Two neighboring utilities united by fiber

Merger of Hancock Telecom and Central Indiana Power paving the way for network deployment in rural areas

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Two years after a merger that created one of the nation's most unusual utility cooperatives, NineStar Connect is on an ambitious quest to deploy more fiber-optic cable in Hancock County for phone, Internet and television service.

By the end of June, the Greenfield company created by the merger of Hancock Telecom and Central Indiana Power hopes to have 143 new miles of fiber in Hancock County's Blue River Township.

The township southeast of Greenfield was not previously served by Hancock Telecom. But it was served with electric service by Central Indiana Power.

Burrow

The Blue River Township fiber build illustrates the potential of the January 2011 merger in providing enhanced telecommunication services in rural Hancock County.

Before the merger, "we'd get people from Blue River basically begging us to build [fiber]," said Michael Burrow, vice president and general counsel of NineStar, who came from the telecom side.

But as Hancock Telecom, which served mainly areas north of U.S. 40, "we probably couldn't have made a business case for it."

The merger of a conservative electric utility and the entrepreneurial Hancock Telecom stemmed from Central Indiana Power's need to build its own fiber-optic network to allow for so-called smart meters, which allow for automatic meter reading.

A fiber network was also needed to help Central Indiana Power better monitor performance of its network and substations and eventually offer so-called time-of-use billing. Improving reliability ultimately lowers the cost of electricity.

The idea is that smart meters will not only be able to read power usage of a customer, but also send data in the other direction by providing a customer with data about electric rates at any given moment.

A customer could then elect to use certain electrical devices during off-peak hours, saving money.

As the story goes, the chairman of Hancock Telecom, Philip Hayes, and the chairman of Central Indiana Power, Jim Cherry, were childhood friends and one day started talking about a merger after realizing that each needed to install more fiber in their overlapping territories.

It dawned on the Hancock Telecom folks that Central Indiana Power could use fiber not just for its smart grid but that its excess capacity could be used to compete with telecommunication services.

The utilities convinced the Indiana General Assembly to pass a bill to allow such a merger. But the cooperatives also had to convince their 14,000 member customers, who would need to vote to approve such a deal.

Before a joint meeting of the cooperatives' boards at Mount Vernon High School in late 2010, Burrow was concerned not enough members would show up for a quorum, given how such meetings tend to go.

"We were absolutely overwhelmed," he recalled. "We started getting telephone calls from the county sheriff that traffic was backed up" before the meeting started.

Roughly 85 percent voted in favor of the merger. Some said they liked the idea of getting one utility bill. Others, like those in Blue River Township, which has about 1,200 homes and businesses served by Central Indiana Power, favored the deal because it would bring fiber-based telecommunication service to a largely underserved area.

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"A lot of times when it rained, they would lose their phone signal," Burrow said.

With work well under way to rework such a third-world phone system in Blue River, NineStar is already planning to add fiber elsewhere in what was Central Indiana Power's territory.

NineStar now offers various types of electric/telecom service not just in Hancock County but in Hamilton, Henry, Madison, Marion, Rush and Shelby counties.

The expanding fiber backbone has allowed NineStar to offer customers whiz-bang services such as thermostats that can be controlled from a customer's smartphone, remotely.

Those buying certain upgraded levels of service can have the "Nest" thermostats installed at no cost. Burrow takes out his smartphone and begins dialing up and down the temperature of his house.

"I can guarantee you I have saved 10 percent [off utility bills] using this," he said. "This is where communication and power are coming together and we are leveraging that."

But the telecommunications end of NineStar still has to stay on its toes. While residents in certain parts of NineStar's territory don't have an alternative electric utility, they do have a choice of providers for cable TV, phone and Internet service.

The merger appears to have been a success, said John Koppin, president of the Indiana Telecommunications Association. "Certainly in Indiana, it's the first and only one" of its type. "It's provided a certain amount of synergy because of things like the smart grid."

The only other known combined electric and telecommunication cooperative is Nushagek Cooperative, in a remote part of southwestern Alaska.

