

# IPL Governance White Paper

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# Introduction

DKMT Consulting was retained to perform two independent studies. The first was a Cost-Benefit Analysis. The second report is a Strategic Plan with a separate Governance whitepaper presented here.

“board governance could be a public power utility’s greatest strength or its weakest link.”

Excellence in Public Power Governance by APPA

2019

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# Public Power Governance Models

- There are two main public power utility governance models:
  - *City Councils*
    - *Advisory Boards*
  - *Independent Boards*

\* APPA *Governing for Excellence — Raising the Bar on Public Power Governance*

# City Council Model

In the city council model, the utility is a unit of the city government. The city council functions as the utility governing board and regulator, setting electric prices and deciding on important matters.

# City Council Model with Advisory Board

A modification of the City Council model is the creation of a Utility Advisory board, which is appointed by council and is advisory only. The Advisory Board has the ability to focus on utility issues only and can take a deeper dive into utility budgets, rates, and strategic planning, as well as monitor performance. However, because an Advisory Board does not make decisions, the cons of council oversight may still exist, depending on the council. The City of Independence is using this model.

# Independent Board Model

In the independent board model, the utility is governed by an independent or semi-independent board. The board members may represent sectors of the service area and are typically approved by City Council. The board sets policy and strategic direction, sets rates, hires the Utility General Manager or CEO, and monitors utility performance, some actions require council approval.

# Governance Model Use

- 70% of Utilities the size of IPL use the Independent Board Oversight Governance Model.
- Of the 30% who have City Council Oversight, majority require city manager to have some background in utilities.



# **PROS AND CONS OF EACH GOVERNANCE MODEL**

# Pros and Cons of Council Oversight

## ***Budget, Rates, Strategic Planning and Innovation***

Pros - Council oversight, typically of small utilities, insures the utility and community are closely aligned with less complexity. Council has ultimate accountability for decisions.

Cons - Councils have many competing priorities which limits the time to develop industry expertise and delve into the complexities of running a utility, often resulting in lengthy and politically driven decision making process. Data and long term impacts may not be the driving factor, to the detriment of the community and utility.

# Pros and Cons of Independent Board Oversight

## ***Budget, Rates, Strategic Planning and Innovation***

Pro – Boards either develop or are selected because of their expertise and have the time and resources to delve into industry issues and trends to help inform their decisions. In addition, Boards have the time to conduct public outreach to align the long term strategies, such as economic development, to the community's priorities, as well as, monitor performance on a regular basis.

# Pros and Cons of Independent Board Oversight

## ***Budget, Rates, Strategic Planning and Innovation***

Pro – Boards will focus on strategic alignment, without competing priorities, establish performance metrics and accountability. Independent board decisions are more data driven and not politically driven. They tend to be more flexible and nimble in their decision making process. Many cities, as an added level of accountability require a final approval by council.

# EXAMPLES OF GOVERNANCE MODELS

# City Council Model

- **Seattle City Light** —The Mayor appoints the General Manager (GM), who is accountable to the Mayor and City Council. Automatic annual rate increases are tied to the CPI, and the city can control the utility's staffing through the HR and budgeting process. SCL also has a review panel comprised of citizens to review its strategic plan.

# Independent Board Model

- **Long Island Power Authority** —The Governor of New York appoints a Board. Board members represent the areas served by LIPA and make all decisions concerning policy, rates, and financial performance. An Executive Director manages the utility.

# Independent Board Model

- **CPS Energy of San Antonio**—An independent board comprised of appointed citizens approved by the city council who represent each of the four geographic quadrants of the city. Neither the mayor nor any members of the City of San Antonio management participate in the policies or operational activities of CPS Energy. City Council participation is restricted to approval of rate adjustments, debt issuance, and condemnation proceedings.



# Independent Board Model

- **City Utilities of Springfield**—City Utilities is governed by an 11-member Board of Public Utilities appointed by the Springfield City Council to serve three-year terms. The Board establishes policies on how to best serve customers and sets the long-term direction for the utility as outlined in the city charter. They establish annual budgets and rates, that are ultimately approved by council, who can only propose alterations to rates but not change the budget. The board has condemnation rights and hires the utility manager.

# **ROLES OF BOARD MEMBERS**

# Board Member Roles

- **Trustee** - legal and fiduciary responsibilities to ensure the utility remains financially stable.
- **Regulator** responsibilities are to ensure the utility meets local, state, and federal regulations concerning the environment, safety, and market.
- **Representative** of the community and must ensure that the community's desires are reflected in the utility's strategic planning process.
- **Advocate** for public power and promotes the benefits of public power.

# Board Responsibilities Are to Ensure the Utility

- Is financially sound and creates the utility budget
- Monitors the utility's financial reporting system
- Provides service that is highly reliable and responsive.
- Goals, plans, and programs reflect the priorities of the community.
- Charges fair, competitive, and transparent rates for service.

## In Addition, Boards

- Set strategic goals and monitor utility performance meeting those goals.
- Hire/Fire/Monitor the GM's performance.
- Monitor the Board's performance.

# IPL GOVERNANCE OBSERVATIONS

# IPL Governance Observations

- Turnover of council membership leads to a lack of continuity in the understanding of issues facing IPL.
- The council has significant oversight responsibilities for every major aspect of the City, which limits the amount of time they can devote to IPL.
- The council lacks ownership for the strategic direction of IPL.
- There is no process for tying a revenue requirement to electric rates.

# IPL Governance Observations

- IPL's financial records are opaque and the city controls IPL financial information.
- Under current governance, it is difficult for IPL to assist with the economic development of the city.
- The Public Utilities Advisory Board is underused in its current form.
- Administrative requirements for Council decisions prolong and hinder common management functions.



# 10 Tips for Governance Excellence

1. The board steps back from managing how things get done and focuses on desired results.
2. The board speaks as one with written policies. Board members recognize that their power only rests with the board as a body.
3. The CEO has the authority to push back if individual board members try to manage his or her work.
4. The board holds the CEO accountable for achieving the desired results by regularly receiving reports.
5. The CEO is empowered to reasonably interpret the board's policies.

# 10 Tips for Governance Excellence

6. The board regularly reviews the written strategic directives to ensure they are still appropriate.
7. The board regularly evaluates the CEO's performance as well as its own performance.
8. The roles of the board members, the board chair and committee chairs are all spelled out in writing.
9. Board agendas are clearly prepared, as is the process for items being placed on an agenda.
10. All board members need to be engaged in developing, refining and monitoring the board's policies.

“For a successful board-management relationship, trust has to be at the top of the list,”. “There also must be open sharing of information back and forth, and there must be a clear delineation of the board’s and management’s respective responsibilities.”

From Excellence in Public Power Governance by APPA 2019

Questions ?



# Backup Slides

## Governance Functions for Utilities with more than 50K Customers\*

|  | Independent Boards | Council | Other |
|--|--------------------|---------|-------|
| Set retail rates                           | 70%                | 30%     | 0%    |
| Approve utility budget                     | 70%                | 30%     | 0%    |
| Set salaries of key utility officials      | 87%                | 9%      | 4%    |
| Issue long-term bonds                      | 57%                | 39%     | 4%    |
| Make financial investments for the utility | 78%                | 4%      | 18%   |
| Approve PPAs                               | 83%                | 4%      | 13%   |
| Exercise the right of eminent domain       | 52%                | 39%     | 9%    |
| Hire and fire utility personnel            | 57%                | 0%      | 43%   |



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