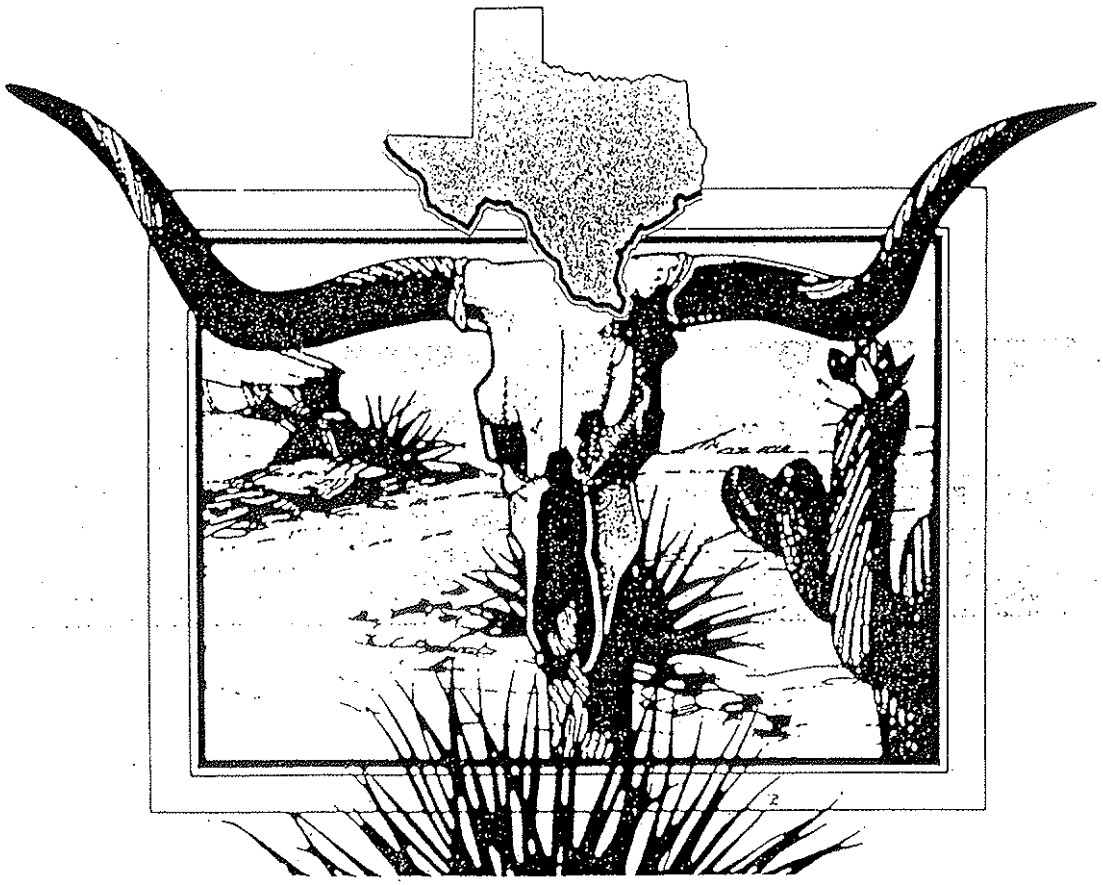
OPPORTUNITY FOR GROWTH

May 19-22, 1991

La Mansion del Rio Hotel

San Antonio, Texas



RURAL ELECTRIC MANAGEMENT DEVELOPMENT COUNCIL

PROCEEDINGS OF THE

34TH ANNUAL CONFERENCE

OF THE

RURAL ELECTRIC MANAGEMENT DEVELOPMENT COUNCIL

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La Mansion del Rio Hotel
San Antonio, Texas
May 19-22, 1991

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S C O P E

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COUNCIL PREAMBLE

In March 1969 the NRECA membership adopted viewpoints and objectives for rural electrification as prepared by the Long Range Study Committee. This action has significance only when member systems identify with, and develop programs in support of, these viewpoints and objectives. Success in the implementation of such action programs is dependent upon excellent leadership and the effective management of resources, especially human resources.

NRECA, through its Management Services Department, has carried on effective training and development programs for rural electric system managements, both elected and employed, and the results of these programs are obvious in the upgrading of the quality of management in recent years. However, NRECA has limited resources for the research, experimentation, and innovations in management practices that will be required to meet the demands of a rapidly changing social order. Moreover, REA continues to withdraw its advice and assistance to borrowers.

Thus, it is clear that some systems must assume a more active role in assuring competent, dynamic management for the future. There are people within the program who are qualified and willing to see that the necessary study and research are undertaken toward this end. Such people have formed the Rural Electric Management Development Council and the following statements express their viewpoints and objectives.

STATEMENT OF VIEWPOINTS

1. We believe that the objectives of the Rural Electric Program can best be achieved through dynamic management and leadership that is based on sound cooperative philosophy coupled with modern management principles and techniques.

2. We believe that cooperative philosophy and management principles and techniques must be under constant study and review and that research and development of new concepts and approaches must be undertaken if rural electric systems are to effectively fulfill the responsibilities inherent in the objectives of the Rural Electric Program.

3. We believe that there exists within the rural electric cooperatives, and their associated organizations, the knowledge, experience and point of view necessary to identify these needs and to determine required changes.

4. We believe that there exists among rural electric cooperatives, and their associated organizations, those who are willing to innovate, study and improve present cooperative and management principles and practices and to translate the results of such studies into meaningful programs.

STATEMENT OF VIEWPOINTS (continued)

5. We believe that rural electric system management will be enhanced where there has been a maximum exchange of ideas and experiences between those organizations that are innovating, studying and applying up-to-date principles and techniques.

6. We believe that all consumer-owned rural electric systems should have the opportunity to share in the results of such innovations in management practices and that this opportunity for sharing can best be provided through NRECA and other associated organizations.

STATEMENT OF OBJECTIVES

1. To bring together key rural electric management people who have demonstrated their application of up-to-date cooperative philosophy and management principles and techniques and who evidence an interest and willingness to participate in and contribute to study, research and innovation in the application of effective management concepts and techniques in rural electric system operations.

2. To contribute to the strengthening of overall rural electric system management by undertaking management research in areas of current concern and interest.

3. To develop new cooperative management concepts, approaches and techniques that will enable the management of rural electric systems to identify necessary resources and to provide the leadership required for meeting the needs of the people in an ever changing environment.

4. To develop the means whereby the beneficial results of the application of such management research and innovation can be interpreted and widely disseminated to rural electric systems and to encourage its effective application.

RURAL ELECTRIC MANAGEMENT DEVELOPMENT COUNCIL

MEMBERSHIP REQUIREMENTS

The Rural Electric Management Development Council is established to provide a forum for those rural electric systems which have developed organizations built on the application of cooperative principles and modern management principles and techniques.

The Viewpoints and Objectives of the Council, attached hereto, identify more specifically the beliefs and purpose that all members of the Council subscribe to. The Council's primary purpose is one of research and innovation. Research and innovation which are within the parameters of the established Viewpoints and Objectives.

The Council does not intend to provide a forum for teaching basic cooperative philosophy and basic management principles and techniques. Adequate training opportunities for this are provided by NRECA and other organizations.

Thus, to assure that the limited time available for the conduct of research and the exchange and discussion of innovative ideas can be utilized to the maximum productive extent possible, it is necessary that those systems which wish to apply for membership in the Council, those which wish to sponsor systems for membership and those systems which are currently members of the Council be fully aware of the criteria for initial and continuing membership.

A. Initial Membership

Any rural electric system or association of rural electric systems may apply and be considered for membership in the Rural Electric Management Development Council.

The criteria for initial or continuing membership shall be adopted by the Council members at the Council's annual meeting. Any amendments or changes in this criteria shall be approved by the Council membership.

Representatives of NRECA, CFC, and REA, and current members of the Council will be encouraged to nominate rural electric systems or other associations that are believed to meet all of the criteria for membership.

The Membership Committee shall review all applications for membership and shall recommend those applicants who meet the established criteria. Approval for membership in the Council shall be by a majority vote of members present.

Prospective members may attend an annual meeting of the Council as non-paying guests the first year. If interested in joining the Council, the prospective member shall submit an application as prescribed in Section A.

Those applying for initial membership shall be requested to submit the following:

1. Evidence of having demonstrated their application of up-to-date cooperative philosophy and management principles and techniques. This evidence shall include the following:

   a. An Organization Profile - Documentation of the existence of an organization plan for the system. The documents required will be specified and should accompany the application.

   b. A System Profile - A recitation of the financial and operating characteristics of the system, including evidence of the existence of short and long range plans in specified areas.

   c. A Corporate Profile - An identification of programs and activities designed to involve the members and the public. Evidence of a recognition and pursuit of goals designed to enhance the consumer ownership and public responsibility of the system.

   d. A Growth and Development Profile - Evidence of specific programs and activities undertaken by the system to go beyond normal requirements for management, individual development and member involvement. This should include the identification of beneficial results therefrom.

2. A statement of a commitment to participate in and contribute to study, research and innovation in the application of management in rural electric system operations.

3. A statement of the system's willingness to pay the dues or other approved assessments of the Council, to attend and participate in Council meetings and to accept committee or program assignments.

4. An expression of willingness to share your individual management innovations with the Council for information and evaluation purposes.

B. Continuing Membership

All members of the Council shall be subject to continuing membership review at least every five years. Subject systems shall be notified at the Council's meeting preceding the review.

Applications for recertification as continuing members shall include:

1. A recap of attendance and involvement in the annual conference programs.

2. A recap of committee assignments and research activities.

3. Evidence of a continuing dedication to, and active support of, excellence in rural electric management and leadership.

The Membership Committee shall review the applications for recertification and present them to the Council for approval at the next annual meeting.

C. Honorary Membership

The following individuals, or their designated representatives, are considered as continuing honorary members of the Management Development Council. The Council encourages their active participation in all Council projects and activities.

Director of Management Services - NRECA
Borrowers' Operations Office - CFC
Director-Electric Borrower's Management Division - REA

D. Termination of Membership

Membership in the Council shall be terminated by:

1. A letter of withdrawal from a member system, or;

2. Upon investigation and recommendation by the Membership Committee, by a majority vote of the members present.

E. Council Dues

The annual dues shall be $300.00, payable prior to the annual meeting of the Council. Payment of dues shall permit the attendance of key management people from each member system.

FUNCTIONS

CHAIRMAN	To act as general coordinator of the activities of the Development Council and preside at all business meetings. To issue notice of all regular meetings of the membership or special meetings of the cabinet. (The cabinet to be composed of the chairman, vice chairman, treasurer, and all committee chairmen.) To represent the Development Council in relation to other organizations. Term of office to be three (3) years.
VICE CHAIRMAN	To assume all duties of the Chairman in the absence of or inability of that officer. Term of office to be three (3) years.

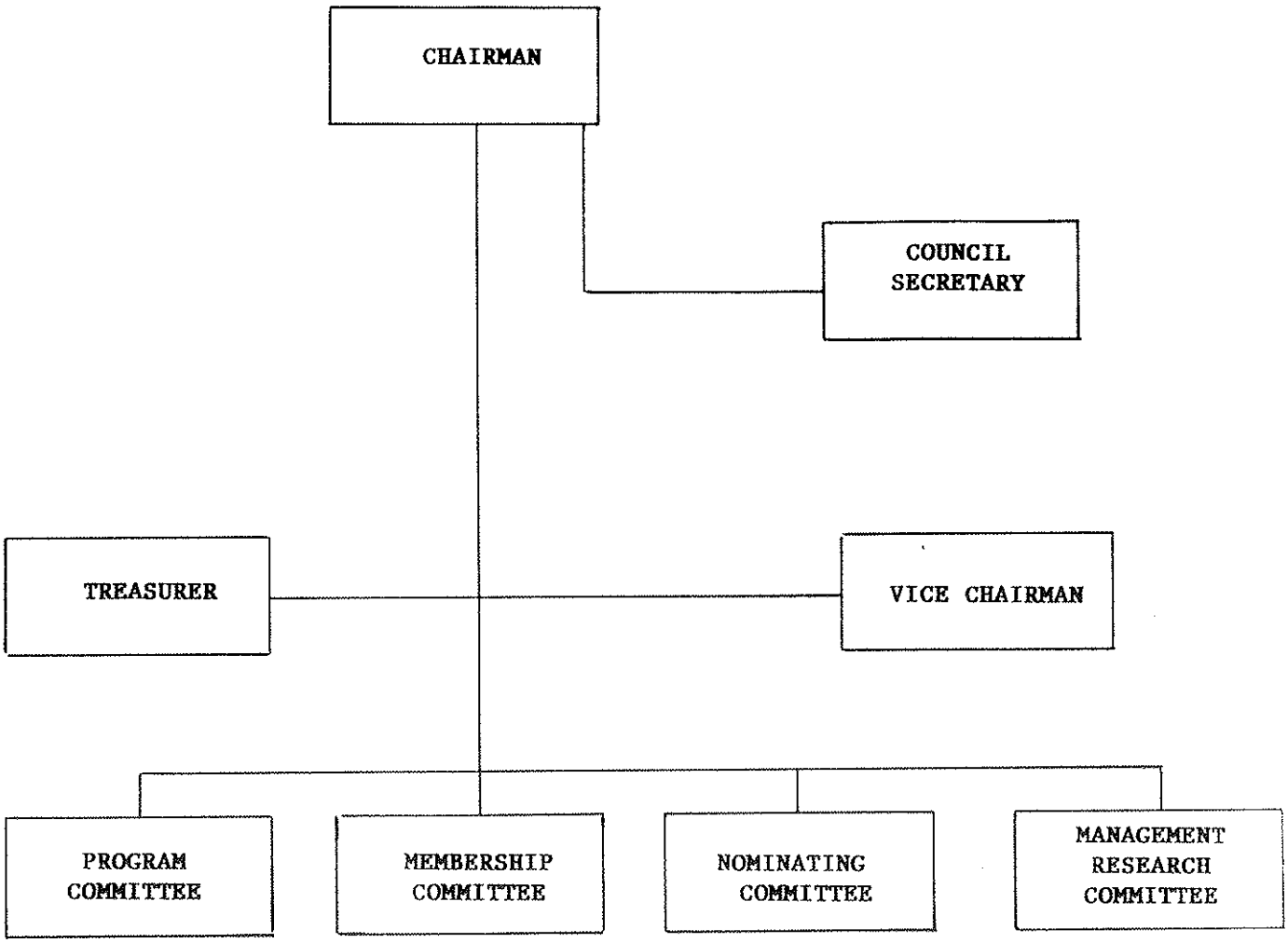
TREASURER	To collect all monies due the Development Council including regular membership dues and special assessments. To pay all bills submitted in proper form. To prepare an annual financial statement and forward to the Secretary for inclusion in the annual conference summary. Term of office to be three (3) years.
SECRETARY	To be appointed annually by the Chairman. To keep a record of all proceedings, prepare, publish, and distribute annual conference summary. (May be assisted by Management Services Department of NRECA.)

COMMITTEES

All committees to be composed of a chairman and three (3) members. The chairman to be nominated by the Nominating Committee. All committee chairmen and committee members to serve staggered terms of three (3) years each.

PROGRAM COMMITTEE	To determine program content and format for the annual conference and secure appropriate participation from the membership. To provide for subject continuity in programming when desirable. The committee chairman shall preside at all program sessions. To select the time and place for the annual council meeting.
MEMBERSHIP COMMITTEE	Under the established criteria, solicit and process applications of new members as well as administer the recertification of continuing members. Monitor the attendance and participation of member systems from year to year and recommend follow-up action as necessary to maintain a membership that is interested and active in Council affairs.
NOMINATING COMMITTEE	To nominate all officers and committee chairmen, as necessary for submission to the annual conference for election. All nominations shall be submitted in writing, certified by the chairman of the committee, and deposited with the conference secretary.
MANAGEMENT RESEARCH COMMITTEE	To identify research areas and initiate recommendations for projects to be carried out by the Council. To work with NRECA in identifying management areas in the rural electric program which need additional research and/or development and training programs and determine how the Council can assist in meeting needs in cooperation and coordination with NRECA.
COMMITTEE MEMBERS' EXPENSES	Reasonable out-of-pocket travel expenses of committee members attending committee meetings held solely for Council business, and not held in conjunction with other business meetings, shall be paid by the Council.

RURAL ELECTRIC MANAGEMENT DEVELOPMENT COUNCIL



RURAL ELECTRIC MANAGEMENT DEVELOPMENT COUNCIL
OFFICERS AND COMMITTEES FOR 1991

Officers

Chairman -	Jim Kiley	Term expires 1993
Vice Chairman -	Joe Satterfield	Term expires 1993
Treasurer -	Allen Ritchie	Term expires 1992
Secretary -		Appointed by chairman

Program Committee

Chairman -	Paul Bienvenue	Tern expires 1992
	Dan Kessler	Term expires 1991
	Dorothy Postel	Term expires 1993
	Dan Bryan	Term expires 1992
	Bob Roberts	Term expires 1992

Nominating Committee

Chairman -	Bob Bauman	Term expires 1992
	Ron Knouse	Term expires 1991
	Derl Hinson	Term expires 1992
	Dave Pruitt	Term expires 1993

Membership Committee

Chairman -	Layton Wheeler	Term expires 1993
	Jean Stansell	Term expires 1991
	Marlynn Cox	Term expires 1992
	Wayne Swann	Term expires 1992

Management Research Committee

Chairman -	Paul Weatherby	Term expires 1991
	Doyle Hines	Term expires 1991
	Bill James	Term expires 1993
	Mike Gustafson	Term expires 1993
	Kim Colberg	Term expires 1993

A. All committee members and officers are elected for three-year terms as noted.

B. Chairman of each standing committee named by the Nominating Committee and serves three years when elected, unless completing an unexpired term as a replacement.

