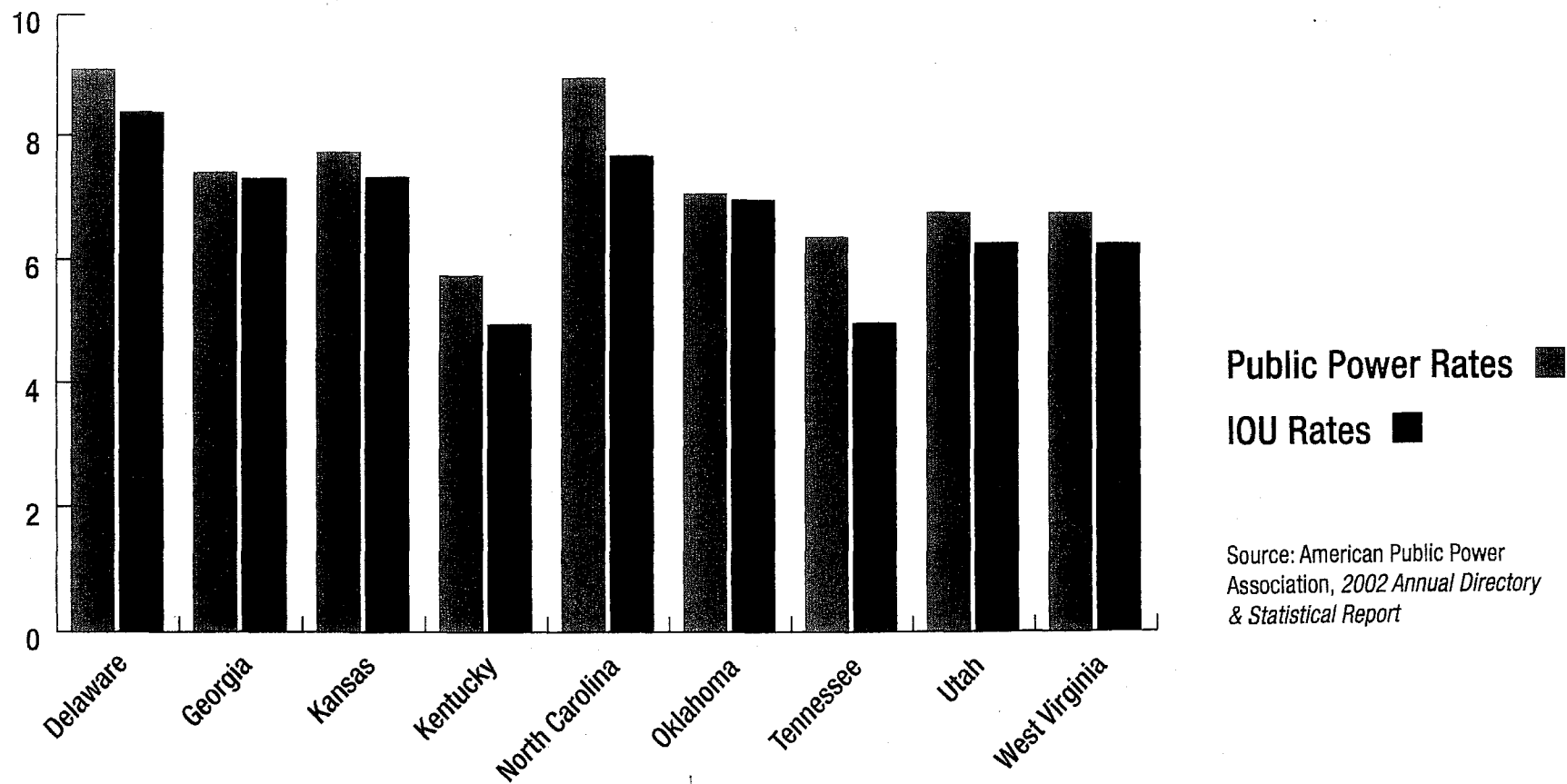
³ Municipal utilities with less than 10 customers include joint action agencies and other wholesale utilities.

⁴ Based on Energy Information Administration data in the publications *Electric Power Annual and Electric Sales and Revenue*.

⁵ See APPA Web site, www.appanet.org.

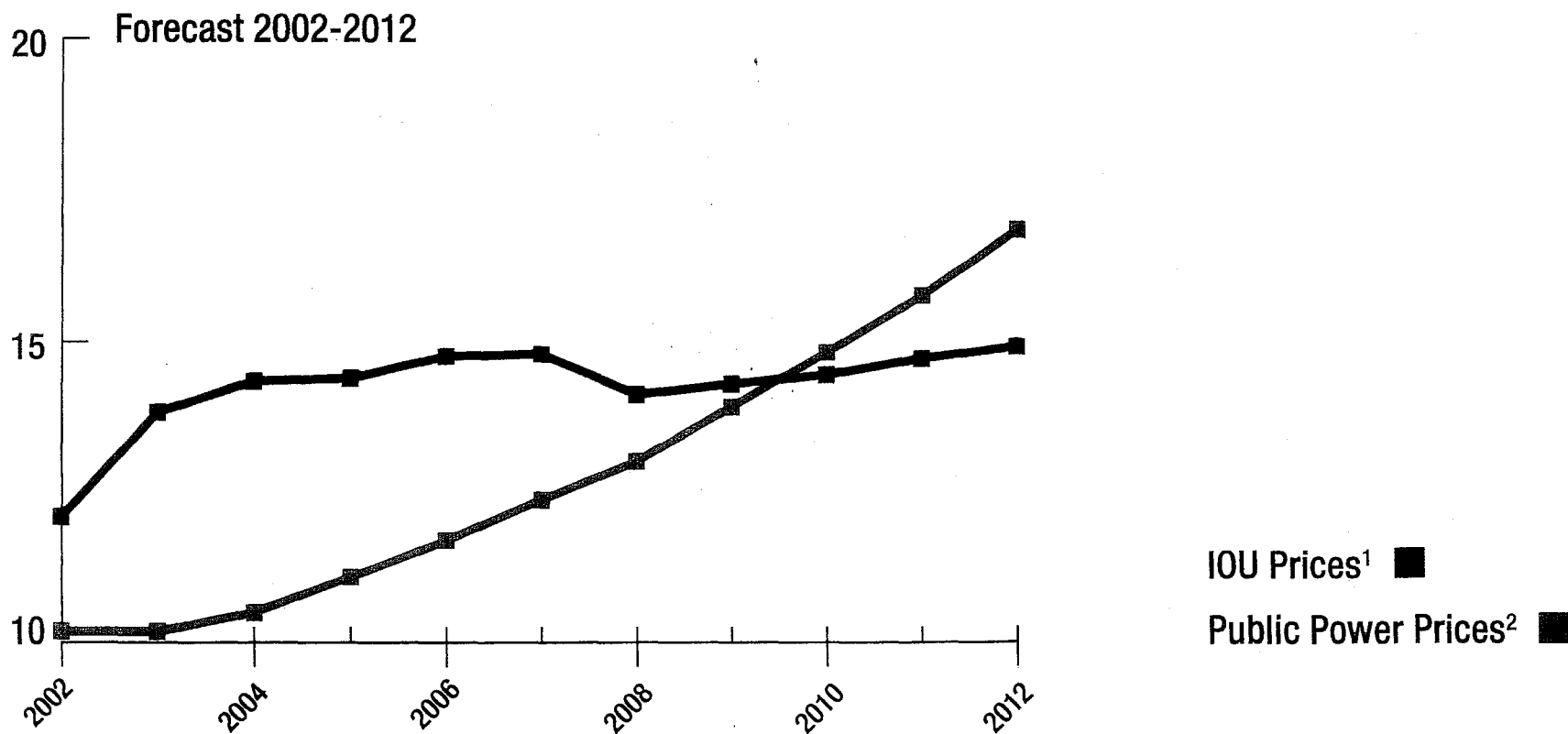
Some people say that public power is *ALWAYS* cheaper. According to APPA, this is not true.

