

Questions & Answers

1. What is the rural electrification program?

It refers to a partnership effort of the federal government and electric systems serving the rural areas of America. The federal government provided loans on favorable terms through the Rural Utilities Service (RUS). Farmers and other rural residents provided the initiative and leadership in organizing, constructing and operating their own rural electric systems to provide service for themselves, neighbors & future consumers in rural areas.

2. What is RUS?

RUS is the designation for the Rural Utilities Service. This is a government agency, a part of the U.S. Department of Agriculture, with offices in Washington, D.C. It administers the Rural Electrification and Telephone Revolving Fund, insures loans from the fund and guarantees loans from other private sources. Loans are made to cooperatives, public power districts, municipal electric systems, and power companies which are willing to use the funds to provide initial and continuing electric services on an area-wide basis to unserved farms, residences, businesses & industrial plants, schools, churches and other establishments in rural areas.

3. How were REA and RUS created?

President Franklin D. Roosevelt created the Rural Electrification Administration by executive order on May 11, 1935. The agency was given continuing status and its authority and responsibilities were clarified in the Rural Electrification Act, passed by Congress the following year. On October 13, 1994, President Clinton signed HR 4217, the Federal Crop Insurance Reform and Department of Agriculture Reorganization Act of 1994. This Act abolished the old REA program and created a restructured, modernized and efficient loan

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program for rural utilities, including electric, telephone & water services.

4. What is the National Rural Electric Cooperative Association (NRECA)?

NRECA is a service organization representing nearly 1000 rural electric distribution systems, public power districts and public utility districts in 46 states. Through NRECA, member systems provide themselves services that would be unavailable or too expensive to provide if each system, individually, attempted to provide these services itself.

By working together through the association, member systems are able to provide these services. Also by working together through the association, member-systems are able to provide better services to their member-owners at the lowest possible cost.

NRECA is not supported by government funds, nor is it an agency of the federal government. Dues contributed by member-systems support non-fee services. The organization of NRECA includes a board of directors, an executive vice-president and general managers, deputy general manager and five (5) departments: Government Relations, Energy and Environmental Policy, Public and Association Affairs, Management Services and Retirement, Safety and Insurance. NRECA policies are determined by a vote of member delegates each year at their annual meeting.

5. Why were REA and the RE loan program necessary?

Only 10% of the farms in this country had electric service by 1935 when REA was created. Most rural areas had been by-passed by electric companies that were unable or unwilling to build lines into territory that was economically poor or thinly populated or where the terrain was difficult. Where farmers did get electricity, they generally were required to pay the construction costs of extending the lines. These lines then became company property but the farmers had to pay as much as 8 to 10 cents per kilowatt hour (in some instances, 25 to 40 cents per kWh) for service.

6. What have rural electric cooperatives accomplished in developing rural areas?

Dependable, affordable electric service is vital to rural area development and electric co-ops are bringing low-cost power to their service areas. These electric systems also work with other community leaders and take the lead to encourage new industries and better community facilities for rural areas. This development is essential, since it provides additional jobs, larger payrolls, and better living conditions that will make small towns and the countryside more attractive as places to live and work. Since 1961, rural electric and telephone systems have joined in sponsoring over 15,000 projects that have created over 2.5 million new jobs in rural America.

7. Why is it difficult to set rates for electric service in rural areas?

Building an electric system is a very expensive undertaking; it ties up large amounts of capital. The typical electric co-op serves only 5.76 consumers with approximately \$7,038 gross revenue per mile of line. Privately owned utilities (or IOUs) average 6 times as many consumers and 8 times as much revenue per mile of line. Municipally owned utilities (munis) average 8 times as many consumers & 10 times as much revenue per mile of line.

8. Have the members of rural electric cooperatives helped cut the costs of providing electric service?

Yes, the members of many co-ops have helped to lower costs by donating right-of-ways for lines. In the early years, they helped in the membership sign-up drives & in the clearing of rights-of-way. The directors draw no salaries. In some areas, consumers read their meters to save operating costs.

9. Just what is a cooperative?

It is a business enterprise that is jointly owned and equally controlled by those who use it. It is a form of business more interested in service to people than in making dollars, though it must, of course, take in enough money to pay its way.

10. How does a co-op differ from other businesses?

In a cooperative, membership and joint ownership are open to all that want to use its services. Generally, there is a small membership fee paid initially to the co-op by a member. To insure democratic control, each member has one vote, regardless of his investment or use of electricity. A cooperative's non-profit status is generally spelled out in the bylaws and sometimes by the state law under which it is incorporated.

11. How is a cooperative non-profit? How does this work?

The idea is very simple. Any margins left over after expenses – including taxes – are paid, belong to the patrons and not to the cooperative enterprise. In practice, this can get pretty complicated. The electric co-op must use money left over at the end of the fiscal year to repay RUS loans, set up reserves and provide operating cash to carry on current operations. In most kinds of cooperatives where members furnish the initial capital, net margins can be paid back to patrons in cash. In electric co-ops, the margins are credited to members in special capital credit accounts for repayment at a future date. What this amounts to is a transfer

of the cooperative's indebtedness from RUS and other lenders to members. The accumulations of capital credits represent the members' equity in the business. As the financial position of the co-op permits, part of these capital credits are paid back to members.

