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RURAL ELECTRIC COOPERATIVES AND THE TRANSITION TO A CLEAN ENERGY FUTURE

A Guide for Cooperative Leaders

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Ken Colburn retired as RAP's director of US programs in 2020. He continues to contribute to the clean energy transition part-time through his LLC, Symbiotic Strategies.

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IV. Good Governance

A. Foundations of Good Governance

The seven cooperative principles adopted by the International Co-operative Alliance provide the essential basis for cooperative governance. The focus of electric cooperatives on the needs of their members, their community and the public interest enables them to provide innovative leadership. Adherence to the seven cooperative principles also helps to ensure that they adhere to good governance.

The Organisation for Economic Co-operation and Development defines governance as the formal and informal arrangements that determine how public decisions are made and how public actions are carried out. The principal elements of good governance include accountability, transparency, efficiency, effectiveness, responsiveness and the rule of law.[189]

These principles are reflected in many of the seven cooperative principles.

The seven cooperative principles are:[190]

1. **Voluntary and open membership.** Membership is open to all people who can reasonably use the cooperative's services and stand willing to accept the responsibilities of membership, regardless of race, religion, gender or economic circumstances.
2. **Democratic member control.** Cooperatives are democratic organizations controlled by their members, who are involved in setting policies and making decisions. Representatives (directors and trustees) are elected among the membership and are accountable to them.
3. **Members' economic participation.** Members contribute equitably to and democratically control the capital of their cooperative. At least part of that capital remains the common property of the cooperative.
4. **Autonomy and independence.** Cooperatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control as well as their unique identity.
5. **Education, training and information.** Education and training for members, elected representatives (directors and trustees), CEOs and employees help them effectively contribute to the development of their cooperatives. Communications about the nature and benefits of cooperatives, particularly with the general public and opinion leaders, help boost cooperative understanding.
6. **Cooperation among cooperatives.** By working together through local, national, regional and international structures, cooperatives improve services, bolster local economies and deal more effectively with social and community needs.
7. **Concern for community.** Cooperatives work for the sustainable development of their communities through policies supported by the membership.

Recognizing the important interplay among these principles, they are discussed below within the following broad categories of good governance:

1. Clear governance and operations structures.
2. Clear notices of meetings.
3. Opportunities to take advantage of member-owner resources and interest.

1. Clear Governance and Operations Structures

Democratic member control, member education and deeply rooted concern for community are core cooperative principles that are best expressed best through clear governance and operations structures. Principles of transparency and public engagement, reflected in cooperative principles number 1, 5 and 7, are usually less clearly spelled out in governance structures but are vital to ensuring robust member participation, understanding and interest. They are explored more fully here.

Electric cooperatives are typically governed by a democratically elected board of directors. This body represents the interests of the cooperative's member-owners as a whole. The board of directors has five principal functions:[191]

1. **Legal.** To ensure the legal right of the cooperative to exist.
2. **Trusteeship.** To act in the best interests of the members by representing the interests of all —

189 Organisation for Economic Co-operation and Development. (2015). *The Policy Framework for Investment (PFI).* http://www.oecd.org/investment/pfi.htm

190 Based upon National Rural Electric Cooperative Association, 2016.

191 Adapted from U.S. Agency for International Development & National Rural Electric Cooperative Association International. (n.d.). *Guides for electric cooperative development and rural electrification*. https://resources.uwcc.wisc.edu/Utilities/Guide_ElectricCooperative.pdf

not any special interests.

3. **Planning.** To establish direction, develop programs and carry out plans based on values that reflect those of the cooperative's member-owners, including realistic goals.
4. **Resources.** To assure the availability of necessary resources, including personnel, financial resources, wholesale power and adequate revenue for the cooperative's size and needs.
5. **Oversight.** Monitor operations to assure compliance with board policies, budgets, member relations, loan covenants, contractual compliance and long-range planning.

As a member-owned entity, transparency is an essential cooperative attribute. Cooperative websites should make information accessible and understandable for members and provide:

- **Statutory mandate.** Generally, states define a cooperative's authority and jurisdiction in statute or code. This statute also generally sets the governance structure, oversight and functions the cooperative must perform.
- **Oversight structure.** Cooperatives should publicize for their member-owners information about their oversight authority, which could be a board of directors, governing committee, government office or division of government. Information should also be included on the identities and terms of the individuals involved in governance, and the roles, responsibilities and duties of the oversight body. Any governing principles for the board of directors should also be publicly available.
- **Cooperative management.** Information on the cooperative manager, chief executive officer or executive management of the cooperative and its major departments should be publicly available, along with contact information, including mail, telephone or internet.
- **Utility financial information.** Cooperative tax structure, including any payments in lieu of taxes to the local government, should be transparent. Unlike with investor-owned utilities, excess revenues stay in the local community and are invested in system improvements and utility reserves, shared with the local government or returned to the member in the form of lower rates or dividends. Cooperatives also generally have access to lower-cost tax-exempt financing and generally have stronger credit ratings than privately owned utilities.[192] General and nonconfidential financial information of the utility should also be publicly accessible, including compensation of top utility executives and federal 990 forms.
- **Public records and reports.** Cooperatives should make public any meeting minutes of the board of directors, oversight committee and significant cooperative meetings and other important information generated by the cooperative.
- **Cooperative goals, resource plans and strategic direction.** Section II discusses setting cooperative goals, strategic direction and resource plans. General and nonconfidential information on cooperative goals, plans and strategic direction should be accessible to the public.
- **Member program information and tariffs**. Section III discusses energy efficiency, weatherization programs and low-income bill assistance programs. It also covers the benefits of member-interactive tariffs, demand management programs and beneficial electrification, including electric vehicles, renewable energy and distributed generation programs. Information on these programs, including eligibility, benefits and program details, should also be readily available for cooperative members.
- **Member participation information.** Information on how member-owners can participate in board meetings, or otherwise obtain information should also be publicly available on cooperative websites to ensure participation and confidence of members.

CORE Electric Cooperative in Colorado is an example of a utility that is transparent in its governance and operations. The roles of the leadership figures are clearly identified, and the cooperative provides annual meeting notices and minutes, annual reports and audit reports. Its website posts cooperative bylaws, board meeting minutes, notices and schedules, as well as information on director elections. The site clearly provides members with information on rates and regulations, renewable energy compliance reports and links to more membership options and opportunities.[193]

192 American Public Power Association, n.d. Electric cooperatives and other entities are also eligible for financing from the Rural Utility Service under the Rural Electrification Act of 1936. See U.S. Department of Agriculture Rural Development. (n.d.). *Electric programs.* https://www.rd.usda.gov/programs-services/electric-programs

The Colorado State Legislature passed legislation in 2021 (HB21-1131) placing new transparency requirements on electric cooperatives; the Virginia legislature is considering similar legislation.

2. Clear Notice of Public Meetings

Rural electric cooperatives are owned by and operated for the citizens they serve and therefore are accountable to their member-owners. This local, independent regulation and governance gives cooperative policymakers greater agility in decision-making and protects the long-term viability of the utility, while permitting member involvement in the process. Member involvement ensures decisions reflect the values of the community,[194] so these benefits will not be realized unless cooperative utility meetings are open, accessible and transparent.

As noted in the section above, information included on the cooperative website and made available to members must include meeting minutes and public records. Information should also be made accessible on the following:

- **Notice of meetings.** Notices of regular and special meetings should be posted in accordance with applicable public records and meeting laws, in addition to member-owners. However, extra effort may be necessary to ensure that a diverse population is able to participate. Meetings during the day may be inaccessible to members of a cooperative. Therefore, cooperative managers should take steps to ensure that the location, timing and language of notices and materials supports the engagement of residents, including those with disabilities. Notices for meetings and information relevant to the topic should be made in the languages spoken in the community and should be posted electronically and where local member-owners usually gather, such as local community centers, libraries, faith organizations, clubs, community organizations, medical facilities, schools or other places where people commonly gather. Cooperatives should also ensure that participants have relevant information on the topic or issue at hand that is written in commonly understandable language.
- **Decisions made in member meetings.** Decisions beyond day-to-day operational decisions should be made in public meetings. This enables cooperative member-owners to participate in and understand utility processes and operations. All meetings should provide an opportunity for comment from member-owners.

3. Opportunities to Utilize Community Resources and Member Interest

As community-owned enterprises, cooperatives have the ability to focus on specific member needs and local priorities, which may include new technologies, environmental concerns or advanced communications.[195] The cooperative governance structure also typically allows greater agility in decision-making and the ability to try new programs and sources of supply and more effective utilization of local resources than investor-owned utilities can muster. In practice, this framework allows member-owners to realize the economic benefits from their cooperative as well, including receiving dividend payments, having a ownership stake in generation, saving money on utility bills, or supporting fossil plant communities through economic transitions. Cooperatives should take steps to realize these unique resources and opportunities. Methods to do this include the following.

a. Member Meetings About Potential New Programs and Resources

Cooperatives have a history of innovation and acting as leaders for their members. Many of those efforts have been incubated in smaller cooperative service areas. Familiar concepts that were first trialed in public power settings include wind generation, landfill-gas-to-energy projects, community solar, energy efficiency programs, electric vehicle infrastructure early adoption and hydroelectricity.[196] Various methods, discussed above, are available to achieve cooperative goals through energy efficiency and clean energy programs and offer a starting point for introducing new programs and resources to cooperatives. Meetings, either general or special, are an excellent venue to educate community members about these programs and new opportunities