Utility Rate Comparison By State, 2000 (cents per kilowatt-hour)



The California Energy Commission Predicts Public Power Prices Will Surpass Investor-Owned Utility Prices by 2010.

Weighted Average Residential Retail Electricity Prices (cents per kilowatt-hour)

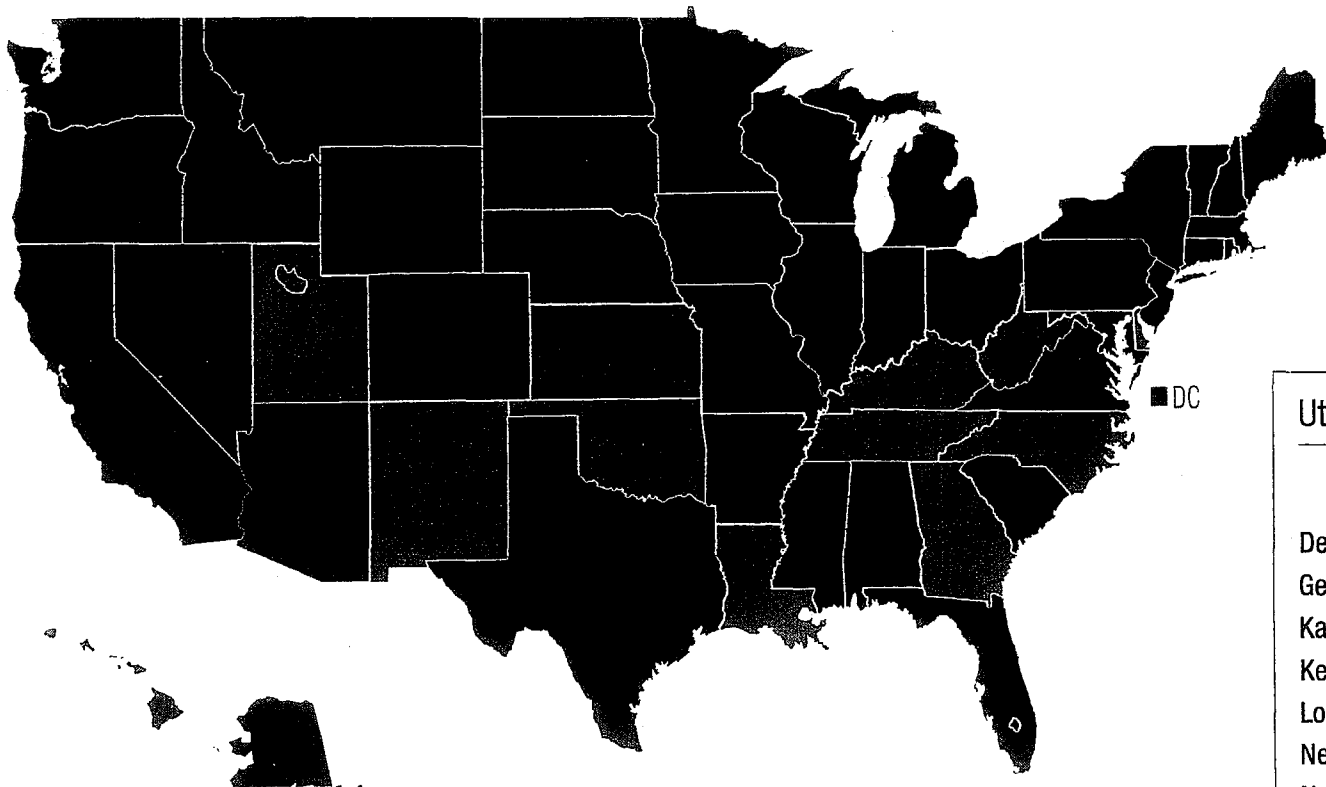


¹ IOUs include Pacific Gas & Electric, Southern California Edison, San Diego Gas & Electric.

² Public power utilities include SMUD, Los Angeles Department of Water & Power, Burbank, Glendale, Pasadena.

Source: California Energy Commission, 2002

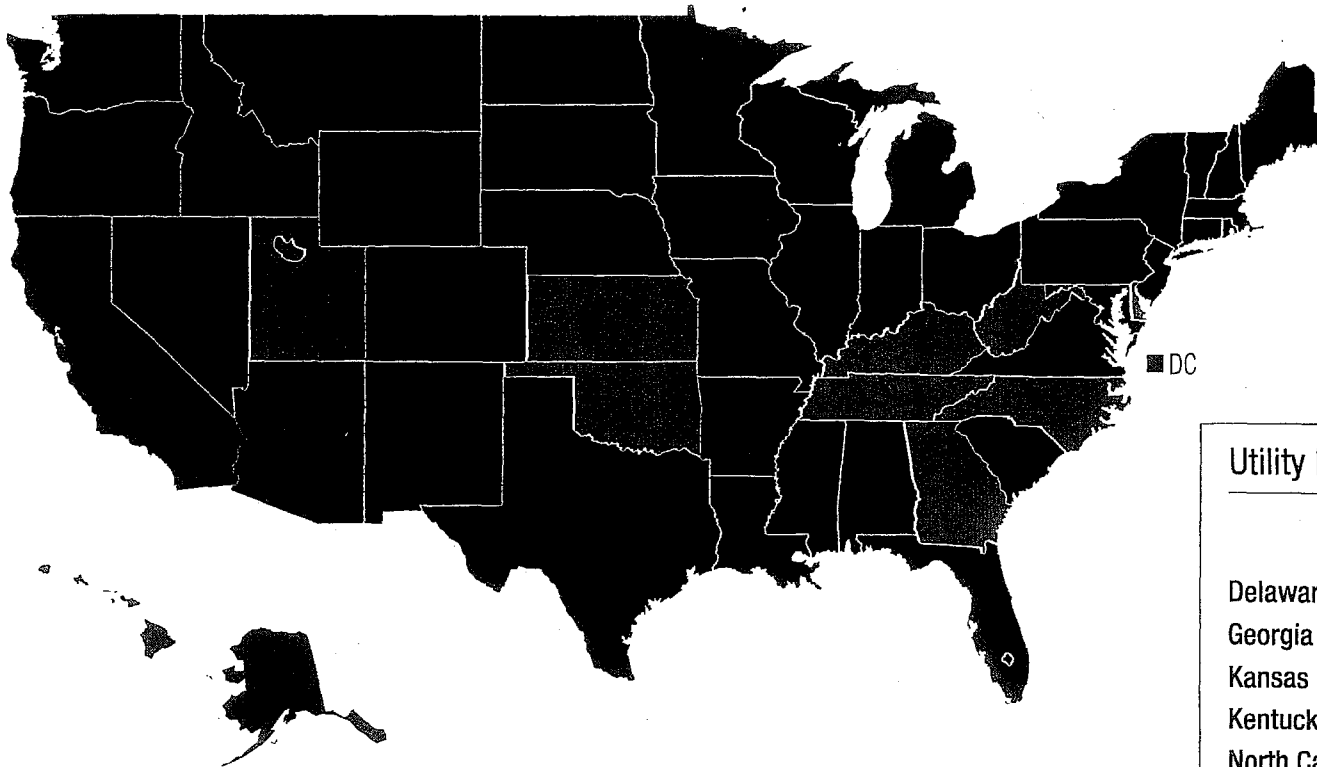
In 11 states, public power residential rates are the same or HIGHER than those of investor-owned utilities.



