

# OKLAHOMA RECs: CONSUMERS IN ACTION

In today's world of consumer concern, rural electric cooperatives can stand tall and proud, for it was consumer concern and consumer action that led to their formation some fifty years ago.

The year 1985 was the golden anniversary of rural electrification, but in 1935 all but 10% of America's farmers were living as they always had; they read by candlelight, Mother cooked on a wood stove and used it to heat heavy sad irons to press the family's clothes. She washed those clothes on a scrub board, and depended on the sun to dry them. Dad depended on his muscle to do the farm work, helped at most by the strength of farm animals.

They looked longingly at their city cousins who had enjoyed electric lights and other luxuries afforded them by electricity for half a century. But when the farmer asked a power company for help, he was told he could have it only if he paid all the costs himself and retained no claim to ownership of the facilities. The price of electric service was also exorbitant.

America's rural citizens were concerned, for they recognized that electricity would answer many of their problems. They had a heritage of cooperation, having worked and fought together from the early days of our country to carve farms from wilderness and then to defend those farms.

They had cooperated to harvest their crops and then to market them. They knew how to work and how to fight for those things they believed in. They were undaunted by the skepticism which greeted their desires to provide themselves with electric power.

Despite strong and continued opposition from many of the nation's commercial electric utilities, people who wanted to become electric consumers forged ahead to develop their own rural electric service into the strong and successful example of private enterprise it is now.

Today, this people-oriented program has succeeded in bringing electricity to 99.5% of the nation's rural homes in 46 states, Puerto Rico and the Virgin Islands. Hawaii recently created its first electric cooperative. States not included are Connecticut, Massachusetts and Rhode Island.

## EARLY ELECTRIFICATION STEPS

Anger at what a consumer considered an unreasonable electric bill in the mid-1920's blossomed into the Rural Electrification Administration some 14 years later.



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When Franklin D. Roosevelt discovered he was paying 18 cents per kilowatt-hour for electricity at his Warm Springs, Georgia, cottage, he was shocked. It was about 4 times the rate he was paying at his home in Hyde Park, New York. This realization triggered a study of the electric power industry and particularly of the plight of the rural areas. When he became Governor of New York, Roosevelt established the Power Authority of New York, which conducted studies that proved the feasibility of electrifying rural areas.

Armed with this and his own research, Roosevelt, as President of the United States, in 1935 created the Rural Electrification Administration, or REA. A consumer had opened the door for one of the greatest consumer action programs America was ever to see!

From these humble beginnings, rural electrification has grown into one of the most successful self-help programs ever enacted by the United States Government.

One year later, Congress, led by Senator George Norris, a Nebraska Republican, and Representative Sam Rayburn, a Texas Democrat, determined that the program would be a true consumer program, rejected the idea of building a federal rural electric system in favor of one designed to help and encourage people to do it themselves.

With the Congressional go-ahead of the Rural Electrification Act of 1936, REA was eager to start its program to meet the great need and desire for electricity on the farm. They offered the program to the largest commercial electric utilities, only to be rejected with a disparaging "there are very few homes requiring electricity for major farm operations that are now served."

With their long background of working together in other ways, this unwillingness of the big companies was no barrier to the eager farm dwellers. Led by cooperative leaders and by state and federal county extension agents, the farmers formed electric cooperatives. By donating the right-of-way, setting the poles and even stringing the lines themselves, farmers started bringing electricity to their farms.

America's countryside had begun to light up!

## **THE ROLE OF RUS**

The Rural Utilities Service serves as the banker for nearly 700 rural electric cooperatives. It makes available technical advice, but does not build, own, or operate any electrical facilities. Both distribution cooperatives and power supply cooperatives borrow from the RUS, repaying the loans with interest from operating revenues.

Because of the tremendous expense of constructing and maintaining electric service throughout the scattered rural areas of America, Congress approved a special 2% interest-35 year loan program in 1944. This loan program remained in effect until December 31, 1972, when it was terminated.

During the early part of 1973, Congress established a new REA loan program. The use of funds appropriated from the federal budget to finance the RUS loan program was replaced with an insured and guaranteed loan program. No federal tax money is involved in RUS loans.

The principal source of loans for distribution cooperatives is insured loans. These funds originate from the Rural Electric and Telephone Revolving Fund, which is excluded by law from inclusion in the budget. These insured loans typically comprise 15% to 30% of RUS's lending activity.

