



# MULTIPLE 'UTILITY' INDUSTRIES UNDERGOING MAJOR SHIFTS

By Shannon Clark

**If you lump together electric, telephone, cable television, and to some extent broadband companies into a single description, that term might be utilities. Couple those businesses with water and wastewater and the term utility is widely used.**

Utility businesses have enjoyed a long history of operating as regulated monopolies. Their monopoly structure ensured they would be able to capture enough market share to pay for the large capital investments they were required to make. Appropriate regulations made sure utilities didn't gouge consumers by taking advantage of a competition-free environment. Except for a few cases where regulatory oversight wasn't adequate, the system resulted in reasonably fair prices and reliable service.

Today, while these utilities are still regulated to some extent, changes in the market are disrupting the status quo and that has some people worried.

Those worries aren't just among the investment community whose holdings include utility stocks and bonds; regulators and consumer advocates worry that some consumers will be left without service or at a minimum without reliable service.

## Entertainment not just about TV anymore



It was only about 20 years ago when rural residents first had the opportunity to subscribe to affordable pay television, via satellite. In-home entertainment options prior to small-dish satellite programming consisted of a few local network television stations delivered via an antenna. Beginning in 1994, members of Richland Electric Cooperative were able to subscribe to television programming that brought 24-hour news and

sports, movies without commercial interruption, variety programming, and more for about \$25 a month. Satellite-delivered entertainment now serves over 50 million Americans, but if you subscribe you'll likely pay more than \$75 for the same programming that cost \$25 in 1994 and you'll be hard pressed to find many channels that are commercial-free. As the number of channels increased and conglomerates such as Disney®, Viacom®, Discovery®, and the national networks have captured more and more market share, they have indiscriminately raised prices to meet investor demands. Rural consumers had little choice but to pay these higher rates or give up their television service.

Consumers have railed against the huge bundles of channels they were required to receive in order to get the



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few they wanted for years. Programmers such as Disney® require satellite and cable operators to include specialized sports programming, variety programming, movies channels and more, even if their consumers only want one or two channels. Their negotiating tactics are simple: “Take them all, pay for them all, and put them in your lowest price package or you don’t get any of them.”

Absent a regulatory solution, technology is driving changes in consumer behavior and enabling new entertainment choices. A recent *Wall Street Journal* infographic showed that 76 percent of over 6,000 readers surveyed subscribe to Netflix®. Netflix is an à la carte service and you only buy what you want. It is only delivered via the Internet and not offered on traditional cable TV. The number of consumers—particularly younger consumers choosing to get all of their video programming, even if they have to pay for it—is growing at an incredible rate.

As more consumers leave traditional cable TV for broadband-delivered video, the fear among some consumer advocates is those without a broadband connection will be left paying much higher costs. Video programmers are watching their captive market escape, and Wall Street is watching. Viacom, the owner of CBS and other popular channels, has seen its stock price decline by nearly 40 percent over the last couple of years.

## A telephone just isn't what it used to be

A telephone was a rare find in an rural home back in 1940, but with the same Rural Electrification Administration



that helped build electric cooperatives in the 1930s, local people started telephone cooperatives. With wires strung, telephone switches installed, and people hired to operate the system, rural Americans were able to connect to each other and their urban counterparts by simply picking up the phone. Eventually calls

could connect people around the nation via a national network of lines commonly known as “long-distance.” Organized as regulated monopolies, these systems were built because investors, including those investing locally as a member of their local cooperative, could be assured that the service would be financially viable for the long term. Now, the prevalence of wireless phone service threatens to capture so much of the market that “cord-cutting”—the term describing consumers switching from traditional landline telephones to mobile phones—could

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drive the extinction of traditional phone service. Couple the changes caused by wireless phones with the ability to make calls via the Internet and the threat to the traditional telephone network grows even larger.

Telephone service providers are rapidly moving to adjust to a changing market. There are very few “telephone-only” companies as most are evolving into broadband providers. Communicating via a broadband network, whether it is by voice, email, or social media, is replacing the idea of actually talking to someone. Even wireless phone companies see the change in how people are communicating, with text messaging outnumbering voice conversations by a large margin, particularly among younger customers. In fact, a large number of the wireless phone companies is now seeking to utilize the landline network as a data network to interconnect their wireless towers. This new use of the

traditional wired network may offset some of the revenue loss caused by cord-cutting.

As the existing telephone network transforms into a broadband, or data network—made possible by the advances in fiber-optic systems—the traditional telephone will probably go the way of the buggy whip.

Challenges will arise when companies find they need to spend a lot of money to build out these new high-speed networks when they have no guarantee the subscribers will be there to make it pay off.

Historically, utility investments presented little risk so the cost of acquiring capital was relatively low, but this new risk will make those costs rise.

## Lessons to be learned for electric utilities

Twenty-five years ago the thought of making a phone call from your car, choosing from over 200 channels of video programming, or sending a letter across the world in seconds was almost science fiction. Today, not only is this commonplace, it's the norm. The status quo has changed in two industries steeped in tradition. There may not even be a status quo for cable TV and telephone any longer.