Adams Electric Cooperative, Inc.
153 North Stratton Street
Gettysburg, Pennsylvania 17325
Joe Cole

Agralite Electric Cooperative
PO Box 228
Benson, Minnesota 56215
Ramon Millett, General Manager

Amicalola Electric Membership Corporation
PO Box 10
Jasper, Georgia 30143
John S. Dean, Jr., General Manager/CEO

Berkeley Electric Cooperative, Inc.
PO Box 1234
Moncks Corner, South Carolina 29461
E.E. (Skip) Strickland, Jr., Manager

Blue Ridge Mountain EMC
PO Box 9
Young Harris, Georgia 30582
Joe Satterfield, General Manager
Doug Johnson

Boone Electric Cooperative
Po Box 797
Columbia, Missouri 65205
Robert M. Alderson, General Manager

Butler County REC
PO Box 98
Allison, Iowa 50602
Robert J. Bauman, General Manager

Cap Rock Electric Cooperative, Inc.
PO Box 700
Stanton, Texas 79782
David Pruitt, General Manager
Steve Collier, Power Supply & Regulatory Affairs Director

Cass County Electric Cooperative, Inc.
PO Box 8
Kindred, North Dakota 58051
Michael D. Gustafson, General Manager
Scott Handy, Staff Assistant
John Haugen, Director of Finance

Central Georgia EMC
PO Box 309
Jackson, Georgia 30233
George L. Weaver, President

Central Wisconsin Electric Cooperative
Po Box 255
Iowa, Wisconsin 54946
Donald J. VanDeest, General Manager

Cobb EMC
PO Box 369
Marietta, Georgia 30061
Paul E. Weatherby, President

Coosa Valley EC, Inc.
Po Box 837
Talladega, Alabama 35160
Joe B. Cade, General Manager

Delaware Electric Cooperative, Inc.
PO Box 600
Greenwood, Delaware 19950
E. Paul Bienvenue, General Manager
Fay Shockley
Layton Wheeler

DeWitt County Electric Cooperative, Inc.
Po Box 231
Cuero, Texas 77954
Jimmy D. Springs, General Manager

Eastern Iowa Light & Power Cooperative
E. Fifth & Sycamore Streets
Wilton, Iowa 52778
Melvin D. Nicholas, General Manager

East River Electric Power Cooperative, Inc.
Lock Drawer E
Madison, South Dakota 57042
Jeffrey L. Nelson, General Manager

Farmers' Electric Cooperative, Inc.
PO Box 680
Chillicothe, Missouri 64601
Dan Bryan, General Manager

Flint EMC
PO Box 308
Reynolds, Georgia 31076
Harold B. Smith, General Manager

Four County Electric Power Association
PO Box 351
Columbus, Mississippi 39703
Earl W. Weeks, General Manager
Marlynn Cox
Allegra Brigham

Georgia EMC
151 Ellis Street, NE, Suite 422
Atlanta, Georgia 30303
Derl J. Hinson, Executive Vice-President

Guadalupe Valley Electric Cooperative, Inc.
PO Box 118
Gonzales, Texas 78629
Milton Doyle Hines, General Manager
Marcus Pridgeon, Administrative Assistant
Johnna Ingram, Manager's Secretary

Hancock-Wood Electric Cooperative, Inc.
PO Box 188
North Baltimore, Ohio 45872
Steve Fausnaugh

Iowa Lakes Electric Cooperative
1724 Central Avenue
Estherville, Iowa 51334
Bruce Bosworth, General Manager
Terry Bruns

Jackson EMC
PO Box 38
Jefferson, Georgia 30549
Jim Crawford

JoCarroll Electric Cooperative, Inc.
Po Box 390
Elizabeth, Illinois 61028
Connie M. Shireman, General Manager

Johnson County Electric Cooperative Association
PO Box 16
Cleburne, Texas 76033
Hollis E. (Gene) Joslin, General Manager
Brent Northcutt

Kootenai Electric Cooperative
PO Box 278
West 2451 Dakota Avenue
Hayden Lake, Idaho 83835
Charles Y. Walls, General Manager

Lee County Electric Cooperative, Inc.
PO Box 3455
North Fort Myers, Florida 33918
James D. Sherfey, General Manager

Linn County RECA
PO Box 69
Marion, Iowa 52302
Kim R. Colberg, General Manager

Maquoketa Valley REC
PO Box 370
Anamosa, Iowa 52205
Dorothy A. Postel, General Manager

Minnesota Valley Electric Cooperative
PO Box 125
Jordan, Minnesota 55352
Greg Miller

Morgan County REMC
300 Morton AVenue
Martinsville, Indiana 46151
Kevin D. Sump, General Manager

North Western Electric Co-op, Inc.
PO Box 391
Bryan, Ohio 43506
Lyle D. Brigle, Manager

Northeastern REMC
PO Box 171
Columbia City, Indiana 46725
William W. James, Jr., President/General Manager

Old Dominion Electric Cooperative
4201 Dominion Boulevard, Suite 300
Glen Allen, Virginia 23060
Daniel M. Walker, Vice-President/Finance & Accounting

Orcas Power & Light Company
Po Box 187
Eastsound, Washington 98245-0187
W. Douglas Bechtel, General Manager

Palmetto Electric Co-op, Inc.
PO Box 21239
Hilton Head, South Carolina 29925
G. Thomas Upshaw, General Manager

Pioneer REC, Inc.
Po Box 604
Piqua, Ohio 45356
Nanci McMaken

Polk-Burnett Electric Cooperative
1000 Highway 35
Centuria, Wisconsin 54824
Steve A. Glaim, General Manager

Rappahannock Electric Cooperative
PO Box 7388
Fredericksburg, Viginia 22404
Cecil E. Viverette, Jr., Ex. Vice-President/General Manager

Shenandoah Valley Electric Cooperative, Inc.
PO Box 236
Mt. Crawford, Virginia 22841-0236
C.D. Wine, Executive Vice-President

Shenandoah Valley Electric Cooperative, Inc.
PO Box 8
Dayton, Virginia 22821
Allen Ritchie

Sioux Valley Empire Electric Association, Inc.
PO Box 216
Colman, South Dakota 57017
James M. Kiley, General Manager
Elaine J. Garry, Staff Assistant
Edie Larsen, Manager's Secretary

Southeast Iowa Cooperative Electric Association
PO Box 440
Mt. Pleasant, Iowa 52641
Larry E. Hopkey, General Manager

Southern Nebraska RPPD
PO Box 1687
Grand Island, Nebraska 68802
Charles J. Hoke, General Manager

Tri-County REC, Inc.
22 North Main Street
Mansfield, Pennsylvania 16933
Robert O. Toombs, General Manager

Utilities District of Western Indiana REMC
PO Box 427
Bloomfield, Indiana 47424
Noble Ray Stallons, General Manager

Wells REC
PO Box 365
Wells, Nevada 89835
Daniel L. Kessler, Jr., General Manager

Committee Members/Special Guest Registration

Bob Bergland, Executive Vice-President/General Manager
Dr. Greg Boudreaux, Board & Management Development Coordinator
National Rural Electric Cooperative Association, Inc.
1800 Massachusetts Avenue, NW
Washington, DC 20036

James Boatman, Director of Program & Planning Analysis
National Rural Utilities Cooperative Finance Corporation
Woodland Park, 2201 Cooperative Way
Herndon, Virginia 22071-3025

Don L. Howell
Vinson & Elkins, Attorneys-at-Law
3300 First City Tower
1001 Fannin
Houston, Texas 77002-6760

Doug Sims, President
Keith Applegeet, Executive Vice President/Utility Banking Group
CoBank
PO Box 5110
Denver, Colorado 80217

James A. Morriss, Executive Vice-President
Texas Electric Cooperatives, Inc.
PO Box 9589
Austin, Texas 78766

J.C. Roberts, General Manager
South Plains Electric Cooperative, Inc.
PO Drawer 1830
Lubbock, Texas 79408

Bill McGinnis, General Manager
Denton County Electric Cooperative
PO Box 2147
Denton, Texas 76202

Stan Lewandowski
Intermountain REA
Drawer A
Sodalia, Colorado 80135

Bob Sohn, General Manager
New Braunfels Utilities
New Braunfels, Texas

Larry Watkins, General Manager
Oklahoma Association of Electric Cooperatives
PO Box 11047
Oklahoma City, Oklahoma 73136

Dr. Lowell Catlett
Convention Connection
18133 Coastline Drive, Suite 3
Malibu, California 90265

RURAL ELECTRIC MANAGEMENT DEVELOPMENT COUNCIL
1991-92 MEMBERSHIP

	Recertification Date
A. Daniel Murray, General Manager Adams Electric Cooperative, Inc. 153 North Stratton Street Gettysburg, Pennsylvania 17325	1993
John S. Dean, Jr., General Manager/CEO Amicalola Electric Membership Corporation PO Box 10 Jasper, Georgia 30143	1996
E.E. (Skip) Strickland, Jr., Manager Berkeley Electric Cooperative, Inc. Po Box 1234 Moncks Corner, South Carolina 29461	1996
Douglas W. Johnson, Executive Vice-President Blue Ridge Electric Membership Corporation Caller Service 112 Lenoir, North Carolina 28645	1993
Joe Satterfield, General Manager Blue Ridge Mountain EMC PO Box 9 Young Harris, Georgia 30582	1992
David J. Batten, General Manager Brunswick EMC PO Box 826 Shallotte, North Carolina 28459	1992
Robert J. Bauman, General Manager Butler County REC PO Box 98 Allison, Iowa 50602	1993
David Pruitt, General Manager Cap Rock Electric Cooperative, Inc. PO Box 700 Stanton, Texas 79782	1994
Michael D. Gustafson, General Manager Cass County Electric Cooperative, Inc. PO Box 8 Kindred, North Dakota 58051	1993

1991-92 Membership List (Continued)	Recertification Date
Gary J. Hobson, General Manager Central Area Data Processing Cooperative PO Box 408 St. Peters, Missouri 63376	1995
George L. Weaver, President Central Georgia EMC PO Box 309 Jackson, Georgia 30233	1992
Donald J. VanDeest, General Manager Central Wisconsin Electric Cooperative PO Box 255 Iola, Wisconsin 54945	1995
Bob Mackey, Executive Vice-President Clark County REMC PO Box L Sellersburg, Indiana 47172	1993
Paul E. Weatherby, President Cobb EMC PO Box 369 Marietta, Georgia 30061	1994
Joe B. Cade, General Manager Coosa Valley Electric Cooperative, Inc. PO Box 837 Talladega, Alabama 35160	1996
H. Wayne Wilkins, General Manager Davidson EMC PO Box 948 Lexington, North Carolina 27293	1995
E. Paul Bienvenue, General Manager Delaware Electric Cooperative, Inc. PO Box 600 Greenwood, Delaware 19950	1995
Melvin D. Nicholas, General Manager Eastern Iowa Light & Power Cooperative E. Fifth & Sycamore Streets Wilton, Iowa 52778	1995

1991/92 Membership List (Continued)	Recertification Date
Dan Bryan, General Manager Farmers' Electric Cooperative, Inc. PO Box 680 Chillicothe, Missouri 64601	1994
Harold B. Smith Flint EMC PO Box 308 Reynolds, Georgia 31076	1995
Edward E. Brown, Jr., General Manager Four County EMC PO Box 667 Burgaw, North Carolina 28425	1995
Earl W. Weeks, General Manager Four County Electric Power Association PO Box 351 Columbus, Mississippi 39703	1996
Derl J. Hinson, Executive Vice-President Georgia EMC 151 Ellis Street, NE, Suite 422 Atlanta, Georgia 30303	1995
Milton Doyle Hines, General Manager Guadalupe Valley Electric Cooperative, Inc. PO Box 118 Gonzales, Texas 78629	1994
John A. Cheney, General Manager Hancock-Wood Electric Cooperative, Inc. PO Box 188 North Baltimore, Ohio 45872	1994
Bruce Bosworth, General Manager Iowa Lakes Electric Cooperative 1724 Central Avenue Estherville, Iowa 51334	1995
Randall Pugh, President/CEO Jackson EMC PO Box 38 Jefferson, Georgia 30549	1994
Hollis E. (Gene) Joslin, General Manager Johnson County Electric Cooperative Association PO Box 16 Cleburne, Texas 76033	1993

1991/92 Membership List (Continued)	Recertification Date
Connie M. Shireman, General Manager Jo-Carroll Electric Cooperative, Inc. PO Box 390 Elizabeth, Illinois 61028	1996
James D. Sherfey, General Manager Lee County Electric Cooperative, Inc. PO Box 3455 North Fort Myers, Florida 33918	1996
Kim R. Colberg, General Manager Linn County RECA PO Box 69 Marion, Iowa 52302	1994
Dorothy A. Postel, General Manager Maquoketa Valley REC PO Box 370 Anamosa, Iowa 52205	1993
Roger W. Geckler, General Manager Minnesota Valley Electric Cooperative PO Box 125 Jordan, Minnesota 55352	1996
Kevin D. Sump, General Manager Morgan County REMC 300 Morton Avenue Martinsville, Indiana 46151	1993
Lyle D. Brigle, Manager North Western Electric Cooperative, Inc. PO Box 391 Bryan, Ohio 43506	1995
William W. James, Jr., President/General Manager Northeastern REMC PO Box 171 Columbia City, Indiana 46725	1993
W. Douglas Bechtel, General Manager Orcas Power & Light Company PO Box 187 Eastsound, Washington 98245	1996
G. Thomas Upshaw, General Manager Palmetto Electric Cooperative, Inc. PO Box 21239 Hilton Head, South Carolina 29925	1995

1991/92 Membership List (Continued)	Recertification Date
Robert L. Roberts, General Manager Pioneer REC, Inc. PO Box 604 Piqua, Ohio 45356	1993
Steve A. Glaim, General Manager Polk-Burnett Electric Cooperative 1000 Highway 35 Centuria, Wisconsin 54824	1996
Cevil E. Viverette, Jr. Executive Vice-President & General Manager Rappahannock Electric Cooperative PO Box 7388 Fredericksburg, Virginia 22404	1996
Doug Wine, Executive Vice-President Shenandoah Valley Electric Cooperative, Inc. PO Box 236 Mt. Crawford, Virginia 22841-0236	1994
James M. Kiley, General Manager Sioux Valley Empire Electric Association, Inc. PO Box 216 Colman, South Dakota 57017	1993
Wayne Swann, General Manager & Executive Vice-President Southern Maryland Electric Cooperative, Inc. PO Box 1937 Hughesville, Maryland 20637	1994
Larry E. Hopkey, General Manager Southeast Iowa Cooperative Electric Association PO Box 440 Mt. Pleasant, Iowa 52641	1995
C.J. Hoke, General Manager Southern Nebraska RPPD PO Box 1687 Grand Island, Nebraska 68802	1995
John C. Anderson, Executive Vice-President Southside Electric Cooperative PO Box 7 Crewe, Virginia 23930	1992

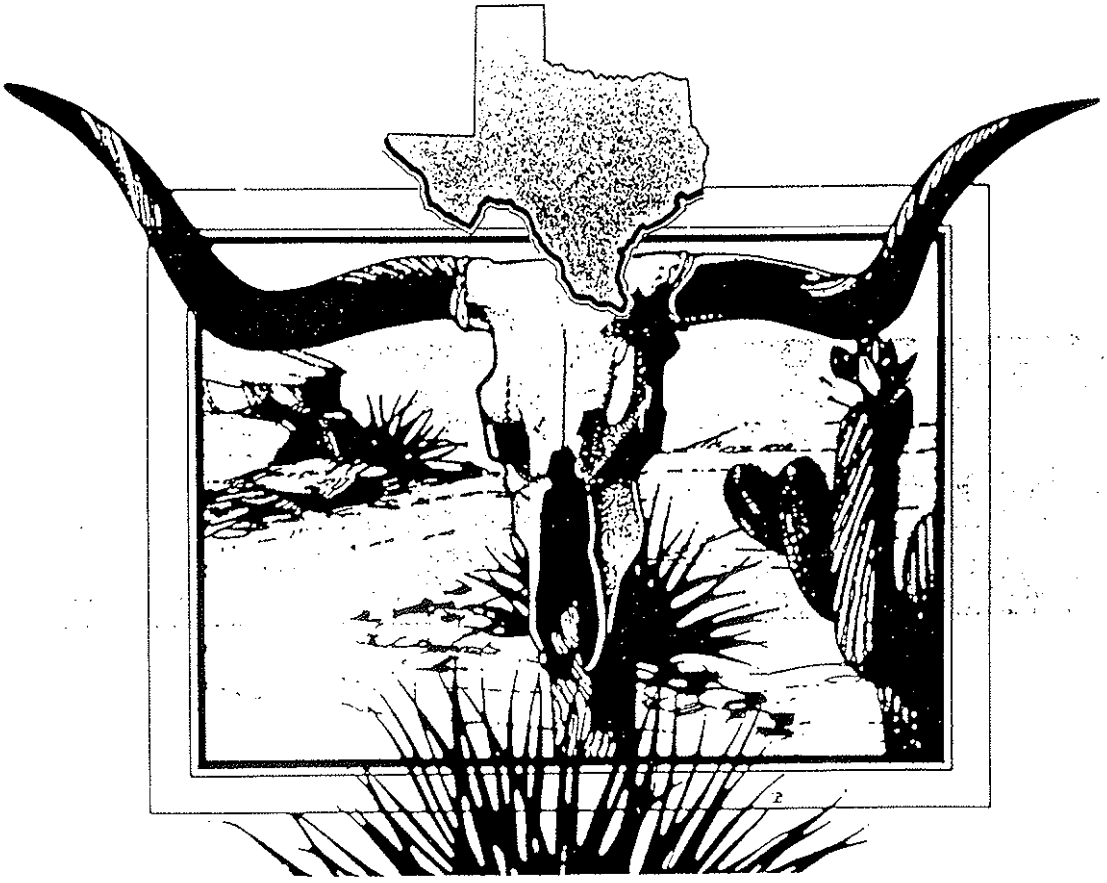
1991-92 Membership List (Continued)	Recertification Date
Wayne Livingston, Executive Vice-President and General Manager Troup Electric Membership Corporation PO Box 160 LaGrange, Georgia 30241	1996
Noble Ray Stallons, General Manager Utilities District of Western Indiana REMC PO Box 427 Bloomfield, Indiana 47424	1995
Daniel L. Kessler, Jr., General Manager Wells REC PO Box 365 Wells, Nevada 89835	1992

OPPORTUNITY FOR GROWTH

May 19-22, 1991

La Mansion del Rio Hotel

San Antonio, Texas



RURAL ELECTRIC MANAGEMENT DEVELOPMENT COUNCIL

1991 REMDC Meeting

OPPORTUNITY FOR GROWTH

Monday, May 20, 1991

6:45 a.m. CONTINENTAL BREAKFAST

8:30 a.m. INTRODUCTIONS
Jim Kiley, General Manager
Sioux Valley Empire Electric Association - Colman, South Dakota

SCHEDULE OF EVENTS
Doyle Hines, General Manager
Guadalupe Valley Electric Cooperative - Gonzales, Texas

9:00 a.m. WELCOME TO TEXAS
Jim Morriss, General Manager
Texas Electric Cooperatives - Austin, Texas

9:20 a.m. WORKING TOGETHER
Bob Sohn, General Manager
New Braunfels Utilities - New Braunfels, Texas

10:00 a.m. BREAK

10:15 a.m. OPERATING BY STRATEGIC PLANNING
Marcus Pridgeon, Administrative Manager
Guadalupe Valley Electric Cooperative - Gonzales, Texas

11:00 a.m. INNOVATION IN THE ENERGY BUSINESS
Steve Collier, Director of Power Supply & Regulatory Affairs
Cap Rock Electric Cooperative - Stanton, Texas

12:00 p.m. LUNCH

1:30 p.m. FUTURE FINANCING OPTIONS FOR ELECTRIC COOPERATIVES
Paul Weatherby, General Manager
Cobb EMC - Marietta, Georgia

CFC FINANCE COMMITTEE REPORT
NRECA STUDY COMMITTEE REPORT
REA UPDATE
CO-BANK REPORT
REMDC RESEARCH COMMITTEE REPORT
Donald Howell, Consultant
Vinson & Elkins - Houston, Texas

3:00 P.M. BREAK

FUTURE FINANCING OPTIONS FOR ELECTRIC COOPERATIVES (Continued)

DISCUSSION SESSION

4:30 p.m. RECESS

Tuesday, May 21, 1991

6:45 a.m. CONTINENTAL BREAKFAST

8:30 a.m. FUTURE FINANCING OPTIONS FOR ELECTRIC COOPERATIVES (Continued)

10:00 a.m. BREAK

10:15 a.m. LOCAL PRESENTATIONS
Mr. Jim Kiley

12:00 p.m. LUNCHEON
Larry Watkins, General Manager
Oklahoma Statewide - Oklahoma City, Oklahoma

3:00 p.m. HILL COUNTRY TOUR AND DINNER
Busses to leave hotel at 3:00 p.m.

