
Meeting the Challenges of a Second Century

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George Morrow, IP&L's director at the beginning of the utility's second century of operation, faces different challenges than those faced by his predecessors. Although different, the challenges facing the utility in the 21st century are no less daunting.

Energy was once again on the minds of many Americans as Independence Power & Light stood on the threshold of its second century of operation.

A botched deregulation scheme in California and unforeseen shortages of natural gas put millions of residents on the West Coast in danger of electric power shortages in the winter of 2001. Rotating power blackouts became a way of life for many Californians as the state struggled with the possibility of bankruptcy for the state's major electric utilities.¹

Millions more Americans reeled from sticker shock when they opened their home heating bills in January and February. Fear that electricity and natural gas shortages could spread across the United States raised concerns about energy supplies not voiced since the dark days of the first Arab oil embargo in 1973.²

Fortunately for the 53,500 plus customers of Independence Power & Light, the electric supply problems plaguing California and the West Coast are still an abstraction. The local utility has spent 100 years ensuring that customers in Independence have reliable access to as much electric power as they need, at the lowest possible price and the highest level of customer service. In its 100th year of operation, Independence Power & Light is a thriving enterprise and has the distinction of being the second-largest of the 89 municipally-owned electric utilities in Missouri. Each year, it supplies the people, businesses and industries of Independence with 1 billion kilowatt-hours of electricity. The utility has an annual operating revenue approaching \$80 million, and it provides living wage jobs for more than 200 Independence employees, many of whom

call Independence their home. The hometown utility operates sophisticated power plants, substations, and transmission and distribution systems.

Independence Power & Light remains as fiscally responsible as when Samuel Woodson and Roger Sermon were ensconced at City Hall. Ratepayers have not seen their base electric rates increase for a dozen years now. And yet, the utility continues to make the investments needed to ensure that the citizens of Independence have access to reliable, inexpensive electric power for decades to come.

Independence Power & Light upgraded 25 computer-based systems, from meter reading equipment to power plant controls, in its successful preparation for the changeover to Y2K. In 2000, the distribution system was improved with the addition of two substations and newly-installed distribution lines.³

During 2001, an additional two existing substations will undergo a thorough modernization. Meanwhile, Missouri City Station overhaul activities will enhance the reliability and performance of the coal-fired power plant. At a time when other sources of fossil fuel are in scant supply, coal-fired plants are an important hedge against the continuing rise in electric power demand and related costs.

Changes Ahead

For most of the past 75 years, electric power in America was a regulated monopoly. In exchange for allowing regulators to set the price for electricity, utilities received the right to offer electric power in a specific service territory and were allowed a guaranteed return on investment. Utilities also agreed to take responsibility to serve all customers in their service territory.¹

The system worked that way for 75 years. But in the 1970s and 1980s, numerous American industries, including railroads, telecommunications, airlines, banks and trucking, were deregulated in an attempt to foster competition in the marketplace.

Industrial electric customers had long complained that they subsidized the rates for residential customers. In 1992, Congress began the deregulation of the electric utility industry nationwide when it passed the National Energy Policy Act of 1992.² The landmark legislation essentially opened the nation's high-voltage transmission system to competition by allowing utilities and non-utilities to "wheel" electric power to customers anywhere that power could get to them. The federal encouragement of wheeling quickly began to break down the walls of the regulated monopoly structure of the electric utility industry.

Once Congress opened the nation's high-voltage transmission system to competition, the Federal Energy Regulatory Commission (FERC) left the retail portion of the industry to the states, which had primarily regulated the industry since its inception.

Generally, states where electric rates were high moved quicker to deregulate electric utilities than states where the rates were low.³ In most states, municipal utilities have been generally exempt from deregulation. In California, which moved quickly to deregulate electricity, municipal utilities were given the choice of opting out of deregulation - which most chose to exercise.⁴

In Missouri, a low-rate state, legislators have been cautious in dealing with deregulation. Several concepts have been debated, and a number of bills have been introduced relating to deregulation, but no legislation was enacted as of early 2001.⁵

Lucky Missouri. In the winter of 2000-2001, the nation discovered that if deregulation isn't well thought through, it can go horribly wrong. California, one of the first states to fully deregulate its electric utility system, was the first to experience major problems.

