

# The Cooperative Difference



**Ohio's Electric Cooperatives**

Your Touchstone Energy® Cooperative



# *Electric Cooperatives*

The foundations for the success of the rural electric cooperative program in America can be found in the Seven Principles that are the framework of every cooperative.

## ***Seven Cooperative Principles***

- Voluntary and Open Membership
- Democratic Member Control
- Members' Economic Participation
- Autonomy and Independence
- Education, Training and Information
- Cooperation Among Cooperatives
- Concern for Community



Touchstone Energy®  
*The power of human connections*

# The Cooperative Difference

*Electric cooperatives were born of the exercise of self-reliance by people who wanted the benefits of electricity.*

They are doctors. Some are lawyers. Some are teachers. Still others are farmers. But all 400,000 of these people have one thing in common — they're members of the 25 independently owned and operated rural electric cooperatives in Ohio.

From their inception, electric cooperatives have been guided by one principle throughout — an emphasis on people, not profit.

It's that principle which allows local people to ensure for themselves the best possible rates and service quality to meet their needs. These self-determined people are in charge of their future because they have their own interests at heart.

Local people who are committed to serving the electricity needs of themselves and their neighbors. That's the electric cooperatives of Ohio.



## *Rural people control their energy futures*

It's this same caring for people that led to the creation of Ohio's electric cooperatives. In the 1930s and '40s, almost no one living in the Ohio countryside had electricity. The big power companies said the distances were too far; serving the rural areas wasn't economical. So rural folks, partnering with Washington through loan guarantees, chose to control their energy future by forming their own power companies — the electric cooperatives.

Today, there are 25 electric cooperatives in Ohio (one is based in Michigan), serving nearly 400,000 members. The power lines and generating plants of electric cooperatives are much like those of other electric utilities.

The electric cooperatives' difference lies in their ownership, which in turn creates a culture unique in the utility industry. Because the members own the cooperative, the goal of the organization is not to maximize profitability but only to cover its costs. Revenues that exceed expenses are returned to the members in the form of capital credits.

But even more important is the local ownership and local control built into the cooperative structure. The members of an electric cooperative are the owners of their utility. As an

owner, you are in a better position than anyone else to determine what you want from your power company. And you can make your wishes known through the democratic process of electing a board of directors that represents you. The board is composed of local community leaders who are chosen among the members at the cooperative's annual meeting. The board hires the manager who oversees the day-to-day operation of the utility.

All electric cooperative members are invited every year to their cooperative's annual meeting. It is similar to an annual stockholders' meeting. The cooperative notifies all members when the meeting will be held. This is an opportunity for them to participate directly in the affairs of their power company, an opportunity only 10 percent of the U.S. population enjoys.

As not-for-profit utilities, any earnings (or margins as they are called), are returned to the members in the form of patronage capital or capital credits.

There's another way this emphasis on people and not profit sets electric cooperatives apart. These 400,000 members from diverse backgrounds elect trustees from among their neighbors. This system of local control and self-regulation has stood the test of time for decades.



There's another major difference between electric cooperatives and their municipal and investor-owned counterparts. It's a matter of consumer density. This results in a much higher investment per consumer because of the greater distances between consumers — more than double the investment for distribution facilities per consumer than Ohio's eight investor-owned utilities (IOUs). Members of electric cooperatives are spread pretty thin, only averaging 6.6 per mile of line, while investor-owned utilities average 34 customers per mile of line.

Their electric use profile also is quite different. Electric cooperatives find that 68 percent of their electricity goes to residences and farms. Only 32 percent of electric use is by commercial and industrial establishments. It's just the opposite for investor-owned and municipal electric utilities; only 33 percent of their electricity use goes to comparatively low-intensity residential and farm accounts. Their big business is done with commercial and industrial accounts.

The revenue generated per mile of line is a good illustration of this difference. Electric cooperatives average about \$12,500 in annual revenue per mile of line. By contrast, investor-owned utilities take in more than \$59,000 for each mile of line, a five-fold difference.

And without a doubt, the electric cooperatives have the toughest service challenge of all the state's electricity providers. They serve nearly 40 percent of the land area of Ohio, including some of the most difficult terrain, yet only 6 percent of Ohio's population. The other half of Ohio, the part with 94 percent of the people and most of the state's commerce and industry, is served by the 8 investor-owned and 85 municipal electric systems.

Despite these economic disadvantages, the members of the electric cooperatives in Ohio have realized some remarkable benefits. Several of Ohio's electric cooperatives can boast rates lower than many of the state's investor-owned electric utilities.

*In the 1930s and '40s, rural folks, partnering with Washington through loan guarantees, chose to control their energy future by forming their own power companies — the electric cooperatives.*



Excellent customer service and cost-of-service-based rates continue to be the hallmark of your electric cooperative. Customer satisfaction surveys show cooperatives consistently lead the competition. In fact, recent American Customer Satisfaction Index (ACSI) results show co-ops outpace the electric industry average by 7 to 9 points.

