The Consequences of Changing Electricity Regulations for Rural Communities in Kentucky

Summary

Amid continuing deliberation on how best to change regulation of the electricity industry, comes a new report from the TVA Rural Studies Program: "The Consequences of Changing Electricity Regulations for Rural Communities in Kentucky."

As with the airlines, banking, and telecommunications, deregulation of electric utilities will likely affect rural areas significantly and in different ways than larger, urban areas. Contrary to the popular notion that deregulation always leads to cheaper, more efficient service, deregulation in these industries has resulted in some rural areas paying higher prices, receiving lower quality service, or in losing service altogether. The same could prove true for electricity if policymakers fail to take into account several key factors:

- The source of electricity in rural areas differs significantly from most urban areas. Investor-owned utilities (the dominant form in urban areas) have a much smaller market share in rural areas, while cooperatives and Federal power agencies are much more important.
- Rural areas face higher service costs due to low population densities and more difficult terrain.
- Past Federal policy decisions have shaped the structure of rural power systems through the developing cooperatives, providing loans, and allowing preferred access to power from Federal facilities.
- Rural areas serve as the location for a large portion of the generation and transmission of electricity. Consequently, they and their residents are exposed to more of the negative effects associated with construction and operation of these facilities.

Changes in regulations inevitably lead to winners and losers. Unfortunately based on past experience and current conditions, rural areas appear more vulnerable to the adverse effects of deregulation and less likely to capture its benefits. Obviously, results will vary—even across rural areas.