



# *Straight Answers To False Charges By Private Sector Communications Providers*

**For more than a century**, public power utilities have played a vital role in furnishing essential competition in the electric power industry. This competition has kept prices low and quality of electric service high in the communities that operate their own electric utilities. In the absence of state barriers to entry, public power utilities can now play a similar role in advanced communications. Private incumbent telephone and cable providers assert that local governments have an unfair advantage because of their position as both competitive providers and regulators of services and that public entry is contrary to “level playing field” principles. A closer look reveals these and similar claims are false.

## **FALSE CHARGE**

Localities providing communications services are competing against the private sector companies they regulate.

## **STRAIGHT ANSWER**

Public power utilities do not regulate any communications providers. The Federal Communications Commission and state public utility or public service commissions have responsibility for regulating telecommunications providers. While local governments do manage public rights of way and issue cable franchises, the former activity is subject to stringent federal and state non-discrimination and competitive-neutrality requirements, and the latter is governed by detailed federal standards in the Cable Act. Internet access providers are generally not regulated by any level of government.

## **FALSE CHARGE**

Localities have an unfair advantage against private sector communications providers because they do not pay taxes.

## **STRAIGHT ANSWER**

Public power utilities are treated the same way as other governmental and non-profits are under federal and state income tax laws – they do not pay income taxes because they do not earn profits. At the local level, public power utilities are routinely

required to make payments in lieu of taxes to the local government that are often higher in amount than what private sector communications providers pay in taxes. Furthermore, public power utilities do not have access to the wide variety of tax benefits that are available to private sector communications providers.

## **FALSE CHARGE**

Localities have access to low-cost or no-cost financing.

## **STRAIGHT ANSWER**

The use of tax-exempt financing is a perfectly legitimate practice for public improvement projects. However, low-cost or no-cost financing is rarely available in today’s market and comes with numerous onerous burdens. Therefore, most public power communications projects use other means of financing such as taxable bonds or cash reserves. By comparison, major incumbent telephone and cable companies have access to the best commercial rates.

## **FALSE CHARGE**

Localities cross-subsidize communications services at the expense of electric rate-payers.

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**STRAIGHT ANSWER**

Localities are very careful to avoid cross-subsidization. State and local enterprise rules prevent cross-subsidization and require utilities to be financially self-sufficient. By contrast, the private sector is free to engage in cross-subsidization and routinely does so on a massive scale.

**FALSE CHARGE**

Hidden subsidies allow public power utilities to undercut the prices charged by private competitors.

**STRAIGHT ANSWER**

Public power utilities do have many advantages – a long history of dealing with high technology products and services; vast experience with all aspects of customer service; ready access to poles, conduits, and rights of way; a century-old ethic of universal service; and high levels of customer trust. Public power utilities also typically have at least three anchor tenants that reduce the risk of entry into communications — the utility itself, local government, and local schools. These advantages, however, are not “hidden” subsidies.

Public power utilities can charge lower prices than their private sector counterparts for the following reasons:

Public power utilities focus on fostering economic development, educational and occupational opportunity, and quality of life in their communities. Unlike incumbent cable and telephone providers, they do not need to make profits in a reasonably short period of time for distant shareholders. Thus public power utilities can take a long-term view of what is good for the community and set their rates at the lowest level necessary to assure cost recovery over the foreseeable life of their assets.

Many private cable providers bought their systems at grossly inflated prices and then had to spend billions of dollars to upgrade them. Public power systems can build entirely new systems for a fraction of the cost. Public power utilities operate in the public eye and could not get away with wasteful, inefficient operations and shoddy accounting practices.

**FALSE CHARGE**

Public communications projects often fail.

**STRAIGHT ANSWER**

This is simply not true. Industry studies that are cited by incumbent telecommunications and cable providers are seriously flawed. They use performance criteria applicable to private sector projects, even though municipal objectives are fundamentally different. Many public power communications projects do not generate a profit because they set rates at the lowest possible level that will enable them to recover their costs and save their customers money. Other industry reports have studied systems that had not been operating long enough to generate any meaningful data. Incumbents have not been able to support their claims that municipal communications projects have failed.

**FALSE CHARGE**

Public power utilities are less efficient than their private sector counterparts.

**STRAIGHT ANSWER**

Public power utilities have been in existence, in some cases, for over 100 years. They have proven their ability to compete in the marketplace. In both the electric and advanced communications industries, they operate highly sophisticated technologies in a very efficient manner. Bond rating agencies give municipal utilities, on average, much higher credit ratings than their private sector counterparts.