The other lending program, established in 1973, is the REA "guaranteed loan" program. The principal sources of money used to construct generation and bulk transmission facilities are loans guaranteed by RUS. These funds are secured at the government's full cost of borrowed money plus 1/8th of 1%.

## **THE ROLE OF CFC**

In 1969, rural electric cooperatives from across the nation formed the National Rural Utilities Cooperative Finance Corporation, or CFC. It is another example of the consumer taking action.

Organization of CFC followed two years of study. It started when REC leaders recognized that while RUS would, and must, remain the primary banker for electric cooperatives, Congress could not be expected to appropriate funds to meet all the growing needs of the nation's rural electric systems.

CFC obtains its long-term capital from two primary sources: investments by member systems, for which Capital Term Certificates (CTCs) are issued; and capital from the private money market through issuance of long term debt securities.

Member systems agree to subscribe to CTCs over several years. These CTCs mature in 46 to 50 years and earn 3% interest annually. In addition, each borrower is required to subscribe to additional CTCs in amounts equal to 5% of its long-term loans from CFC.

In general, power supply financing is approximately 70% RUS and 30% non-RUS. CFC helps provide capital to compliment the RUS loan program. Oklahoma, always a leader, was the first state to pledge 100% support to the CFC program.

## **WHAT ARE RURAL ELECTRIC COOPERATIVES?**

Rural electric cooperatives are private, non-profit corporations owned by their consumer-members. They are similar in concept to other consumer-owned businesses, including farm produce marketing co-ops, the Associated Press, the huge news gathering and reporting co-op, and many others in private enterprise.

Each consumer of the cooperative is a member with one vote in the affairs of the cooperative. Bylaws adopted by the members set forth their rights and responsibilities and the guidelines which assure a democratic organization.

Members elect the directors of the cooperative, and an annual meeting is held to conduct the business of the co-op. The directors employ a professional manager for the electric cooperative and he hires the necessary trained and efficient employees.

Rates for consumers are established by the REC Board based upon what it actually costs to provide dependable service and to meet the payment schedule on its loans. Rates are designed so that revenues exceed expenses.

In a cooperative, this margin is allocated as capital credits and distributed to members in relation to the amount of electricity they have used. This maintains the non-profit status of the RECs.

## **OKLAHOMA'S RURAL ELECTRIC COOPERATIVES**

People in Oklahoma organized the first rural electric cooperative in the state in 1936, at a time when only 2.6% of the farms in the state were served with electricity. However, it wasn't until the state legislature passed the REC Enabling Act in 1939 that the people really had the tools they needed to assure an adequate supply of electricity for rural areas. That "Enabling Act" was won by the people against strong opposition.

Today, Oklahoma has 28 distribution cooperatives that deliver electricity directly to their member -consumers. There are also two (2) generation and transmission cooperatives, or G&Ts, which supply wholesale power to the distribution systems. Electric service, so essential to living in our modern world, now reaches 99.5% of rural Oklahoma.

Oklahoma's cooperatives operate more than 97,680 miles of line; enough to circle the earth almost four times, and serve over 418,000 meters. The privately owned power companies in the state operate about 47,000 miles of line and serve more than 1,140,000 meters.

Thousands of homes depend on RECs for light, water, heating and cooling, and dozens of labor-saving or convenience devices. Industrial complexes, commercial institutions and military installations operate today in what once were rural areas. Their existence in these areas is made possible by a dependable power supply from Oklahoma RECs.

Oklahoma Rural Electric Cooperatives, like other businesses, pay taxes. Since income tax is a tax on profit and RECs are non-profit corporations, they pay no income tax. However, they do pay a 2% gross receipts tax (at both the retail and wholesale level) to the state, which is distributed to local school districts relevant to the miles of line in each district.

This tax alone amounts to nearly \$20 million a year. The RECs also pay social security, unemployment, gasoline taxes, license and franchise fees and a variety of miscellaneous taxes. All of these tax revenues did not exist before rural electric cooperatives.

### **RECs HELP OKLAHOMA'S ECONOMIC PICTURE**

Oklahoma's rural electric cooperatives make a significant contribution to the economy of the state, both rural and urban. More than 2,200 people are employed by the Oklahoma RECs.

Electricity has made possible tremendous changes in farm productivity. It enables irrigation to make arid

lands productive. It makes possible efficient and sanitary large-scale dairy farming. It reduces the labor in livestock feeding and poultry production, saving millions of dollars and encouraging greater production.