Whether more such marriages will occur in Indiana is uncertain. The two Hancock utilities had a certain amount of familiarity and ability to cooperate that made the merger work, Koppin added.

NineStar's Burrow said it might be more likely that electric and telecommunications cooperatives will simply create partnerships as the electric utility industry looks at the need to add fiber for the smart grid.

In fact, NineStar was approached recently by Johnson County REMC, a provider of electric service in the county south of Indianapolis, about forming a joint venture that would provide telecommunication services.

Johnson County REMC in late 2012 completed installation of 115 miles of fiber to its electric distribution network to allow for smart meter capability.

NineStar will provide technical and customer support for the telecom venture, known as Johnson County Fiber Network LLC.

As for the NineStar name, it's a reference to the consolidation of nine companies since 1950 that the two merging utilities had acquired. "Star" is a reference to light-carrying fiber optics.•

Surprise WellPoint CEO choice sends shares down

Joe Swedish will take helm of health insurer March 25

By **J.K. Wall**
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WellPoint Inc. surprised Wall Street, yet again, and is paying the price for it.

The Indianapolis-based health insurer saw its stock tumble as much as 4.8 percent on Feb. 13 after it unexpectedly named a career hospital executive to be its next CEO.

Joe Swedish, 61, CEO of Michigan-based hospital system Trinity Health, will take the helm of WellPoint on March 25, the company announced Feb. 12 after the markets closed.

Investors expected WellPoint to name a health insurance veteran to lead the company after its previous CEO, Angela Braly, an attorney, oversaw multiple mistakes in WellPoint's pricing of its products, large rate hikes made with poor political timing, and multiple downward adjustments to earnings forecasts. Braly, who also was unknown to Wall Street when she was named CEO in 2007, was forced out in August 2012 after investor anger boiled over.

Such basic operational mistakes led many WellPoint shareholders to look for someone with the experience to fix those problems. The two candidates mentioned most often were Jim Carlson, the former CEO of Virginia-based Amerigroup Corp. who joined WellPoint after the two companies merged, and Ron Williams, the former CEO of WellPoint rival Aetna Inc.

Swedish, for all his accomplishments, does not have the background shareholders were looking for.

"I fail to see how that's going to be, in the near term, in the strategic and operational best interests of the company," said Sheryl Skolnick, managing director of CRT Capital Group in Connecticut. She added, "You don't experiment with the shareholders' money, especially not with a business that has maybe stabilized but is still highly fragile."

Other analysts also criticized WellPoint's board—which drew considerable fire from investors for its reluctance to fire Braly—for Swedish's selection.

Swedish

"WellPoint had a lay-up, but the board chose to increase the degree of difficulty instead," wrote Carl McDonald, a health insurance analyst at Citigroup, in a note to investors.

"WellPoint's biggest issue over the last five years has been poor execution, and its biggest challenge over the next couple of years is that the profitability of its core businesses may be savaged in 2014 and beyond because of health reform," McDonald added.

The bulk of President Obama's 2010 health reform bill will take effect next year, upending the markets for individual and small-employer health insurance that, by McDonald's estimates, account for 25 percent of WellPoint's annual profits.

Others, however, viewed Swedish's appointment as smart, given that health reform is pushing health care providers to operate health plans and also is pushing health insurers to operate hospitals and physician practices.

At Trinity Health, Swedish oversaw a Medicare Advantage plan the system operated, which served roughly 30,000 seniors. He also has served for three years on the board of Coventry Health Care, a health insurance competitor of WellPoint.

WellPoint, the nation's second-largest health insurer, is rapidly trying to expand its CareMore subsidiary—purchased in 2011—which operates health plans and clinics for seniors.

"While not a name or background we expected, it may be argued that Mr. Swedish's experience and interests align well with the likely U.S. health care system of tomorrow—that being a more integrated delivery care model where payers and providers together move increasingly toward accountable care and overall efficiency," wrote Tom Carroll, an analyst at Stifel Nicolaus & Co., in an investor note.•