Utility Rates (cents per kilowatt-hour)		
	Public	IOU
Delaware	9.1	8.4
Georgia	7.4	7.3
Kansas	7.7	7.3
Kentucky	5.7	4.9
Louisiana	7.9	7.9
New Mexico	8.1	8.1
North Carolina	8.9	7.6
Oklahoma	7.0	6.9
Tennessee	6.3	4.9
Utah	6.7	6.2
West Virginia	6.7	6.2

Source: American Public Power Association, 2002 Annual Directory & Statistical Report

In 9 states, public power residential rates are **HIGHER** than those of investor-owned utilities.



Utility Rates (cents per kilowatt-hour)

	Public	IOU
Delaware	9.1	8.4
Georgia	7.4	7.3
Kansas	7.7	7.3
Kentucky	5.7	4.9
North Carolina	8.9	7.6
Oklahoma	7.0	6.9
Tennessee	6.3	4.9
Utah	6.7	6.2
West Virginia	6.7	6.2

Source: American Public Power Association, 2002 Annual Directory & Statistical Report

Government-Owned Power

A List of Online Resources

In today's digital age, Web sites are a vital communications vehicle. According to a recent "Media in Cyberspace" survey conducted in conjunction with Columbia's School of Journalism, reporters are increasingly dependent on Web sites as a primary source of information. So, if your company is defending itself against a government takeover, it's critical that you give your Web site the attention it deserves—remember to keep information updated and relevant to your campaign. It's also important to know what other information is available to the public through the Internet.

What's Already Out There?

Following is a partial list of Web sites* that provide information about public power and government-owned utilities.

- **American Local Power Project: www.local.org**
The site supports local public power and municipalization efforts. There are links, reports, and news on municipalization, with an emphasis on California.
- **American Public Power Association (APPA): www.appanet.org**
Primary trade association for the government-owned electricity industry. Strongly supportive of current government-owned utilities and new government takeover efforts. Resources include:
 - **www.appanet.org/about/why/answers/straightanswerstoc.cfm**
APPA fact sheet on the advantages of public power.
 - **www.appanet.org/about/statistics/ppcostsless2000.pdf**
APPA fact sheet detailing the cost advantages of public power.
 - **www.appanet.org/Links/index.cfm**
Listings of government-owned power projects around the country, by state.
- **Association of Washington Cities: www.awcnet.org**
Founded in 1933, the Association of Washington Cities (AWC) is a non-profit, non-partisan organization that represents Washington's cities and towns before the state legislature, the state executive branch, and with regulatory agencies. The AWC provides technical assistance on energy issues.
- **The Bay Area Economic Forum: www.bayeconfor.org**
San Francisco-based group that has conducted research on the economic impacts of new public power. Resources include:
 - **www.bayeconfor.org/pdf/ElectricMuni.pdf**
Economic analysis of government takeover efforts in San Francisco.

*Web site URLs correct as of August 26, 2002.

- **California Taxpayers Association: www.caltax.org**

California taxpayer advocacy organization. The site contains research and opinion pieces on energy policy and restructuring, including government takeovers and public power. Resources include:

- **www.caltax.org/energy.htm**
Research, stories, and opinion pieces on government energy policy.
- **www.caltax.org/municipalization.htm**
Articles and information on public power.

- **Dam Cheap Power: www.damcheappower.com**

A site created by supporters of the effort in Montana to “buy back the dams”—Montanans for a Secure Energy Future. Resources include fact sheets, frequently asked questions about I-145 (the state ballot initiative), and a news archive.

- **Federal Power Marketing Administrations (PMAs):**

The role of power marketing administrations is to market and transmit electricity from federally owned hydro-power projects. Government-owned utilities are eligible for preferential access to below-market cost power from the PMAs.

- **Bonneville Power Administration (BPA): www.bpa.gov**
- **Southeastern Power Administration (SEPA): <http://sepa.fed.us>**
- **Southwestern Power Administration (SWPA): www.swpa.gov**
- **Western Area Power Administration (WAPA): www.wapa.gov**

- **Governing: www.governing.com**

Governing is a monthly magazine whose primary audience is state and local government officials: governors, legislators, mayors, city managers, council members, and other elected, appointed, and career officials. *Governing* is published by Congressional Quarterly, Inc.

- **Large Public Power Council: www.lppc.org**

LPPC is an organization comprised of 24 of the nation’s largest locally owned and controlled power systems. Resources include a history of public power, a list of public power benefits, issue analyses, and a public power glossary.

- **League of California Cities: www.cacities.org**

An association of California city officials, this organization does not advocate government takeovers directly, but does offer some brief information on how to form a government-owned utility.

- **New Rules.Org: www.newrules.org/electricity**

A site with an anti-globalization focus, this organization promotes local control of the power system. The site contains reports on public power, cooperative energy ownership, and green power. Resources include:

- **www.newrules.org/electricity/stl.html**
Link to the book *Seeing the Light*, which urges local control of the electricity system.

- **Power to the People: www.powertothepeople.org**

Pro-public power takeover site, with a California emphasis. This site bills itself as a discussion forum of public power and public power takeover initiatives.

- **Public Power Now iMagazine: www.publicpowernow.org**
Pro-public power news site with an environmental slant. Includes reports, advocacy, and links to public power organizations and advocacy materials.
- **Public Utilities Reports (PUR): www.pur.com/**
An online resource for public utility information covering local, state, and national energy and power markets, deregulation and restructuring trends, energy prices, and electric and gas utility rates.
- **Reason Public Policy Institute (RPPI): www.rppi.org**
The Reason Public Policy Institute (RPPI) is a public policy think tank promoting choice, competition, and a dynamic market economy. This site contains research and reports on the California energy crisis and electricity issues, including information on government-owned utilities. Resources include:
 - **www.rppi.org/electele.html**
Links to RPPI studies and publications on the electric industry, including municipalization and public power.
 - **www.rppi.org/electricity**
RPPI California energy crisis information page.
- **The Utility Connection: www.utilityconnection.com**
The Utility Connection provides links to 4,032 electric, gas, water, and wastewater utilities, utility associations, utility organizations, and related state and federal regulatory Web sites.

State Resources

Links to individual state municipal electric authorities/associations may be accessed through:
www.publicpower.com/powerlinks/municipal_utilities.html

- Alabama Municipal Electric Authority
- California Municipal Utilities Association
 - Los Angeles Department of Water & Power
 - Sacramento Municipal Utility District
- Colorado Association of Municipal Utilities
- ElectriCities of North Carolina
- Florida Municipal Electric Association
- Florida Municipal Power Agency
- Iowa Association of Municipal Utilities
- Kansas Municipal Utilities
- Louisiana Energy & Power Authority
- Michigan Public Power Agency
- Missouri Association of Municipal Utilities
- Minnesota Municipal Utilities Association
- Municipal Electric Power Association of Kentucky
- Municipal Electric Systems of Oklahoma
- Municipal Electric Utilities of Wisconsin
- Nebraska Public Power District
- New York Power Authority
- Oklahoma Municipal Power Authority
- Oregon People's Utility District Association
- Salt River Project (AZ)
- Tennessee Valley Public Power Association
- Tennessee Valley Authority
- Texas Public Power Association
- Utah Municipal Power Agency
- Washington Public Utility Districts Association
- Wyoming Municipal Power Agency

September 2002



**EDISON ELECTRIC
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LIPA

Assessment:

Municipalization Advocates Point to the Long Island Power Authority as an Example of a Successful Municipal System.

