



OKLAHOMA PUBLIC POWER

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Political Position Dominates GRDA Audit

Last year the governor asked for a performance audit of the Grand River Dam Authority. State Auditor and Inspector Gary Jones issued the audit in December. Confusing is a word that comes to mind. We have heard comments forever saying that we should “run government like a business.” So the auditor’s main point was to say that GRDA’s board had “an attitude similar to a corporation rather than a governmental entity regarding expenditures.”

The auditor was critical of some board members’ attendance record for board meetings as some board members have missed several sessions. Customers of GRDA have echoed this particular comment.

Most of the report dealt not with GRDA but with an analysis of whether to sell the GRDA assets. That has nothing to do with performance and is placing a political position in a report rather than looking at performance. This was disappointing and will be examined in further depth at the end of this report.

Other items of note included a contract that was given to a company that was owned by the brother-in-law of board member David Chernicky. Chernicky neglected to abstain on the vote on the contract for purchase of poles from Pelco Products that was in a consent agenda. GRDA legal counsel had told Chernicky that he did not have to reveal the

relationship he had with the low bidder on the project. However, the appearance is not good in this respect.

A contract that was awarded by the GRDA board to Crossland Construction came under review. GRDA properties superintendent Holly Moore did not disclose that the winning bidder on a project, Crossland Construction, was supervised by a friend of her family. That supervisor was placed in control of the project after the bid was awarded.

The audit covered a seven year period. Other objections were to certain purchases of items by state employees for reimbursement rather than using procurement methods. Some travel expenses by management were questioned such as the amount paid for rental cars. There was also an objection to travel by GRDA staff to the State Capitol as the report did not list each individual contacted at the Capitol.

The South Grand Lake Airport Authority is a public trust operating an airport for the GRDA region. That airport authority received \$140,000 in assistance from GRDA in the form of equipment, labor, and materials. This assistance may not be allowable under state laws. GRDA is allowed by statute to provide assistance to certain agencies.

A report in the Tulsa World said the auditor’s report seemed more concerned with the GRDA

“attitude” than specific incidents. Copies of the report are on the websites of KOTV in Tulsa and the State Auditor’s office.

In response to the audit, GRDA issued a statement saying that it was committed to being a reliable, low-cost provider of services to its cities and customers. During the audit period, GRDA had over \$2.7 billion in expenditures, and nearly all of the expense was to contracts awarded by competitive bid, for payroll, or for payments on bonds.

GRDA has been cited for “excellence in financial reporting” for 10 consecutive years by the Government Finance Officers Association.

The bulk of the report (54 of 84 pages) was not written by the State Auditor and Inspector. It was written by Oklahoma City University’s Economic and Policy Institute where six people are listed as assisting including one individual

(see GRDA, page 14)

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Major Transmission Change in MISO

In an action that could predict future changes in how electric transmission is operated in America, the independent transmission company, ITC Holdings Corporation, will acquire all 15,700 miles of high voltage transmission lines owned by Entergy. Entergy is the holding company for utilities in the Southeast including Arkansas Power and Light, Mississippi Power and Light, Gulf States Utilities, Louisiana Power and Light, and New Orleans Public Service. The deal must receive approvals from regulators.

ITC will pay \$1.78 billion for the lines in a stock swap after which Entergy will own 51% of the new company.

The move will take the value of transmission out of the control of state regulators and place the

fees for transmission service under the regulatory oversight of the Federal Energy Regulatory Commission. The operating companies will pay transmission fees to the new company at FERC rates rather than at rates set by the five different state commissions.

MISO is the independent regional transmission organization operating in the Southeast and is the counterpart for that region of the Southwest Power Pool. Entergy has operating companies that have been considering moving from MISO into the Southwest Power Pool. This move is something that the MISO group supports as part of their effort to create a strong regional transmission and wholesale power market.

Over the past 30 years, the nation's electric utilities have consis-

tently gone through merger after merger creating large regional and multi-regional utilities. This move by ITC and Entergy further blurs the lines of what is a local utility.