12. Do cooperatives pay taxes?

Yes. In most states, electric co-ops pay taxes on the same basis as other businesses. In a few states, taxes are levied on a basis that recognizes that most of their plant produces comparatively low revenue because lines extend into thinly populated areas. RUS electric borrowers pay a total of over \$600 million per year in state and local taxes.

13. How many rural electric cooperatives are there?

The Rural Utilities Service lists slightly more than 1,000 electric cooperatives of all types. Most are distribution systems, but some are power supply systems, known as G&Ts (or generation and transmission cooperatives). In 1999, more than 60 G&T cooperatives generated and transmitted power to their distribution system members.

14. How much RUS money has been borrowed from the federal government since 1936?

As of December 31, 1996, cumulative totals by type of loan are: \$25.17 billion in RUS loans; \$29.82 billion in RUS loan guarantee commitments, and \$11.27 billion in loans made by private sector lenders without RUS guarantees. Cumulative advances on RUS loans as of December 31, 1996, were \$23.92 billion.

15. Exactly what has been done with the RUS loan funds? How is the money used?

About 30% of the loan funds approved by RUS have been for electric distribution facilities; poles, conductors, transformers, meters, trucks, headquarters buildings, etc. 60% has been used to construct generation and

transmission facilities. Loans have provided more than 2.34 million miles of line to serve an estimated 35.5 million people in 46 states plus Puerto Rico and the Virgin Islands.

16. If the number of farms is declining, how can there be an increase in the number of rural customers?

A lot goes on in rural areas besides farming! Rural consumers include farms, non-farm rural residences, processing plants, motels, churches, commercial businesses, and a wide variety of others, such as home based businesses, that help build local economies. While it is true that the number of farms in the United States has declined severely in the last 3 decades, people who left farms and rural areas are now returning due to a better quality of life – away from the high crime, high stress worries of city life. This trend began to reverse itself in the 1980s. Still, the population shift has been uneven. Cities expand and suburbs spill over into the countryside. New enterprises move into rural areas that have good education, health, recreational facilities, employment opportunities and quality electric service. This means new job opportunities for rural people and draws urban dwellers to the country as well.

17. What have the rural electric cooperatives accomplished in developing rural areas?

Electric power is vital to rural area development and the rural electric cooperatives are bringing at-cost power to their service areas. These electric systems also work with other community leaders and take the lead to encourage new industries and better community facilities for rural areas. This development is essential to provide additional jobs, larger payrolls and living conditions that will make small towns and the countryside attractive as places for people to live, work and enjoy recreation. Since 1961, rural electric and telephone systems have joined in sponsoring over 15,000 new projects that have created over 2.5 million new employment opportunities in rural America.

18. What about the future? Can rural electric co-ops get along without RUS financing?

RUS is still a vital player in ensuring the growth and development of rural America. To take care of normal load growth and to meet rapid changes in technology, co-ops need millions of dollars in new capital each year. To supplement loans from RUS, the co-ops organized a private supplemental financing institution in 1969. The National Rural Utilities Cooperative Finance Corporation (CFC) made its first loan in 1971. CFC borrows in the commercial money market in order to furnish this supplemental financing. In its 33-year history, CFC has made loan commitments totaling more than \$22 billion.

19. What major milestone in the rural electrification program occurred on May 11, 1973?

The signing of an amendment to the Rural Electrification Act. REA (now RUS) borrowers moved from dependence on the U.S. Treasury for the bulk of their financing needs to total financing from private sources. Instead of lending at 2%, RUS guarantees some loans at market rates. It also insures loans, most at 5%. The administrator of RUS has the power to make loans at rates down to 2% if, in his opinion, a higher interest rate would place undue hardships on a borrower. This change was enacted in 1981.

20. How did the 1973 amendments come about?

On December 29, 1972, the Department of Agriculture transferred the authority of the Rural Electrification Administration to make direct loans under budget authorizations of Congress to higher interest guaranteed and insured loans under the Consolidated Farms and Rural Development Act. Rural electric leaders affiliated with NRECA, astonished by this proposed fatal blow to the rural electric cooperatives, joined in an effort to restore the program. Some 1,400 of them came to Washington early in the year to rally for the cause of rural electrification. The membership strongly supported their efforts at the annual

meeting in February and set forth legislative guidelines to be followed in the effort. Eventually, a bill was ironed out which amended the Rural Electrification Act of 1936 to establish a "Revolving Fund" outside the federal budget for insured and guaranteed loans. Thus rural electrification has virtually no impact on the federal budget since private loan funds are generated through the Revolving Fund at interest rates RUS borrowers can afford to pay. Most loans from the fund are at 5% interest, but some are at 2% (see Question 19). Loans made during the early months of 1973 were refinanced in accordance with the new law shortly after it became effective.

21. Do consumer-members of RUS borrower systems have more influence in the operations of their electric utility than customers of investor-owned systems?

Consumer-members exert considerable influence. They elect their own board of directors at their annual membership meetings; they take part in policy decisions involving such things as rates, community redevelopment, and conservation of electric energy; and can encourage legislative support on behalf of the entire membership. Members are actively encouraged to take part in the political process, electing responsible directors and exercising voting rights at all co-op elections.

22. How can consumer-members and their families exert influence in the legislative process?

They can translate their concern for the welfare of the rural electric systems and rural people by taking part in the political process. Registering to vote (as soon as they are 18 years of age), helping in voter registration programs, developing and engaging in voter education programs (learning as much as possible about the candidates and issues), never failing to vote and encouraging other voters to cast their ballots are all ways to be part of the process.