A Closer Look Reveals that LIPA is a Unique Case.



LIPA: A Unique Municipalization

- The Long Island Power Authority (LIPA) is being used as an example of a successful municipalization that could be replicated in other areas of the country
- A closer look, however, reveals that LIPA is a unique case that is not representative of other municipalization efforts
 - Several factors contributed to LIPA's uniqueness
 - LIPA doesn't show municipal-type rate advantages
 - LIPA outsources all of its operations

Several Factors Contributed to LIPA's Uniqueness

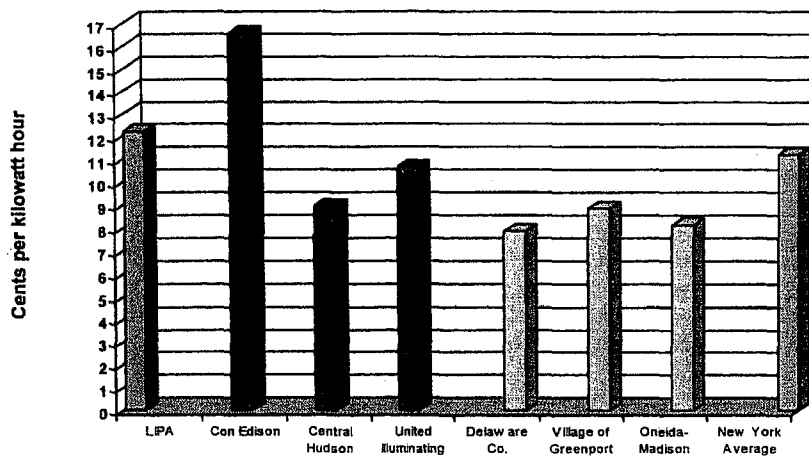
- **Geography**
 - LIPA is an island utility relatively disconnected from the grid
 - All assets were held together as one service territory – no subdivisions
- **LILCO Bankruptcy**
 - Special situation (including Shoreham resource liability) hastened municipalization
- **Formation Process**
 - Streamlined and expedited by New York state government to end LILCO debacle
 - Pre-existing (1986) state-created holding company structure for assets
- **Financing and Savings Sources ⁽¹⁾**
 - Low-cost financing offered immediate ratepayer savings
 - \$226 million: Shoreham savings
 - \$108 million: Lower cost of capital
 - \$118 million: Federal income tax avoidance
 - Shoreham property tax issue settled
- **Asset Transfer Process**
 - Expedited
 - Some traditional municipalization hurdles (e.g., just compensation, stranded costs, and trials and appeals) avoided

⁽¹⁾ LIPA website: www.LIPA.org

LIPA's Formation Process Was Not Standard

Requirements	LIPA	Standard Municipalization
Create Enabling Legislation	(Pre-Existing)	Yes
Local Referendum to Create Municipal Utility	No	Yes
Condemnation Process	No	Yes
Valuation Reconciliation	No	Yes
Power Supply Acquisition	No	Yes
Operations Creation	No	Yes
Financing	Yes	Yes
Stranded Costs	No	Yes
Corporate Municipal Instrumentality of the State of N.Y.	Yes	No
Plant & System Management by Outsourced Profit Entity	Yes	No

Comparison of LIPA to Selected Regional Average Electric Rates for 2000



Source: Dept. of Energy, Energy Information Administration, Total System Rate

FOR IMMEDIATE RELEASE
December 15, 1997

Electric System Municipalization Neither Possible Nor Practical On LI

Could Raise Rather Than Lower Electric Rates

Uniondale, NY – December 15, 1997 – In a letter sent to village officials Islandwide regarding the municipalization of LILCO's transmission and distribution system by local governments, Long Island Power Authority Chairman, Richard Kessel warned that "not only is it legally barred - it will cost your taxpayers millions of dollars in legal and consulting costs without any certainty that rates will decline. In fact, they may go up."

The letter was sent in response to questions raised by some Nassau and Suffolk village officials regarding claims that the municipalization of electric systems on Long Island would lower electric rates by as much as 50 percent.

"Promises of 40 or 50 percent rate reductions are preposterous," said Mr. Kessel in his letter. "Most municipalities have little to gain and potentially much to lose by taking over the electric system in their communities.

"The only viable, workable plan that will significantly lower electric rates on Long Island is Governor Pataki's plan, which will reduce electric rates an average of 17 percent Islandwide," said Mr. Kessel. "Everything else is conjecture and guesswork."

Mr. Kessel explained that municipalization is not possible in Nassau and Suffolk any longer because the "LIPA statute preempts any Long Island municipality from condemning any portion of the electric system in its town." He also explained that revisions in New York State's condemnation law requires a municipality to take title to the electric system it seeks to acquire before knowing the price it would have to pay for the system. "That's like signing a blank check to LILCO," wrote Mr. Kessel.

According to Mr. Kessel, the Federal Energy Regulatory Commission (FERC) is another obstacle to realizing rate cuts as a result of municipalization. Because FERC is

"compelling newly formed municipal electric utilities leaving a private utility to pay their share of the local private utility's stranded costs," he said.

LI's Municipal Systems Formed at Turn of Century

Municipalization advocates usually point to Rockville Center, Freeport and Greenport as examples of successful municipal systems. In his letter, Mr. Kessel underscored that "all three Long Island municipal electric utilities trace their origins to the turn of the century" long before LILCO was created.

In addition to owning their own distribution systems, the three municipal electric utilities also purchase "very inexpensive Niagara preference hydro power from the New York Power Authority (NYPA) to meet nearly all of their power needs," said Mr. Kessel.

NYPA power "is a major reason the three municipal electric utilities have such low rates," Mr. Kessel stressed. "Any new municipal electric utility would be unable to purchase such inexpensive NYPA hydro power until after at least the year 2013, since such hydro power is fully committed under contracts until then," he wrote. Kessel also advised that, after the year 2013, it would be highly unlikely that new municipal systems would receive any of the low cost hydro power "due to the dependence of current municipal systems on the existing supply."

'86 Tax Reform Act Changed Municipalization Rules

12

In his letter, Mr. Kessel also reported that the upstate community of Massena, which is also used as a model by municipalization advocates, completed its municipalization in 1980, long before tax law changes mandated by the federal Tax Reform Act of 1986. He explained that example, Massena was able to use tax-exempt bonds to acquire a portion of Niagara Mohawk's transmission and distribution system, which helped lower electric rate costs under its municipalization process. However, new tax laws prohibit this except for LIPA.

"LIPA is able to use tax-exempt debt to purchase LILCO," wrote Mr. Kessel. "Any municipalization (anywhere in the country) that occurs after October 1987 will have to be done with higher cost, taxable bonds."

Mr. Kessel warned that municipalization advocates usually make rate reduction projections and presentations that are misleading. The result, he said, could lead unsuspecting and uninformed municipalities "down a road that will wind up actually raising your electric rates instead of lowering them."