Why do cooperatives consistently top the competition? One primary reason — the members of the cooperative also are the owners of the cooperative.

Too, cooperative employees live and work in their local rural communities. They often go above and beyond what is expected, not only because they care but also because they see you as their neighbor.

## *Buckeye Power - your source of power*

Ohio's electric cooperative early leaders had the vision that the Ohio electric cooperatives should have their own generating plants. Through Buckeye Power, a power generating and transmission (G&T) co-op owned by the local distribution cooperatives (like yours), co-op members own Units 2 and 3 at the Cardinal Station, a coal-fired power plant located about seven miles south of Steubenville.

The two units came on line in 1968 and 1977, respectively, and have a combined 1,230 megawatts (MW) of low-cost generating capacity. And, thanks to an investment of nearly \$1 billion over the current decade in environmental enhancements to the Cardinal Units, by 2010 they'll rank among the cleanest in the country.

Through a unique joint ownership and operating arrangement, Buckeye Power contracts with American Electric Power, which also owns Cardinal Unit 1, to operate Units 2 and 3.

Additional generation dedicated to serve Ohio's electric co-ops includes the Robert P. Mone Plant, dedicated in 2002. Located in Van Wert County, its 510 megawatts of power, provided by three natural gas or oil-fired combustion turbines, are there to meet peak electric demand periods.

Buckeye's generation mix also includes:

- 55 MW of New York Power Authority (NYPA) power.
- Through a subsidiary, Buckeye Power has access to 200 MW of coal-fired generation through an ownership interest and associated rights in the Ohio Valley Electric Corporation (OVEC).
- 200 MW of peaking power from single-cycle, natural gas-fired combustion turbines at a plant in Greenville, Ohio.

The electric utility industry has three main components:

### **GENERATION**

The cost of generating electricity at the power plant represents about 53 percent of your bill. Your power is produced by Buckeye Power, Inc., a generation cooperative owned by Ohio's 25 distribution cooperatives.

### **TRANSMISSION**

A long-distance high-voltage "grid" moves large volumes of bulk power to your local area substation. Transmission costs are about 5 percent of your electric bill.

### **DISTRIBUTION**

The local lines you see in your neighborhood distribute power from substations to the meter on your house. This cost represents about 42 percent of your bill.





These combined sources ensure Buckeye Power has adequate resources to meet the electricity needs of the Ohio cooperatives' nearly 400,000 combined members in 77 of the state's 88 counties. Just as important, Buckeye's costs still are very competitive when compared with many other utilities in our region.

Electric cooperatives use cutting-edge technology to serve their members' needs. And Ohio's 25 distribution cooperatives are constantly seeking new technology applications to improve their industry-leading service. Distribution lines use high-tech instruments to monitor the flow of electricity and maintain the power quality necessary to run sophisticated equipment demanded by today's commercial and industrial customers. Honda of America manufacturing plants at Marysville and Anna, Ohio both depend on electric cooperatives for their electricity.

Computerized mapping systems guide dispatch crews quickly and efficiently. Global positioning (GPS) systems are used to pinpoint locations for crews responding to calls. SCADA (Supervisory Control and Data Acquisition) systems are capable of automatic and constant reporting of distribution line conditions, including voltage and amperage, among other things. Computerized switching systems provide instantaneous back-up for loop-fed substations. Automatic Meter Reading (AMR) is an exciting technology that many Ohio cooperatives are installing. AMR brings special services to individual consumers, including automatic outage reporting, meter reading and, in some cases, a home security system.

*Technology  
important  
to the  
future*



## *Grassroots in action*

It has long been said that the electric cooperatives, having been born in politics, would die in politics.

Over the years electric cooperatives have developed an effective grassroots political outreach in order to convey the rural electric consumer interests to their governmental representatives. The Ohio Legislature, in its wisdom, has responded with a public policy of endorsing the cooperative's rights to self-determination.

A good example of grassroots political advocacy in action was the way in which electric cooperative consumer voices were heard regarding electricity choice legislation.

Deregulation and customer choice arrived first in California on March 1, 1998. Ohio implemented its own legislation on Jan. 1, 2001, allowing customers of investor-owned utilities (IOUs) to select a new company to choose their electricity generation supplier, separate from the company that delivers their power.

In the legislation, electric cooperatives were treated differently from IOUs because they are owned by

their consumers, who have a direct say in how their utilities are run. The cooperatives have a choice whether or not to "opt-in" to customer choice whenever they wish.

In contemplating whether to opt-in to customer choice, cooperative leaders were struck by the mounting risks exhibited in energy markets. As prices grew more volatile, consumers wisely became more wary of deep fundamental problems with popular assumptions about deregulation.

In the end, each cooperative chose to "wait, watch and learn" instead of opting in to deregulation.