ITC has interest in acquiring the transmission assets of utilities. It has ownership of transmission lines in 12 states including Oklahoma and Kansas.

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Blackwell*	Kingfisher*	Purcell*
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Comanche*	Monett, Mo*	Stilwell*
Copan	Mooreland*	Stroud*
Cordell*	Newkirk*	Tahlequah*
Cushing*	Okeene*	Tecumseh*
Duncan*	Olustee	Tonkawa*
Edmond*	OMPA*	Wagoner*
Eldorado	Orlando	Walters*
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Finding Redux

MESO staff from time to time assists a member city with reviews of tariffs and policies. While looking at the annual finance statements of two members, we noted again the lack of income from items most municipal residents pay – property taxes and drainage fees. Certainly these fees are more likely in the metro areas, but it speaks to how metro cities fund government. MESO members are highly dependent upon utility fees for operations of government in part due to the lack of funding by sources such as property taxes and drainage fees.

Drainage fees run \$4 per month in Oklahoma City which is minor, but the library tax runs \$120 per year for a home. Property taxes for city capital improvements run \$370 per year. Within the rural MESO membership, a penny of sales tax generates about \$225 to \$250 per year. So the taxes received by metro cities from property taxes and fees are equal to two cents of sales tax for rural cities. That is a huge funding difference.

Which brings up the point. Now is a fine time to

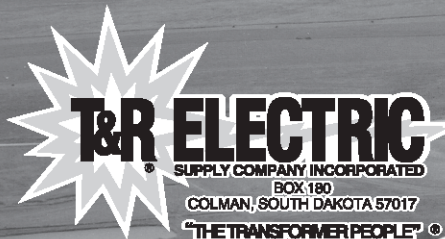
look at capital expenditure programs that have been delayed for years. Municipal budgets have been constrained since 2002 or nearly a decade. For those long delayed capital projects, general obligation bonds are a fine place to look for funding. Few cities have any bonded debt, and interest rates on property tax secured debt run little more than 2%. Contractors are in need of work so bids for work on streets and capital projects are likely to be attractive.

Finally, the payments made on municipal general obligation bonds are deductible. For the bulk of your residents, payments made for these municipal improvements will be offset by the deducted cost of the project. Unlike sales taxes and utility fees which are most often used to pay for projects, for many residents, the cost of these improvements will be 25% less than using those other funding sources due to deductibility of general obligation bonds.

Look at broadening your tax base when you look at your capital expenditures plans in this year's budget process.

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A Taxing Opinion

By Shane Woolbright

In my thirty years at MESO I have walked the halls of the capitol from the time that a Republican was hard to locate to today when a liberal is just about impossible to locate. During those years there was never a legislative session that was not dominated by the budget. That is, after all, why we have a legislature. In the 1980's life in rural Oklahoma was near depressing. The oil bust eliminated jobs, income, and banks. Most of our members in Western Oklahoma saw their banks and savings and loan offices close in the aftermath of Penn Square Bank's default.

State government had grown with the growth in oil and gas revenue. When this plunged, leaders such as George Nigh had to either cut education and other programs or raise taxes. They raised taxes, taking the state sales tax from 2% to 4.5% by 1987. Ever since that time we've seen a political push to decrease taxes. David Walters won the governorship over Steve Lewis on tax issues as Steve was an architect of the tax hike while Walters ran on his "no new taxes without a vote of the people" platform.

From that time forward those favoring less taxes gained numbers at the Capitol. Under Brad Henry the State cut income taxes just ahead of the current economic slump.

Now the newspapers of the state are full of stories that say Republicans who ran on a platform to cut taxes are ready to do so. They are taking a serious look at eliminating the state income tax. A Daily Oklahoman article by Michael McNutt interviewed many people in government and from "think tanks" about the tax cutting discussion. All seemed to have thoughtful arguments on the impacts of cutting state income taxes. Many maintained that economic growth will result from reduced income taxes. (Those of you who have been here a while, please see the results for economic growth from liquor by the drink, right-to-work, horse racing, lottery, and any number of other programs we have adopted in this time frame.)

