

Utility merger advantages questioned

Nancy De Gennaro, degennaro@dnj.com 3:55 p.m. CDT July 18, 2015



(Photo: HELEN COMER/DNJ)

MURFREESBORO – Since 1939, the Murfreesboro Electric Department has been providing energy service for the city of Murfreesboro.

In May, Middle Tennessee Electric Membership Corp. announced intent to acquire MED. On June 28, The Daily News Journal ran an article about MTEMC President Chris Jones' perspective.

The Daily News Journal recently sat down with Steve Sax, general manager of MED, to ask many of the same questions — and a few more:

Tell me a little about the history of Murfreesboro Electric Department.

MED has been providing electricity for the City of Murfreesboro and its citizens for 75 years. Since 1939, we've grown from a company of just 14 full-time employees to 85, and have worked with the city to make our community a better place and a more attractive place to major economic partners like MTSU, Amazon and General Mills.

Chattanooga recently expanded broadband access across the city. Would MED consider that sort of move in order to bring high-speed gigabit Internet to Murfreesboro, especially in low-income areas?

The answer is unequivocally "yes." The truth is, we have been creating the beginnings of a project like this for years. MED has built a robust high-speed fiber optic network for ourselves and the community to make use of. We have installed 20 miles of fiber optic cable and are in the process of installing the last 20 miles throughout the city. This will fully interconnect our electric system. We have already started a fiber-optics pilot program with MTSU, just like what Google is working on in Nashville.

Electricity was the new, essential infrastructure for our grandparents and great-grandparents. Today, it's broadband Internet. MED has been working for 75 years to improve our residents' quality of life, and we would certainly be willing to partner with the city now on rolling out such a program. We believe it's going to be essential to the growth of this community and will further enhance the quality of life for our citizens.

I know MED is the biggest sponsor for the annual Earth Day Celebration in Murfreesboro. What are other ways MED and its employees are involved in the community?

Earth Day Celebration was founded in 2002 when MED wanted a way to celebrate the start of our Green Power Switch program with our customers. Today, we continue that tradition by being the largest sponsor and organizer for this great event.

We also sponsor the annual Christmas tree lighting in front of the courthouse and the Chamber of Commerce's Rally in the Alley that celebrates MTSU football. We actively work with the youth of our town through junior leadership programs, mentoring programs, shadowing and even internships. We are also a major giver to programs like United Way that help make this a better city.

Most importantly, we're Murfreesboro residents just like you. Our employees are active in civic and service groups such as Kiwanis and Rotary, and we speak with groups around the city about energy efficiency, scams, storm procedures and safety. Through our Magic Dollar program we support the Community Helpers organization as well.

We also invest in the future of our community by hiring students from MTSU and bringing on local students as interns. One of the great things about the people of Murfreesboro owning their own power distributor is that the people who get up at 3 in the morning to get the lights back on are the same people who you see at church or at the grocery store the next week. We are neighbors serving our neighbors.

How many customers does MED have?

MED provides electrical service to 56,700 Murfreesboro residents and employs 85 people to keep our system running reliably.

How is MED funded — through tax dollars? Or does MED have a cooperative system like MTEMC? Essentially, who owns MED?

We are completely funded by our customers and governed by a five-member board of directors made up of Murfreesboro citizens. The board is appointed by the City Council, who again are elected by the people of Murfreesboro. How we can spend the money our customers give us is regulated by a federal power contract with TVA.

It's important to note that MED does not receive any money from the city or from taxes collected by the city. On the contrary, we are proud to be one of the biggest contributors of "in lieu of tax" money to the city. Last year, we contributed over \$4 million that went to fund schools, roads and other public works.

What precipitated the talk of merging MTEMC and MED?

Unfortunately, we don't know anything about what spurred conversation of a buyout of the citizens' power distribution system. No one at MED, from the board, management or our employees was informed of any discussions on the matter until we were informed by the city of Murfreesboro that it had already signed an memo of understanding with MTEMC to begin a discussion of acquisition. This was the same day it went to the newspapers. While we regret not being at the table for those discussions, we are committed to being a very active part of the discussions going forward.