Source: Long Island Power Authority Web site, www.lipower.org



**EDISON ELECTRIC
INSTITUTE**

Electric Utility Municipalization Issues Focus Groups

**Conducted by:
Market Strategies**

**Prepared for:
Edison Electric Institute**

**Portland, Oregon
May, 2002**

Edison Electric Institute (EEI) is the association of United States shareholder-owned electric companies, international affiliates and industry associates worldwide. In 2000, our U.S. members served more than 90 percent of the ultimate customers in the shareholder-owned segment of the industry, and nearly 70 percent of all electric utility ultimate customers in the nation. They generated almost 70 percent of the electricity generated by U.S. electric companies.

Organized in 1933, EEI works closely with its members, representing their interests and advocating equitable policies in legislative and regulatory arenas. In its leadership role, the Institute provides authoritative analysis and critical industry data to its members, Congress, government agencies, the financial community and other influential audiences. EEI provides forums for member company representatives to discuss issues and strategies to advance the industry and to ensure a competitive position in a changing marketplace.

EEI's mission is to ensure members' success in a new competitive environment by:

- Advocating Public Policy
- Expanding Market Opportunities
- Providing Strategic Business Information

For more information on EEI programs and activities, products and services, or membership, visit our Web site at www.eei.org.

FINDINGS MEMO

Introduction:

Edison Electric Institute commissioned Market Strategies to conduct two focus groups in Portland, OR to discuss the issue of municipalization of electric utilities.

One group was comprised of lower socio-economic respondents and the second group was comprised of high socio-economic respondents. The respondents had to be at least partially responsible for their electricity bill.

The focus group was comprised of several topics, including:

- A general discussion related to the issue of electric utility deregulation and other recent topics related to electricity service;
- Discussion about the topic of municipalization, including probable benefits and risks and probable outcomes of municipalization;
- Evaluation of specific messages supporting and opposing electric utility municipalization.

Factors such as the small sampling of respondents associated with focus groups and the specific context of the location selected mean that this research is qualitative in nature and as a result, conclusions drawn within this report should be treated in that context – to provide a sense of direction, not the definitive word.

The Context of Discussion:

In any focus group, there are contextual factors that underlie the discussion. These factors in Portland include:

- Many respondents note the virtue of the local climate and natural beauty as the key benefit to living in Portland. Respect for the natural beauty of the Oregon landscape appeared to be a strong value held by respondents in both groups, and was a major reason people have chosen to move, remain, or return to Portland.
- The local electric utility, Portland General Electric, is owned by Enron. This is well-understood by all respondents, and played a role in how people viewed the motivations and effects of municipalization of their utility.
- There was a general sense of malaise about the effectiveness and efficiency of their local government. While attitudes of government inefficiency often underlie these sorts of discussion, Portlanders seemed particularly agitated by their local government. Additionally, the Portland area is comprised of several cities, which result in two overlapping levels of local government (a regional government as well as local town councils). This adds to the confusion about which government would handle electric service, and their general criticisms of municipal government.

- Portlanders are generally satisfied with their electric service. The result is a generally low level of demand for change to the electric utility side of the business. It is likely that a different electric service territory with a greater history of reliability and service challenges would probably react much differently to this issue.

General Electricity Issues:

- Most respondents are satisfied with the local electric service. Because they had generally experienced reliable service, they were almost confused by questions about their satisfaction with the electricity service. Their response echoed the sentiment that there is nothing to be dissatisfied about, they turn the lights on and they work.
- Both groups recognized that electricity rates had increased over the past year, the emphasis on rate increases was more acute among lower socio-economic respondents. Despite concerns about recent increases in electric rates, few were dissatisfied with the service. A few lower income respondents who live in rural areas expressed some dissatisfaction with reliability, particularly the time it takes to restore service in remote rural areas, however, these respondents were the exception.
- There is a generally low awareness of any activity in the local electricity market:
 - All respondents seem familiar that their electric utility is PGE and were already aware that Enron owns the local utility. They also understood that this meant their electric utility is investor-owned.
 - As a result of the current ownership structure and the fact that PGE used to be locally controlled, respondents were able to compare and contrast a locally controlled investor-owned utility and an electric utility that is headquartered elsewhere (such as Houston, TX). The former structure is viewed as preferable to the current structure due to local responsiveness and community presence. This, of course, had an impact on their perceptions of municipalization, since municipalization would result in a return to local control.
 - In addition, respondents' low regard for Enron was a factor separate and distinct from the size and remoteness of Enron to Portland. To quote one respondent:

"Enron is just a large bad company as opposed to a large indifferent company"

This presented a dynamic of its own which certainly influenced the tone of the discussion.
 - Respondents are also familiar with the California energy situation of last year, however, many respondents, particularly the lower socio-economic respondents were relatively unfamiliar as to how the crisis occurred. However, among higher socio-economic respondents awareness of the details was quite high:
 - Respondents in both groups asserted that Enron manufactured the California electricity crisis.

- High socio-economic respondents did not blame either deregulation or the marketplace for the California crisis, but agreed that the situation was the result of a number of failures on both sides. In particular, one respondent noted that the system failed by not having adequate safeguards to prevent manipulation of the electricity prices (a failure of deregulation to provide adequate controls on the marketplace).
- Higher socio-economic respondents understood many of the elements leading to the California crisis, including:
 - lack of new infrastructure due to cumbersome approval. One respondent noted that this became increasingly problematic because it is not possible to store electricity, therefore neglect resulted in an inability to deal with the peak demand periods,
 - competitive wholesale markets with fixed retail markets – called “half-deregulation” by one respondent,
 - the requirement that utilities purchase electricity on the spot market,
 - manipulation of the marketplace by generators.
- One respondent incorrectly stated that the California utilities voluntarily divested their generation for financial gain, rather than as a result of regulatory requirements.
- Respondents were of the impression that they were no longer purchasing “locally generated” electricity as a result of competition in California. They viewed this as a negative outcome for the local market.
- Respondents in the higher socio-economic group were aware of recent electricity shortages that resulted from droughts.
- Higher socio-economic respondents were aware of a deal last year by Enron to sell PGE to the local gas utility. Respondents were concerned about the prospect of a monopoly in the area with one company owning both the electricity and gas service for the area.
- On the issue of deregulation, one high socio-economic respondent noted that California is one extremely negative situation, but that Pennsylvania was an extremely positive outcome. Therefore, as we consider deregulation, we ought to examine the Pennsylvania example to determine what lessons could be learned.

Attitudes Towards Municipalization:

“They had a hell of a time with the water department,
what would they do with electricity”

Most respondents in Portland had never considered municipalization of their electric utility prior to attending the group. However, three or four of the higher socio-economic respondents recall having heard something about municipalization of PGE in the late 90's, but the idea failed. Clearly, it is not a serious top-of-mind issue, since it does not remedy a situation which they felt deserves immediate attention. As a result, respondents tended to change their minds frequently, and were persuaded by arguments on both sides of the issue.

Asked to list the advantages of municipalization prior to any discussion of the topic, respondents noted:

- Increased local accountability and decision-making, (including a local place where people could express their displeasure);
- Increased public involvement and education on issues affecting electric service;
- Increased “corporate” involvement in the local community;
- Increased local employment, particularly in head offices;
- Costs would be more stable. Lower electricity rates – possibly as a result of the removal of the need to pay shareholders;
- The possibility that the electric utility would be able to generate electricity from local sources, such as wind;
- Potential for rate caps.

