



EXCELLENCE IN PUBLIC POWER GOVERNANCE

BY JOHN EGAN,
CONTRIBUTING WRITER

The evolving electric utility business environment places special demands on public power governance. However, public power veterans and policymakers agree that the more things change, the more they remain the same.

COMPETITIVE FORCES RESHAPE THE ELECTRICITY BUSINESS

“The pace of change in the electricity business is unprecedented,” said Tim Blodgett, president and CEO of Hometown Connections and governance training instructor for the American Public Power Association. “Technology is pushing us, and customers are pulling us. That’s one of the reasons we’re seeing such a strong increase in interest among members of the American Public Power Association on governance training and governance excellence.”

In today’s dynamic electricity business, Blodgett continued, “board governance could be a public power utility’s greatest strength or its weakest link. I’ve seen both ends of that continuum.”

In the Association’s book, *Governing for Excellence — Raising the Bar on Public Power Governance*, author Jeff Tarbert notes that “today’s (industry) evolution is driven not by anti-monopoly-leaning economists or the philosophical preferences of regulators. The prime movers today are new technologies, changing markets, innovative non-utility entrants, and changing customer expectations. Customer expectations will sustain this transition.”

Declining electric sales, increasing penetration of renewable energy, and community choice aggregation are three other forces stretching the industry and public power governance models.

DIFFERENT GOVERNANCE MODELS AND TRADEOFFS

There are two main public power utility governance models, and each has its own strengths and drawbacks. A 2015 survey by the Association showed that smaller public power utilities tended to be governed by city councils, while larger members more often are governed by independent or semi-independent boards, which could be elected or appointed.

“Either of these models could work well or break down,” said John Miner, president of Collaborative Learning – Collaboration Unlimited and governance training instructor for the Association. “It all comes down to the quality of the people on the board, the policies in place, and the capabilities each member brings or develops while serving.”

As Barry Moline of the California Municipal Utilities Association commented, “Communities have distinct personalities, and they have to decide what they want to do.”

In one model, the utility is a unit of city government. The city council functions as the utility governing board and regulator, setting electric prices and deciding on important matters. In the other model, the utility is governed by an independent or semi-independent board, which can be elected or appointed. Depending on the board’s enabling legislation, an independent board may have the authority to set electric prices, or it may be limited to making recommendations on electric prices to a panel of elected officials.

A strength of the city council model is that it represents the will of the community. Each community has its own dynamics and priorities, and being able to elect representatives who will implement the will of the community is a notable strength. Does the community want to move toward 100% carbon-free electricity, or is it more concerned with keeping electric bills as low as possible?

The city council model offers a public power utility’s customer-owners the opportunity to vote for candidates who will ensure that the community’s views are implemented. Having to face the voters on election day nurtures accountability.

But the city council governance model has some possible drawbacks. One is the potential for more frequent turnover compared to the independent or semi-independent board. Another is that the utility must compete with other city departments — such as police, fire, libraries, parks and recreation, streets, and sanitation — for the council members’ attention. That’s a lot to ask of elected officials who, in most cases, serve on a part-time basis. It also limits the council’s ability to develop expertise in the increasingly complex energy industry.

If board members with strong divisive viewpoints serve together on a utility board, it can have a negative impact on the board’s functioning and on the utility’s management.

“Good governance practices can help weather those kinds of things,” commented Tony Cannon, general manager and CEO at Greenville Utilities Commission, which serves about 68,000 customers in North Carolina.

But he added, “With elected boards, it can be hard to think past the next election. At GUC, our appointed board gets us out of the political realm so we can do more strategic planning.”





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GENERAL MANAGER AND CEO
GREENVILLE UTILITIES COMMISSION

KEYS TO SUCCESS

“For a successful board-management relationship, trust has to be at the top of the list,” said Miner. “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.”

“Board members should subscribe to the concept of NIFO (Noses in, fingers out).” recommends Bill Slaton, a former SMUD board member, past chair of the American Public Power Association’s Policy Makers Council, and currently a senior consultant with Leading Resources Inc. A board needs to focus on setting broad strategic goals and holding management accountable. It is management’s job to determine how best to meet those goals. Crossing those lines can lead to trouble. “Good governance means a board doesn’t stick their fingers in the operations. Know your lane and stay in it,” he said.

