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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

FOR RELEASE ON DELIVERY
EXPECTED AT 9:00 a.m.
TUESDAY, OCTOBER 20, 1981

STATEMENT OF
BALTAS E. BIRKLE, DEPUTY DIRECTOR
COMMUNITY AND ECONOMIC DEVELOPMENT DIVISION

BEFORE THE

SUBCOMMITTEE ON AGRICULTURAL CREDIT AND
RURAL ELECTRIFICATION

OF THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

UNITED STATES SENATE

ON

MEMBER PARTICIPATION IN RURAL ELECTRIC COOPERATIVES

MADAM CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

WE ARE HERE TODAY TO DISCUSS MEMBER PARTICIPATION IN THE ACTIVITIES OF RURAL ELECTRIC COOPERATIVES FUNDED AND SUPPORTED BY THE DEPARTMENT OF AGRICULTURE'S RURAL ELECTRIFICATION ADMINISTRATION (REA). THIS IS ONE OF THE ASPECTS DISCUSSED IN OUR NOVEMBER 1980, REPORT ENTITLED "FINANCING RURAL ELECTRIC GENERATING FACILITIES: A LARGE AND GROWING ACTIVITY" (CED-81-14).

BACKGROUND

REA WAS ESTABLISHED IN 1935 AS PART OF AN UNEMPLOYMENT RELIEF PROGRAM. WITH REA ASSISTANCE, RURAL ELECTRIC COOPERATIVES WERE FORMED TO BUILD AND MAINTAIN ELECTRIC DISTRIBUTION SYSTEMS TO SERVE THEIR RURAL MEMBERS. FOR THE MOST PART, THE COOPERATIVES PURCHASED ELECTRIC POWER FROM FEDERAL POWER PROJECTS OR ELECTRIC COMPANIES AND DISTRIBUTED IT TO CONSUMERS.



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AS THE DISTRIBUTION NETWORK EXPANDED NATIONWIDE, THE DISTRIBUTION COOPERATIVES BEGAN TO FORM MEMBER-OWNED GENERATION AND TRANSMISSION OR POWER SUPPLY COOPERATIVES. INITIALLY, THESE POWER SUPPLY COOPERATIVES SERVED LARGELY AS SERVICE ORGANIZATIONS FOR THE MEMBERS, ARRANGING AND CONTRACTING FOR THE PURCHASE OF BULK POWER WHICH IN TURN WAS SOLD TO DISTRIBUTION MEMBERS. SUBSEQUENTLY, SOME OF THESE POWER SUPPLY COOPERATIVES BEGAN TO BUILD THEIR OWN GENERATING CAPABILITY TO REDUCE THEIR DEPENDENCE ON OUTSIDE SOURCES OF ELECTRIC POWER.

ORGANIZATION OF COOPERATIVES

DISTRIBUTION COOPERATIVES HAVE BOARDS OF DIRECTORS THAT ESTABLISH POLICY FOR THE SYSTEM. THE DIRECTORS ARE ELECTED BY INDIVIDUAL CONSUMER/MEMBERS, WHO HAVE ONE VOTE EACH, AT THE COOPERATIVES' ANNUAL MEETINGS. INDIVIDUAL CONSUMER/MEMBERS ARE FREE TO MAKE THEIR OPINIONS AND CONCERNS KNOWN TO THE BOARD OF DIRECTORS AT ANY TIME AND OF COURSE, THE DIRECTORS CAN BE REPLACED (VOTED OUT) AT THE ANNUAL MEETINGS IF SUFFICIENT NUMBERS OF CONSUMER/MEMBERS ARE DISSATISFIED WITH THE BOARD'S ACTIONS OR POLICIES.

POWER COOPERATIVES ALSO HAVE BOARDS OF DIRECTORS THAT ESTABLISH POLICY FOR THE POWER SYSTEM. THE BOARD OF DIRECTORS OF THE POWER SUPPLY COOPERATIVE ARE TYPICALLY SELECTED DIRECTLY BY THE DIRECTORS OF THE MEMBER DISTRIBUTION SYSTEM, MOST OF WHICH ARE ALSO COOPERATIVES.