Wednesday, May 22, 1991

6:45 a.m. CONTINENTAL BREAKFAST

8:30 a.m. NRECA REPORT
MANAGEMENT ASSESSMENT & RESEARCH
CFC UPDATE
BUSINESS SESSION
Mr. Jim Kiley

GREEN COWS, QUAGGAS & MUMMIES
Dr. Lowell Catlett, Professor - New Mexico State University

12:00 p.m. ADJOURNMENT

Rural Electric Management Development Council

1991
Officers and Committees

OFFICERS

Jim Kiley, Chairman
Joe Satterfield, Vice Chairman
Allen Ritchie, Treasurer
Edie Larsen, Secretary

COMMITTEES

Program
Paul Bienvenue, Chairman
Dan Kessler
Dorothy Postel
Dan Bryan
Bob Roberts

Membership
Layton Wheeler, Chairman
Jean Stansell
Marlynn Cox
Wayne Swann

Nominating
Bob Bauman, Chairman
Ron Knouse
Derl Hinson
Dave Pruitt

Management Research
Paul Weatherby, Chairman
Doyle Hines
Bill James
Mike Gustafson
Kim Colberg

NOTE: Committee members and officers are elected for three-year terms. The Chairman of each standing committee is named by the Nominating Committee and serves three years when elected, unless completing an unexpired term as a replacement.

MEMBERSHIP

Delaware
Delaware EC

Florida
Lee County EC

Georgia
Blue Ridge Mountain EMC
Central Georgia EMC
Cobb EMC
Flint EMC
Georgia EMC "Statewide"
Jackson EMC

Indiana
Clark County REMC
Morgan County REMC
Northeastern REMC
Utilities District of Western Indiana REMC

Iowa
Butler County REC
Eastern Iowa Light & Power Cooperative
Iowa Lakes EC
Linn County RECA
Maquoketa Valley REC
Southeast Iowa Cooperative Electric Assoc.

Maryland
Southern Iowa Cooperative Electric Assoc.

Mississippi
Four County Electric Power Assoc.

Missouri
Central Area Data Processing Cooperative
Farmers' EC

Nebraska
Southern Nebraska RPPD

Nevada
Wells REC

North Carolina
Blue Ridge EMC
Brunswick EMC
Davidson EMC
Four County EMC

North Dakota
Cass County EC

Ohio
Hancock-Wood EC
North Western EC
Pioneer REC

Pennsylvania
Adams EC

South Carolina
Palmetto EC

South Dakota
Sioux Valley Empire Electric Assoc.

Texas
Cap Rock EC
Guadalupe Valley EC
Johnson County EC

Vermont
Washington EC

Virginia
Shenandoah Valley EC
Southside EC

Wisconsin
Central Wisconsin EC

NEW BRAUNFELS UTILITIES

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W O R K I N G T O G E T H E R

by

Robert H. Sohn, P.E.
General Manager
New Braunfels Utilities

for

The Rural Electric Management
Development Council

May 20, 1991

I AM PRESENTLY THE GENERAL MANAGER OF NEW BRAUNFELS UTILITIES, A SMALL MUNICIPAL LOCATED ABOUT 35 MILES NORTH OF HERE, WITH A 155 MW DEMAND AND THE SALE OF 700,000,000 KWH PER YEAR. WE ALSO OPERATE THE WATER/SEWER SYSTEMS. OUR TOTAL EMPLOYMENT IS 166 AND WE ARE UNDER A BOARD OF TRUSTEES AND NOT THE CITY COUNCIL. WE BUY 96% OF OUR POWER FROM THE LOWER COLORADO RIVER AUTHORITY HEADQUARTERED IN AUSTIN, AND ABOUT 4% FROM THE GUADALUPE-BLANCO RIVER AUTHORITY THROUGH AN EXCLUSIVE CONTRACT FOR A HYDROELECTRIC FACILITY A FEW MILES NORTHWEST OF HERE ON CANYON LAKE. WE HAVE A YEARLY BUDGET OF $43 MILLION, WE ARE WORTH $90 MILLION, AND HAVE LONG-TERM REVENUE BOND DEBT OF $29.5 MILLION.

WE BELIEVE STRONGLY IN ACCOUNTABLE GENERATION AND FUEL ALTERNATIVES, LOAD MANAGEMENT AND CONSERVATION. WE BELIEVE IN COST-BASED RATES FROM OUR SUPPLIER THROUGH TO OUR CUSTOMERS.

AS A SMALL TOWN BOY FROM SOUTHERN INDIANA, I DO APPRECIATE THE OPPORTUNITY OF SAYING A FEW WORDS TO YOU GUYS WHO HAVE YOUR PROFESSIONAL ROOTS IN RURAL AMERICA. LAST NIGHT WAS A JOY AND GLORIA AND I TRULY ENJOYED THE MEAL AND THE FELLOWSHIP.

WORKING TOGETHER - BOY, THAT IS A GOOD ONE. HOW ABOUT MOTHERHOOD, BASEBALL, HOT DOGS AND APPLE PIE? YOU KNOW, BACK IN BEDFORD, I GREW UP KNOWING THAT A HANDSHAKE WAS YOUR WORD OF HONOR.

YES, WE HAD SOME CONTRACTS AND WRITTEN AGREEMENTS, BUT WHEN ONE GOOD-OLE-BOY SAID YES TO ANOTHER GOOD-OLE-BOY THE DEAL WAS DONE. WE TALKED AND TRUSTED AND YES, WE ARGUED, BUT WE WORKED TOGETHER.

IT'S A LITTLE DIFFERENT IN 1991 WHERE IT IS NOT UNCOMMON TO SEE LEGAL AND CONSULTING EXPENSES ON UTILITY RATE CASES DOUBLING OR TRIPLING THE CASE AMOUNT REQUESTED. WHY DID THIS TREND OF NON-TRUST HAPPEN?

I THINK IT HAS BECOME A PART OF OUR LIVES, AT LEAST IN THE UTILITY BUSINESS. WE IN CENTRAL TEXAS, REPRESENTING MILLIONS OF RATE PAYERS, HAVE SEEN OUR WHOLESALE POWER SUPPLIER RESPONSIBLE FOR MASSIVE ERRORS IN PLANNING WITH WRITE-OFFS OF OVER $230 MILLION IN A POORLY PLANNED AND EXECUTED LIGNITE MINE PROJECT; A $45 MILLION SETTLEMENT ACCEPTED FOR A FUEL SUPPLY CONTRACT DISPUTE; AND USING MILLIONS FOR OFF-SHORE GULF OF MEXICO SPECULATIVE OIL AND GAS EXPLORATION, A MARGINAL EFFORT EVEN BY A PRIVATE COMPANY.

THESE COMPROMISES OF TRUST ACTUALLY HAPPENED AND TOOK THE G & T FROM A POSITIVE $300 MILLION DOLLAR EQUITY RATIO JUST FOUR YEARS AGO, TO A NEGATIVE $30 MILLION, WHICH WILL BE REFLECTED AS SIGNIFICANT RATE IMPACTS TO EACH OF OUR RETAIL CUSTOMERS.

WHY? REALLY, THEY WERE NOT WILLING TO TALK OR LISTEN TO US, THEIR CUSTOMERS.

THEY WERE NOT WILLING OR ABLE TO WORK-TOGETHER WITH US, THE ONES WHO PAY THE BILL. I THINK NOW HOWEVER, THEY DO WANT INPUT AND COUNSEL, EXCEPT IT IS ABOUT $300 MILLION TOO LATE.

SOMETIMES WE GET CAUGHT UP IN A POINT OF VIEW THAT FAILS TO UNDERSTAND THE OTHER SIDE. THAT REMINDS ME OF A STORY. THIS COUNTRY BOY WALKS INTO A BAR.....FUN OF HIM.....

I SUPPOSE THERE ARE MANY MANY "WORKING TOGETHER" ISSUES WE ALL FEEL ARE IMPORTANT IN 1991-1992. BUT LET ME TALK A LITTLE ABOUT 3 THAT I THINK YOU IN THE CO-OPS, AND WE, IN MUNICIPALS MIGHT ACCOMPLISH WORKING TOGETHER.

1. JURISDICTION 2. TAKE OVERS 3. RATES

IT WOULD APPEAR THAT I AM IN A MINORITY WITH MY MUNICIPAL BROTHERS ON THE MUNICIPAL SIDE OF THE ISSUE OF JURISDICTION BETWEEN CITIES AND COOPS. AS THE CHAIRMAN OF THE TEXAS PUBLIC POWER ASSOCIATION'S GOVERNMENTAL AND REGULATORY COMMITTEE AND ALSO BEING ACTIVE IN THOSE AREAS OF THE AMERICAN PUBLIC POWER ASSOCIATION, I FIND, WHAT I BELIEVE TO BE, A MISUNDERSTANDING OF THE ISSUE. BUT LET ME TELL YOU, IT, THE JURISDICTIONAL ISSUE, IS ALIVE AND KICKING AND UNLESS WE SIT DOWN AND TALK WE WILL BOTH LOSE. THE MISUNDERSTANDING IS AN INFLEXIBLE ATTITUDE OF SOME OF OUR CITY LEADERS IN THE SANCTITY OF CITY GOVERNMENT AND ITS POWER.

IT IS DIFFICULT FOR ME TO UNDERSTAND WHY THE IMAGINERY LINE OF A CITY LIMITS BECOMES SACRED IN ELECTRICAL SERVICE AND EXPECTED BY CITIES TO BE A RETROACTIVE CONTRACT OF OWNERSHIP.

YEARS AGO WHEN AMERICAS RURAL POPULATION COULD ONLY EXPECT AT BEST AN EXPENSIVE DELCO PLANT, THE RURAL AMERICAN WORK-TOGETHER ATTITUDE SAID WE WANT ELECTRICITY. THE INVESTOR-OWNED AND MUNICIPAL UTILITIES WOULD NOT INVEST IN A TWO CUSTOMER PER MILE OR LESS EXPANSION EVEN THOUGH LOW COST MONEY COULD HAVE BEEN DEVELOPED. BUT YOUR PEOPLE SAID "LET US MOVE FORWARD TOGETHER". MANY OF YOU REMEMBER, THE "CIRCUIT RIDER", GOING FROM FARM TO FARM ON THEIR OWN GETTING MORAL AND FINANCIAL COMMITMENTS TO ORGANIZE, BUILD, AND OPERATE THEIR OWN UTILITIES. AND BY THE WAY, THAT WAS PROBABLY ONE OF AMERICA'S GREATEST ACCOMPLISHMENTS IN THIS CENTURY AND DONE IN A PRE-WAR, WAR, AND POST-WAR ENVIRONMENT OF NATIONAL STRESS AND CONCERN. MY FATHER-IN-LAW WAS A GUADALUPE VALLEY ELECTRIC CO-OP BOARD MEMBER FOR OVER 23 YEARS. HE AND I HAD SOME GOOD LIVELY DISCUSSIONS ABOUT ALL KINDS OF UTILITY ISSUES AND I LEARNED A LOT ABOUT COOPS AND "WORKING TOGETHER".

THE POINT, AS I SEE IT, IS THAT AFTER YOUR TIME AND FINANCIAL INVESTMENT AND SUPPOSEDLY PLAYING THE GAME ON A LEVEL LEGISLATIVE AND REGULATORY FIELD, AND NOW THAT THESE "REMOTE" AREAS ARE NOW CARRYING DENSITY FACTORS OF 50 TO 100 PER MILE AND ABOVE, THEY ALL OF A SUDDEN SEEM TO BE FAIR GAME.

LET ME TELL YOU BE STRONG IN YOUR DETERMINATION TO ACCEPT ONLY WHAT IS RIGHT AND FAIR. BE CAREFUL OF BEING A COURT'S PRECEDENT. I DO BELIEVE BY WORKING TOGETHER WITH MUTUAL

RESPECT OF BOTH SIDES OF THIS ISSUE, IT CAN BE RESOLVED. THE ARENA MIGHT BE IN THE PUBLIC POWER ASSOCIATION'S AND THE CO-OP'S ASSOCIATION STATE LEVEL. IF WE DON'T WORK IT OUT THE FEDS WILL, AND WE KNOW WHAT THAT MIGHT BE. IT IS ON THEIR AGENDA.

NEXT, I BELIEVE SLOPPY MANAGEMENT, DISINTEREST, AND FINANCIAL AMATEURISM WILL SURELY ENCOURAGE AND PROMOTE THE TAKE OVER OF OUR PUBLIC POWER SYSTEMS FROM THE VERY SMALLEST TO THE VERY LARGEST. AGAIN MANY PROGRAMS OF TAX BENEFITS TO IOU'S ARE EVER PRESENT, PARTICULARLY AT THE FEDERAL LEVEL, BUT EVEN INCREASING AT STATE AND LOCAL LEVELS.

THE VERY ESSENCE OF PUBLIC REGULATORY POWER IS AGAIN AT BAY WITH THOSE THAT WANT CHANGES IN JURISDICTIONS. WE SEE DAILY MORE AND MORE INTENDED DILUTIONS OF OUR ROLE IN AMERICA'S FUTURE ENERGY OPTIONS.

FROM PUBLIC UTILITIES FORTNIGHTLY, FEBRUARY 15, THIS YEAR, INDICATES ACTUAL DISCUSSIONS OF PRIVATIZING THE TVA.

ANOTHER ASSOCIATED PRESS RELEASE SPEAKS TO "RURAL ELECTRIC COOPS CAUGHT IN MONEY BIND". QUOTE, "IN MOST CASES, THE FLOUNDERING COOPS WERE VICTIMS OF OIL PRICE INSTABILITY, THE FARM SLUMP OF THE MID 80'S, AND A DOSE OF OVER AMBITION AND OVER BUILDING.

IN ONE CASE, A FEDERAL BANKRUPTCY JUDGE FOUND THE MANAGERS AND DIRECTORS OF A BIG COLORADO COOP INCOMPETENT AND APPOINTED AN OUTSIDE TRUSTEE TO RUN IT."

AND WHAT ABOUT FLORIDA LEGISLATORS WHO MAY HAVE DOOMED THE SEBRING ELECTRIC UTILITY. THE MEASURE WAS DRAFTED BY THE FLORIDA POWER CORPORATION WHICH HAS MADE PLAIN ITS DESIRE TO TAKE OVER THE SEBRING SYSTEM AND EVEN IN THE PROCESS SIDESTEP THEIR $99 MILLION DEBT.

PREFERENCE OF PUBLIC RIGHTS ARE ALWAYS UNDER THE GUN WITH FEDERAL HYDRO CONTRACTS GETTING MORE AND MORE CONTROVERSIAL. WHERE IS THIS COMING FROM? I BELIEVE INVESTOR-OWNED UTILITIES ARE CONTINUING TO JAB US IN THE MID-SECTION TO GET US READY FOR THE K.O. WHEN A WOLF PACK WANTS A MEAL THEY LOOK AT SICK AND WEAK TO PICK THEIR VICTIMS.

WE CAN WIN AND, IN FACT WE SEE GOOD SIGNS; IN NEW ORLEANS, CHICAGO, AND IN OTHER AREAS OF THE COUNTRY, THE PEOPLE WANT TO LOOK AT PUBLIC POWER. I THINK WE NEED TO:

1. ACTIVELY PARTICIPATE IN THE LEGISLATIVE AND REGULATORY ISSUES. DON'T LET SOMEONE ELSE DO IT.
2. RUN A GOOD FINANCIAL OPERATION. IF THERE WAS ANYTHING I WOULD SAY TO THE IMPORTANCE OF ANY UTILITY, IT IS THE TOTAL FINANCIAL ABILITY OF THE GENERAL MANAGER. GOOD BUDGETS, COST-BASED RATES, MAXIMIZED INVESTMENTS WILL ALLOW YOU TO BE STRONG IN THE FACE OF ANY CHALLENGE BEING TOO CONSERVATIVE WILL EVENTUALLY KILL YOU. THINK SMART AND PLAN AHEAD.

3. WORK CLOSELY WITH YOUR WHOLESALE POWER SUPPLIERS, IF YOU HAVE ONE. MAKE THEM AS ACCOUNTABLE TO YOU AS YOU HAVE TO BE TO YOUR CUSTOMERS.
4. COMMUNICATE WITH YOUR CUSTOMERS. DON'T ASSUME THAT BECAUSE YOU RUN A GOOD UTILITY THEY KNOW IT, BECAUSE THEY WON'T KNOW IT IF YOU AND YOUR BOARD MEMBERS DON'T TELL THEM AGAIN AND AGAIN.

FOLKS, INVESTOR-OWNED UTIITIES WILL NOT LET UP. THEY HAVE THE MONEY, THE DESIRE, AND THE COMMITMENT IN SOME CASES. THEY HAVE THE EARS OF THE LEGISLATORS, BUT THANK GOODNESS FOR OUR TPPA'S, APPA'S AND RECA'S. CONTINUE TO SUPPORT THESE ORGANIZATIONS WITH TIME AND MONEY.

SPEAKING OF COMMITMENT TO YOUR JOB I AM REMINDED OF A STORY. IT WAS A BUSY DAY AT THE NEWS STAND IN GRAND CENTRAL STATION. A LARGE, GRUFF-LOOKING GUY CAME UP TO THE SMALL NEWS STAND BOY AND IN A LOUD VOICE SAID, "CAN YOU TELL ME WHERE 42ND STREET IS?" THE LITTLE NEWS CLERK JUST KEPT WORKING AND NEVER LOOKED UP. THE BIG GUY AGAIN ROARED "CAN YOU TELL ME WHERE 42ND STREET IS?" AGAIN, SILENCE. THE BIG GUY WAS GETTING A LITTLE BIT ANGRY BY THIS TIME, AND HE AGAIN SAID, "HEY, WHERE IS 42ND STREET?" A BY-STANDER WAS LISTENING TO ALL THIS, SO HE TOLD HIM TO GO OUTSIDE, TURN RIGHT AND GO ONE BLOCK. THE BIG GUY LOOKED AT THE CLERK, THANKED THE BY-STANDER AND LEFT. THE BY-STANDER THEN ASKED THE CLERK, "WHY DIDN'T YOU TELL HIM WHERE 42ND STREET WAS?" THE LITTLE GUY SAID, "IF YOU THINK I'D TELL HIM ANYTHING YOU'RE CRAZY."