What is MED's dollar value?

MED's value is currently being investigated, but we do believe that the \$150 million estimation that has been suggested significantly undervalues the investment made by our customers. There is a very clear system for judging how to price an electric system referred to as the "Tennessee Formula" law. That law requires that MED's value take into account all of our assets, depreciation as well as a percentage of lost income.

We believe it is of the utmost importance that MED customers get a fair offer on the system they've built for over 75 years and that this process is as thorough and fair as possible.

If the merger happens, how will it happen? Will there need to be a referendum in order to sell MED? Explain that process.

According to the Municipal Plant Act of 1935 the decision to sell our distribution system must pass votes from the MED board and the City Council before going to a public referendum. To be honest, any deviation from this process, would need a legal ruling, particularly where a public vote is concerned. It is crucial that the people of Murfreesboro have a say in what happens to their electric system. They built it; they paid for it.

Would it be a benefit to customers if MED and MTEMC merged? What sort of rate stability does MED have versus MTEMC? Explain your answer.

It is our belief that the people of Murfreesboro will see the greatest benefit from maintaining its ownership of MED. There has been talk of reducing duplication and streamlining efforts. However, because of a boundary agreement MED entered into with MTEMC in 2000, this really has not been an issue.

In fact, thanks to the agreement, we have been able to strategically expand our system within a contained area. Our financial stability has allowed us to take on capital-improvement projects without raising rates, and those upgrades are almost complete. When construction is complete, MED will be able to put that same money toward lowering rates.

We also offer services, like automated metering, SmartHub and our customer information system, that improve efficiency and the customer experience. MTEMC doesn't offer those services, so it makes sense that their members would benefit from an acquisition, but it doesn't benefit our customers.

As for rates — there is very little difference currently. TVA charges the same wholesale rate to all its distributors and approves our retail rates as well.

How will the proposed acquisition affect ratepayers? How do the rates and other surcharges differ between the two systems? How will the acquisition affect rates?

At MED we have built a very reliable and efficient distribution system with very competitive rates compared with the rest of the country. We are proud of that fact. This is something we have been able to do in part because the area we serve has a high density of people — an average of 81 customers per mile.

MTEMC has a much lower density — just 19 customers per mile. Buying MED would allow them to improve their cooperative's efficiency by increasing their density. A buyout would require our customers to pay for infrastructure over a much larger area than before, such as accounting for the construction of power lines in surrounding counties.

MED has a strategic goal to have the lowest possible electric rates for our customers. We have structured our planning and investments around that goal, and we are making progress. We believe this will be a great benefit to our customer, but we also believe it will be much harder to realize those rates if we are purchased.

How will it affect employees of both systems? How will benefits and pay rates be different between MED and MTEMC? Will there be jobs for all MED employees?

While MTEMC has guaranteed that it will have jobs for every MED employee in the event of an acquisition, the hard truth is that the cooperative has different jobs and titles, different rules and regulations. For example, MED has loyal employees who are designated truck drivers and have been for years. MTEMC does not have this position.

We wonder what will happen to people in that situation as well as others. MTEMC, rightfully, hires from within and considers seniority in promotion. If someone has spent many years at MED, how does that count after a purchase?

Every utility does things differently. We have a different set of work rules, different jobs, job titles, and different ways of operating. We have to ask how will that work out? These are all factors that must be taken into account when considering the wisdom of a buyout.

Also, how will merging the two systems, which have different distribution voltages, affect service? And will the merge affect the visual landscape? Will there be duplication of infrastructure/equipment? If there is duplication, will those items be removed?

While the difference in voltage shouldn't impact service, locations like Thompson Lane that have two sets of power lines will continue to have duplicates even in the event of a buyout. The different voltages are not compatible with both systems, so removing those lines would require MTEMC to completely rebuild the system.