As a utility association director, I have no horse in this race and no dog in this fight. But I note the absence of an argument for income taxes. When a legislator says that eliminating income taxes will be good for our economy, I find little to back that up. But I do know that eliminating the state income tax will eliminate a big federal tax deduction for me and everyone with a decent income. If Oklahoma trades income tax for some other set of fees on a one-for-one basis, there will be a net reduction in the dollars that are in Oklahoma. That is an economic negative.

Personal income taxes in Oklahoma are about \$2 billion per year. If you assume that 30% of the income tax level is paid by those not filing tax returns and taking an itemized deduction, that leaves 70% of the amount to be deducted. If the average federal tax rate were only 20% of that amount, you have \$280 million that Oklahomans would pay in added federal taxes if the state income tax were eliminated in one year and replaced with non-deductible fees.

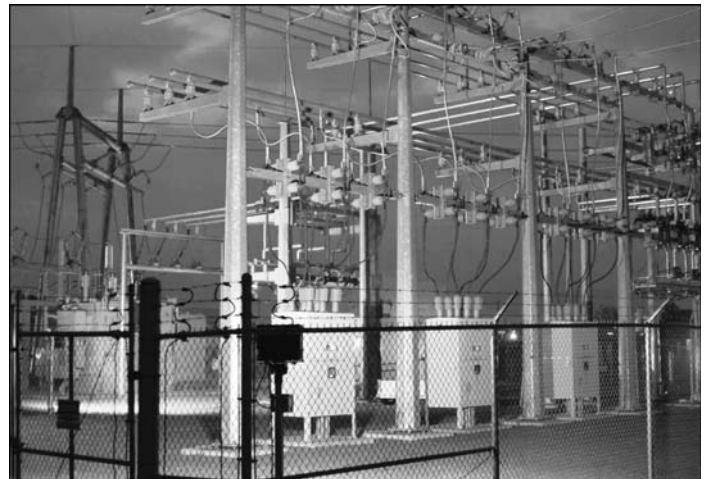
This is the problem. And nowhere in the articles on tax cutting do you see this argument made. Any number of groups will give their arguments on whether tax changes hurt the poor, help the poor, or encourage the wealthy to invest. But that is not the point. Any policy change affects different groups differently. But sending more money out of state is not a good idea.

Back in the 1980's, municipal governments were not at all happy with the State increasing sales tax rates. Cities had been able to expand municipal sales taxes in the 1970's due partly to the low state rate of 2%. But cities felt constrained to add taxes in light of the State's higher level. Any move by the State to add more to sales taxes will further constrain the ability of cities to add tax revenues in this fashion.

Conversely, if the State were to reduce State sales taxes and increase income taxes, there would be a net increase in dollars available in the state as non-deductible taxes would become deductible taxes.

Of course, those making an argument for higher

(see TAXING, next page)



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Mike Doublehead to Leave Stilwell Utilities

Mike Doublehead will leave his position as General Manager for Stilwell Utilities in January for the private sector. Mike has served on the MESO board of directors for the past eight years including four years on the executive committee and one year as board chairman. He is a past recipient of the APPA 7 Hats Award for outstanding utility leadership and MESO's Outstanding Service Award. His position on the board will be filled by appointment by current board president Dan Blankenship.

Upon hearing of his resignation Blankenship stated that Doublehead had been an outstanding public power leader and that his many valuable contributions to MESO were greatly appreciated.

Julie Hudgins will be the interim general manager for Stilwell Utilities with Mike's resignation there.

