

# Membership in Electric Cooperatives

## What Are Electric Cooperatives

As a member of a cooperative, you join the 50 million Americans who belong to consumer-owned organizations. A cooperative is formed by joining together to accomplish things that can't be done as well individually. As a member of a non-profit, member-owned cooperative, you are the cooperative's greatest asset!

## Formation of Electric Cooperatives

President Franklin D. Roosevelt created the Rural Electrification Administration (REA) by Executive Order 7037 on May 11, 1935 as a part of a general program of unemployment relief. The REA was given its own statutory authorization by passage of the Rural Electrification Act on May 20, 1936. Before electricity was available, bathing was done weekly and reading was done by kerosene lamp, which flickered so badly readers often gave up. Without electricity, farm families could not listen to the radio for entertainment or news. Many had no idea what transpired outside their local area. Ninety percent of all farms were without electricity in 1936. Privately owned utilities refused to extend lines to rural areas because there was no money to be made. The REA changed that by allowing cooperatives, organized under state charters as local, independent, private enterprises, to borrow capital from REA at favorable interest rates.

## The Application of the Preference Clause

As far back as 1787, Congress decided the nation's limited natural resources should be used to benefit the public. The "Preference Clause" was developed. Instead of using resources, such as the Columbia River to generate electricity for private benefit, the Clause mandated that the public should have the first right to those resources. The sale of electricity from federal projects like the Bonneville Dam to public agencies and cooperatives, like Salem Electric, is an example of how the Clause works.

## Electric Cooperatives vs. Investor-Owned Utilities

Investor-owned utilities like Pacific Power and Portland General Electric are private, stockholder-owned utilities. These utilities are in business to make a profit for their stockholders – who may or may not purchase power from them. Their board meetings are closed to ratepayers and their policies are established by a board of directors, elected by the stockholders. By comparison, a co-op's board of directors is elected from and by its members and any member can attend board meetings. The not-for-profit co-op designs rates to provide the best possible service at a price which covers the cost of service. Not so with the investor-owned utilities whose rates are designed to return a profit to the stockholders.

## Cooperatives vs. Publicly-Owned Utilities

Cooperatives, Peoples Utilities Districts (PUDs), and municipally-owned utilities are non-profit, consumer-owned utilities. However, PUDs and municipals are local government entities. A co-op is a non-profit, private utility owned and governed by its members. Co-op members elect their directors at annual meetings. Consumers of municipals and PUDs elect their directors at the time they vote for other elected officials. Revenues after expenses, called "margins," are also treated differently. Cooperatives return their margins to members in the form of capital credits, based on the co-ops financial condition; PUDs and Municipals do not.

## Returning Capital Credits to Members

Most utilities take your money for services provided. Co-ops are different. They return capital credits to their members if any revenues are left after expenses have been paid. Capital credits for an individual member are based on the amount of electricity used and margin earned by the co-op. Not all co-ops are in a position to distribute capital credits, but many are and do so. Be sure to check with your cooperative about its capital credit policy. Each year the Salem Electric board decides whether the current financial condition of the co-op allows for the distribution of 5% of the outstanding capital credits, typically a 20-year cycle.

## Cooperatives are Controlled by Consumers

Oregon's Public Utilities Commission (PUC) regulates the rates of investor-owned utilities. The PUC is expected to protect ratepayers from unreasonable rates. It is also expected to provide IOUs with a reasonable rate of return on their investment. The PUC, however, does not regulate the rates set by member-owned cooperatives. That is done by the board of directors elected by the membership. Member-elected boards use a rate-setting guideline called "cost of service." Whatever it costs the co-op to buy and deliver the electricity is the cost you pay. No more.

## Where Cooperatives Provide Service

Eighteen electric co-ops provide electric services to about 235,000 Oregonians. All but one are located in Oregon, the last is in California. Electric cooperatives were typically formed to serve rural areas. Many co-op lines stretch for miles across Oregon's forest lands, rivers, ranchlands, and mountains before serving a single member— one even reaches a solitary lighthouse. Oregon cooperatives, on average, serve about five consumers per mile. Salem Electric, which serves a more urban area, provides service to about 75 members per mile. Harney Electric, at the other extreme, serves about one consumer per mile. Despite low average consumer density, co-ops offer among the lowest rates in Oregon and the best service when measured by outage time and member satisfaction.

## Oregon Co-ops Purchase Power from BPA

The Bonneville Power Administration (BPA) provides the majority of power needs of cooperatives. BPA, a federal power marketing agency, sells power at cost to consumer-owned utilities located throughout the Northwest. Co-ops in turn sell BPA-provided electricity to their consumers at cost. In recent years some of Oregon's cooperatives have explored developing and purchasing power from other sources.

## Oregon Rural Electric Cooperative Association

All co-ops in Oregon are members of the Oregon Rural Electric Cooperative Association (ORECA). ORECA provides a variety of services to Oregon cooperatives – services such as legal counsel, educational courses, communications, public relations, management assistance and government relations representation, which can be provided more efficiently or economically at a statewide level.

## Cooperative Financing

Many ORECA members borrow from the Rural Utilities Service (RUS, formerly known as the REA) to finance the construction of electric-related facilities. The co-ops' repayment record is without blemish. Some co-ops, including Salem Electric, did not rely upon REA for financing. Early financing for Salem Electric came from its members and from a local electric supply company. Salem Electric finances its system's needs from co-op revenues. Besides RUS, many Oregon cooperatives borrow from the National Rural Utilities Cooperative Finance Corporation (CFC) at conventional interest rates. Other sources include CoBank and traditional lending institutions.

## In Summary, Electric Cooperatives are...You!

Without you and your neighbors, electric cooperatives couldn't exist.