A FAIRLY TYPICAL EXAMPLE OF THE ORGANIZATION OF A POWER SUPPLY COOPERATIVE IS FOUND IN THE UNITED POWER ASSOCIATION IN MINNESOTA. THE 21 MEMBERS OF THE BOARD OF DIRECTORS OF THIS

POWER COOPERATIVE ARE SELECTED BY THE BOARDS OF THE 15-MEMBER DISTRIBUTION COOPERATIVES FROM AMONG THEIR OWN INDIVIDUAL DIRECTORS. FIVE DISTRIBUTION COOPERATIVES CHOOSE TWO DIRECTORS EACH, AND THE OTHER 10 COOPERATIVES SELECT ONE MEMBER EACH PLUS ONE AT LARGE MEMBER.

THIS POWER SYSTEM'S 21 BOARD MEMBERS ATTEND MONTHLY AND ANNUAL MEETINGS TO SET POLICY AND AGREE ON MAJOR DECISIONS. THE ANNUAL MEETING IS ALSO ATTENDED BY ALL THE BOARD MEMBERS AND MANAGERS OF THE 15 DISTRIBUTION COOPERATIVES WHO ATTEND AS OBSERVERS.

INDIRECTLY, THE POWER SUPPLY COOPERATIVES ARE OWNED BY THE INDIVIDUAL CONSUMER/MEMBERS THAT MAKE UP THE DISTRIBUTION COOPERATIVES. BUT NORMALLY, THE CONSUMER/MEMBERS ARE NOT ASKED TO PARTICIPATE IN THE POWER SUPPLY COOPERATIVE'S ANNUAL MEETINGS. OF COURSE, INDIVIDUAL CONSUMER/MEMBERS CAN INDIRECTLY AFFECT THE POLICIES AND ACTIVITIES OF THE POWER COOPERATIVES THROUGH THE ELECTION OF DIRECTORS OF THE DISTRIBUTION COOPERATIVES.

MEMBER PARTICIPATION

BECAUSE OF CONCERNS OVER ENERGY COSTS, THE ENVIRONMENT, AND CONSERVATION AND BECAUSE OF THE IMPACT LARGE GENERATION AND TRANSMISSION FACILITIES CAN HAVE ON PEOPLE'S LIVES, WE POINTED OUT IN OUR NOVEMBER 1980 REPORT THAT THERE APPARENTLY WAS A NEED TO GAIN INCREASED PARTICIPATION OF INDIVIDUAL MEMBERS, PRIVATE CITIZENS AND OTHERS IN THE PLANNING AND DECISIONMAKING PROCESSES OF COOPERATIVES. UNFORTUNATELY, OUR REVIEW SHOWED THAT CONSUMER/MEMBER PARTICIPATION HAS BEEN LIMITED.

SPECIFICALLY, WE REVIEWED THE AVERAGE ATTENDANCE OF MEMBERS AT THE ANNUAL MEETINGS OF 70 RANDOMLY SELECTED DISTRIBUTION CO-OPERATIVES FOR THE PERIOD 1974-78. THE ATTENDANCE AT THE ANNUAL MEETINGS OF ONLY 23 OF THE 70 COOPERATIVES (ABOUT ONE-THIRD) AVERAGED MORE THAN 10 PERCENT OF THEIR MEMBERS. EVEN WITH VOTE PROXIES ADDED TO THE ATTENDANCE FIGURES, ONLY 26 (ABOUT 37 PERCENT) OF THE COOPERATIVES AVERAGED MORE THAN 10-PERCENT PARTICIPATION BY THEIR MEMBERS.