I GUESS YOU CAN SAY THEY WERE WORKING TOGETHER TO AVOID A CATASTROPHE.

NOW WHAT ABOUT RATES. YE OLD LIFELINE. I'M SURE YOU HAVE ALL NOTICED. EVERYTHING IN THE WORLD HAS GONE UP (EXCEPT OUR SALARIES) AND SEXUALITIES. ANYWAY, THERE IS A CRY IN THE WILDERNESS - AND IT AIN'T MOSES. IT IS THE POOR CITY, SCHOOL, COUNTY, STATE AND FEDERAL TAX PAYER, OH, AND HE AND SHE HAPPEN TO BE OUR RATE PAYERS TOO. FOLKS, THEY AIN'T HAPPY. WE ARE SEEING IT MORE ALL THE TIME IN OUR CITY COUNCILS, BOARDS, AND IN THE REEGULATORY STATE UTILITY COMMISSIONS.

WE KNOW WE ARE THE MOST HONEST AND FAIR PEOPLE IN THE WORLD. HOW COME THEY DON'T BELIEVE US? I'LL TELL YOU WHY - MANY OF THEM DON'T HAVE THE MONEY, AND IN GENERAL, THEY DON'T TRUST US. THAT COMBINATION WILL RUIN YOUR WEDNESDAY AFTERNOON GOLF GAME EVERYTIME.

I SEE THIS EROSION OF TRUST TO BE DANGEROUS AND AS WE STAND ON THE EDGE OF RISING FUEL COSTS (WE GOT LUCKY IN THE MID-80'S), AND FOR MANY AN OVER ESTIMATE OF CAPACITY REPRESENTED BY SURPLUS GENERATION, WE WILL FACE SOME BELL RINGERS BEFORE THE END OF THE CENTURY.

THE POINT OF THAT SWORD FOR US IS OUR ABILITY TO DEVELOP COST-BASED RATES OR NOT. THE OTHER PROBLEM IS IN THE "LAYERED SYNDROME". YOU MIGHT DO THE BEST JOB IN THE WORLD ON YOUR OWN RATE CONTROL AND COST ACCOUNTABILITY, BUT THE NEXT LAYER OF YOUR WHOLESALE POWER COSTS COULD DO YOU IN BEFORE YOU KNOW IT.

A RECENT CASE IS ONE OF A MUNICIPAL AND 3 COOPERATIVE ELECTRIC UTILITIES WORKING TOGETHER IN A CONTESTED RATE CASE AT THE STATE PUBLIC UTILITY COMMISSION. I GUESS AT FIRST WE PROBABLY LOOKED LIKE 3 HORSES AND A CAMEL TRYING TO MOVE A PYRAMID, BUT WE STUCK IT OUT AGAINST A LOT OF ODDS - 40 OTHER WHOLESALE CUSTOMERS, OFFICE OF PUBLIC UTILITY COUNSEL, THE WHOLESALE SUPPLIERS, THE CITY OF BROWNSVILLE, PUBLIC UTILITY COMMISSION COUNCIL, AND OTHERS. THEY ALL THOUGHT WE WERE NUTS IN OUR SIMPLE PROGRAM OF UTILITY ACCOUNTABILITY, LOAD MANAGEMENT, AND COST CONTROL.

MOST OF THEM WANTED A PLUS $34 MILLION INCREASE IN RATES - WE WANTED A NEGATIVE $4 MILLION, AND FRANKLY, IT GOT PRETTY ROUGH ON THE HORSES AND THE CAMEL, FINALLY REVERTING US TO JUST FOUR PLAIN OLD MULES AND JUST AS STUBBORN. TO SOME I GUESS YOU COULD SAY "ASSES".

WELL, BY WORKING TOGETHER THE GUADALUPE VALLEY ELECTRIC COOPERATIVE, THE SAN BERNARD ELECTRIC COOPERATIVE, THE DEWITT ELECTRIC COOPERATIVE, AND THE NEW BRAUNFELS UTILITIES WERE SUCCESSFUL IN ALMOST EVERY ISSUE WE FELT STRONGLY ABOUT, ULTIMATELY SAVING OUR CUSTOMERS OVER $16 MILLION A YEAR FROM NOW ON, AND ESTABLISHED PUBLIC UTILITY COMMISSION PRECEDENTIAL CONCEPTS OF LEASE CREDITS, RESPONSIBLE UTILITY MANAGEMENT AND RATE CONTROL. <u>THAT'S WORKING TOGETHER</u>.

AND BY THE WAY, MR. DOYLE HINES, GENERAL MANAGER OF THE GUADALUPE VALLEY ELECTRIC COOPERATIVE, AND I HAVE KNOWN EACH OTHER PROFESSIONALLY FOR SEVERAL YEARS. DOYLE'S KNOWLEDGE AND UNDERSTANDING OF UTILITY ISSUES FROM FINANCE TO MANAGEMENT IS INCREDIBLE AND SHOULD BE A SOURCE AND RESOURCE FOR US ALL IN THIS COMPLEX WORLD OF UTILITIES. I CANNOT BEGIN TO TELL YOU OF MY RESPECT FOR MR. HINES IN HIS IDEALS AND VISIONS FOR OUR INDUSTRY. IT IS TOO BAD HE IS SO SHY AND QUIET ABOUT IT.

WE NEED GUTSY LEADERS, LIKE DOYLE, WHO KNOW AND UNDERSTAND THE SUBTLE, BUT OH SO IMPORTANT ISSUES OF DEMAND MANAGEMENT, COSTING INCENTIVES, AND LONG-RANGE CONSERVATION PROGRAMS.

DON'T GET SUCKED INTO PERIPHERAL GENERAL ISSUES OF EMF, WHEELING, OR EVEN RELIABILITY COUNCILS. WHILE THESE SUBJECTS ARE IMPORTANT AND WE MUST SERIOUSLY ADDRESS THEM, BE CAREFUL YOU DON'T GET COMPROMISED IN AMENDING ISSUES. YOU MUST BE STRONG WITHIN YOUR OWN ASSOCIATIONS FIRST, ESTABLISHING YOUR OWN CLEAR CUT OBJECTIVES, THEN EXPAND YOUR AGENDAS TO YOUR NEIGHBORS.

ONE LAST STORY ABOUT A TRIP GLORIA AND I TOOK TO WASHINGTON, D.C.

HECKAWE TRIBE IN NORTHERN CANADA.....

WELL, WHERE IN THE HECK ARE WE? IT IS UP TO EACH OF US, AND BY WORKING TOGETHER WE CAN WIN.

IN SUMMARIZING, AND I HOPE I HAVEN'T BEEN PREACHING, WORKING TOGETHER IS AN AWE-INSPIRING CHALLENGE. I HAVE MENTIONED JURISDICTION, TAKE OVERS, AND RATES, BUT THERE ARE MANY MORE AREAS SUCH AS LEGISLATION, ADMINISTRATION, WORKER'S COMPENSATION, SAFETY ETC., ETC. WE SIMPLY MUST DO IT TOGETHER.

YOU HAVE BEEN GREAT - MY KIND OF PEOPLE.....

IT HAS BEEN A REAL PLEASURE BEING HERE WITH YOU ALL. IF YOU HAVE ANY QUESTIONS.....

OPERATING BY STRATEGIC PLANNING

Marcus W. Pridgeon

May 20, 1991

1991 REMDC Meeting
"Opportunity for Growth"
May 19-22, 1991
La Mansion del Rio Hotel
San Antonio, Texas

OPERATING BY STRATEGIC PLANNING

In December of 1986 I sat in the office of the Administrator of the Rural Electrification Administration (REA), at that time filled by Acting Administrator Jack Van Mark. The purpose of my visit was to close the transaction of refinancing Guadalupe Valley Electric Cooperative's (GVEC's) REA debt. As Mr. Van Mark and I sat and visited while the attorneys did whatever attorneys do, he asked me a question to which my answer continues to apply to many activities which GVEC is involved in, including Strategic Planning. Mr. Van Mark asked me, "What is the real underlying reason you are leaving REA?" After a few seconds of thought, I replied, "We are simply a mature organization, and it is time we weaned ourselves."

I believe in this philosophy of organizational maturity. During 1987, I received numerous telephone calls from cooperatives questioning our move and asking if the REA discounted buy-out program was for everyone. My answer was "no." There continues to be many cooperatives which for various reasons are not mature. By not being mature, I mean not needing assistance in the form of financing, accounting standards, construction standards and the like. This lack of maturity has many causes; some have not matured due to manager decisions, or lack thereof, while other cooperatives will never reach maturity due to circumstances beyond their control,

such as low density.

I provide this preamble about organizational maturity in order to address the first question which should be raised regarding my topic. Should all cooperatives plan? The answer is "yes." Should all cooperatives do strategic planning? The answer is "no", if you define strategic as an adjective connoting a high level of sophistication. I have no idea as to whether the relationship is linear or logarithmic, however I believe there is a very definite relationship between the maturity (sophistication) of a cooperative and the degree of planning which it must do in order to efficiently operate. As you would expect, the more mature and sophisticated a cooperative, the greater the importance which needs to be placed on planning.

Planning is a very pro-active word. By planning you are saying that you want to chart your own course. You want to plan your future rather than re-act to what happens-chance brings your way. The dictionary defines strategic as "skillfully adapted to the end in view." All this means is that you know where you want to be and you have planned definitive actions to get you there.

You know what you want your cash level to be; you know what you want your cooperative's equity to be; you know what you want your Times Interest Earned Ratio (TIER) to be, and you have a plan to achieve these goals. You know what you want your system losses

to be; you know what you want your outage time to be; you know how you want your system to perform, and you have a plan to achieve these goals. You probably have many other goals regarding employee wage and benefits and membership programs. The question is, "Do you have a plan to achieve these goals?"

From the statements I have just made you have certainly picked up on the fact that we need to have an idea of where we are going. These ideas, or goals, do not necessarily need to be definitive. They can be directional. A goal might be to have your cooperative's equity at 45%, or it may be as simple wanting equity to increase from its present position, without a specific goal. Instead of setting a specific goal for system losses, your goal may simply be to have a lower system loss that the statewide average.

As we set goals, our timing needs to be tempered with the severity of the situation. By this, I mean that if you have a TIER of .75, the actions you take to resolve this situation may be more severe than if you have a TIER of 1.55 and simply want to strengthen your ratio. At GVEC, we are firm believers in evolution as opposed to revolution. Any time we are able to phase, or ease, into a position, it seems to be the preferable action to that of radical change. However, what this concept requires is patience, which at times seems to be in short supply. At 36, it has become apparent to me that my generation is less patient in general than that of my

father. My generation has not been without electricity, water or television. We've seen it all; we've had it all; and we want it all now. The scary part of this trend is that I now have two young sons, ages 10 and 8, who I believe are less patient than I am. They have never been without video cassette recorders or microwaves. They don't have to wait on their supper and they don't have to wait until a movie comes to our local theatre. I believe this generational impatience is beginning to infiltrate cooperative management. It's very easy for us to see where we want to be, however we're discouraged if logic tells us it will take 7 or 10 or 15 years to get there. We have simply got to develop patience.

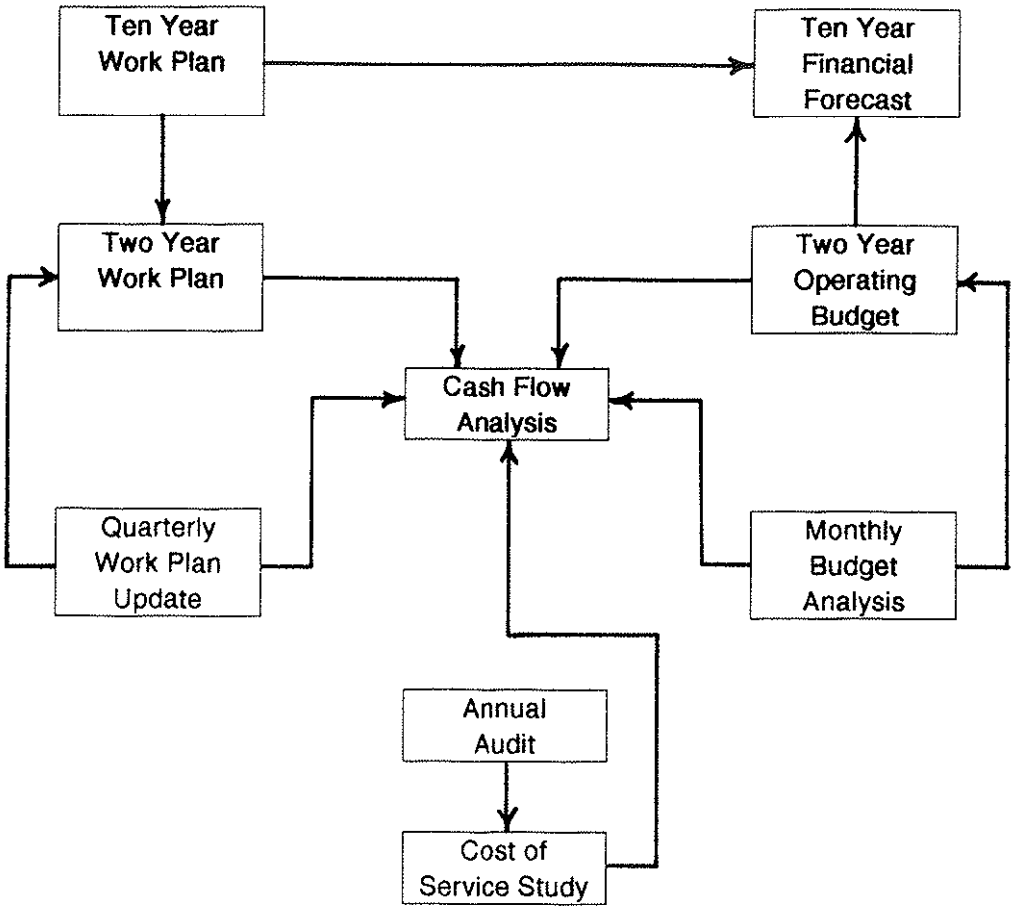
The wisest man I've ever met was my grandfather, John Coleman Moran. He was an Irish Catholic from the indian territory of Oklahoma who was educated by life. He seemed to have a parable relating to any situation and in one of my favorites he addressed patience. One day while working on a project I displayed my impatient nature. In response to this, my grandfather asked me if I knew how to eat an elephant. My response was "no", and he said "one bite at a time."

Before I go any further, let me address an issue which I have a real difficulty with. As I speak to my peers around the state and nation, I continue to hear griping and whining. Comments like, "I can't increase our system equity because of Public Service Commission rules,"

or "We can not adequately plan major construction because of the uncertainty of REA loan funds," or "We can't lower our outage time because it snows here." There are some things that I know about and many things I don't. I do not know much about snow, being from South Texas. I do know about dealing with state regulatory authorities. I do know about dealing with lenders, including REA. I do know there is more than one way to skin a cat.

I fully realize that certain obstacles exist which make the obtainment of some goals impossible. I am of the belief that unsurmountable obstacles are very few and very far between. I have been personally involved in a number of difficult situations ranging from bond sales to the purchase of a utility in bankruptcy. The one common thread to these activities is that I have never been involved in a meaningful project where there were not significant obstacles to overcome. That is simply the nature of business. The successful overcome, the unsuccessful succumb.

In order to plan efficiently, an organization needs to know three things; (1) where have we been, (2) where are we now, and (3) where are we going. At GVEC, we use nine documents in order to address these three issues. Systematically they are as follows:



This may seem like an inordinate amount of planning documents, but let me assure you that I am very sensitive to falling prey to T.D.M.I. Of course that stands for Too Damn Much Information. Having more information than you can efficiently digest is as bad as not having enough information. The amount of planning and analysis information produced should be system specific. Among other things, it should depend on the cost of production, the benefit received, and to a large degree on the ability of your staff to interpret and use the information.

TEN-YEAR WORK PLAN

At GVEC, our planning process begins in late summer when our Engineering staff sits down with the Cooperative's Ten-Year and Two-Year Work Plans in front of them.

The Ten-Year Work Plan is an extremely flexible document which attempts to visualize what our electric system will look like in ten years. A number of factors enter into the preparation of this document, however the most impacting is the location and amount of projected load growth. Many people question the ability to accurately project requirements 10 years down the road. In the preparation of long-range documents, accuracy is not the key. The key is direction. Are we moving in a direction which will result in a stronger electric system?

A good example of how we use our long-range plan occurred several years ago. At that time we foresaw a need, possibly 10 years down the road, for a substation in the Schumannville area, located approximately one-half miles south of New Braunfels, Texas. New Braunfels was projected to grow very rapidly toward the south, of which much of the growth would be served by GVEC. We realized at the time that it would be much easier to acquire a substation site and easements while the town was half a mile away, rather than waiting until we were surrounded by subdivisions. We purchased a site and continue to hold it today in anticipation.

The Ten-Year Work Plan simply sets a direction, which when coupled with more

immediate needs, leads to the creation of a Two-Year Work Plan.

TWO-YEAR WORK PLAN

Since GVEC left REA, we have taken a different position in system planning. Prior to leaving REA, work plans were prepared not only for improving the electric system, but also in order to justify a loan request to REA. In order to assure adequate loan funds, work plans were prepared inclusive of very low priority projects and even projects having very little chance of being built. This false facet of planning made it difficult to gauge the accomplishment of goals.

Since we left REA, the accessibility of capital has not been a factor in system planning. If the projects are needed, we put them in the Work Plan. If the projects are not needed, we do not put them in the Work Plan. The Work Plan includes only the volume of work we can reasonably complete in the allotted time.

The Two-Year Work Plan is divided into eight quarters with specific projects to be completed in each quarter and an estimated cost associated with each project. These quarterly cost estimates feed into the Cooperative's Cash Flow Analysis. It is updated every year so that the Cooperative is always looking at two years worth of work.

TWO-YEAR OPERATING BUDGET

Like the Two-Year Work Plan, the Two-Year Operating Budget is updated annually in

order to always have a look at two years of projected revenues and expenses. Over the last decade, GVEC has developed a rather sophisticated budgeting procedure. In the fall of each year, GVEC Division Heads are provided with a three year history of expense by account number incurred by their Division. In order to accomplish this, we had to expand our chart of accounts to include a division designation. The history of expenses is further segregated between "payroll" and "other". The only number of concern to Division Heads in budgeting is of expense other than payroll. Wages are set by the Board of Directors, after which the payroll number will be adjusted appropriately in order to arrive at a total expense projected for a particular account.

With this history in hand, the Division Heads meet with their Department Heads in preparation of budget projections. In budgeting, it is accepted that increases need to be allowed to reflect undeterminable increases in the cost of doing business, however any material increase in expense must be justified by narrative.