193 American Public Power Association, n.d.

194 American Public Power Association, n.d.

195 American Public Power Association, n.d.

196 American Public Power Association. (2021). *Public power: At the forefront of innovation.* https://www.publicpower.org/blog/public-power-forefront-innovation

that cooperatives may pursue. Cooperatives may also be able to utilize their land holdings for renewable energy development opportunities or community solar gardens, or lease land for these purposes (see Section III-D).

b. Direct Member Involvement

In addition to a history of innovation, cooperatives also have a valuable resource in engaged cooperative members. The public can be included in general meetings and through specific member engagements on big cooperative decisions. But active members of the cooperative can also be engaged in other ways, including on specific topics or in outreach to other member-owners.

One important tool for engaging and utilizing cooperative members is a volunteer task force to study specific issues and make recommendations. Some issues before a cooperative may require technical expertise and require the use of paid consultants. Others, particularly at early stages of exploration, may be more suited to community-sourced research. With a clear directional charge, timeline and sufficiently detailed expectations, volunteer task forces made up of interested members of the public can provide analysis of specific issues and make recommendations. Issues particularly suited for this approach could be determined with the input of member-owners, such as researching innovative supply and demand resource options.

Lessons learned on transparency and good governance

Transparency and good governance practices are valuable tools that not only provide better outcomes for the cooperatives and individual members but also help ensure that these cooperatives are free from conflicts of interest and corruption.[197] Sharing information and inviting participation in decision-making processes provides the public a greater understanding about how and why the utility is making certain decisions. Where stakeholders do not agree with the assumptions or data upon which those decisions are based, open processes also provide an avenue to secure additional information or ideas. Without such good governance practices, members and stakeholders may feel that the cooperative's decisions are not well grounded, and without any means by which to review or contest those decisions, they may grow skeptical and distrustful, possibly leading to more costly challenges such as court challenges.

4. Transparent Policymaking Processes

Cooperatives engage in policymaking through the planning processes explored in Section II. These include integrated resource plans, energy efficiency strategies, beneficial electrification plans, renewable portfolios and distribution system plans, among others. Many of these planning processes can benefit from public engagement in some form as further discussed in Section IV-B below. Clear explanation of the specific planning processes, their schedule and the reasons for them will help the public and stakeholders participate. Additionally, current planning documents should be available to the public.

B. Ensuring Public Participation in the Clean Energy Future

Cooperative member-owners increasingly desire energy from clean energy sources. In 2019, 40% of surveyed members wanted renewable generation, up from 25% the prior year.[198] Given the increased member interest in clean energy resources and desire for input into the cooperative resource selection process, a strategy to engage in robust member-owner engagement will enable cooperatives to incorporate members in an effective and efficient manner. The cooperative principles specifically note that cooperatives are "democratic organizations controlled by their members, who actively participate in setting policies and making decisions." In support of this idea, the principles

197 Regulatory capture occurs when a regulatory body that is charged with protecting the public interest instead advances the political or commercial interests of the companies or entities it is supposed to be regulating. For more information on regulatory capture, see such resources as Carpenter, D., & Moss, D., (2014). *Preventing regulatory capture: Special interest influence and how to limit it.* Harvard University. https://www.tobinproject.org/sites/tobinproject.org/files/assets/Introduction%20from%20Preventing%20Regulatory%20Capture.pdf; and Nash, B. J. (2010). Regulatory capture. Richmond Federal Reserve. https://www.richmondfed.org/publications/research/econ_focus/2010/q3/~/media/26F9F09B51BF43BFB25FCCCB4BCFC909.ashx#:~:text=The%20ICC%20is%20now%20regarded,not%20just%20maximum%2C%20shipping%20rates

198 Escalent. (2019, April 22). *Consumer demand for clean energy significantly increases.* https://escalent.co/news/consumer-demand-for-clean-energy-significantly-increases/

recognize the need for education to ensure informed membership, stating: "Education and training for members, elected representatives (directors/trustees), CEOs, and employees help them effectively contribute to the development of their cooperatives. Communications about the nature and benefits of cooperatives, particularly with the general public and opinion leaders, help boost cooperative understanding."[199]

The American Public Power Association provides guidance to utility managers for ensuring public participation. While originally focused on engagement from municipal members, the points below work well for engaging electric cooperative members, including duties to:[200]

1. **Inform.** Provide the public with balanced and objective information to assist them in understanding the problem, alternatives and/or solutions.
2. **Consult.** Obtain public feedback on analysis, alternatives and/or decisions.
3. **Involve.** Work directly with the public throughout the process to ensure public issues and concerns are consistently understood and considered.
4. **Collaborate.** Partner with the public in each aspect of the decision-making, including the development of alternatives and the identification of the preferred solution.
5. **Empower.** Place the final decision-making in the hands of the public.