Comanche Making Commitment to Its Distribution System

The City of Comanche has some 800 homes and is making a big commitment to its municipal electric system. The city will soon borrow about \$1.5 million for upgrades to its substation and related facilities. That's about \$2,000 per home. Fortunately, in this era of low interest rates, the cost will be acceptable. Comanche has an allocation of power from the Southwestern Power Administration with support from the Oklahoma Municipal Power Authority so its wholesale power cost is quite reasonable as are its retail power rates. The added costs for the substation and other upgrades could be less than \$8 per month. The current substation is very old and no longer reliable. Substation costs have jumped in recent years as component costs have risen greatly. But without the investment, Comanche can't guarantee power will be delivered on some summer days.

Taxing *(continued from preceding page)*

income taxes are likely to hit a wall of anger. But the facts are there. Any city council that has looked at a budget has made choices on whether to have higher flat fees that may be fair but that disadvantage lower incomes or the elderly or to have higher per unit fees on water, sewer, and power so that needed income comes from the amount used.

Oklahoma should look at the larger picture on the State income taxes. Without taking the deductibility of the tax into consideration, legislators risk taking money out of the economy and shipping it to Washington with nothing coming back in return.

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- b. Ethical values and practices

II. Personal Strengths

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- b. Developing processes and practices to manage non-strength areas

III. Skill Processes for Improved Supervisor & Worker Performance

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- b. Instilling the right behavior practices in workers to ensure individual success
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February 9	August 9
March 8	September 13
April 12	October 11
May 10	November 8
June 21	December 13

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Location: MESO Training Room

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January 17 Who You Are Is More Important Than What You Are.

Each of us has a foundation built on our character, values, and actions. When we clearly know what is most important to us, what we stand for and what we hold dear, we can develop the actions and behaviors to live a meaningful life. After all, in the end, what do you want people to say about you?

March 13 The Uniqueness of You: The Strengths of Your Personality Through the MBTI

We are born with our personality. Our goal is to develop it to its fullest – building on our strengths, managing our weaknesses. But first, we need to have a clearer understanding of our personality. Through the MBTI®, participants will identify their strengths and discuss ways to enhance them and manage their non-strengths.

May 15 The Art of Successful Communications

How well do you listen? What distracts you? Do you always get the information you need to respond appropriately? Listening skills when combined with good questions enable a person to get to the heart of the matter quickly. But you need to know how to listen effectively and the various types of questions available to solicit the information you need.

July 17 Taking Ownership Through Responsibility

"It's not my fault!" Anymore, it seems that it's never anyone's fault – mostly because people don't take responsibility for their own actions. Change the perception. Taking ownership of your actions inspires trust and confidence from others. Learn what it means to truly be responsible.

September 18 Critical Thinking: Planning & Preparing to Prevent Disaster

You know what needs to be done so let's get after it. But wait, if you don't effectively think first, consider options and potential outcomes, you may end up repeating yourself, over and over again. Learn the steps of a critical thinking process as well the types of situations where critical thinking should be applied.

November 27 Managing Angry People

Why do people become angry? Are they angry at you personally? When you understand the basis for anger, you can develop effective strategies to help the person through their anger and then develop a course of action to address the true reason behind the anger.

SESSION FACTS: Classes will be held in the MESO Training Room, 308 N.E. 27th, Oklahoma City, OK 73105-2717. Registration begins at 8:30 a.m. each day. Session begins at 9:00 a.m. and the class will end by 4:00 p.m. Lunch is on your own.

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Who You Are Is More Important Than What You Are

☐ January 17, 2012 Registration deadline – January 10, 2012

The Uniqueness of You: The Strengths of Your Personality Through the MBTI

☐ March 13, 2012 Registration deadline – March 6, 2012

Getting What YOU Need When Interacting with Others: Listening & Questioning Skills

☐ May 15, 2012 Registration deadline – May 8, 2012

Taking Ownership Through Responsibility

☐ July 17, 2012 Registration deadline – July 10, 2012

Critical Thinking: Planning & Preparing to Prevent Disaster

☐ September 18, 2012 Registration deadline – September 11, 2012

Managing Angry People

☐ November 27, 2012 Registration deadline – November 20, 2012

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Mail registration to: MESO, 308 N.E. 27th Street, Oklahoma City, OK 73105-2717 or FAX to (405) 524-5095.