The state had to resort to rolling blackouts to make up for electricity shortages, and supply and demand ratcheted up wholesale power rates to unprecedented levels. The California General Assembly passed emergency legislation giving the state broad powers to act as an electricity broker, just to keep the high-voltage electric power grid on the West Coast from collapsing.⁶

Independence Power & Light intends to remain customer-focused in the marketplace of the future, in much the same way that Mayor Roger Sermon turned down Kansas City Power & Light Company's attractive 1924 offer to purchase the utility.

George Morrow, director of Independence Power & Light, knows that the utility soon faces critical decisions on vital issues such as the acquisition of power supplies to meet future growing demand for electricity, and deregulation legislation, should it come.

"The employees at Power & Light, the Public Utilities Advisory Board and the Independence City Council are prepared to meet these challenges and ensure the continued success of Independence Power & Light," Morrow says.⁷

¹ Beck, "Energy: The Twenty-First Century's Market Leaders," *Area Development*, December 1999, pp.75-79

² Beck, "U.S. Utilities on Fast Road to Electric Deregulation," *Location USA*, 1998, pp.13-17

³ Beck, "Is Indiana Behind the Power Curve?" *Indiana Business Magazine*, August 2000, pp.10-15

⁴ Beck, "Deregulation and Competition," *Working History of the Illinois Municipal Electric Association*, Springfield, Illinois, 2001, pp.1-11

⁵ Leslie Zganjar, "Disconnect on natural gas tax stalls dereg debate in Missouri," *The Business Journal*, June 23-29, 2000, p.25

⁶ "Unpaid, California's Small Power Suppliers Balk," *Wall Street Journal*, February 1, 2001, p.A-4; See Also, John J. Fialka, "California Finds Few Allies In Its Bid To Get Federal Help For Energy Crisis," *op.cit.*, February 1, 2001, p.A-24

⁷ "Investing in the Future," *Independence Power & Light*, 2000 Annual Report, p.5

A Community Resource

Since Independence Power & Light is owned by the people of Independence, the utility has always been aware of a special responsibility to be a part of the community. Profits from the utility have never gone to far-off investors or been manipulated to satisfy the forecasts of Wall Street securities analysts. Instead, "profits" are invested in the community for the betterment of the community.

Because the utility is owned by the residents, Independence Power & Light has always gone beyond normal utility service. In the 1930s, the utility provided jobs for residents devastated by the Great Depression. In the 1940s, Department employees rolled bandages and planted Victory Gardens to assist in the war effort. During some years in the 1950s and the 1960s, Independence Power & Light was able to provide free electricity in December as a holiday gift to residents.

Today, as it begins a second century of operation, Independence Power & Light is involved with the community in many ways. The utility works closely with local schools to offer energy education services to students - the customers and owners of the utility tomorrow. Independence Power & Light employees volunteer countless hours to their churches, civic organizations and community groups. Independence Power & Light cooperates closely with the Chamber of Commerce and local economic development agencies to attract and retain jobs for the community.⁴

For Independence Power & Light, investing in the community means investing in the future. And today, like it has been for a century now, investing in the future makes Independence a better place to live, thanks to the inexpensive, reliable electric power provided by Independence Power & Light.

¹ Holman W. Jenkins, Jr., "Where's St. Ralph When California Needs Him?" *Wall Street Journal*, January 31, 2001

² Bill Koenig, "State is warned of potential for shortages in electricity," *Indianapolis Star*, January 30, 2001

³ "Director's Message," *Independence Power & Light*, 2000 Annual Report, p.2

⁴ *Ibid.*, p.4