The electric industry is also steeped in tradition, and it certainly looks like it's about to undergo some significant changes as well. Will the electric utility industry ever be disrupted like the cable TV and telephone industry?

This past year solar power generation was the fastest-growing segment of new electricity generating sources. Tesla, an automotive manufacturer, has introduced a battery that can store enough energy to power some homes, particularly those that are ultra-energy efficient. LED light bulbs are driving home energy use down, and new technologies are promoting more efficient use of energy.

Regulations such as the recently published clean power plan will make it more difficult, and expensive, to install generating stations that burn fossil fuels. Building other infrastructure including transmission systems, material handling, and fuel transportation systems now

requires years to achieve the necessary permits.

Electric utility management teams are challenged by slow growth as non-traditional energy generation such as solar and other renewables are making their way to the consumer sites. This distributed generation results in lower energy sales for many utilities, and in most cases those sales provided the revenue to operate and maintain systems that must exist even for the smallest user. Covering fixed costs of operating an electric system is necessary to ensure that reliable electricity is available to all consumers, whether they are adopting new technology or not.

## Conclusions

It's fair to say technology and innovation are disrupting many utilities as we know them today. What's not fair to say is that this is a bad thing. It may turn out to be, but it doesn't have to be. Cooperatively owned utilities are among the best positioned of all. Because they

exist to meet their members' needs instead of meeting investor demands, cooperatives help members access the latest developments in services like electricity, telephone, broadband, or entertainment. There are always challenges, but invariably there are always

economies of scale for people who choose to work together cooperatively rather than go it alone.



## LOOK UP FOR HAZARDS DURING HARVEST

To stay safe around overhead power lines during harvest season, Safe Electricity urges farm operators and workers to:

- Use a spotter when operating large machinery near power lines.
- Use care when raising augers or the bed of grain trucks around power lines.
- Keep equipment at least 10 feet from power lines—at all times, in all directions.
- Inspect the height of farm equipment to determine clearance.
- Remember to lower extensions when moving loads.
- Never attempt to move a power line out of the way or raise it for clearance.
- If a power line is sagging or low, call Richland Electric Cooperative.
- If contact is made with a power line, stay on the equipment until help arrives. If the equipment is on fire and you must exit, jump off with your feet together, without touching the ground and vehicle at the same time. Hop to safety as you leave the area.



## WEATHER VANES

**The old weather vanes, some only a few inches tall, some several feet, are re-**

**minders of a time before TV weather maps and forecasts. Some were decorative cows or horses, pointing the wind's direction. It was a time when farmers depended on knowing wind direction for predicting the weather and planning the coming day's activities.**

Weather vanes were often perched on cupolas, the little building-like structures on the top of barn roofs. Lightning rods were often a part of weather vanes, with the lightning rod spike reaching toward the heavens.

On our farm, weather vanes had a major purpose beyond showing wind direction. Our weather vane was a target, a wonderful challenge for my BB gun and a reason for competitive shooting when a neighbor boy came by toting his gun.

Shooting the weather vane with a BB gun seldom evoked much comment from Pa, but if he ever caught one of us shooting at it with a .22 rifle, there was trouble. A .22 rifle bullet made a hole in a weather vane that someone could easily spot from the ground.

On a late fall Saturday afternoon, Pa and Ma had gone to town and my brothers and I were home alone. I doubt anything would have happened except the Kolka boys stopped by for a visit. Jim and Dave were the ages of my brothers and me and they had brought along a .22 rifle.

We got to talking, as kids will, about who was the best shot. Soon the boasts got to claims of lighting kitchen matches at 50 feet and splitting a bullet on a knife blade stuck in a block of wood.

Then Jim said he figured he could hit the weather vane on the barn, standing under the elm tree by the house—a considerable distance. He said he bet I couldn't. So we stood

elbow to elbow with our .22s, aiming at the weather vane. My brothers were counting. When they got to three, we were to shoot. I don't remember if we talked about how we knew who had hit the metal cow when we both shot at the same time. Discussing details like this sometimes spoiled an otherwise superior competitive event.

At the count of three, we both shot. The weather vane spun around two or three times.

"I hit it!" Jim yelled.

"I'm the one who hit it," I yelled back.

We could only spot one additional hole in the weather vane, beyond the one that had been there for years. We declared the shooting a tie, each of us claiming victory.

A few days later, Pa asked if I knew whether anybody had shot at the weather vane.

"Why do you ask?" I said, innocently.

"It's got two holes and it only had one."

I hadn't realized that Pa kept such close tabs on something as mundane as a weather vane. From that day forward, we chose other targets for our competitive shooting events.

*For more information about Jerry's books and his TV work go to [www.jerryapps.com](http://www.jerryapps.com). For questions or comments, email: [jerryappsauthor@gmail.com](mailto:jerryappsauthor@gmail.com). His newest book is "Whispers and Shadows: A Naturalist's Memoir."*



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