REFUND/CANCELLATION POLICY:

MESO incurs direct and indirect expenses in planning and presenting workshops and other events for its members. Unless otherwise stated on the registration form, registration fees will be returned or credited in full, if notice of cancellation is made at least two (2) working days prior to the date of the workshop or other event. Notice of cancellation should be made to MESO by phone (800) 636-6376 or fax (405) 524 -5095. Fifty percent of the registration fee will be waived if a cancellation notice is received less than two working days prior to the workshop or event. No refund will be made for cancellations received the day of or after the event. You may avoid the cancellation penalty by transferring your registration to another person. The full or partial waiver of registration fees charged in accordance with this policy will be considered on a case -by-case basis. In granting the waiver, MESO will consider any non-recoverable costs associated with the registration and reason for not attending. In general, waivers will be granted if the reason was related to: a sudden illness, accident or injury; a work -related emergency, such as a significant service outage or damages to facilities requiring the active participation of the registrant; the death of a family member, or co -worker, or a significant weather-related emergency that prohibits safe travel to the site of the event.

Minnesota Report on Costs of Renewable Energy Mandate

Former Minnesota Governor Tim Pawlenty was an early drop-out in this year's Republican presidential race due to his support as governor to a mandate that utilities get 25% of their energy from renewable resources. His support for fighting climate change did not mesh with primary voters. So he pulled out of the race.

In 2010, a more conservative legislature in Minnesota passed a measure requiring those utilities to submit a report estimating the rate impact of meeting the Renewable Energy Standard. The Minnesota utilities reporting serve some 8 million people.

The biggest utility is Xcel Energy. Xcel projected that customers will pay 1.4% more for energy over the next 15 years as a result of complying with the mandate. It said it's locked in wind contracts were similar in cost to market rates while its biomass resources were more expensive but not considerably so.

Minnesota Power said its least cost power supply expansion plan would be the same with or without the mandate. It said its renewable purchases averaged 3.5 cents per kwh. This does not include transmission. It said the renewable mandate would "produce on negative cost impacts to consumers."

Great River Energy is a cooperative generation and transmission company serving rural coopera-

tives. It stated that the mandate would add \$2 per month to the typical bill using 1,000 kwh.

Minnkota is also a cooperative generation and transmission company. The utility stated that additional transmission spending to move renewables into its rural areas would cause wholesale power cost to increase by 15.81% or about \$7 per month per rural consumer.

Southern Minnesota Municipal Power Agency stated that its wholesale power costs to cities would rise something over 5% due to wind power purchases.

Missouri River Energy Services had increased operating costs of 1.2%. This is a municipal power agency.

Heartland Consumers Power District, a municipal agency, reported that the agency would have less than one mill per kwh

of added costs for meeting the mandate.

Overall, the report is very surprising. It is difficult to measure the impacts going forward, but these utilities have filed reports that indicate minimal impact from using renewable energy. This can't be the case in many states, but in Minnesota, the report is good news. One thing that probably helps is the fact that areas in Minnesota where wind farms have been developed have very high levels of sustained wind. In Oklahoma where wind blows 38% of the time of sufficient force to generate power, costs are likely higher than areas of Minnesota where available wind has more output. Also, wind farms in Minnesota are closer to transmission grids than here where our wind is in lightly populated areas without easily accessed transmission.



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Utilities Need More Time to Comply with EPA's MACT Rule, APPA Tells Obama

The federal government should give electric utilities more time to comply with new environmental regulations that will require maximum achievable control technology for mercury and other hazardous air pollutants, APPA told President Obama in a Dec. 9 letter.