These steps are important for cooperatives to implement, particularly when facing decisions on building or procuring new resources or setting cooperative climate and conservation goals.

Typical cooperative decisions that warrant specialized effort for member-owners include, but are not limited to:

- Acquiring or procuring new generation.
- Expanding service territory.
- Siting a power plant.
- Adding a substation.
- Restructuring rates or new tariff designs.
- Designing energy efficiency, demand management, distributed generation or electrification programs.
- Revising or expanding low-income programs.
- Starting or revising green power programs.
- Building a transmission line.
- Expanding services beyond power supply.
- Selecting a general manager or other important executive position.
- Setting or revising cooperative goals for the utility.[201]

Member-owner engagement and input is also useful as a regularly recurring strategic planning effort. The following principles of member engagement can help cooperatives gather meaningful input into decisions from a variety of member perspectives.[202]

Inclusive Planning and Preparation

Robust member-owner engagement activities take planning to ensure that the goals of the engagement are accomplished and that the affected members of the cooperative are present. This means that the planning process for the member engagement itself also requires inclusive planning. Inclusive planning ensures that the design, organization and convening of the member engagement process serves the defined cooperative purpose and the needs of the participants. Developing the plan may require input from a number of other sources as well. Such early planning enables cooperatives to equitably incorporate diverse people, voices, ideas and information to lay the groundwork for an optimal outcome.

Transparency

Clear statements of the purpose of the member engagement process, the steps in the process and how the cooperative will incorporate results of the member engagement process will enhance transparency and confidence in the process. Readily available information on where members can find out more details on the topic at issue, the process and contact information is also helpful.

Authentic Intent

The primary purpose of member engagement

199 National Rural Electric Cooperative Association, 2016.

200 American Public Power Association. (2007, April). *Public participation for community-owned utilities.* http://courses.washington.edu/bse190b/data/6a_i.pdf

201 American Public Power Association, 2007. Additional items added to this list.

202 These principles of public engagement are derived from the best practices identified in National Coalition for Dialogue & Discussion. (2010). Resource guide on public engagement. https://www.ncdd.org/uploads/1/3/5/5/135559674/ncdd2010_resource_guide.pdf; and Institute for Local Government. (2015). Principles of local government public engagement. https://www.ca-ilg.org/sites/main/files/file-attachments/principles_of_public_engagement_jan_2015.pdf?1497552327

activities is to solicit views and ideas from cooperative members that will help shape the policy discussion. As noted by the Institute for Local Government, the purpose should not be to persuade members to accept a decision already made.[203] Consequently, the planning and preparation step is important to ensure that diverse viewpoints are presented and heard so that a variety of options may be considered.

Broad, Informed and Accessible Participation

Robust member engagement processes include people and viewpoints that are broadly reflective of the cooperative's population. Extra effort may be necessary to ensure that a diverse population is able to participate. This includes taking steps to ensure that the member engagement process is broadly accessible in terms of location, time and language and that it supports the engagement of residents with disabilities.

Clear and Engaging Public Process

Member-owner engagement processes that utilize discussion formats that are responsive to the needs of cooperative members and encourage full, effective and equitable participation work well. Cooperatives' engagement leaders should be clear about the public engagement process and the steps involved at each stage. They should provide a public record of the organizers, topics, range of views and ideas expressed and outcomes.

Sustained Engagement and Participatory Culture

Utilizing member engagement as a regular part of cooperative governance decisions helps to promote a culture of participation from and with the community. Consequently, participation in utility programs will be more robust, and community value from and appreciation for cooperative services will be elevated.

Useful Resources on Public Engagement

American Public Power Association. (2007). *Public Participation for Community-Owned Utilities: An Implementation Guide.* http://courses.washington.edu/bse190b/data/6a_i.pdf

Institute for Local Government. (2015). *Principles of Local Government Public Engagement.* https://www.ca-ilg.org/sites/main/files/file-attachments/principles_of_public_engagement_jan_2015.pdf?1497552327

National Coalition for Dialogue & Discussion. (2010). *Resource Guide on Public Engagement.* https://www.ncdd.org/uploads/1/3/5/5/135559674/ncdd2010_resource_guide.pdf

National Rural Electric Cooperative Association and National Rural Utilities Cooperative Finance Corporation. (2020, February). *Electric Cooperative Governance Task Force Report.* https://www.documentcloud.org/documents/6561940-Electric-Cooperative-Governance-Task-Force-Report.html

203 Institute for Local Government, 2015.