Investor-owned utilities may be better prepared to handle catastrophic weather

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Credit: AI-generated image (disclaimer)

Investor-owned utility companies may be better prepared than municipal utility companies to deal with catastrophic weather conditions and subsequent power outages, according to a new paper from Rice University economist Richard Boylan.

"Power to the People: Does Ownership Type Influence Electricity Service?" appeared in a recent edition of the *Journal of Law and Economics*. The study examines 241 investor-owned (privately owned power providers), 96 cooperative and 94 municipal (subject to public control and regulation) utility companies in the U.S. between 1999 and 2012.

Boylan, a professor of economics at Rice, said that one of the main arguments made in favor of municipal utilities is the alleged poor performance of investor-owned utilities after major storms.

"After Hurricane Irene and Superstorm Sandy, several locations along the East Coast were without electricity for days," Boylan said. "Multiple media reports and editorials criticized the power disruptions and called for cities to take control of investor-owned utilities. However, there is no empirical analysis that confirms that investor-owned utilities spend less on storm preparedness or are more likely to suffer power outages following storms."

In fact, Boylan found that storms with damages to private and public property that equal 1 percent of personal income had no measurable impact on power consumption during the month of the storm and throughout the following month. In contrast, areas served by municipal utilities experienced a 1.85 percent decrease in residential electricity consumption from storms of the same magnitude.

Although Boylan said that this difference may seem relatively small, it fails to capture the inefficiency surrounding the higher maintenance costs of municipal-owned utilities compared with investor-owned utilities. Municipal utilities spend 47 percent more per mile of distribution lines than investor-owned utilities.

"Compared with investor-owned utilities, municipal utilities spend more on maintenance of power distribution lines, yet deliver worse customer service after major storms." Boylan said.

Boylan said the results suggest that privatizing municipal utilities would result in savings in federal subsidies and maintenance expenditures, while preserving the quality of service following storms. He said that these results are consistent with prior experiences outside of the United States. Boylan suggests that the anecdotal evidence of municipal utilities performing better than their private counterparts after hurricanes Irene and Sandy may be due to the fact that only about 15 percent of electric utilities are owned by cities. Because investor-owned utilities are much more prevalent, stories of power outages in communities served by them were also widespread, he said.

Boylan hopes that the study will provide people with more information on the differences between investor-owned utilities and municipal utility companies.

"I've suffered through a multi-day power outage with my family after a Houston hurricane," Boylan said. "But municipalizing the electric utilities serving Houston won't make us better off the next time a storm hits."

More information: Richard T. Boylan. Power to the People: Does Ownership Type Influence Electricity Service?, *The Journal of Law and Economics* (2016). DOI: 10.1086/687755

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catastrophic-weather.html