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THE MCCONNELL TVA REFORM BILL: A FIRST STEP IN THE RIGHT DIRECTION

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Roughly 65 years after the creation of the Tennessee Valley Authority (TVA), Senator Mitch McConnell (R-KY) has introduced legislation in Congress calling for the reform of this federally owned yet highly debt-ridden power entity.

The TVA was created in 1933 to generate and distribute electric power in the Tennessee Valley region. Today, with federal funding, it serves only a small percentage of America's energy consumers. It also is involved in risky overseas power projects as well as many domestic non-energy-related activities that could be privatized. Calls for reform and privatization of the TVA's activities have been put forth ever since Barry Goldwater campaigned for President in 1964, yet Congress has done very little to make the TVA more responsive either to the needs of its consumers or to the American taxpayer.

The TVA Customer Protection Act of 1998 (S. 2005) is a step in the right direction. Senator McConnell introduced the bill in late April to "shine the light on TVA's activities and make it accountable to its ratepayers." But it also offers Congress a unique opportunity to reform the way the TVA does business, to further its efforts to bring competition to America's electricity sector, and to send federal dinosaurs like the TVA into mandatory retirement.

TVA Serves Only 3 Percent of Consumers. The TVA, as America's largest power company, provides service to over 8 million customers in seven states, primarily in Tennessee. Customers generally enjoy fairly low rates, since prices are kept artificially low through a combination of generous tax breaks and

unparalleled regulatory exemptions. But this customer base, though large, represents only 3 percent of the total number of energy consumers in the United States: Millions of Americans who are subsidizing the TVA receive no benefits from those subsidies.

TVA's Staggering Debt.

Although the TVA's tax breaks and regulatory exemptions allow it to charge below-market rates, private utilities in such neighboring states as Kentucky provide electricity to their customers at rates that are even lower than the TVA's. With the rise of competitive power markets, this trend is likely to continue and over the next few years could force a change in the TVA's image from low-priced power provider to high-priced power provider. Such a scenario is all the more likely because the TVA has amassed roughly \$28 billion in debt from problems with gross mismanagement and a lack of accountability to private shareholders or to regulatory officials.

Taking Steps to Reform TVA. For the first time in history, Congress has an opportunity to address

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many of TVA's problems and to place it on a level playing field with private power companies. Senator McConnell's bold reform proposal would take the important first step by:

- **Reclassifying the TVA as a "public utility" that is fully subject to the authority of the Federal Energy Regulatory Commission (FERC).** This would make the TVA subject to the same federal laws and oversight that covered private utilities for decades. S. 2005 would allow individual states to regulate TVA's retail power sales in the same way they regulate the retail business operations of private power companies.
- **Requiring the TVA to disclose and justify all rates, charges, and costs.** As part of its reclassification as a public utility, the TVA would be required to open its books to public scrutiny and fully disclose all relevant business documents related to its sales and operations. This disclosure would end decades of secrecy and allow consumers and taxpayers to understand how the TVA uses its resources and charges customers for service.
- **Terminating TVA's antitrust exemption.** Despite being America's largest power entity, the TVA is not covered by the same antitrust statutes and regulations that cover other utilities. S. 2005 would require that the TVA be treated the same as private utilities are treated under the nation's antitrust laws.
- **Prohibiting customer subsidization of TVA overseas activities.** The TVA has pursued many overseas power projects in recent years that could have a direct impact on domestic ratepayers if such business ventures become unprofitable. S. 2005 would prohibit the TVA from forcing domestic customers to pick up the tab for risky foreign ventures and would

require the TVA to submit annual reports to FERC detailing its international activities.

- **Specifying that proceeds generated from the sale of TVA assets or resources be used to reduce TVA's massive debt.** S. 2005 would allow the TVA to divest itself of its assets, property, facilities, or other resources as long as the proceeds from such transactions are used to pay down its hefty \$28 billion debt. This would ensure that the TVA does not sell off its assets or resources merely to raise additional cash for wasteful projects or to compete against private-sector companies. It would also ensure that taxpayers recover at least part of their investment in the wasteful TVA.
- **Prohibiting the TVA from competing against other private-sector industries.** Since the TVA has benefited from favorable tax and regulatory treatment over the years, it would be unfair to allow it to compete against unsubsidized private-sector firms that receive no such advantages. Hence, S. 2005 would prohibit the TVA from competing against private business sectors that it has sought to enter, including equipment leasing, equipment repair or maintenance, or construction and engineering services.

Ideally, any TVA reform package should also include the next logical step: privatization. But proposals like those embodied in S. 2005 would make the Tennessee Valley Authority more accountable to state and federal regulatory officials, to the ratepayers it serves, and to the American taxpayer. They represent a good first step in reforming a 65-year-old wasteful, debt-ridden, and mismanaged public power entity.

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