The most significant advantages noted related to local control and accountability. Many respondents noted that they felt that these utilities were more responsive and accountable to the community rather than to shareholders, particularly given their differing priorities. In addition, the feeling that people would want to have increased local control may be the result of the fact that people do not understand their local electric service – local control would therefore empower and educate them –and for some, the significant increase in electricity prices was inexplicable to them. Some respondents in the low socio-economic group believed that the profit motive resulted in the sale of cheap local electricity to other utilities while purchasing more expensive electricity to supply their customers. As a result, they felt that the change in ownership would make people more informed and involved and result in less expensive service than would be received by an investor owned utility.

In terms of disadvantages, respondents clearly had administrative concerns. Specifically, they noted:

- The potential for confusion, particularly if it is done piecemeal by the various city governments in Portland;
- Bureaucracy, red-tape;
- Comparison to other local services including education, garbage collection and water service. One respondent noted that the local water authority takes up to two years to get water bills to some customers. Some respondents viewed the

education system as over-run by bureaucracy. The garbage collection is a franchise, owned by the city and contracted-out to private companies – thereby ensuring a more efficient system. At least one respondent perceived the municipal water authority to be poorly run;

- Uncertainty regarding the source of money to make such a substantial purchase, and the potential capital costs, and the potential for increased taxes;
- Inexperience of local government in operating an electric utility. Some perceived some start-up confusion as the new management adapts and learns on the job;
- The lack of any ability to assure that electricity rates would decline as a result of the municipalization, and the possibility that electric wholesale charges will increase because the city would not be a major “bulk-purchaser” of electricity;
- The fact that the local residents will assume all business risks associated with running an electric utility. However, one respondent noted that governments already bail-out utilities – the municipality will not let the utilities fail (there was a specific example of this in Oregon in the past) – so residents are already assuming all the business risk;
- The potential for increased conflict with generators after having appropriated their assets;
- The possibility that municipalization could make electricity choice more difficult in the future;
- The potential for environmental issues that the city will have to face. The potential for municipalities to cave-in to NIMBY issues at the expense of reliability would increase under municipalization.

The most significant disadvantage cited by respondents appeared to be the concerns about the ability of local government to finance the acquisition (particularly unexpected acquisition costs) and the potential for mismanagement and red tape. Some respondents were concerned that a municipally-owned electric utility would not be able to attract the same level of management talent as an investor-owned utility.

One concern raised at the end of the higher socio-economic group was about what would happen to people who were served by PGE but were not within the city limits. The respondent was concerned that she would be served by a municipally-owned utility without having the ability to have a say (i.e. a vote), because she is unable to vote for the mayor of Portland.

Despite the positives and negatives, some respondents’ greatest reservation about municipalization was that they were uncertain that there would be any benefit given that the electric utility does not generate its own electricity. This is not a disadvantage, it is merely a reason for inertia – if it ain’t broke, don’t fix it.

Statements In Favor of Municipalization:

Respondents were asked to evaluate four statements in favor of municipalization and rank them from the most persuasive to the least persuasive statement in favor of municipalization. The chart below indicates the number of respondents who ranked the statements as most persuasive to least persuasive, followed by the average (mean) ranking of the groups (lower mean scores indicate that a statement is more persuasive) :

STATEMENT	MOST PERSUASIVE		LEAST PERSUASIVE		MEAN
	FIRST	SECOND	THIRD	FOURTH	
Municipal electric systems are eligible for special advantages, like tax-free bonds and low-cost power from federal hydropower projects. These advantages allow a municipal electric system to offer lower electricity rates.	6	10	5	0	1.95
Because of its local focus, a municipal electric system offers more accountability to customers than a distant shareholder-owned electric company. More accountability means better service, high reliability, and low rates.	10	3	5	3	2.05
A municipal electric system will be run for the benefit of the citizens, not distant investors in a huge corporation, so there is less chance of steep price increases or inflated rates.	3	8	8	2	2.43
Given the mixed results of electricity restructuring in a number of states, a municipal utility is an insurance policy to counter the possible downside effects of electricity restructuring.	2	0	3	16	3.57

Although the rankings and averages are not statistically representative because of the small sample and the nature of the sample selection (focus group respondents), the purpose of the rankings is to provide a general sense of the overall ranking of the statements.

LOCAL FOCUS, MORE ACCOUNTABILITY, BETTER SERVICE, HIGH RELIABILITY, LOWER RATES.

Although this statement had the second highest average score, more people rated this as most persuasive than any other statement. (Five in each group)

Local control and accountability made sense with their emotional appeal. This issue was raised strongly in the earlier part of the discussion as a reason for municipalization, so it resonated with their own thinking.

In the higher socio-economic group, one respondent noted that municipalization would turn bad electric service into an election issue, which should pressure for improved service. However, it is important to remember that people here already found their electric service to be good, so in this case it is likely that the deterioration of electric service would be the election issue.

In the lower socio-economic group, several respondents who did not rank this statement highly noted that they were already getting excellent service from PGE, so they could not see a municipal utility giving them “better” service.

However, a few respondents in the lower socio-economic group noted that they would define service as including the power generation.

One female respondent in the lower socio-economic group stated, “We have sold a lot of our power away. And I consider that a part of service, with power that’s generated elsewhere, I don’t see that as responsible or beneficial to me. So I would look at service as more than what’s coming into my home.”

A male respondent in the lower socio-economic group echoed that comment but phrased it more in the context of accountability: “It’s going to affect accountability. They definitely aren’t going to sell cheap power to somebody else and then sell higher priced power to local ratepayers.”

Would it have made a difference if Enron didn’t own PGE? One respondent in the higher socio-economic group noted that Enron made no difference because any corporate ownership could be compared to local control and more local influence. However, another respondent noted that she did not believe municipalization would even be on the table had it not been for the Enron situation. Respondents in the low socio-economic group reflected the latter argument.

SPECIAL ADVANTAGES, TAX-FREE BONDS, LOW COST POWER, LOWER RATES.

This statement was the second most popular in terms of the number of people who ranked it number one, but most persuasive on average.

Some respondents noted that this statement contains a concrete measure to contain costs – tax-free bonds. This opportunity to save money was seen to reflect one of the main reasons they would have to municipalize in the first place, lower costs.

Others noted that hydro power could be cheaper than existing sources. In particular, there are perceived advantages to the hydro power by virtue of the fact that the electricity is locally generated, and less expensive. Certainly this argument addressed the earlier concern that municipalization would not reduce the cost of the electricity, providing respondents with a sense that a cost savings could be achieved.

The flip side of this argument, however, is that the debt required to acquire the utility could affect other capital projects by the city – this statement is reviewed below in isolation, but was raised as a point of discussion on this statement. While respondents were split on the question of the financial ability of the city to take on the debt, this did not change their perceptions of the benefits of cost savings associated with cheaper hydro.

RUN FOR THE BENEFIT OF CITIZENS, LESS CHANCE OF STEEP PRICE INCREASES.

Despite the fact that the respondents made certain comments along the same lines as this statement – particularly the concerns about the distant huge corporation – in the open-ended benefit discussion, this statement ranked as the third most persuasive statement overall.

Respondents indicated that although this argument was not bad, the top two reasons were accountability and a tangible potential for lower rates spelled out in the earlier two statements. Furthermore, the conclusion that the electricity prices would be less vulnerable to steep price increases was not logical based on the information presented. Because the municipal utility would not generate power, they did not feel that municipalization in itself would reduce the probability of lower rates.