Cannon believes board members need to bring some business acumen to their positions, along with a willingness to learn and collaborate with other board members as well as management. “Be prepared to participate,” he said.

“Please don’t bring your personal agenda to a board,” he urged. “And don’t think one size fits all. Small business owners sometimes think a public power utility should be run like a small business. It should not.”

Community involvement and ongoing education are critical if a board wants to function optimally. “Governing board members must be proactively involved in their community and be committed to education on an ongoing basis,” said Moline.

“Board members can have a tremendous impact on state legislation when they share their viewpoints with state elected officials,” he continued. “Public power utilities don’t have a lot of money, but we have an army of elected and appointed officials who can have a real impact when they engage.”

Having a service ethos is another critical ingredient for a governing board’s success, according to Ron Skagen, a commissioner on Public Utility District No. 1 of Douglas County, Washington. “Like any community-based organization, board members want to give back to the community.”

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TEN TIPS FOR GOVERNANCE EXCELLENCE

Bill Slaton, a former SMUD board member, past chair of the American Public Power Association's Policy Makers Council and currently a senior consultant with Leading Resources Inc., offers 10 tips for public power 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.
- 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.

"Chemistry and attitude also are critical," Skagen continued. "Sometimes things go sideways and strains emerge, just like in a family or a marriage. It takes work to keep everything functioning smoothly."

A willingness to collaborate is another critical ingredient for a successful board. The board-general manager relationship should be one of trust-based collaboration. When that happens, the positive effects cascade down an organization. Where that relationship is strained, the board and the utility underperform. And when policies need to be updated, boards and general managers should be full partners in that effort.

To ensure management recommendations are directly tied to strategic initiatives adopted by the board, Cannon recommends that each agenda item that comes before a board be directly connected to an agreed-upon strategic initiative.

"A clear sign something is amiss is if, after a board meeting, there is no agreement about what the board wants to see happen," said Slaton, who served for 16 years on the governing board of SMUD. "When boards are not clear about directions, we see senior management spend an inordinate amount of time after board meetings trying to figure out what the board wants."

To ensure all parties leave a board meeting with a clear, shared understanding of next steps and expectations, Slaton recommends that the last item on all board meetings be a summary of action items. "The board and the GM need to agree on next steps," he said. "You can't have a situation where Board Member A wants to see X happen, while Board Member B thinks Y is going to take place, and Board Member C believes Z will occur."

Slaton also recommends that public power boards review their governance policies at least annually and review recently enacted policies more frequently. "Governance documents must be a living document. You can't put them on a shelf and forget about them."

In Cannon's experience, a review of governance policies every three years is appropriate. "Review doesn't mean change," said Skagen. For example, the dramatic growth of renewables in many regions is an important reason for a board to periodically revisit its governing policies.

In the same way that governance policies evolve, boards must also evolve, said Slaton. His firm has a model showing that boards go through five stages of change. Understanding the evolutionary trajectory of a board can help make board members and general managers more effective, he observed.

ONGOING BOARD EDUCATION

“Governing board education is a marathon that never ends,” Moline said. “But building a board’s intellectual infrastructure is time well spent.”

Moline and others urge governing board members to take advantage of professional development opportunities offered by their state associations, joint action agencies, regional public power groups and the American Public Power Association.

Education can start at home. Moline said each meeting of CMUA’s board has an educational component in which a staff member or outside subject-matter expert briefs the board on an important industry topic such as cybersecurity, renewables, energy efficiency or customer service.

“Boards function better when their members stay abreast of industry changes,” commented Skagen. “At our three-member commission, everyone shares their expertise, and we’re all trying to learn and improve.”



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RON SKAGEN,
COMMISSIONER
PUBLIC UTILITY DISTRICT NO. 1 OF
DOUGLAS COUNTY, WASHINGTON

He continued: “The general manager needs to continually mentor board members. That helps build trust and positive relationships. General managers stay, but board members rotate. The general manager is a subject-matter expert on the utility business, while his or her board typically is not.”

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