The Environmental Protection Agency is finalizing its National Emissions Standards for Hazardous Air Pollutants, or "utility MACT" rule, which will regulate utilities' emissions under the Clean Air Act. Making sure utilities have enough time to comply with this forthcoming rule is the association's No. 1 priority, APPA President and CEO Mark Crisson said in the letter to the president. A copy of the letter went to EPA Administrator Lisa Jackson.

"While the estimates vary on the number of retrofits that will be needed to comply with the rule, as well as how many existing coal plants will be closed and how many of those will be replaced with natural gas plants, the sheer scale of these efforts will be enormous," Crisson said. "Given this scale, the issue of providing sufficient compliance time to maintain an adequate and reliable supply of electricity is APPA's top priority."


APPA members own approximately 200 coal-fired units with an aggregate generating capacity of 31 gigawatts, Crisson said. "Based on a survey of our members, APPA has determined that public power utilities will need 77 months to comply with the final rule," he said. "This time is needed to conduct system planning, convene public meetings, obtain financing, and construct, install, and calibrate for use all the required control technologies."

In July 2011, APPA filed detailed comments with EPA that laid out a variety of concerns the association has with the proposed rule. The comments "make recommendations on how EPA can use the Title V

permitting program to provide utilities with additional time to comply rather than forcing utilities to violate the compliance time frame and subsequently enter into consent decrees with the agency," Crisson said.

APPA is also open to other mechanisms, such as the presidential exemptions, for providing utilities with additional time to meet the final rule's requirements, he said.

"We respectfully urge you to direct EPA to include at least one these mechanisms in the final rule," Crisson said. "Such mechanisms will provide the nation's public power utilities with the time they need to comply with a rule that is widely expected to significantly impact their operations and the communities they serve."



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GRDA (continued from page 1)

who has been a spokesman for OG&E in the past.

Their section was focused on whether taxpayers benefit from GRDA. They failed to answer that question specifically. The second thing they looked at was what could be done to get money out of GRDA for the state legislature to allocate.

The group examined whether having GRDA operations privatized and operated by a private entity would be valuable. This proved negative as greater economic output was unlikely.

The group looked at privatizing GRDA but did not understand that wholesale markets for power are not regulated. The report states that the Corporation Commission would oversee such sales if privatized. Not so. But the report did plainly state that privatizing GRDA would mean rate increases, less funds for local government, and less economic development in Northeast Oklahoma.

The report indicates that sale of GRDA would provide an up front payment to the state if sold, but such an action should entail putting the funds in an account to not be squandered. It does mention that this would be very, very difficult to do.

The report maintains that there is a tax subsidy to

GRDA customers from the state based on the assumption that power would be sold privately if not for GRDA which entirely ignores the fact that cities who buy the power once had their own power plants and would likely have their own plants today in the absence of GRDA. So no tax subsidy exists unless one takes a one-way view of municipal power providers.

On the question of how to return the subsidy to the state, the report is accurate in stating that rate hikes would be the outcome.

The report has only a few sentences relating to GRDA activities outside of power generation that require funding. These include the cost of maintaining the lakes, the recreation assets, fish and wildlife management, water quality management, water storage responsibilities for cities and rural water districts, flood control, public safety and law enforcement, land use planning and zoning, and management of the commercial activities on the lakes including docks and access.

However, the report does state that management by a private entity would require such functions to be turned over to other state agencies and funding would be needed.

(see GRDA, next page)

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TRAINING UPDATE

In the coming months MESO will be providing several training opportunities for members. Jeff Riley will teach a two-day school on electric lineworker fundamentals in February and will follow that up with transformer connections workshops in March. For apprentices, we will be doing a climbing certification school and a school on rubber gloving in the spring. Dave Garrison is working on a workshop using the new National Electric Safety Code. The NESC is the bible of the utility industry and knowledge of the code is necessary for every line foreman and supervisor. An overhead distribution design course and capacitor applications courses will be done in summer.

Job Training and Safety Program participants should note that we will be doing four-hour DEQ certification courses at your site in the April-May period.

