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Press Release

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NEW PHOENIX CENTER STUDY FINDS ELECTRICITY RATES RISE WHEN CITIES SHIFT COSTS OF GOVERNMENT BROADBAND NETWORKS TO A MUNICIPAL ELECTRIC UTILITY

Cities contemplating a utility-funded municipal broadband system should consider the effects on electricity rates on their constituents

WASHINGTON, D.C. – Worried about their survival in the Information Age and constantly on the lookout for ways to promote local economic development, a few hundred municipalities across the United States have constructed and operate their own high-speed broadband networks. Funding these expensive networks presents financial challenges and most (if not all) Government-Owned Networks (“GONs”) are subsidized by city finances in some way. Many of these GONs are found in cities that operate their own electric utilities. Often, these cities seek to place the debt of the broadband network (among other expenses) on the electric utility’s books, thereby improving the apparent financial condition of the broadband network at the expense of the captive ratepayers of the electricity division.

In a new analysis released today entitled *Electricity Rates and the Funding of Municipal Broadband Networks: An Empirical Analysis*, Phoenix Center Chief Economist Dr. George S. Ford looks at the electric utility rates of four Tennessee cities that constructed GONs in or around 2008. All four cities operate a municipal electric utility but two of the cities used the utility-funded model (Clarksville and Chattanooga) while the other two cities (Pulaski and Tullahoma) funded the network with General Obligation Bonds, thereby avoiding loading large portions of the cost of the broadband network on their electric utilities. Using electric utility data from the Energy Information Administration, the analysis indicates electric utility rates for residential and commercial customers in Clarksville and Chattanooga rose by 5.4% as the result of their utility-funded broadband networks. In contrast, the electric rates of the utilities in Pulaski and Tullahoma did not rise after the deployment of their GONs. Utility-funded broadband networks raise electricity rates to fund a cross-subsidy from captive electric customers to the broadband network.

“Municipal broadband systems typically require subsidies from city finances,” says study author and Phoenix Center Chief Economist Dr. George S. Ford. “When a broadband network is attached to a municipal electric utility, the data show electricity rates rise to cover the costs. Cities contemplating a utility-funded municipal broadband system should consider the effects on electricity rates on their constituents.”

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A full copy of PHOENIX CENTER POLICY BULLETIN NO. 53, *Electricity Rates And The Funding Of Municipal Broadband Networks: An Empirical Analysis*, may be downloaded free from the Phoenix Center's web page at: <https://www.phoenix-center.org/PolicyBulletin/PCPB53Final.pdf>.

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