COUNTER THE POSSIBLE DOWNSIDES OF RESTRUCTURING.

This statement was ranked lower across the board. Respondents generally did not feel that municipalization would have any effect given the experience in California, and given the fact that ownership and operation do not necessarily correlate.

One respondent in the lower socio-economic group observed, “There are several municipally owned utilities in California that suffered as bad as some of the others, weren’t there?”

Another respondent in the lower socio-economic group noted that restructuring is in the hands of the politicians, therefore, the downside risk remains and the decision is politicized.

Statements Opposed to Municipalization:

Respondents were also provided a second set of statements opposed to municipalization, and asked to rank the statements from most to least persuasive **against** municipalization. The chart below indicates the number of respondents who ranked the statements as most persuasive to least persuasive, followed by the average (mean) ranking of the groups (lower mean scores indicate that a statement is more persuasive):

	MOST PERSUASIVE		Third	Fourth	Fifth	LEAST PERSUASIVE		MEAN
	First	Second				Sixth	Seventh	
There are very large expenses associated with municipalizing the electric system that are hard to predict accurately. The final costs can be so large that they actually require that a city raise electric rates to cover the expense.	5	6	3	1	2	4	0	3.05
Municipalization may require a city to assume large amounts of new debt which can lead to the downgrading of a city's bond rating. This may cause other city activities funded by bonds, like roads and schools, to become more expensive or even impossible.	3	4	2	5	5	0	2	3.62
It is unlikely that a local government will be able to manage an electric system better than a shareholder-owned electric company with more experienced staff. Cities may discover it is a tremendous challenge to run an electric system due to environmental, safety, and reliability issues.	2	3	3	6	4	3	0	3.76
There is no guarantee that municipalization will result in lower electricity prices. The unexpected expenses of municipalization could even mean that rates go up.	1	3	7	3	2	2	3	3.95
Providing electric service is not a proper role for local governments. This service should be left to private businesses, which are more flexible and efficient.	6	1	0	0	4	4	6	4.48
Municipalized electric systems in states that later choose to institute competition or retail choice programs may prevent consumers from enjoying the benefits of a competitive market.	1	2	5	3	1	4	5	4.57

Municipalization usually only involves a takeover of the electricity lines and meters of the electric system, not power plants. City governments will have to buy all of their electricity in a wholesale electricity marketplace subject to frequent price fluctuations.	3	2	1	3	3	4	5	4.57
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As noted above, the scores themselves are not statistically valid, however, they are provided to provide a sense of the overall ranking of the statements by the group.

LARGE EXPENSES, HARD TO PREDICT, MAY REQUIRE CITY TO RAISE RATES.

This statement resonates with people’s most significant concern about municipalization – the fear that change could actually worsen a pretty good situation. Because people are generally satisfied with electric service, they see no reason to place this at risk for a small potential benefit.

However, some of the respondents felt that by the time the situation moved along, the problems would be ironed-out. However, this was clearly not a sentiment that resonated in the group.

NEW DEBT, DOWNGRADED BOND RATING, MAKE OTHER CITY ACTIVITIES MORE EXPENSIVE.

Respondents understood that this was a risk, however, the positives of cheaper power and tax-free bonds are undeniable outcomes whereas the risk of decreased ability to raise capital in the future was not a certainty.

Some respondents felt that given the city’s track record on other issues, it was more likely that the risk that the city would sink itself into debt would outweigh any benefit from tax-free bonds. One respondent noted that bonds are rated on the ability of the taxpayers to repay the bonds. This respondent’s assessment of the situation is that Portland is a strong community with the ability to repay. Furthermore, there was a sense that because acquisition costs would be known in advance, the city would be able to assess their ability to handle the financial burden in advance, thereby minimizing the default risk.

However, a parent of several school-age children was affected by this statement. She noted the deterioration of the school system, and she would be concerned that this would further strain the city’s ability to fund schools.

ELECTRIC SERVICE IS NOT THE PROPER ROLE OF GOVERNMENT. LEAVE TO PRIVATE BUSINESS, MORE FLEXIBLE AND EFFICIENT.

This statement was the most polarized statement tested. While six respondents placed it as the most persuasive – all of them were from the high socio-economic group – six respondents – all from the low socio-economic group – ranked it as their least persuasive statement. Furthermore, more people placed the statement on the bottom half of the statements than placed it on the top half.

This statement seems to be less persuasive, particularly among the lower socio-economic group, because it is ideological. To find this statement convincing, one would first have to be persuaded that electricity is not a “public good.” Failing that, the person would have to be convinced that government is inefficient in providing this public good.

It is difficult to argue that a service such as electricity is not a public good, given the universality of service, and the essential nature of electricity. Government is already involved in this and other public utilities through the PUC. Some respondents noted that the government is needed in this sector to prevent a free-for-all in the electricity marketplace. Compounding this problem is that there are precedents of other municipally-owned utilities, thereby establishing that this is arguably a proper function of government.

One lower socio-economic respondent said, “For me it was the first sentence... not the proper role of government. It could be. It depends on the area. I don’t see that as a convincing argument not to look at the possibility.”

Some respondents in the higher socio-economic group noted that the city is responsible for roads, but does not build and maintain the roads. They contract it out to companies who maintain the roads to their standards. As a result, they can conceive of the city being responsible for, but not running an electric utility as a more optimal solution. In essence, contracting-out the maintenance of electric service on a tendered basis.

Finally, respondents were split over whether the government is inefficient in providing this public good. In the lower socio-economic group, one respondent noted, “history has shown that private companies are not more flexible or efficient.”

ONLY INVOLVES TAKEOVER OF LINES AND METERS, NOT PLANTS. GOVERNMENTS WILL HAVE TO BUY ELECTRICITY IN WHOLESALE MARKETS WHICH IS SUBJECT TO PRICE FLUCTUATIONS.

People rated this low because they felt these risks could be mitigated through long-term contracts. Besides, municipalization would not change the “risk” of price fluctuation. They did not naturally conclude that governments were inherently less competent at purchasing electricity on the wholesale market than private companies.

For some respondents, this was just of lesser importance than their greater concern, the size of the acquisition of such a large asset. According to one respondent in the lower socio-economic group:

“I don’t think the city of Portland manages their money very well. And we can see that with schools and everything else that’s going on, and this was just not as important to me as where the money was going to come from.”

UNLIKELY LOCAL GOVERNMENT WILL BE ABLE TO MANAGE SYSTEM BETTER. CITIES MAY DISCOVER IT'S HARD TO RUN SYSTEM DUE TO ENVIRONMENT, SAFETY AND RELIABILITY ISSUES.

It was felt that the ability of local government to manage an electric utility was highly dependent on which municipal government was being discussed. In the abstract, this statement is not persuasive because it was felt that one municipality could operate efficiently whereas another could not. Furthermore, some respondents noted that municipalities often operate utilities, so the assertion that a municipality cannot operate a utility was flawed.

However, if the message is made more specific to a particular jurisdiction, particularly a poorly run municipality, the effectiveness of this argument would likely be stronger. Respondents noted huge disparities in local governments in their own areas, which would greatly affect how they responded to this statement.

Another respondent noted that cities are already burdened with enough responsibilities, without being burdened by one more high priority.

In the lower socio-economic group, one respondent noted that there would be significant changes to the structure, not least of which is the fact that the employees would become government employees. She felt this could affect how the utility is run (either positively or negatively).

NO GUARANTEE OF LOWER RATES, UNEXPECTED COSTS MAY RAISE RATES.