ACCORDING TO A FORMER REA ADMINISTRATOR, MEMBER PARTICIPATION WAS NOT ALWAYS A PROBLEM. WHEN THE REA PROGRAM FIRST BEGAN AND COOPERATIVES WERE BEING FORMED, THE MEMBERS WERE ACTIVELY INVOLVED. ONCE MEMBERS BECAME "SOLD" ON THE CONCEPT AND FAMILIAR WITH THE BENEFITS, THEY WERE EAGER TO TAKE PART IN A COOPERATIVE VENTURE WITH THEIR NEIGHBORS. MOST COOPERATIVES WERE SMALL AND RELIED HEAVILY ON THE DIRECT ASSISTANCE OF MEMBERS.

AS RURAL ELECTRIFICATION BECAME ESTABLISHED AND THE COOPERATIVES GREW LARGER, THERE WAS A GRADUAL LESSENING OF DIRECT MEMBER PARTICIPATION. THERE WERE RELATIVELY FEW NEW ISSUES IN WHICH MEMBER PARTICIPATION WAS NECESSARY. RATES, A PRIMARY MEMBER CONCERN, WERE IN A STEADY PERIOD OF DECLINE UP THROUGH THE 1960s. VIRTUALLY EVERY AREA OF THE COUNTRY WAS REACHED WITH SERVICE AND THIS SERVICE WAS INCREASINGLY MORE RELIABLE. THE OPERATIONS OF THE COOPERATIVES WERE, FOR THE MOST PART, LEFT TO THE STAFF AND THE BOARDS OF DIRECTORS.

THE RESULTS OF A SURVEY CONDUCTED IN EARLY 1979 BY ONE DISTRIBUTION COOPERATIVE GIVES FURTHER INSIGHT INTO THE PROBLEM. WHILE THESE RESULTS MAY NOT NECESSARILY BE TYPICAL, IN RESPONDING

TO A QUESTION ON HOW MANY OF THE REGULAR MEETINGS THE MEMBERS HAD ATTENDED, 73 PERCENT SAID "NONE," AND MORE IMPORTANTLY, 61 PERCENT SAID THEY DID NOT WANT ANY MEETINGS.

IN OUR NOVEMBER 1980 REPORT, WE RECOMMENDED THAT REA REQUIRE BORROWERS TO TAKE AGGRESSIVE ACTION TO SOLICIT THE VIEWS AND OPINIONS OF INDIVIDUAL CONSUMER/MEMBERS IN POWER SUPPLY PLANNING AND IN OTHER MAJOR DECISIONS. THE REPORT SUGGESTED TWO WAYS THIS COULD BE ACCOMPLISHED. FIRST, POWER COOPERATIVE REPRESENTATIVES COULD ATTEND ANNUAL MEETINGS OF THE DISTRIBUTION COOPERATIVES AND/OR HOLD SPECIAL MEETINGS IN THE AREAS SERVED BY DISTRIBUTION COOPERATIVES TO DISCUSS MAJOR ISSUES AND THE POWER COOPERATIVES PLANS. IN ADDITION, WE SUGGESTED THAT QUESTIONNAIRES OR POLLS BE USED TO OBTAIN CONSUMER/MEMBER OPINIONS.

REA RECOGNIZES THAT A NEED EXISTS TO GET MORE CONSUMER/MEMBER INVOLVEMENT IN COOPERATIVES AND IS WORKING TOWARD THIS END. IN 1979, IT PLACED ITS OFFICE OF INFORMATION AND PUBLIC AFFAIRS IN THE OFFICE OF THE ADMINISTRATOR TO GIVE HIGHER PRIORITY TO MEMBER INVOLVEMENT AND EFFECTIVE COMMUNICATION. ALSO, IN COMMENTING ON OUR ISSUED REPORT, THE DEPARTMENT OF AGRICULTURE STATED THAT OUR SUGGESTIONS WERE PRESENTLY EMPLOYED BY REA BORROWERS. FURTHER, IT STATED THAT OUR RECOMENDATION COULD BE ACCOMPLISHED THROUGH A CONTINUED OVERSIGHT ROLE WITH THE INDIVIDUAL BORROWERS.

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MADAM CHAIRMAN, THIS CONCLUDES MY PREPARED STATEMENT. WE WILL BE PLEASED TO RESPOND TO YOUR QUESTIONS.