The mechanization of farming made possible by electricity has increased income of the farmers, and at the same time, made him the most efficient in the world by cutting the cost of food and fiber to the American public. People of the United States spend a smaller part of their income for food than any other people in the world.

Because of the availability of dependable electricity, a multimillion-dollar electrical appliance, equipment and service market has been created in rural Oklahoma. Much of the benefit of this accrued to urban residents.

Thousands of modern homes and cabins surround Oklahoma's magnificent lakes and recreation areas. Development of these areas and the tourism industry which brings so many dollars into the state was made possible, at least in part, by dependable electric service from the RECs.

Often the electric cooperative is a major employer in the town in which it has its headquarters, and thus, is a major factor in the economy of that town.

Oklahomans are fleeing the cities, reversing migration from country to town of a few years ago. They are moving from town to country, where RECs provide the electrical energy for modern living in areas where pollution and crime are not ever present problems. More people each year are feeling pride in their quality of life and in the RECs that make it all possible.

### **WHERE THE POWER COMES FROM**

The nation's rural electric distribution cooperatives purchase all of the power they deliver to their members. Imagine the position they would be in if they did not have the right to own the G&Ts to generate and transmit power for themselves.

It would be like trying to operate a little grocery store and having to buy all your supplies from the supermarket on the next block. Soon your customers would ignore you and go directly to the supermarket, putting you out of business.

But with their own power supply sources, the generation and transmission cooperatives, the RECs have a bargaining tool to secure better wholesale power prices, better terms and better service.

The cost of wholesale power accounts for approximately 65% of the total cost of providing service to the consumer. That compares to 49.4% in 1973. Any

thing that affects the cost of wholesale power has a direct bearing on the rates the consumer pays and the service he receives. Nationally, almost 70% of RUS loans have been used to build generation and transmission (G&T) facilities. This compares to 37.7% in 1973.

Oklahoma has two (2) power supply cooperatives. Western Farmers in Anadarko provides the wholesale power supply for 19 state systems and KAMO Power in Vinita serves 8 Oklahoma RECs as well as systems in Kansas, Arkansas and Missouri.

## **RECs AND TOMORROW**

The task of the rural electric cooperatives is far from complete. Technological change is constantly increasing the electrical demand of present REC members. More and more new consumers, seeking to escape urban congestion, are moving to the country and using dependable electric power from rural electric lines.

In meeting the challenges of tomorrow, the electric utility industry is seeking answers to environmental problems and to depletion of basic energy sources. While today, coal power plants are playing a significant role in power supply, research is already looking at such exotic forms of generation as conversion of sea water to energy through nuclear fusion, large solar energy farms, and orbiting space stations which will collect solar energy and transmit it to earth.

Other challenges of the environment are facing rural electric cooperatives and the rest of the industry. Can safe, economical methods of high voltage underground transmission be developed? To what extent can water used in cooling at power plants be reused to increase production of food, particularly of seafoods? Use of electricity in combating environmental pollution is an exciting new field.

RECs over the nation are playing their role in research and development involving these questions and many more in the electric power industry. The desire to serve and the enthusiasm and determination, which has sparked the success of rural electric cooperatives over the years, will meet these challenges of tomorrow as well.

## **OKLAHOMA ASSOCIATION OF ELECTRIC COOPERATIVES**

Oklahoma's 28 RECs and two in Arkansas are members of a state organization, the Oklahoma Association of Electric Cooperatives. The OAEC was organized to collectively perform services, which would not be economical or practical for each cooperative to perform individually.

The organization offers training courses for directors, managers and employees of member systems; an intensive job training and safety program; plus coordinates and sponsors many other educational programs pertaining to the rural electric systems in Oklahoma.

OAEC also serves as a liaison with state and national legislative and executive branches of government. They coordinate a public relations and advertising program and publish a monthly newspaper, the "Oklahoma Living", which reaches some 295,000 members.

## **NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION**

The National Rural Electric Cooperative Association (NRECA) was founded in 1942 to perform services on a national level. NRECA's first project was an insurance program for REC employees. Today, with almost 1,000 member systems, NRECA offers a wide variety of services.

The organization is best known to the public for its legislative activities. NRECA also provides services in research, engineering, publications, member education, retirement, safety and insurance, public relations, management training, coordination of meetings, women's activities and such other services as its member's request.



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**For more information about the Rural Electric Cooperative in your area, contact:**

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