The Administrative Division prepares the projection of revenues. The Administrative Division also acts as a compiler of the product of the Cooperative's various divisions. Once competed, the Advisory Council (which consists of the Division Heads and the General Manager) meets to review and discuss the result of the budgeting process and any adjustments which need to be made to achieve certain goals. The Advisory Council also at this time forms its

recommendation to the Board regarding employee wage and benefits.

Based upon decisions of the Advisory Council, the Administrative Division prepares a recommended operating budget to be considered by the GVEC Board of Directors at its regular October meeting. The Board is also asked to consider in October the cooperative's two-year work plans so that an over all picture of the cooperative's two year activities can be visualized.

Subsequent to the October Board meeting, the Two-Year Work Plan and operating budget are amended to reflect Board decisions. The two documents are then placed upon the Board's November agenda for final approval. The result of the approved operating budget becomes a component of the Cooperative's Cash Flow Analysis.

You might be saying to yourself that this seems like an awful lot of work in order to produce numbers. GVEC uses the budget process not only for the purpose of planning, but also for the purpose of forcing our Division and Department Heads to sit down at a table with a pencil and analyze exactly what they are doing and what their activity cost. The budget process is as much a time for reflection as it is a time for planning.

TEN-YEAR FINANCIAL FORECAST

The Ten-Year Financial Forecast provides the same function for financial information as does the Ten-Year Work Plan for electric system configuration. In the financial forecast, the

goal is not the accuracy of any particular projection, but rather the long-term effect (direction) as a result of an action taken in a more immediate time frame.

The preparation of the Ten-Year Financial Forecast requires information from the Cooperative's Ten and Two-Year Work Plan and the Two-Year Operating Budget. Additionally, assumptions are required regarding factors such as long-term inflation and the like.

CASH FLOW ANALYSIS

Once we have projections for the Capital and Operational cash requirements from the Two-Year Work Plan and Operating Budget, preparation of a Cash Flow Analysis becomes quite easy. Cash is the life blood which runs through the veins of every organization. It's importance cannot be overestimated. It is absolutely essential that cash is available next month as well as next year.

The degree of rate regulation and the bureaucracy of your lender are key factors in the degree of accuracy you must maintain in cash projections. Until recently, it has taken Texas Cooperatives approximately one year to change rates due to compliance with Public Utility Commission procedures. In recent months, the Public Utility Commission of Texas has adopted rules which should greatly reduce the regulatory lag for cooperatives seeking an increase of 5% or less. As far as acquisition of capital funds, I believe any comment I might make to you

regarding REA would be like preaching to the choir. As a 100% borrower of the National Rural Utilities Cooperative Finance Corporation (CFC), I must complement CFC's flexibility and responsiveness to every request we have made.

As prudently managed cooperatives, I feel sure we all have available to us short-term lines of credit which provide us a safety net against unforeseen cash shortages or requirements. A line-of-credit may also prove invaluable as interim capital financing. Although a shortage of cash is not an absolute death blow, it is much more advantageous to act on a projected cash shortage that to re-act to an over-drawn ship from the bank.

As an example of the GVEC methodology, I have attached to this paper Exhibit "A", which is the form we use to project cash balances and Exhibit "B" which is the form we use to compare actual experience to our projections.

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The five documents I have discussed so far are planning documents. They attempt to chart a course which will initiate specific actions to lead to a definitive result. After the plans are completed, a very important step remains which often times goes undone. That step is monitoring actual experience against projections.

QUARTERLY WORK PLAN UPDATE

As Exhibit "C" to this paper, I have attached a sheet from GVEC's Quarterly Work Plan Update. I noted earlier that the preparation of our Two-Year Work Plan includes dividing the task to be accomplished into quarters. By doing this, a very defined set of objectives is laid down for both engineering and construction employees. The Quarterly Update provides management with a easy method of assessing the status of system improvements. It also provides employees with definitive goals and timely feedback regarding progress being made.

MONTHLY BUDGET ANALYSIS

We also find it useful to produce a Monthly Budget Analysis. Once again, the fact that we compare our experience to our projection on a periodic basis brings home the point to our employees that we are serious about planning. It is not a sin to deviate from the budget; it is a sin not to know why you have deviated from your projections.

Attached as Exhibit "D" to this paper is an example Budget Analysis. You can see that generally we track budget projections by major category (i.e., Transmission Expense, etc). Only when the budget variance is significant in either absolute dollars or percentage do we look at specific accounts or rate class projections (i.e. Account #923 Outside Services).

As with some of our planning documents, the Budget Analysis performs a function other

than that of number generation. This continued monitoring has developed in our employees the ability to foresee the overall effect of actions they are taking today. It has increased the understanding of the "average" employee as to how dollars flow through the Cooperative. In a sense, the Budget Analysis is an educational tool as well as a monitoring tool.

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As ancient travelers sailed the seas, they took periodic readings of the stars in order to determine exactly where they were. Sailors were totally dependent on this method of navigation an a heavily overcast night was of great concern to them. The longer they went without a precise bearing on their position, the greater their deviation of course might be. This same concept applies in Strategic Planning. Periodically we must take a precise reading of exactly where we are. Most Cooperatives, including GVEC, accomplish this in two ways.

ANNUAL INDEPENDENT AUDIT

I feel sure that each member of the Rural Electric Management Development Council (REMDC) has its financial records audited annually by an independent Certified Public Accountant. The audit is so familiar to all of us that I need not make much comment.

An audit is simply an independent assessment of the accuracy of financial records as well as a "truing up" of accepted estimating procedures. An example of this would be adjustments

made to correct perpetual inventory records to an actual inventory court.

COST OF SERVICE STUDY

A Cost of Service Study is a document which gauges the margin generating performance of individual rate classes. It has been my experience that Cooperatives generally perform Cost of Service studies only in connection with rate changes. This means that should you go for several years without a rate change, you also go several years without really knowing how your individual rate classes are performing. This would be similar to sailors experiencing several cloudy nights in a row.

I suppose the importance you place on the Cost of Service concept is related to your philosophy of revenue generation. Your organization might be of the opinion that as long as revenue is sufficient to meet requirements, the source of the revenue (i.e. which rate class) is unimportant. The fallacy here is that you may be nurturing unwanted subsidies.

The Public Utility Commission of Texas has a rule-of-thumb where by no individual rate class may receive an increase in rates greater than 1.5 times the system average. This means that if a Texas Cooperative seeks to increase its overall rates by 5%, no individual rate class can receive an increase greater than 7.5%. With regulatory perimeters such as this, the monitoring of rate class performance becomes more important.

Although not as familiar to Board member and management as is the audit, the Cost of Service Study is certainly not a foreign document to us. I do believe we have a false perception regarding the difficulty of preparing a Cost of Service Study. This perception is probably perpetuated by consultants who want you to think it is much more difficult than it actually is.

We believe at GVEC that independent engineers and independent auditors are valuable to an organization in that they provide an arms-length assessment. The independence they provide prevents inbreeding. A Cost of Service Study simply takes historical values, typically taken from the organization's audit, and applies logical allocation methodologies to arrive at a result. The independence of the preparer is not an issue in the preparation of a Cost of Service Study.

Cost of Service Studies prepared by consultants typically contain volumes of schedules for the benefit of uninformed Public Utility Commission staff members. The majority of these schedules are not required to simply gauge the historical performance of rate classes. GVEC has been preparing in-house Cost of Service Studies since the early 1980's. The proliferation of personal computers and Cost of Service software, such as the one we use produced by C. H. Guernsey & Company, really make preparation of the Cost of Service Study quite easy. During the mid 1980's we were preparing a Cost of Service Study semi-annually using a rolling 12

month history. We quickly found out that this fell under the category of T.D.M.I. The preparation of a Cost of Service Statement annually is sufficient.

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In closing, let me again emphasize that planning is by no means assurance of the achievement of goals; it simply increases you odds. Some individuals plan for retirement, while others seem to live day to day hoping that there will be something left for them in the end. Organizations which plan to succeed probably will. Organizations which do not plan probably will not.

GUADALUPE VALLEY ELECTRIC COOPERATIVE, INC.

CASH FLOW ANALYSIS

	Monthly Cash Available				Disbursements other than Oper & Maint							
	Oper Mgn	N-O Mgn	Depre.	Total	Work Or	Debt Pmt	Other	Total	Cash Balance	Total Plant	General Funds %	Equity
Sep-90									$5,999,976	$74,407,194	8.06%	49.10%
Oct-90	$354,800	$45,000	$206,600	$606,400	$200,000	$0	$0	$200,000	6,406,376	74,607,194	8.59%	49.40%
Nov-90	158,200	45,000	207,600	410,800	200,000	136,000	0	336,000	6,481,176	74,807,194	8.66%	49.50%
Dec-90	98,300	45,000	208,700	352,000	200,000	0	500,000	700,000	6,133,176	75,007,194	8.18%	48.70%
Jan-91	202,263	60,800	205,506	468,569	250,000	0	400,000	650,000	5,951,745	75,207,194	7.91%	49.00%
Feb-91	289,373	60,800	206,900	557,073	250,000	139,000	676,000	1,065,000	5,443,818	75,407,194	7.22%	49.30%
Mar-91	199,926	60,800	207,900	468,626	250,000	0	0	250,000	5,662,444	75,607,194	7.49%	49.50%
Apr-91	55,672	60,800	208,900	325,372	250,000	0	0	250,000	5,737,816	75,807,194	7.57%	49.60%
May-91	18,051	60,800	209,900	288,751	250,000	142,000	0	392,000	5,634,567	76,007,194	7.41%	49.50%
Jun-91	99,242	60,800	210,900	370,942	250,000	0	0	250,000	5,755,509	76,207,194	7.55%	49.60%
Jul-91	310,087	60,800	211,900	582,787	250,000	0	0	250,000	6,088,296	76,407,194	7.97%	50.00%
Aug-91	403,326	60,800	212,900	677,026	250,000	145,000	0	395,000	6,370,322	76,607,194	8.32%	50.80%
Sep-91	440,121	60,800	213,900	714,821	250,000	0	0	250,000	6,835,143	76,807,194	8.90%	51.30%
Oct-91	279,085	60,800	214,900	554,785	250,000	0	0	250,000	7,139,928	77,007,194	9.27%	51.60%
Nov-91	119,421	60,800	215,900	396,121	250,000	148,000	0	398,000	7,138,049	77,207,194	9.25%	51.70%
Dec-91	57,841	60,800	216,900	335,541	250,000	0	500,000	750,000	6,723,590	77,370,000	8.69%	51.10%
Jan-92	193,775	62,000	215,932	471,707	250,000	0	0	250,000	6,945,297	77,570,000	8.95%	51.30%
Feb-92	281,025	62,000	216,600	559,625	250,000	150,000	0	400,000	7,104,922	77,770,000	9.14%	51.60%
Mar-92	192,173	62,000	217,600	471,773	250,000	0	0	250,000	7,326,695	77,970,000	9.40%	51.80%
Apr-92	45,025	62,000	218,600	325,625	250,000	0	0	250,000	7,402,320	78,170,000	9.47%	51.80%
May-92	7,418	62,000	219,600	289,018	250,000	160,000	0	410,000	7,281,338	78,370,000	9.29%	51.70%
Jun-92	88,532	62,000	220,600	371,132	250,000	0	0	250,000	7,402,470	78,570,000	9.42%	51.80%

Exhibit "A"

GUADALUPE VALLEY ELECTRIC COOPERATIVE, INC.

Cash Flow Analysis

	Actual		Actual		Actual	Projected		Projected
Jan-89	$4,586,535	Jan-90	$5,313,042	Jan-91	$4,769,756	$5,951,745	Jan-92	$6,945,297
Feb-89	3,481,115	Feb-90	5,368,130	Feb-91	4,351,440	5,443,818	Feb-92	7,104,922
Mar-89	3,376,488	Mar-90	5,783,536	Mar-91	4,487,573	5,662,444	Mar-92	7,326,695
Apr-89	3,455,404	Apr-90	6,362,578	Apr-91		5,737,816	Apr-92	7,402,320
May-89	3,508,659	May-90	5,585,874	May-91		5,634,567	May-92	7,281,338
Jun-89	3,252,295	Jun-90	5,747,982	Jun-91		5,755,509	Jun-92	7,402,470
Jul-89	4,145,493	Jul-90	6,237,922	Jul-91		6,088,296	Jul-92	7,738,733
Aug-89	3,797,681	Aug-90	5,298,242	Aug-91		6,370,322	Aug-92	8,000,663
Sep-89	4,643,390	Sep-90	5,999,977	Sep-91		6,835,143	Sep-92	8,470,131
Oct-89	5,657,478	Oct-90	6,646,350	Oct-91		7,139,928	Oct-92	8,778,700
Nov-89	5,114,154	Nov-90	5,639,355	Nov-91		7,138,049	Nov-92	8,745,154
Dec-89	5,618,571	Dec-90	5,652,129	Dec-91		6,723,590	Dec-92	8,331,804

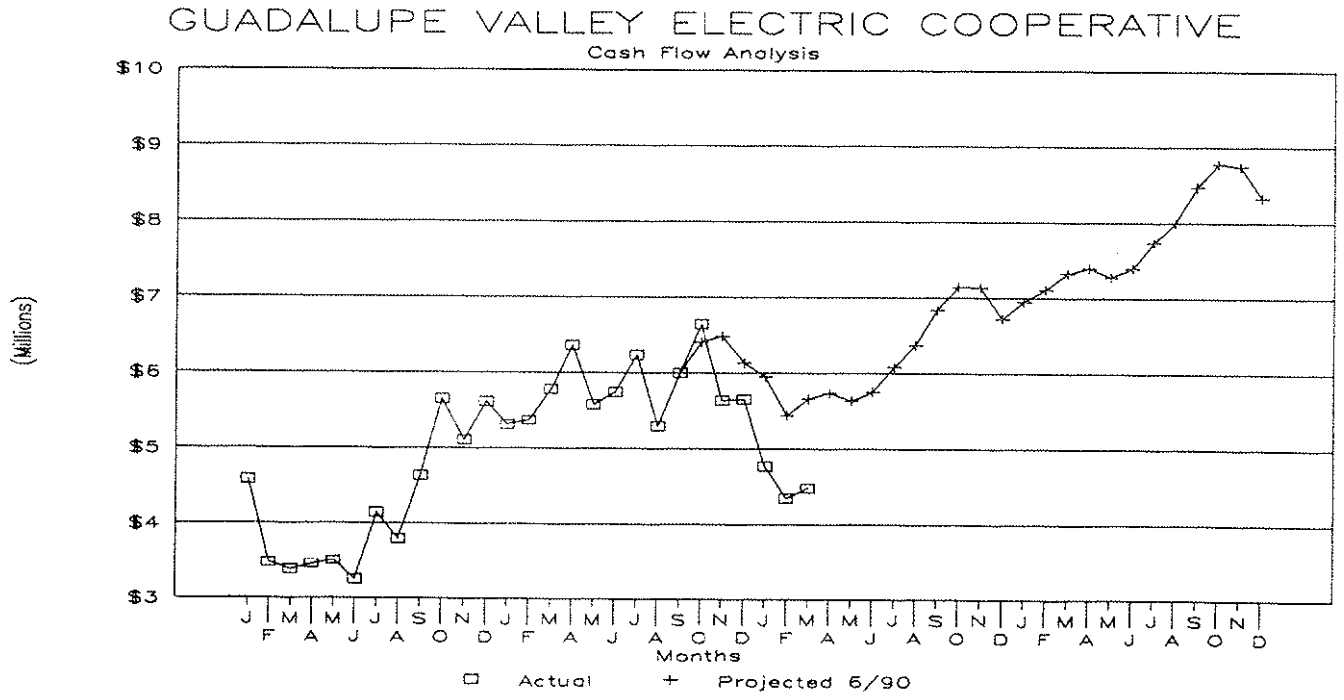

Exhibit "C"

ENGINEERING
WORK PLAN PROGRESS REPORT
FIRST QUARTER 1991

W.O.#	NAME	STATUS	COMPLETION DATE
67240	Ottine Ckt. 2-Change-out 8.0 miles #4 ACSR 3-PH to 4/0 ACSR from 22-16-12 to 16-47 (Hwy. 304 to Thompsonville area)	Easement problems should be released in early April	
67465	Shiner Ckt. 3-Construct .5 mile 1/0 ACSR tie line from 30-42-84 to 30-42-77 (Bluebonnet Lane)	Released 1-28-91	
	SECOND QUARTER 1991		
67535	Capote Ckt. 3-Change out 3.5 miles #2 ACSR to 477 ACSR from 19-47-60 to 19-45-09 (Sub. to Aux. Airfield)	Staked 1-25-91	
	THIRD QUARTER 1991		
67653	Capote Ckt. 1 - Change out 3.5 miles #2ACSR 3-PH to 477 ACSR (Sub to Highway 90)	Staked 3-22-91	
67652	Hallettsville Ckt. 3 - Change out 2.1 miles 1/0 ACSR to 477 ACSR, 85-53-07 to 85-73-30 (Highway 90A to Highway 77)	Staked 1-30-91	
	FOURTH QUARTER 1991		
	Cibolo Ckt. 3 - Convert .5 mile #4 ACSR to 477 ACSR, from 53-36-99 to 53-46-51 (Kardys Airport road)		

GVEC

DIVISION OPERATING REPORT

RECORDS

DIVISION

DATE

	Actual	Budget	Variance ($)	Variance (%)
Operating Revenue	$10,920,856.43	$10,618,925.00	$301,931.43	2.843%
Cost of Power	7,358,766.54	6,912,843.00	445,923.54	6.451%
Transmission Expense	12,135.72	12,750.00	(614.28)	-4.818%
Dist Exp - Operation	162,827.49	174,280.00	(11,452.51)	-6.571%
Dist Exp - Maintenance	365,279.17	373,400.00	(8,120.83)	-2.175%
Consumer Accts Expense	258,394.07	251,189.00	7,205.07	2.868%
Cust Serv & Info Exp	153,276.62	178,300.00	(25,023.38)	-14.034%
Admin & General Exp	876,371.38	684,359.00	192,012.38	28.057%
Depreciation Exp	616,123.79	620,306.00	(4,182.21)	-0.674%
Tax Exp - Property	76,500.00	76,500.00	0.00	0.000%
Tax Exp- Other	77,802.19	64,300.00	13,502.19	20.999%
Interest Long-Term Debt	548,937.76	579,136.00	(30,198.24)	-5.214%
Interest Exp - Other	15,713.28	0.00	15,713.28	0.000%
Other Deductions	(82,601.30)	(76,200.00)	(6,401.30)	8.401%
Total Cost of Ele Serv	$10,439,526.71	$9,851,163.00	$588,363.71	5.973%
Operating Margins	$481,329.72	$767,762.00	($286,432.28)	-37.307%
N-O Marg - Interest	99,577.92	120,000.00	(20,422.08)	-17.018%
N-O Marg - Other	20,675.15	62,400.00	(41,724.85)	-66.867%
Total Margins	$601,582.79	$950,162.00	($348,579.21)	-36.686%
Cost of Power:				
GBRA - Kilowatt-Hours	17,811,500	15,834,000	1,977,500	12.489%
- Dollars	$445,287.50	$395,850.00	$49,437.50	12.489%
LCRA - Kilowatt-Hours	190,515,296	193,148,000	(2,632,704)	-1.363%
- C.P. Demand	386,027	320,483	65,544	20.452%
- N.C.P. Demand	590,686	423,447	167,239	39.495%
- Dollars (COP)	$6,933,397.09	$6,918,889.00	$14,508.09	0.210%
- Lease Credit	$0.00	$401,895.00	($401,895.00)	-100.000%
Administrative & General				
Acct # 923 (Outside Serv)	$208,507.05	$62,500.00	$146,007.05	233.611%
Richard Balough	$76,933.12	$59,492 reimbursed by NBU, DeWitt & San Bernard		
GDS Associates	47,291.40			
Ernest & Young	98,784.00			
	$223,008.52			

RESTRUCTURING IN THE ELECTRIC UTILITY INDUSTRY

HISTORICAL BACKGROUND AND CURRENT DEVELOPMENTS

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RESTRUCTURING IN THE ELECTRIC UTILITY INDUSTRY

Summary

For several decades leading into the 1990's, the electric utility industry was largely characterized by rapid growth and declining prices. A series of landmark events in the 1970's caused profound changes in the planning and financial performance of electric utilities. In the 1970's and 1980's the industry began to be driven by increasing prices, stalled load growth and conflicts in state and federal regulation. As a result of these disruptions, the electric utility industry is now undergoing a profound restructuring in planning, construction and operation marked by greater competition in the provision of generation and in sales to customers. This industry restructuring has serious implications for all electric utilities and especially for rural electric cooperatives.