Finally, we will try to work in a tree trimmer certification program in the spring. All those working in tree trimming should have a certification course record. This is one of the most attended workshops.

We will provide mailings to all members as these courses are provided.

Also, note that we have two major supervisor training courses in the MESO office for 2012. Those course outlines are in this newsletter.

GRDA *(continued from preceding page)*

The report has no reference to the problems of turning federal licenses over to other entities, no reference to the difficulty of calling bonds before the call date (very expensive), and ignores areas such as water sales and responsibility, flood liability, and a host of other problems the agency has on a regular basis.

The report ends with the question of whether GRDA provides benefits to citizens. The report is clear in this regard. The entities that buy water and power and are in the GRDA region enjoy benefits according to the report. Agreed.

One final note on the performance audit. We found nothing regarding performance. Nothing on how well bids were done, how fuel costs ranked with other utilities, nor any other performance indicator. We found a long re-hash of the question of whether government should be in the electric business and whether the state should try to cash in on the assets of GRDA.

Here we take some exception as the report had nothing to say about the fact that cities and cooperatives and industry customers provided all of the funds that make up the assets of GRDA. Other than an original grant of \$7 million from the Public Works Administration in 1938, GRDA has been funded by customers. For many years we have heard calls from some legislators to stop a subsidy to GRDA when one does not exist or to transfer funds from GRDA to the state when all GRDA funds are those of customers.

Fortunately, leadership in the legislature at the Capitol has understood that GRDA is a vital part of public power. That is the message we will again carry to the Capitol next month.

CALENDAR

January 12, 2012
The Supervisor Course: Intro to Supervision
Altus, OK

January 17, 2012
Success Skills – Part 1: Who You Are Is More Important Than What You Are
MESO/OMUSA Offices, OKC

February 9, 2012
The Supervisor Course: Character
Altus, OK

February 24, 2012
MESO/OMUSA Board Meeting
MESO/OMUSA Offices, OKC

March 8, 2012
The Supervisor Course: Ethics
Altus, OK

March 13, 2012
Success Skills, Part 1: Uniqueness of You: Strengths of Your Personality through the MBTI
MESO/OMUSA Offices, OKC

March 23, 2012
MESO/OMUSA Board Meeting
MESO/OMUSA Offices, OKC

April 12, 2012
The Supervisor Course: Personality and Communication Skills
Altus, OK



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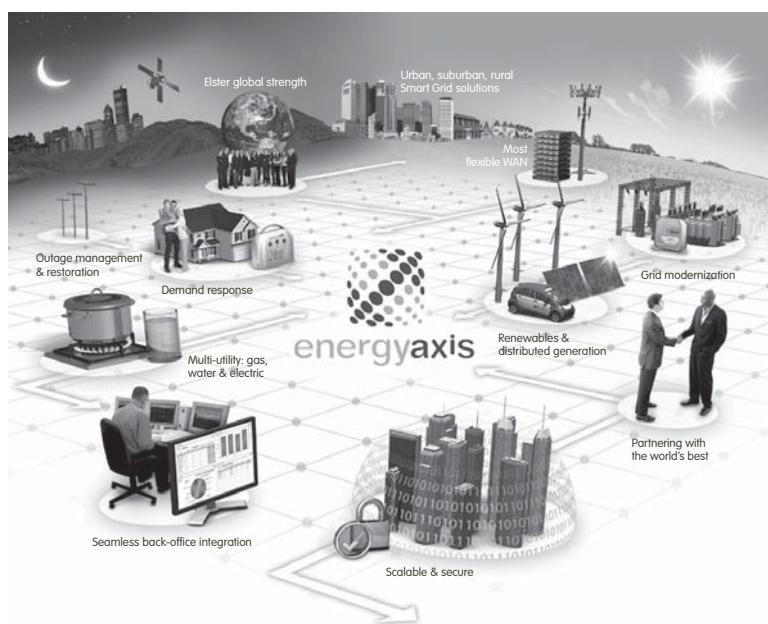
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