In most parts of the state, alternative generation providers currently are not making competitive offers. This is because marketers cannot buy bulk power at a price lower than the capped rates of incumbent utilities and then resell it to customers at a profit.

All of which means that "wait, watch and learn" has proved to be the right course for our member-consumers.



*The friendly atmosphere of rural Ohio carries over into the attitudes of cooperative employees. A customer is seen as an individual with specific needs, and cooperative employees respond to you in a personal way.*

*The rates of Ohio's electric cooperatives are, on the average, lower than those of the investor-owned utilities in Ohio.*

## **“Cooperation among cooperatives” is one of the Seven Co-op Principles**

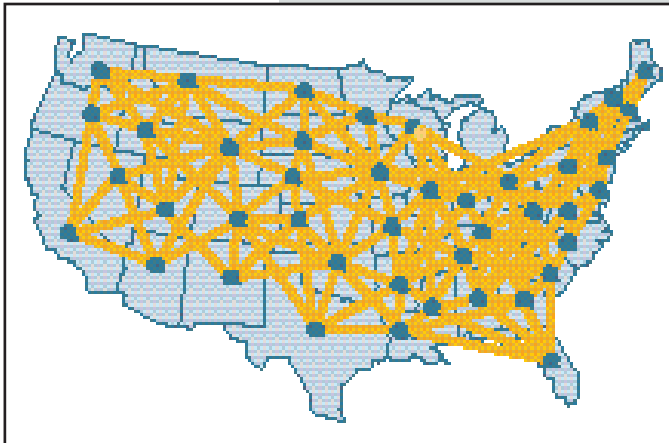
Ohio's cooperatives are part of the largest national network of electric utilities in America. Electric cooperatives distribute electricity over 47 states and most of the geographic territory of the United States.



Buckeye Power and Ohio Rural Electric Cooperatives, Inc., the trade/service association for the state's electric cooperatives, were created by Ohio distribution cooperatives. These two co-ops and your distribution cooperative have links with many national organizations that provide resources beyond what any one organization might easily do on its own.

The National Rural Electric Cooperative Association (NRECA), headquartered in Arlington, Virginia provides training and education programs, legislative,

public relations and management services, as well as other programs that benefit electric cooperative consumers across the country.



But there's another, sometimes unmentioned, characteristic of electric co-ops that has allowed them not only to survive but prosper and be regarded today as

industry leaders — our ability to “network,” to freely and efficiently share the best ideas, programs and practices that allow us to meet the challenges of serving the members' interests.

# *Not-for-profit utilities put focus on providing electricity at cost*

Ohio has made its contribution to the cooperative network when it comes to both new ideas and our willingness to share them. From the Cardinal Station agreement in the 1960s to the new lineman apprentice training school, we are continuing a tradition of innovation and cooperation that has benefited rural Americans everywhere.





All funds that electric cooperatives get are loans and the cooperatives have an excellent track record of paying them back.

## *Access to financial resources*

The electric utility business is capital intensive, meaning it requires a great deal of expensive equipment, such as power plants, poles, transformers, substations and lines to do business. Because of these costs, electric cooperatives need ready sources of funds. Basically, cooperatives have three choices: they can obtain loans from the Federal Financing Bank (FFB), which are guaranteed by the Rural Utilities Service (RUS); from cooperative lenders such as CFC or CoBank, or from private resources such as banks.

The lion's share of borrowing is done through RUS. Here, money is borrowed from the FFB at an interest rate based on the cost to the U.S. Treasury plus one-eighth of 1 percent. Congress has authority to impose ceilings on FFB lending.

“CFC” is the National Rural Utilities Cooperative Finance Corporation. It is an independent, self-help financing institution created by electric cooperative systems across the country to provide supplemental loans for the electric cooperative program.

CoBank specializes in providing financial solutions and leasing services to cooperatives, agribusinesses, Farm Credit associations, and rural communications, energy and water companies. The bank also finances agricultural exports.

***The future is  
bright for  
Ohio's  
electric  
cooperatives.***

They are close to their members and always will offer services that enhance their members' lives. If and when choice becomes available, you can be sure your cooperative's not-for-profit status will help it keep its focus on your needs. Your cooperative's years of building trust and dependability will continue to reassure you that it has your best interests at heart, even as the electric industry changes.





Electric cooperatives have created a national brand image  
for electric cooperative service.



Touchstone Energy<sup>®</sup>

*The power of human connections*

“Touchstone” is a sign of quality.  
The brand name conveys a promise of

*Accountability*

*Innovation*

*Integrity*

*Commitment to community*



Ohio Rural Electric Cooperatives, Inc.  
Buckeye Power, Inc.  
6677 Busch Blvd.  
P.O. Box 26036  
Columbus, OH 43226-0036

Your Touchstone Energy<sup>®</sup> Cooperatives 