Growth into the 1970's

Until the 1970's, the electric utility industry was characterized primarily by continued rapid growth in the demand for electric power and corresponding growth in the size of electric utility systems. The growth was reinforced by declining prices and good utility financial performance.

- Loads had been practically doubling every decade, and were forecasted to continue to do so.
- Planning, financing and construction of new generation and transmission to meet this tremendous growth in demand was the principal objective of most electric utilities.
- As the size of electric utility systems grew, the cost of electric energy declined (by almost one thousand times from around $30.00/kilowatt hour in 1900 to around $0.03/kilowatt hour in 1970).
- Consumer demand for electric energy continued to grow, and public acceptance was good for the continued growth of electric utility systems.
- The industry was essentially free of all but fringe competition as utilities generally built their own plants to serve their own customers at prices set at cost plus a profit margin regulated by state and federal regulators.

Disruptions in the 1970's

Several significant events in the 1970's forced fundamental changes in the planning and financial performance of electric utilities.

- Public reaction to several notable regional blackouts in the 1960's caused the formation of regional reliability councils resulting in increased transmission interconnections and power transfers among neighboring electric utilities.

- The Arab oil embargoes of 1973 and 1979 caused severe disruptions in oil and gas supplies and an almost immediate ten times increase in the price of oil and gas, resulting in sharply increased electric energy prices.

- The Viet Nam war and the Watergate scandal reduced public confidence in government and public institutions, including electric utilities. These events marked a major shift in public opinion regarding the acceptability of continued expansion of electric utility systems.

- Runaway inflation and rapidly increasing interest rates severely impacted electric utility construction, causing new plants to cost much more than originally projected.

- Public concern over environmental impacts, safety and natural energy policy caused legislators and regulators to begin constraining the planning and construction of new utility plants.

- The National Energy Act, and especially the Public Utility Regulatory Policies Act of 1978, caused basic changes in the makeup of electric utility planning and pricing. the law made it possible for non-utility developers to build power plants and force utilities to purchase the power output at prices equivalent to the utilities' cost of new power plants.

- The new national energy policy also emphasized more sophisticated planning and pricing of electric energy supplies and the incorporation of conservation and renewable energy sources into the planning and pricing of electric energy supplies.

A Transition in the Industry

As a result of the disruptions in the 1970's, electric utilities experienced a transition into a new, unprecedented set of circumstances for planning, financing, construction and pricing.

- After decades of continuing decline, electric energy prices increased sharply, practically tripling from 1970 to 1985 due to both increased fuel prices and increased costs of new generation plant construction.

- Many electric utilities experienced delays and cost overruns in the construction of new generation plants, especially for nuclear plants.

- Customer demand for electric energy ceased to grow at the tremendous pace of past decades, and, in some cases, total customer demand actually dropped to lower levels than in previous years.

- Many electric utilities found themselves with excess new generation built in anticipation of load growth that failed to occur as forecasted, thus exacerbating increases in utilities' costs caused by other factors.

- Regulators began to refuse to allow electric utilities to include new generation plant in the prices charged for electric energy on the basis that it was:

  imprudently planned, or
  imprudently constructed, or
  in excess of reasonable surplus margins.

- Electric utilities' financial performance eroded severely, causing new constraints in financing, further pressure to increase prices, and even loss of financial viability in some cases.

These circumstances led to a new regime for an industry that previously had neighboring monopolies building their own plants to serve their own customers with full recovery of all costs plus a regulated profit margin, all supported by sustained growth.

- Public acceptance of both electric utility prices and the social impacts of traditional electric utility expansion and pricing dropped, and, in many instances, dramatic public opposition marked attempts by electric utilities to raise prices or

initiate construction of new electric generation plants.

- Some electric utilities that needed additional generation were reluctant to construct it because of the new risk that regulators might not allow the costs to be recovered in prices charged to customers, and many purchased power instead from electric utilities with surplus generation.

- New non-utility developers, most notably cogenerators successfully challenged the electric utilities' traditional monopoly in the provision of electric energy, constructing thousands of megawatts of new generation.

- Some electric utilities, either seeking to regain earnings in a market now without sustaining load growth, or desiring to evade regulatory limitations on recovery of costs of new plants in rates, formed unregulated subsidiaries to build generation projects and/or seek new customers.

- Increasing power transfers between utilities requiring additional power supply and the utilities or non-utility producers providing the power caused new emphasis on the technical, financial and policy implications of wheeling power over transmission lines, sometimes affecting otherwise uninvolved intervening utilities.

- Legislators and regulators, partially in response to open public dissatisfaction and partially in response to the demands of new, non-utility power producers, began to favor deregulation as a means of restoring some competitive market control of electric energy prices and as an incentive for utilities and non-utility producers to build needed new generation.

Deregulation of the Industry

These events and influences caused a revision of the long-standing, implicit "regulatory contract" or "social contract" under which utilities operated. This public policy had allowed electric utilities to retain monopoly control of the construction of generation and the sale of power to customers in exchange for both agreeing to an unconditional obligation to serve and accepting regulation of profit margins.

The "cost-plus" form of price regulation was seen by some as having failed to properly limit prices or to

motivate the most economic planning and construction of electric utility systems. Also, many regulators became concerned that, in light of the economic and regulatory changes over the prior decade, utilities and non-utility producers now need stronger incentives to undertake the construction of needed new generation.

Finally, many utilities, non-utility producers and retail customers continue to press for a more competitive, market-drive basis for the planning, construction, and pricing of energy resources.

Now the industry is moving inexorably toward a truly competitive basis in the bulk power supply market (i.e., generation and wholesale power) involving both utilities and non-utility producers.

- The existing electric utilities have considerable experience in the purchase and sale of power at wholesale. Many incentives exist for them to continue this practice (e.g., to market surplus generation, to delay initiation of risky construction programs, to take advantage of the economics of opportunity sales or purchases, etc.).

- New entrants, including industrial cogenerators, third-party generation project developers and unregulated utility subsidiaries, are competing to provide the needed new generation to utilities and, in some cases, directly to large retail customers.

- Some legislators and regulators consider some degree of deregulation and power supply to be desirable in order to: (1) counter the inefficiencies of the regulatory process, (2) better control costs through competition by multiple potential suppliers, and (3) provide incentives to ensure that needed generation will be constructed.

Transmission Access

The increased competition on the generation, or supply side, of the business has caused a vigorous public policy debate over access to and pricing of transmission service. In most cases, power from generation must be transferred over high voltage transmission lines to the ultimate customer. In the increasingly competitive power supply market, the competing suppliers may be separated from the purchasing utilities or other customers by the transmission

system(s) of the one or more intervening electric utility systems.

Utilities traditionally build their own transmission systems to serve their own customers. Interconnections among neighboring utility systems were primarily for infrequent emergency circumstances. The capacity, reliability and security of transmission systems was developed to move power from generation to load within each independent utility's service area, not necessarily to move significant amounts of power through and among the neighboring utilities.

Transmission systems generally are considered to be natural monopolies. That is, economies of scale, public interest considerations and planning/operating constraints prevent economical duplication of transmission service will become a competitive market in which multiple suppliers compete to offer alternative transmission paths. The policy debate then becomes how transmission service is to be provided by those relatively few utilities that control the majority of the transmission system.

Most controlling utilities are understandably reluctant to simply turn over transmission service to all comers. Some utilities have legitimate concerns about adverse impacts on reliability and security. Others voice concern about adverse impacts on existing customers.

However, the greatest impediment to open transmission access seems to be caused by utilities that are reluctant to lose monopoly control of their markets. Utilities not positioned to compete in power supply markets for various reasons (e.g., high costs, management resistance, lack of resources, etc.) can, by refusing transmission access, prevent competition by displacing competitors' ability to construct and sell the output of their own generation to their customers.

Despite this reluctance, it is now widely accepted that some form of transmission access is here to stay, and that it will ultimately affect all utilities that own and operate significant portions of regional transmission systems. This is the result of a variety of circumstances, described below:

- The development of regional reliability councils and the ensuing transfers of power during emergencies set the stage for non-emergency power transfers.

- Many opportunity transactions resulted from the disruptions of the 1970's (i.e., the sale of surplus generation, the purchase of power instead of construction of new generation, the right of non-utility cogenerators to sell power to utilities), and changes in the use of existing transmission systems and with planning of new transmission.

- Many transmission dependent utilities (i.e., usually small municipalities or cooperatives surrounded by the transmission of a larger utility) aggressively pursued enforcement of anti-trust laws and principles in actual civil anti-trust litigation, nuclear plant licensing proceedings, power plant certification proceedings, utility merger certification proceedings and negotiation of power supply contracts. Some of these small transmission dependent utilities thereby gained the right to transmission service under reasonable, cost-based rates.

- Current regulatory policy is beginning to emphasize regional coordination of planning, construction and operation of generation resources. Thus, utilities may not be able to build their plants where and when they please, but may instead have to rely on participation in regional plants, the power from which will be delivered over transmission of the intervening utilities.

- The driving factor in the industry since the 1970's has been the construction and utilization of generation, accounting for more than 80% of the total costs of the industry. The proportion of total industry costs represented by transmission is small, and for a given amount of additional load requirements, transmission usually is cheaper to expand than generation.

- Current public policy favoring competition in power supply necessitates transmission access. The most desirable suppliers must be able to get their power to the utilities requiring it, and this means wheeling the power over the transmission system of one or more electric utilities.

The real issue in transmission access is now not so much whether it will occur. Rather, the issue is who will have access, and for what price. This marks the advent of competition for access to transmission lines controlled by a relatively few utilities. Transmission access will be a critical component in the economic well being of both electric utilities requiring power and the customers of those utilities.

Mergers and Acquisitions

One of the outcomes of the electric utility industry transition in the last decade has been a sharp increase in the pursuit of mergers by public and private electric utilities of all sizes. These include attempts at voluntary combinations, hostile takeovers and distressed sell outs. A variety of disparate factors are involved.

- A few electric utilities have failed to cope with the dramatic changes in the industry, thus becoming financially non-viable. Some have attempted to reorganize under the protection of bankruptcy laws, while others have chosen to sell out at either the insistence of the customers or the discretion of the management.

- The protracted drop in load growth led some utilities to seek the benefits of growth (i.e., utilization of surplus plant, justification for additional shareholder investment, economics of scale in planning and operation, etc.) through acquisition of other electric utility companies.

- Many utilities have put the large cash flow burden of construction behind them, and/or have begun to collect revenue on most or all of their surplus generation in rates charged retail customers or through sales to other utilities. Both the earnings and the cash flow generated by this are tremendous, leading some of these utilities to seek investments for these funds. Obvious investment for an electric utility, and for funds of this size (i.e., hundreds of millions of dollars), is the purchase of other electric utilities.

- One reasonable approach to restructuring is to seek additional diversity of resources, increased financial base, wider markets, better utilization of existing plant and resources and greater economy and flexibility in planning. Generally,

all of these benefits can accrue when two or more utilities combine into a larger utility.

- A typical monopoly reaction to competition is to simply eliminate the competition as can be done by acquisition.

Continuing Critical Issues

There are a number of critical issues confronting the electric utility industry today that will impact the ongoing restructuring of individual companies and the industry. Many of these issues are related to the disruptions of the 1970's and the subsequent new circumstances of the 1980's, but others are entirely new developments.

- The extent of deregulation and competition remains uncertain. Both the wholesale power supply and retail sales markets are still closely regulated by federal and state authorities. The reduction or even elimination of regulation in these markets will require state and federal legislation as well as the development of new regulatory policies and approaches.

- Increasing customer awareness and sophistication, as well as growing inclinations by regulators to rely on competitive markets to regulate prices, cause electric utilities to change strategies and tactics to succeed in a market driven environment. Drastic changes are evident in management, staff, systems and services, all oriented toward competing for customers.

- While not likely to ever reach pre-1970 levels, load has began to grow again, at a national average of approximately 3% per year. As a result, new generation plants will be required. Some utilities are reluctant to accept the risk of capital investment in new construction, and many non-utility developers seek entry into the market.

- Those utilities and non-utility developers who wish to construct new generation face several significant constraints. Financing new plant construction, since it is more risky, is more difficult and expensive. Environmental and siting constraints, including public debate over acid rain, global warming, water usage and local environmental impacts, affect any potential new generation projects.

Fundamental questions remain unanswered regarding national energy policy, and each of the principal generation fuels have significant problems (i.e., natural gas is subject to instability in the Middle East, nuclear is essentially halted due to public fears regarding safety and hazardous waste, and coal is affected by acid rain concerns). Finally, regulators are not willing to let any utility or non-utility developer construct new generations without extensive analysis proving that it is the least costly alternative.

- Electric utilities are now impacted by the need for "least cost planning" in making preparations for future circumstances. That is, an electric utility must consider a blend of conservation, load management, alternative services and innovative pricing along with the traditional avenue of adding new generation, transmission and distribution to meet new load requirements. Furthermore, this least cost planning approach, coupled with financial and other constraints which have grown out of the transition of the last decade, causes utilities to have to plan, construct and operate their systems with less reserves of funds, physical plant and other resources for uncertainties in forecasting.

- The transmission access debate continues, and it is not clear what is the best or even the most likely final outcome regarding the conditions and prices for transmission service. Concerns over both the need to have access to new generation and public demands for increased competition will impact the resolution of this matter.

NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION

1991 ANNUAL MEETING

New Orleans, Louisiana

Management Services Panel

February 4, 1991

WAR GAMES: In an Industry in Upheaval, It's Survival of the Fittest

Know Thy Enemy!

Presented by:

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INTRODUCTION

In order to properly know the enemy, a wider reconnaissance must include consideration of:

(1) What is the historical perspective?

(1) What is the battle?

(2) Who is the enemy?

(3) How do our forces compare?

Only as we better understand these issues will we be able to properly assess the appropriate strategy and tactics to avoid defeat on the various battlefronts, and ultimately to achieve a place on the map that will be redrawn through war.

THE HISTORICAL PERSPECTIVE

The electric utility industry entered a profound structural change in the 1970's. (A more detailed description of the development of this restructuring is presented in a separate attachment.) For decades the industry had been a stable, prosperous industry characterized by rapid growth and declining per unit cost. However the disruptions of the 1970's set the stage for essentially a "new world order" in the industry.

The Arab oil embargoes began a fundamental change in the economics and structure of the industry. Not only did retail prices rise because of rising fuel costs, but further increases resulted from capital investments in more expensive coal and nuclear plants intended to supplant the cost and risk of natural gas and oil. These cost increases were exacerbated by the costs of surplus capacity caused by a collapse in load growth that had been projected to support a massive generation expansion program. The cost increases were further accelerated by underlying high inflation in the costs of materials, labor and capital.

Skyrocketing prices caused consumer unrest which in turn led to changes in regulatory policies. This paralleled the already active political and demographic realignments of the 1960's and 1970's. This trend was strengthened by the crisis in public confidence resulting from Watergate and Viet Nam.

The longstanding "social compact" or "regulatory contract" had allowed electric utilities to remain monopolies in exchange for a regulatory review of revenue requirements and profits, and an acceptance of the obligation to serve all comers. This largely "cost-plus" approach to pricing collapsed as consumers and regulators fought rapidly increasing prices. Not only did consumers seek relief through alternative suppliers and conservation, but they caused regulators to initiate new constraints, including prudency reviews which resulted in substantial disallowance of capital investments and operating costs for many utilities.

Many electric utilities found themselves with surplus generating capacity that could not be included in rates to consumers. Others deferred construction of new plants because of the new regulatory risk. A new market in inter-utility sales resulted. These transactions were made possible initially by the utility interconnections which accompanied the creation of regional reliability councils after the famous 1965 northeast blackout.

At the same time, national energy policy (i.e., the Public Utility Regulatory Policies Act of 1978 - "PURPA") led to the introduction of competition in generation via unregulated "qualifying facilities," principally cogeneration projects. A multi-billion dollar industry emerged which largely displaced conventional utility plant construction. Utilities who were unwilling to accept the new risks of conventional generation plant construction began to seek participation in unregulated qualifying facilities. These utilities encountered limitations on utility ownership, and a dwindling pool of industrial hosts which needed process heat from cogeneration. A new facet of the industry emerged in which utility and non-utility business both pursued development of unregulated straight generation projects as independent power producers - "IPP's."

UNDERSTANDING THE BATTLE

Simply stated, the war that results from this industry restructuring is <u>competition</u>. That is, instead of captive customer paying cost-plus, competitors are setting prices as necessary to acquire or keep consumers. The successful business will operate only on the basis of a workable business plan which properly assesses the market and prescribes a means of meeting the market requirements profitably. The class cost of service study will no longer be the principal component of financial planning and price setting.

Deregulation and competition seem an attractive panacea to some in every facet of the industry. For a time in the 1970's and 1980's, everyone looked to regulation as the answer. By the end of the 1980's, it was apparent to everyone that regulation was not working. The problem was too complex to address definitively, much less quickly, through the public policy process in the face of a multitude of disparate interests. Regulation apparently failed to minimize both costs and prices to retail consumers. It is further seen as not resulting in the most effective and efficient resource expansion for the industry. Furthermore, many feel that only deregulation can ensure that sufficient new generation will be constructed to meet future requirements.

Some lawmakers and regulators view competition as a means of holding prices down through market forces. Others see in deregulation a means of ensuring that generation developers have adequate incentives to construct adequate new resources. Some existing utilities see unregulated generation as an attractive opportunity for profits no longer available in the traditional regulated utility business. Many classic American businessmen see an opportunity for classic American business . . . an indisputable market, a proven product and good profit margins.