This argument rated fourth overall. The general discussion seemed to indicate that although the statement is true, they were more concerned in the immediate term about the probability that the municipality would mess-up the acquisition – a potentially very large cost.

IN STATES THAT LATER INSTITUTE CHOICE, MAY PREVENT CUSTOMERS FROM GETTING BENEFITS OF COMPETITION.

Because there was no major demand for customer choice, the possibility that choice could be lost did not generate any significant concern. Even in the final argument stage (when respondents were asked to encapsulate the reasons in favor and against municipalization), this argument was not raised anywhere.

Proponents and Opponents of Municipalization:

The discussion had an element of confusion associated with it because respondents were unable to envision who would be the proponents and who the opponents of a municipalization effort. Unable to discern the “white hats” from the “black hats” gave the respondents some trouble in determining who would be best served by municipalization:

- Both Enron and PGE were assumed to be potential supporters and opponents.
 - Some believed Enron supported municipalization because a recent deal to sell PGE to a local gas utility left them without a buyer for an asset they were trying to sell.
 - Furthermore, respondents were confused about the issue of Enron’s insolvency. They appeared to think that their financial difficulties meant they are eager to divest any asset. In essence they were assuming all assets are financially burdensome.
- Some believed that PGE and their employees favored municipalization because it would disentangle the company from the problems facing Enron.
- One respondent noted that the city would be interested in purchasing PGE in order to generate a revenue stream to pay for other programs and services such as education. However, there were others who did not believe the mayor would be interested in assuming the responsibility of an electric utility.

Other possible proponents raised included:

- The citizens of Portland;
- Corporate America (corporate consumers of electricity seeking lower costs);
- State commissioners;
- PGE employees;
- Metro or local government officials for the revenue possibilities;
- Progressive politicians (incl. Greens) seeking election.

Possible Opponents include:

- Portland’s mayor – the city considered municipalization in the past but rejected it;
- Other potential purchasers of the utility (other IOU’s);
- Enron creditors;
- PGE employees, because they don’t want to be government employees.
- The state, because this could impose fiscal burden on the state.

One respondent noted that although he did not think the “city” (government) was in favor of municipalization due to the large debt load required to purchase such an asset, that he believed there was a populist element in the city who would support this due to a mistrust of corporations.

Final Reasons for Supporting and Opposing Deregulation:

Having spent nearly two hours discussing the issue of municipalization, respondents were asked again to state the main reasons for supporting or opposing municipalization. They were asked whether they support or oppose municipalization and the most persuasive reasons for and against the idea.

The following chart depicts the main reasons cited at the end of the group – in favor of and against municipalization – along with the reasons cited as their principal reason in favor and against municipalization.

Reasons to Support Municipalization	Reasons to Oppose Municipalization
Local Control $\supset\supset\zeta$ Local Accountability $\zeta\zeta\leftarrow$ Lower rates $\zeta\zeta\zeta$ Build local resources $\leftarrow\leftarrow\leftarrow\uparrow\uparrow$ Cheap Hydro $\zeta\zeta$ More jobs/ job security $\leftarrow\uparrow$ More adaptive to changes in local circumstances ζ Knowledge of the local situation \leftarrow Fresh thinking \leftarrow	Uncertainty \supset Acquisition costs $\supset\leftarrow$ Risk of incompetence $\leftarrow\leftarrow\leftarrow$ Ret tape and bureaucracy $\zeta\zeta\uparrow\uparrow$ Inefficiency $\zeta\zeta\zeta$ No guarantee of lower rates $\leftarrow\leftarrow$ Not the role of government (low priority) $\zeta\zeta\zeta$ Is the city capable of running an electric utility Added risk assumed by taxpayers $\zeta\uparrow$ Added burden on the city Past track record of local government Still no control over generation \leftarrow
\leftarrow Low Socio-economic respondent in favor of municipalization \uparrow Low Socio-economic respondent against municipalization \supset High Socio-economic respondent in favor of municipalization ζ High Socio-economic respondent against municipalization	

In the high socio-economic group, two people ended in favor of municipalization, while nine were opposed. This represented a pretty significant shift from the early part of the group where the respondents were roughly split on the issue.

In the lower socio-economic group, seven respondents were in favor of municipalization while three were opposed at the end of the group. This represented a slight shift in favor, however, the more important observation here is the difference between the high and low socioeconomic groups.

Local accountability, local control and lower rates were seen to be the most compelling reason to support municipalization at the end.

On the issue of local accountability and local control, people were generally not dissatisfied with their service, so they were attempting to ensure that the service would remain good, particularly in the face of a potential PGE sale.

One respondent noted a loss of local control of many things in Portland. Some of the reaction towards municipalization is a call to increase local control.

Asked to explain the change in their attitudes away from municipalization respondents noted their reflections about how poorly past municipal issues had been handled and the absence of a consequential long-term benefit to the idea. In addition, municipalization also risked “ratcheting-up” government involvement. It was felt that the size of the city’s commitment necessary to run an electric utility would negate any potential benefit.

In the final analysis, high socio-economic respondents saw no impetus to change the situation, and a great deal of potential risk associated with the municipalization, which would result in their taxpayers/ ratepayers footing the bill. Meanwhile the lower socio-economic groups seemed to see a potential to bring home their electric utility and create a local presence.

Conclusions:

Respondents were generally unaware of the topic of municipalization. Although a few had heard about municipalization in the context of a local proposal that was rejected in 1999, they had given the issue very little thought.

Respondents were generally satisfied with their electricity service, and as such were not clamoring for any changes to how the service is administered.

Topics which activated people to support municipalization, included the concept of localizing the utility – whether in the case of ownership, administration, or power generation. Municipalization was seen to be a mechanism for increasing local accountability and control.

The only other significant reason for supporting municipalization was the possibility of decreased rates. Realizing that the generation assets would not be purchased, somewhat blunted this benefit, however, the possibility of cheaper hydro and tax-free bonds were definitely positive in this regard.

In terms of opposition messages, respondents’ greatest concerns surrounded the uncertainty related to the acquisition of such a large-scale asset. Furthermore, they were concerned about the ability of a mediocre local government to manage the system. However, equally compelling at the end of the day is that things are working and that the system should not be placed at risk – if it ain’t broke don’t fix it.

In the final analysis, municipalization (or more broadly, the ownership structure of electric utilities) is not perceived to be a big issue in the context of other issues in need of attention, at least in Portland. However, respondents noted that once the Pandora’s box is opened, it would instantly become an important issue. In other words, proponents of municipalization should be

- careful what they ask for, because they might get it. And what they will likely get is a referendum on the function of the local municipality.

APPENDIX 1
LISTED INITIAL REASONS TO SUPPORT AND OPPOSE
MUNICIPALIZATION

UNAIDED ADVANTAGES OF MUNICIPALIZATION

Increased Accountability (service and rates)
Local control
Local decision-making
Greater commitment to end-users
Increased public involvement
Increased local employment (esp. head office)
Lower electricity rates
More responsive to local community
Cut-out shareholders
Take advantage of local resources
More informed consumers

UNAIDED DISADVANTAGES OF MUNICIPALIZATION

Confusion if it's piecemeal
Bureaucracy
Red-tape
Where's the money going to come from to buy the assets
Inexperience of local government in operating utility
Potential for increased taxes
No choice
Potential for increased conflict with the generators
No "volume discount" in purchasing electricity
Capitalization costs
No guarantees of lower rates
Local government / citizens assume all business risks
Potential environmental issues