As for the visual landscape, MED has worked closely with Murfreesboro's Urban Environmental Department to develop a conservative but effective tree-trimming policy. The cooperative has a much more aggressive policy that requires an additional 5 feet of space on either side of power lines.

What is MED's part in economic development and encouraging businesses to locate to Murfreesboro? What incentives can MED offer? Is there a set rate or formula?

We have worked hard over the last 75 years to make our city a better place, including attracting major businesses like Amazon and General Mills to this area.

When those opportunities come along, MED has done everything in its power to provide reliable and cost-effective electric service to make Murfreesboro a competitive business location, even spending as much as hundreds of thousands of dollars to make Murfreesboro attractive to corporate partners.

MTEMC works with state and county governments on these projects, as well. The same focus on our city cannot be guaranteed, though, as the needs of Murfreesboro will have to be considered alongside the cooperative's work with Rutherford, Williamson, Wilson and Cannon counties, as well as more than a dozen other cities.

How will this impact the capital improvement plans MED? And what are some of those capital improvement plans, and the cost of each? Will those affect customer rates?

Many utilities across the country would love to be in the financial shape MED is in. Because of our strategic planning and good stewardship, we are now in a position to fund future projects without needing to raise rates for the next five to 10 years. Among those planned are the underground utilities along Lytle Street when that area is upgraded.

Unfortunately, we believe an MTEMC acquisition could put those plans on hold or change them altogether as the cooperative's president has suggested the city would have to pay for the cost.

Recently there was an outage that affected various parts of Middle Tennessee in both Rutherford and Cannon counties. Does that sort of thing happen often? What is the outage rate, and what is the recovery time for those outages, on average?

On June 4 we had a major outage in this area, which was actually the result of a problem with MTEMC's equipment that caused a TVA high-voltage line to shut down, which affected MED. That sort of thing happens to every utility — equipment fails eventually. The difference is in how quickly you can get your customers' power back on.

Our defined boundary and dense population helped us respond quickly and get our customers without power out of the dark in a relatively short time. That's one of the advantages of having a publicly owned utility that focuses on just your city, and gives our customers local control. In general, MED has invested labor and engineering capital to continually upgrade and optimize our distribution system, and the result was that the lights stayed on for Murfreesboro residents 99.9928 percent of the time in 2014. That's a great record.

Do you have anything else you'd like the community to know about MED or about the viability of a merger with MTEMC?

I think the most important thing to remember is that the reliability and success of our electric department comes from the fact that our employees live and work right next to our customers. We even have second-generation employees who got their love for providing the best possible service to Murfreesboro from their parents. No other electric provider will serve this community with the passion and dedication that MED does.

MED has been a vital part of the city's growth and success over the last 75 years. We believe that the employees that are residents of this great city stand as a testament that together we will help our city succeed in the Murfreesboro 2035 Strategic Plan.

If it happens, when do you expect the changes?

If a merger happens, the timeline will be outside of our control. What is in our control is making sure this process is approached diligently, with an eye toward doing what is best for our customers. That is our focus, and we will continue to provide the best possible service to the residents of Murfreesboro.

In the meantime, our loyalty is to our customers and to the well-being of our great and beautiful city. We believe that MED is a great asset for our city.

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Meet Steve Sax

Who: Steve Sax, general manager of Murfreesboro Electric Department

Family: Wife Patricia is a schoolteacher from Florence, Alabama. They have two children: Sarah, an economist in Charlotte, North Carolina, and Benjamin, a senior at Tennessee Tech Univserty (TTU) studying electrical engineering.

Education: Bachelor's in electrical engineering from Purdue University; master's of utility planning and development from Georgia Institute of Technology; and MBA from Delaware State University

Career/experience: He has 40 years of experience in the electric utility industry. He started his career working with TVA before serving municipal electric utilities in Alabama and Delaware before coming to Murfreesboro. He is the ninth general manager to serve MED.

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