Even though the economies of scale and sustained growth that once existed have largely eroded, many entrepreneurs see a looming shortage of generation as a great business opportunity. Traditional suppliers of equipment, fuel and engineering services see unregulated generation development as an indirect means of promoting their principal products. Many existing utilities, having lost load growth as the principal prop to a cost-plus business see competition as a means of acquiring more load, enhancing revenue and increasing market share. A growing contingent of consumers and consumer representatives feel lack of competition led to unreasonably high costs or prices. Others have tasted the short run benefits of lower costs through direct competition of multiple suppliers.

As a result of all of these influences, competition is here to stay! In fact, the new economic and organizational order will cause competition on a much wider front than has ever been faced by electric utilities. Obviously, there will be broader and more intense competition for retail customers. However, there may also be unprecedented competition for generation resources if there are indeed shortages in the future. Environmental and other constraints have already caused a contraction in the possible sites, sizes and types of new generation. There is also a growing debate about competition for access to transmission for delivery of necessary generation.

Banking and stock market difficulties have caused increased competition for access to capital. Only the financially healthy competitors will obtain adequate financing at the lowest cost.

As the competitive environment intensifies, only the best performers will prosper. This is bound to lead to increased competition for the best staff and technical services. There will be a sort of hidden front of competition to be first with innovation, efficiency enhancements and marketing programs. This will, in turn, increase the competition for the best people and support services.

The new economic and competitive realities on the battlefield of competition have caused a new strategy on the part of some utilities. This involves acquiring market share through a flanking action by consolidation. Friendly consolidations are possible, but most have been hostile to a significant extent. In some cases, strong utilities are simply taking over neighbors. They may do this for increased market share or for control of strategic transmission and generation. It is also an effective strategy for eliminating a competitor!

Some utilities have gotten into financial difficulty and been forced to sell out. As the competition war continues, some utilities will not do as well as others in retaining customers, acquiring necessary resources or meeting new market demands for quality and scope of services. These will be poorly situated to then engage in the specific battle over the ownership of the utility itself.

As the financial markets differentiate among competitors, the shareholders themselves will succumb to the competition for their investment dollar. They will exchange ownership of utilities which are not the best performers for those that are. In the case of publicly-owned utilities, the consumer demand for the best and most economical service will parallel the owner demand for the best return

on investment. The owner is also the consumer, and the owner may be willing to exchange ownership for better service, lower costs, more stability, or some combination thereof.

IDENTIFYING THE ENEMY

So, who is the enemy? There are several enemies, and they are formidable. This war will be waged on several fronts simultaneously. This will itself cause an internal competition in each utility. Where should the available resources be applied and expended? Which battlefront is most important if all cannot be waged at once? How will finite resources be invested for the best armaments?

The enemy falls into several camps. There are the traditional electric utilities which will continue to compete for customers and resources. These will include investor-owned utilities, municipal electric systems, cooperatives, and state and federal agencies. As the competition heats up, it may find former publicly-owned allies competing directly with each other!? There will be more and more non-utility entities who compete to provide generation to utilities and even directly to retail customers.

As always, there will be suppliers of conventional alternate forms of energy such as natural gas. However, another new alternative has emerged. New "negative load" suppliers are coming back in strength after a brief heyday ended in the early 1980's. These utility and non-utility suppliers offer the consumer the opportunity for reduced costs and better service in exchange for conservation, load management, greater efficiency or other changes in consumption.

A new battlefront has arisen practically within the ranks in what is sometimes viewed as the "Benedict Arnold" faction. The consumers themselves are actively seeking new suppliers, and it is not just the new suppliers that are waging competition for the consumers. In the case of publicly-owned utilities, this bypass contingent is potentially especially pernicious. In an investor-owned utility the consumer can only seek other suppliers, but in the publicly-owned utility, the consumer-owner can seek other suppliers or seek a new owner! The ownership may be yielded quite cheaply for just better service or lower prices. Unless publicly-owned utilities are successful in waging the war of competition, this competition from within may be most important of all.

The traditional utility suppliers have many tactics for waging the war of competition, and they will undoubtedly develop more. Open competition for consumers who have discretion as to location or supplying utility is now a standard tactic. Innovative rate designs, marketing incentives and diversified services are new weapons being utilized in the battles. In addition, consumers can be acquired through acquisition of service area. Unregulated utility subsidiaries may supply selected large consumers (or even groups of consumers - new retail cooperatives?!) with on-site generation.

The technology for the power system control and the information management for accounting and billing already exist for this to be done with remote generation, too. That is, a remote supplier can

simply make arrangements to wheel electric power to the customer. Federal power marketing agencies have been doing this with large retail preference customers for years. Electric utilities in "tight" power pools or joint control areas have also been accomplishing this for decades.

The non-utility producers have already largely won the battle to supply power to utilities, and many are winning local skirmishes to supply retail customers. Most of the local skirmishes have been won by qualifying facility cogeneration, but the greater battle of unlimited access to retail customers must ultimately be joined. In other theaters of the war of competition, the battle of direct access to formerly captive, retail customers has been won by telephone, gas, trucking and airline companies.

COMPARING FORCES

Accurate and timely intelligence is a key ingredient of successful strategy for any warm, and for successful tactics in any battle. It is instructive to consider some statistics about the electric utility industry. It also helpful to frankly assess our own strengths and weaknesses.

Rural electric cooperatives are but a very small part of the electric utility industry. The electric utility industry is one of the largest in the nation, and it is presently one of the most dynamic in terms of changes in structure and character. Consider the following summary statistics:

650,000,000 kW installed capacity
3,000,000 million kWh/year energy sales
$200+ billion/year revenues
$500+ billion net plant in service

From these statistics we can draw several important conclusions about the industry of which we are a small part. First, it is **big**. Second, it is **investment intensive**. About eighty percent of the net plant in service is generation related. Because fuel is such a large component of the operating expenses, a similar percentage of the total annual revenues are generation driven. So, the third conclusion is that the industry is **generation oriented**. This is an especially interesting conclusion since it is primarily the generation sector in which deregulation and competition are being promoted. If the sector of the industry which makes up almost all of the investment and revenue is deregulated, can the retail market be isolated from full scale competition for long?

Current projections by the United States Department of Energy and others suggest that electric power will account for one-half of all energy consumption in the United States by the year 2000. Since electric power makes up only one-third of the total now, this would suggest a final conclusion that the electric power is a **growth** industry. Even though the sustained growth of the 1950's and 1960's is not expected to resume, the electric power industry will still have growth, especially compared to other forms of energy. Very few other American industries can count on increasing market share into the year

2000. This makes it even more likely that American and global entrepreneurs will dive into the war of competition.

Now consider some additional statistics regarding the market share held by various categories of electric utilities:

TYPE	NUMBER	% BY NUMBER	% OF RETAIL MARKET
IOU	282	9%	76%
State & Local	1,991	61%	15%
Federal	11	0.3%	2%
Cooperative	965	30%	7%

The immediate conclusion one should draw from these statistics is that the industry is principally an **investor-owned** industry insofar as market share (and, therefore, revenues and investment). The fifty largest investor-owned utilities account for more than eighty percent of their share of the market. The five largest state and local utilities account for about one-third of their share of the market. The three largest federal entities account for more than ninety percent of their share of the market. This leads to a fifth important conclusion . . . this is an extremely **concentrated** industry, with a few large companies having a disproportionate share of the market.

Now consider some conclusions about rural electric cooperatives as far as strength of forces and placement on the battleground. Although there are a large number of cooperatives, they occupy a very small niche in a much larger industry. This big, investment intensive, generation oriented, investor-owned, concentrated, growth industry is engaged in the war of competition. Cooperatives cannot remain isolated from the conflict. While the cooperative niche was in the past specialized in many ways, and so somewhat protected from competition, this is no longer true.

Furthermore, cooperatives have some significant characteristics that will affect their ability to wage the competitive war. First, cooperatives will, by their very nature, have higher per unit costs. Cooperatives may sometimes succeed in obtaining generation at the same price as the big armies in the competitive war. However, their per unit cost to serve will always be higher because their consumer density is lower. This means that more employees, miles of line, facilities and administrative costs will be necessary per consumer than for the larger competitors. Transmission and distribution losses will be greater, as will other operation and maintenance costs resulting from having to cover more land area with fewer consumers.

Second, cooperatives are individually and collectively quite small. This provides less leverage in financial markets, secondary influence in public policy, limited economies of scale and insignificant market control. In an increasingly competitive industry, image and perception become of greater importance. Very small competitors without some specialty market or natural protection will not fare well in the propaganda of might.

Third, as we have discussed, cooperatives will face special competition from within as compared to investor-owned or even

municipally owned utilities. It is a straightforward matter for the consumers of a cooperative who are also its owners, to surrender in the battle of competition for ownership to win the war of competition for lowest price and best service. While consumer ownership and control is our greatest distinctive and strength, it will be our greatest weakness if we do not do well in the war.

So how do our forces compare? This is a war with an enemy much larger and better equipped than we are. It is a war in which we have special strategic weaknesses and tactical limitations. It is a war with battles that will be fought by invasion into our service areas, our boardrooms and the very homes of our consumer-owners. The battleground, the principles of combat, the "Geneva Convention" of warfare have been developed largely by our enemies in competition.

STRATEGY AND TACTICS

What, then, can we do to win battles and evade defeat in the greater war of competition? We must first focus on our strengths. We have the capability to be quick and versatile because of our small size and limited internal bureaucracy. We still have some, albeit limited, natural protection in geography and obscurity. We have the potential strength of ideology that has aided Solidarity, the African National Congress, Israel and the Eastern European democracies. We have something to fight for, an idea, a philosophy. We have a proud history of accomplishment, and a heritage of success against great odds.

We are the champions of populism, of democracy, of customer choice. That is, our motivation is not simply profit and power, but rather service for our customer who is also our owner. The better we serve our customer, the happier will be our owner. As we win the small skirmishes of customer choice, we will decide how the greater battles of competition will unfold.

Since we are owned by our customer, we have every reason to do exactly what they want as regards management, planning and operations. We do not have an inherent conflict between the interests of owners (i.e., shareholders) and consumers (i.e., ratepayers). We have every reason to be involved on the customer's side of the meter where the battles of competition will actually be waged. It is the customer who will ultimately make the choices that will decide the outcome of the battles.

Those utilities that try to avoid competition may win a battle here and there, or succeed in isolationist policy for a time. But, over time, the customer will make the choices, and if not given a choice, will fight for the right to make it. If Poland and East Germany could not prevent the individual from exercising free will, how can electric utilities hope to do so? The outcome of these many individual battles will decide the outcome of the war. The cooperative's natural strength and best hope is direct involvement with and control by the customer.

In adopting strategy and tactics, it is helpful to look at our counterparts in history. Many times the smaller force has succeeded

against the greater. How did Alexander the Great do it? How has Israel done it? How are the small forces for democracy doing it in Eastern Europe? By the best strategy and tactics of guerilla warfare. Be unorthodox. Be committed. Be tough. Be true to ideals . . . service, quality, customer involvement. Innovate. Don't give up. Engage the conflict continuously in numerous small skirmishes. Understand history. Know the enemy. Find allies.

This is not the easy way. This cannot be accomplished by policy and position. It must be accomplished by informed strategy and bold action. It involves the taking of risk. There will be casualties, and there will be losses. But, unless we aggressively engage the enemy, we are destined to lose the war. We cannot avoid the battles. We cannot evade the war. We must not dodge the draft!

SOME BATTLE REPORTS

With all these things in mind, lets consider some specific recent and ongoing battles. Perhaps we can now apply some needed perspective. What about banking? Is the real issue the availability of subsidized loans? I think not. For most cooperatives, having access to capital at no cost (i.e. - a zero percent interest rate) would not make the difference in becoming or remaining competitive. There are more important issues.

Access to enough capital at competitive rates is certainly important. To do this, we must be a good competitor. To compete for credit, we must be credit worthy. Many, many cooperatives have already lost this battle.

Well, if the IOU's get a subsidy through income tax credits and deductions, shouldn't we? Remember, we get the ultimate income tax subsidy. We don't pay any! The IOU's don't get a subsidy as much as a preapproved surcharge on their product. They actually raise their rates to collect taxes they don't pay. We always have the option to raise our rates to increase margins, but this is obviously counterproductive in a war of competition. The IOU's get away with it because they are gaining economies in other areas that allow them to pad their prices and still beat us in competition.

What about the territorial integrity question? I ask you, has any company ever been able to keep customers captive when its entire industry was moving toward competition. No, a thousand times no! At best, territorial integrity is a legitimate delaying tactic. But the land mines can ultimately be swept away, and the invaders will come. Customers can ultimately only view enforced territorial integrity as oppression which will make our competitors welcome liberators. It didn't work for East Germany or Poland, and it didn't work for AT&T or IBM. It will not work for you. Besides, why would we want it to? Instead of a myopic and hopeless attempt to barricade our frontier, let's push for the right to invade our competitors. We have expended enough resources on this Maginot Line . . . it will not work.

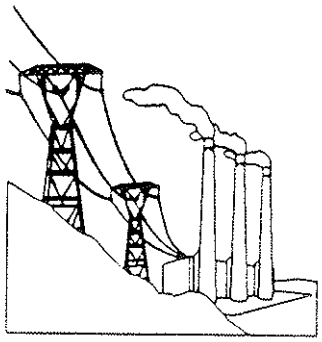
What about the consolidation question? We've got to do it. Our larger, prosperous competitors are doing it. How can we not? We must have the economies of scale, the leverage of size the security of larger and more diverse markets. We have refused to develop this

strategic option at our own peril. Consolidation will eventually happen. Either, we the champions of democracy, will ally ourselves for the good of our consumer-owners, or the enemy will simply annex us to themselves. If we cannot overcome the simple and largely emotional barriers to allying with our soulmates, our natural allies, how can we hope to last in the withering heat of battle with our enemies?

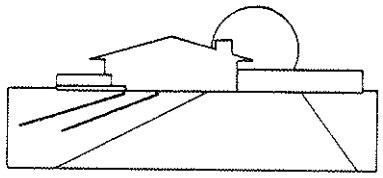
Certainly we can benefit from statutes and regulatory policies in our favor. Subsidies and other assistance may be welcome if the cost is not too high or the terms too onerous. We need all the help we can get on every front. But, we have not thought our strategy through very well, and our tactics are outmoded. We have expended an inordinate proportion of our troops and armament in a couple of battles that will not materially affect the outcome of the war. Much of our effort has been to the detriment of our consumer-owners insofar as the best service and the most economical price. We have to regain the customer as our focus, and expend all of our effort in improving the quality of their business and life. It is what they deserve. It is the least we can do. It is the battleground on which the war will be decided.

INNOVATIONS IN THE ENERGY BUSINESS

MANAGEMENT AND FINANCE



POWER SUPPLY



CUSTOMER SERVICE
AND
PRODUCT DIFFERENTIATION

Cap Rock Electric Cooperative, Inc.
Stanton, Texas
Austin, Texas

CAP ROCK ELECTRIC

INNOVATIONS IN THE ENERGY BUSINESS

Introduction

The electric utility industry is changing. The future belongs to those who are willing to adjust to change.

We at Cap Rock Electric feel our future holds new and unique challenges. To meet those challenges, we must take advantage of our strengths, develop new capabilities, and stay flexible to look forward to change for the betterment of our organization.

Our next 50 years will be different from our first. Our missions have changed -- but our goals remain the same. Our contemporary concerns include escalating wholesale costs of electric power and increasing competition by utilities and others. We are constantly working to make our cooperative the best in service reliability and the best in customer service.

Cap Rock Electric is governed by a philosophy - that philosophy being: "We think the customer is special - we think the customer deserves special treatment."

Cap Rock Electric's board, management and employees are willing to act on their initiative and their creativity. The future of the changing utility industry belongs to people who can do that. We are willing to step out front, take prudent risks, make difficult decisions, and accomplish great things.

For purpose of this discussion, we have divided our business into three areas that are critical for an electric utility to survive and prosper in the 1990's: Management and Finance, Electric Power Supply and Customer Service/Product Differentiation.

CAP ROCK ELECTRIC
INNOVATIONS IN THE ENERGY BUSINESS

I. MANAGEMENT AND FINANCE

Interest expense and depreciation seem to drive our financial equation. Most of our distribution plant has been built, but large capital expenditures are still necessary due to arranging our system to accommodate alternative power supply arrangements. Controlling debt we feel is critical.

However, I venture to guess that the same two variables drive your financial equation, also, regardless of cost of money or your construction activity.

We have tried to address the financial part of our equation from several fronts.

HIRING OF CFO

We started 1991 off by hiring a CFO. He has several years of "Big 8" accounting experience plus about eight years front-line experience with one of the largest and best financially run co-ops in Alaska. John Parker is one of the best and will be of much help in our future.

COMPETITIVE RATES

We historically purchase all of our electric power from an investor-owned utility (one of the largest in the nation). We compete with our power supplier for our retail load, so keeping our rates competitive is critical to us. Load retention and KWH growth are very high priorities for us, only right now, our finances have to be driven by the desire to be competitive on retail rates.

COOPERATIVE DIVISION

We have divided our distribution cooperative into two parts - an internal G&T affiliate and a distribution cooperative - for TIER purposes. We softened up our bottom line in 1990 by almost $1 million and are still meeting our now blended minimum TIER requirements.

CAPITALIZATION OF INTEREST EXPENSE

In 1990, we financed the first year's interest expense on approximately $10 million in new loans in order to stretch our cash flow and stay competitive. Furthermore, we are charging interest costs associated with construction to CWIP to further soften up our bottom line needs.

With our auditor's blessings, we were able, after doing some time and motion studies and other very rigorous accounting vigilance, to increase our capitalization rate from about 35% to approximately 50+%.

LEASE OF SUBSTATIONS

We are seriously considering leasing approximately six million dollars' in new substations versus borrowing long-term money against them. Why would we do this?

By design, we will free up our $12 million line of credit and create an operating lease which has also helps our TIER requirements and the proposed lease activates cheaper money than we traditionally have available. We are also looking at bond financing as an alternative to conventional bank debt.

CREATION OF SUBSIDIARY CORPORATIONS

We have created two for-profit corporations. One, Capstar, is a mechanism whereby we provide services to our customers and the general public behind the meter. Some additional services being considered for Capstar are line-of-sight satellite TV and home and business security monitoring.

The second, Cap Rock Utility Services, sells consulting services of our staff to companies in the electric utility industry.

EMPLOYEE EARLY RETIREMENT

From a cost-containment perspective, we offered early retirement privileges to employees in 1990. Out of 13 potential or qualified employees, five took advantage of this opportunity. It was a very lucrative early retirement package for employees. However, our payback was approximately 18 months. The overhead cost reduction due to retirements was right at $140,000 annualized.

Total overhead cost reductions in the last 12 months on an annualized basis have been approximately $700,000.

