



Electric Cooperative Financing

RUS Electric Loan Programs: Investments in a Secure, Reliable Electric Utility Infrastructure

Issue. Electric cooperatives have been creating value for their communities for more than 70 years. The nation's 930 consumer-owned, private electric cooperative utilities generate, transmit and distribute electric energy in 47 states. Electric cooperatives are consumer-owned, not-for-profit businesses. Electric cooperatives are governed by a board of directors elected by the consumers on a one member, one vote principle. This very successful business model has proven its ability to let people own and operate their own utility business, and to provide themselves with adequate, affordable, and reliable electricity.

Electric cooperatives' lines and poles span more than 75 percent of the nation's landmass. While member-owned and operated electric cooperatives have invested \$92 billion in 16,000 bulk transmission line miles and more than 2.4 million miles of distribution line amounting to 43 percent of the nation's distribution line miles, their generation is less than 5 percent of U.S. electric capacity.

The 40 million consumer-owners of this nation's electric cooperative utilities own \$30 billion in equity in their electric energy infrastructure. Over a five-year period (1997 to 2001), electric cooperatives built an additional \$24.3 billion in utility infrastructure in communities all across the country. A comparison of electric utilities shows:

- Co-ops serve an average of 7 consumers per mile of line with annual revenues of \$10,565 per mile of line;
- Investor-owned utilities average 35 customers per mile of line and collect \$62,665 in revenue per mile of line;
- Publicly owned utilities, or municipals, average 46.6 consumers and collect \$86,302 in revenue per mile of line.

The small federal investment in RUS electric loan programs over the years, coupled with strong management of the cooperative businesses, keep rural electric infrastructure strong and viable today. Electric cooperatives adapt to a rapidly changing industry environment because of the local, consumer-owned, consumer-controlled form of governance.

Status. The Administration's FY09 budget proposal seeks to continue making significant programmatic changes to the RUS electric loan program that do not reflect the need of rural Americans to provide themselves with an adequate, affordable and reliable electric energy supply. The Administration FY09 budget would force electric cooperatives to rely solely on the commercial markets for future financing.

This proposal follows other Administration efforts to change the traditional RUS electric loan program mission. In 2007, the Administration defied Congress and abruptly ended the normal RUS practice of financing baseload electric generation and plans to maintain that policy through FY09.

- OMB eliminated power supply Loans for electric generation starting in FY07 and seeks to continue that policy through FY09. Electric cooperatives provide themselves with about half of their total electricity needs. The remaining generation needs must be purchased on the open market, leaving many cooperatives vulnerable to wide price fluctuations. An important part of the historic struggle for cooperative consumer-owners has been their effort to own power supply to

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protect themselves from monopoly controls imposed by others and to avoid leaving electric consumers vulnerable to volatile and drastic rate increases.

- OMB has threatened to impose regulatory initiatives that would limit access to RUS loans to only remote portions of the U.S. Electric cooperatives alone would be singled out with eligibility criteria that are not imposed on any other sector of the electric industry for their receipt of generous federal tax subsidies. Electric cooperatives realize less revenue per mile of line than do the investor-owned and municipal utility systems, by virtue of serving fewer people per mile. The electric cooperative business model also provides consumers with an opportunity to address their own needs through the use of interest bearing loans from RUS.
- The President's FY09 budget proposal recommends funding the RUS program at \$4.1 billion, a significant cut from FY08.

RUS Loan Programs

<u>House/Senate FY08 Approps</u>	<u>Administration FY09 Budget</u>
\$6.5 billion	\$4.1 billion

NRECA position. The relatively small federal investment in the RUS electric loan programs over the years, coupled with efficient management of the cooperative businesses, makes the rural electric infrastructure strong and viable. NRECA is asking Congress to ensure that rural consumers continue to have access to safe, reliable, and at-cost supplies of power from electric cooperative utilities by fully funding the RUS electric loan program to reduce a backlog of pending RUS loan applications. NRECA also urges Congress to oppose any regulation that would dramatically alter the mission of RUS loan program.

for more information
Chuck Penry, NRECA
703.907.5815
chuck.penry@nreca.coop
<http://www.nreca.coop>