RATE STREAMLINING

Cap Rock Electric and Guadalupe Valley Electric in 1990 led an effort to create a Rate Streamlining methodology to be utilized by the Texas Public Utility Commission, which is our regulating governmental agency. We feel this process will help minimize the regulatory lag in rate increases and minimize our costs of achieving necessary retail rate changes.

The maximum rates can be increased yearly is 5%. However, 5% by itself is enough for us to meet our minimum TIER requirements.

Bottom Line

As you can see, our efforts in the last four years have been to minimize borrowing and strengthen our financials so that we long-term stay competitive on our retail rates for our customer-members.

100% CFC Borrower

All of these concepts might have been investigated and maybe tried if we were an REA borrower. But due to having the flexibility of not being an REA borrower and being tied up in their bureaucratic red tape, all the above concepts have been enacted. Our long-term objective is to borrow less than 50% of all capital requirements for our company.

Our relationship with our banker, CFC, is one that permits us to work from a $12 million line of credit to finance construction. And then after completion, at our choosing, roll the short-term debt into long-term permanent financing. This is in contrast to the way REA requires long-term borrowing to be achieved.

Planning

We work from roughly a 10-year transmission construction plan and a 3-year business plan, which includes a 2-year rolling construction (distribution) work plan. We also maintain a long-term econometric load forecast and long-term projections of wholesale power costs.

We yearly operate from an operating budget, capital budget and cash-flow budget, with the most important one by far being

the cash-flow budget. We feel if we can cash-flow our business, we can make TIER work and stay competitive.

Mergers and Acquisitions

There are considerable advantages to be gained by increasing size through mergers, acquisitions, and joint ventures. Increased size provides a broader business base, including greater financing strength and diversified resources. Economies of scale and negotiating strength are critical in power supply arrangements. Financial strength is essential to facilitate the staffing and programs necessary to survive and prosper in an increasingly competitive industry.

Cap Rock Electric is aggressively investigating and pursuing mergers, acquisitions, and joint ventures were there are mutual benefits with other electric utilities, and even non-electric or non-utility businesses.

In 1990 Lone Wolf Electric and Cap Rock Electric executed an agreement to combine. Lone Wolf Electric is now a division of Cap Rock Electric. The approach of both cooperatives to the combination was a drastic departure from traditional mergers. Instead of emphasizing the demise of one of the entities in the elimination of board members and jobs, emphasize was given to preserving the Lone Wolf Electric entity, including board member benefits and employee positions. The basic approach was to minimize any barriers to or disruptions during the combination process. The Cap Rock Electric board was increased from nine to eleven to accommodate two Lone Wolf Electric board members selected by Lone Wolf Electric. However, the remaining Lone Wolf Electric board members continue to serve in an advisory board, retaining their benefits. All Lone Wolf Electric employees

retained their positions and benefits. This approach to minimizing disruption even meant that Lone Wolf Electric's retail rates were unchanged after the merger. Consolidation of Cap Rock Electric and Lone Wolf Electric retail rates is to occur within five years from the merger closing.

This approach to accomplishing a merger no matter what it took resulted in a smooth combination with little trauma for the boards, the employees, or the consumers. The Lone Wolf Electric consumers approved the combination by a landslide majority (two dissenting votes).

Our view was that a combination was strategically desirable and should not be impeded by any short-term tactical constraints. We adopted whatever short-run tactics were necessary to accomplish the long-run strategic goal of a mutually beneficial combination. We continue to talk with other cooperatives, municipal electric systems, investor-owned utilities, and non-utility cogenerators regarding mutually beneficial mergers, acquisitions, or joint ventures. We have retained a "Wall Street" financial advisor to assist us in financial evaluations and the development of business plans.

Public Relations

We take an aggressive stance in our relations with the public outside of our own consumer members. The establishment of a state capitol office in Austin, Texas was a key step in our public relations effort. We have developed a library of informational video tapes that are used not only to inform our own consumer members, but also to better inform our neighbors, business partners, regulators, and legislators. These videos

include an overview of Cap Rock Electric, a description of the Lone Wolf Electric combination, and a policy statement on transmission access. We retain a public relations expert to assist us with press releases and other public communications. We try to take advantage of every opportunity to participate in and provide input to regulatory and legislative proceedings that deal with issues that may affect adversely or beneficially. As a result of these activities we have consistently received broad favorable coverage in local, state, and national press.

Staffing

We have made every effort to have the best qualified and trained staff in every position at our cooperative. This has included retaining acknowledged industry leaders to direct our customer service, engineering, power supply, and regulatory activities. We try to be as innovative in our compensation and empowerment of our employees as in every other area of our business.

Employee Programs

Management must reward and recognize what management decides are priorities.

Management's role is to support frontline people and "CYA" for employees as far as policies and let employees fix the customer's problems. Worry about company policy only after the customer has been satisfied.

Some ways Cap Rock Electric rewards employees are:

(1) **Service Awards**

As well as the award itself, all employees celebrating a milestone employment anniversary (5, 10, 15, 20, etc.), should be further rewarded. Our reward is in the form of the employee being honored at a dinner at the country club with other service award recipients, spouses and management. Published reports of longevity make long-term employment a valuable goal. Annual longevity bonus program helps accomplish the same goal.

(2) **Audio Tape Program**

Training sessions, in the form of audio tapes, may be used by employees while enroute to job sites. We used several series of tapes for customer service training. Employees were rewarded by $50 amounts after answering three short questions that required them to think of the taped instructions as they could be applied to their individual jobs.

(3) **Job Excellence Awards**

Each time management is advised by members that an employee has gone beyond what is expected in the supply of service, an opportunity for reward is presented. A special, limited-quantity item, such as a logo watch, belt buckle or special logo baseball cap, may be presented as reward. Just as important, a letter of commendation, with copies to personnel file and supervisor, should be sent to the employee from management. A third copy should be posted on a prominent bulletin board.

We brag about helping out - when we do something for a customer - we brag about it. We also spend dollars to be a good corporate citizen, when TU says they can't due to liability, etc.

(4) **Benevolence Fund**

By cutting out the middle-man and having employees sell the cooperative's scrap wire, funds were obtained to begin an Employee Benevolence Fund. The fund, audited by the cooperative's CPA, is distributed to cooperative employees who have experienced financial difficulties due to family illness or death, and some cooperative members in like circumstances. The fund is administered by an employee committee.

(5) **Safety, First Aid & CPR**

Employees not only are trained in safety and first aid, but all employees are certified in CPR. There are also several employees who are certified instructors and plans are to eventually offer employee instructed CPR classes to the membership in outlying areas.

(6) **Idea Incentive Program**

Cooperative employees know how to cut expenses without cutting the quality of service. A program to reward these ideas will save the cooperative money as well as present a further opportunity to recognize employees. Employee roster is divided into intra-departmental teams and reward is in the form of 10% of cost savings split between team members.

(7) **KWH Sales Increase Bonus Program**

One way to measure a customer-service attitude in employees is by increased KWH sales. If comparison of a current month and the same month of the preceding year shows increased sales, employees can be rewarded by a share of the profits generated by the present year's increase in KWH sales. In 1990, each employee of Cap Rock Electric received a record amount of $380.00.

(8) **Wellness Bonus**

Names of all employees who have not taken a sick day for the previous two pay periods are used in a monthly drawing. The winning employee receives a $50 savings bond and a meal for the employee and spouse at the employee's choice of restaurants.

(9) **Employee Social Functions**

Employee social functions can be used to promote teamwork. Meals and activities planned for the enjoyment of employees and families add to the closeness of a cooperative group. If we "hit a home run" (connect a big load, etc.), we have celebrated with beer and barbecue for all involved in this success. All spouses of cooperative employees are invited to join members of the staff in planning and executing employee social functions. This has added greatly to the family atmosphere of the gathering.

(10) **Early Retirement**

Last year, the cooperative offered early retirement for any employee who had accrued 80 points - at least 55 years of age plus 25 years' employment. Early retirement of five employees resulted in $240,000 per year reduced operating costs.

(11) **Employee Meetings**

Employee meetings can be used as "pep rallies" for teamwork. Personal congratulations and thanks from management for excellent job performance is important, but being held up as an excellent employee to fellow workers is just as important.

(12) **Job Appraisal Program**

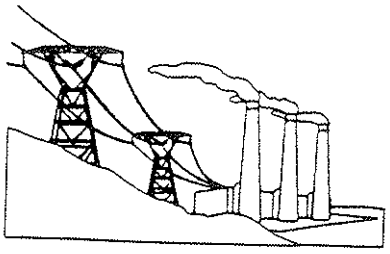
Employees are appraised by supervisors at regular intervals. Designed to encourage appraisal discussion by supervisor and employee. Employees who show marked improvement in job knowledge, skills and customer-service attitude since the last appraisal receive a merit pay increase.

(13) **Employee Involvement**

Employees are requested to participate in cooperative planning at every possible opportunity. For instance, budget planning is an almost total-employee endeavor, with planning sessions scheduled after regular working hours, with a good meal served.

(14) **Employee Information**

We believe in having employees informed in front of issues and changes. Our logic is that employees be informed first, directors second, and customer-members third. We want all employees to feel they are on the inside as far as information is concerned.



CAP ROCK ELECTRIC

INNOVATIONS IN THE ENERGY BUSINESS

II. ELECTRIC POWER SUPPLY

Introduction

In the electric utility business, until the retail meter turns, nothing else can happen. The proper primary emphasis of all planning and operations is the customer side of the meter. However, when the retail meter does turn, the cooperative must have an adequate supply of energy at a competitive price. The power supply arrangements must include flexibility to successfully address changes in both retail load/price requirements and supply-side driving factors (e.g., fuel prices, fuel availability, environmental restrictions, opportunity markets, etc.).

As is the case for most cooperatives, Cap Rock Electric expends more than two-thirds of its revenues for power supply expense. Most of this is sent away to the wholesale supplier and yields no equity for the cooperative.

Issues related to planning, construction, and operation of generation and transmission are the principle driving factors in the entire electric utility industry. Power supply is the focus of most electric utility industry policy and investment.

Cooperatives make up a very small segment of the total electric utility market. They are individually among the smallest competitors in both retail and wholesale markets. They have extremely limited financial, resource, and policy leverage compared to the fifty largest individual investor-owned utilities who control almost two-thirds of the total market. Cap Rock

Electric believes that: (i) power supply is one of the greatest challenges of the future, (ii) success will depend on finding a appropriate niche in a power supply market that is and will continue to be controlled by relatively few giant competitors, and (iii) the likelihood of success will be increased as load size and financial strength are increased.

Industry Outlook

An adequate, reliable, and economical supply of power is a necessity for any electric cooperative. Cap Rock Electric's special circumstances in an industry that is undergoing profound restructuring dictate a special emphasis on power supply matters. The electric utility industry is changing profoundly and irreversibly from a seventy-five year history as an industry made up of many independent cost-plus monopoly businesses. The industry seems destined to move toward a market-driven basis, within increasing competition for retail loads, growing competition for scarce generation and transmission resources, and imminent competition for ownership of many electric utilities.

(For additional discussion of this restructuring, see the companion handouts: "Restructuring in the Electric Utility Industry" and "Know Thy Enemy".)

Some basic industry statistics are instructive in understanding Cap Rock Electric's industry outlook. The national electric utility industry involves 650 million KW of installed capacity producing 3 trillion KWH/year. The corresponding revenue is almost $200 billion/year for approximately for

approximately $500 billion of net plant in-service with another $500 billion of debt.

Some key concepts to focus on in characterizing the industry are **BIG** and **CAPITAL INTENSIVE**.

Whether the measure is annual revenue, debt, or plant in-service, more than three fourths of the dollars involved are associated with generation. Less than ten percent is associated with transmission. Yet, the generation cannot be delivered except through transmission lines. Most transmission is presently principally owned and controlled by a small minority of the utilities in the industry.

Some more key concepts characterizing the industry, then, are **GENERATION ORIENTED** and **TRANSMISSION CONSTRAINED**.

The following table presents the make up of the utilities and their market share:

Type	Number	% of Total	% of Retail KWH Sales
IOU	282	9%	76%
State & Local	1,991	61%	15%
Cooperative	965	30%	7%
Federal	11	0.3%	2%

Cooperatives comprise only seven percent of the total market, and investor-owned utilities controlled 75%! The investor-owned utilities' share is even greater if the wholesale sales they make to the other entities are added in. Also, the fifty largest investor-owned utilities account for 82% of their segment of the market, or 62% of the entire national market. The three largest

federal agencies account for 92% of their market share, and the five largest state and local agencies account for about one-third of their market segment.

So, a couple of additional concepts to focus on in characterizing the industry are **INVESTOR-OWNED** and **CONCENTRATED CONTROL**.

Presently, electric power supply accounts for one-third of all uses of energy in the United States. By the year 2000 this proportion is projected to grow to one-half. Overall energy consumption is growing at only 0.5% yearly, but electric energy consumption is growing at approximately 3% per year.

So another key concept in describing the electric utility industry is **GROWTH**.

Most electric utilities, as a result of the disruptions of the of the 1970's and 80's have deferred the construction of new baseload power plants. The PURPA laws and policies have resulted in non-utility entities building the majority of the generation that has been recently completed or is currently under way. The deferral of construction coupled with modest growth will result in the need for additional generation in the next decade. Environmental, economic, and political issues will complicate and constrain the ability of electric utilities to meet these power supply needs through traditional approaches.

The final key concepts, then, are **COMPETITIVE SUPPLY MARKETS** and **POSSIBLE GENERATION SHORTAGES**.

Taking all of these together:

BIG

CAPITAL INTENSIVE

GENERATION ORIENTED

TRANSMISSION CONSTRAINED

INVESTOR-OWNED

CONCENTRATED CONTROL

GROWTH

COMPETITIVE SUPPLY MARKETS, and

POSSIBLE GENERATION SHORTAGES,

it is obvious that a great challenge will be faced by small, capital and resource constrained cooperatives.

Uncertainty by regulators and legislators as to how to address these issues is further complicated by their fixation on demand-side solutions. Clearly, conservation, load management, and innovative retail pricing are areas in which distribution cooperatives should excel. But, even so, these demand-side measures will not replace the need for new power supplies. Regulators also press for least cost planning approaches in which conventional supply alternatives (e.g., coal plants, gas plants, etc.) are penalized in the planning and certification process for presumed future environmental impacts. This can only further complicate and constrain power supply options.

Finally, all these factors have led the industry to a trend toward mergers and acquisitions. In markets that are becoming more competitive while strategic options are becoming more limited, an obvious strategy is to eliminate competitors and acquire markets and resources through acquisitions and mergers.

The key objectives in these acquisitions and mergers (which are being pursued by many of the largest utilities in the industry) are not cost savings in efficiency. Rather, the objectives are load acquisition, capture of future revenue streams, elimination of competitors, and control of strategic transmission and generation resources.

Cap Rock Electric's Circumstances

Rock Electric is subject to some special circumstances that make power supply activities somewhat different than may be the case for many cooperatives. Cap Rock Electric is subject to the following:

(1) It is not affiliated with a G&T.

(2) It has historically purchased all of its power requirements at wholesale from TU Electric, the largest investor-owned utility in Texas (and the fifth largest in the nation). Wholesale customers make up an extremely small portion of TU Electric's sales, and the wholesale rates are subject to the jurisdiction of the Texas Public Utility Commission, where TU Electric exerts tremendous influence.

(3) It is entirely surrounded by the TU Electric transmission system, and is embedded deeply within the TU Electric service area. Its loads are implicitly included in the TU Electric control area.

(4) It is subject to a Public Utility Commission policy that allows TU Electric to be certified to service customers in more than half of its service area, potentially affecting more than three-quarters of its customers.

(5) It has a system coincident peak load of nearly 100 MW with annual sales of about 500 million KWH/year at an annual load factor of more than 65%.

(6) It serves customers in a service area covering well over 10,000 square miles in the Permian Basin region of West Texas.

(7) It makes more than half of its energy sales to commercial/industrial loads made up largely of Permian Basin oil/gas industries.

(8) It has about $72 million of net plant in-service with annual revenues of about $35 million and about $44 million in debt.

(9) It receives no financing from the Rural Electrification Administration or the Federal Finance Bank.

(10) It is fully regulated by the Public Utility Commission of Texas for rates, service, and certification of new plant.

Cap Rock Electric Objectives

Cap Rock Electric has taken some dramatic, and, by industry standards, drastic measures in the area of power supply. It has attempted to take some control over its power supply arrangements and costs in ways that conventional wisdom have indicated can not be done. That is, Cap Rock Electric, like other small distribution cooperatives, had heard for years that nothing can really be done about power supply arrangements and costs other than to pay the wholesale power bill. Cap Rock Electric has determined to change its destiny by doing just the opposite.

Cap Rock Electric's circumstances involving wholesale captivity to TU Electric and direct retail competition with TU

Electric cause an untenable position. TU Electric's costs have been increasing rapidly because of the Comanche Peak nuclear power plant. It was to have been on-line in 1979 for $780 million, and is now up to $10 billion with only one unit on-line.

Cap Rock Electric's principal initial power supply objective has been to mitigate this difficulty. Because TU Electric proved unwilling to modify its wholesale power supply rates and terms, and further refused to facilitate alternative power supplies for Cap Rock Electric through transmission wheeling and coordination services, Cap Rock Electric was forced to take action. Cap Rock Electric petitioned the Nuclear Regulatory Commission for relief under the anti-trust provisions of TU Electric's nuclear power plant license, and intervened aggressively in TU Electric's rate case at the Public Utility Commission of Texas for the nuclear power plant. Cap Rock Electric also engaged in a wide range of public relations activities to put pressure on TU Electric, including aggressive press releases and press conferences.

In May, 1990 Cap Rock Electric was able to execute a new power supply agreement with TU Electric which gives Cap Rock Electric the right to pursue alternative power supply arrangements. Under this agreement, TU Electric agrees to provide firm transmission wheeling service at embedded cost rates for such alternative power supplies. TU Electric also agrees to provide scheduling and other coordinating services, including the sale of regulation service. TU Electric also agrees to provide partial requirements service for any Cap Rock Electric load that is not served by alternative power suppliers or resources.

Cap Rock Electric had already been engaged in a wide variety of alternative power supply investigations long before it began

its litigation battle with TU Electric. With the new, flexible power supply agreement with TU Electric, Cap Rock Electric has proceeded to finalize investigations and arrangements in several areas.

Power Supply Director

Cap Rock Electric may be the only distribution cooperative that has a full-time power supply director. Since so much of Cap Rock Electric's expenses are related to power supply, and since the future of the electric utility industry seems to lie largely with power supply issues, Cap Rock Electric management felt it important to have an intense focus in this area. A national leader in power supply planning, transmission access, wholesale power supply arrangements, and qualifying facility developments was retained to be power supply director. He is assisted by a team of expert attorneys, engineering consultants, and financial advisors. The power supply effort is handled out of the Austin office to better facilitate liaison with other utilities, the PUCT, the legislature and ERCOT.

Having a power supply director and the associated power supply focus has enabled Cap Rock Electric to accomplish two important goals. First, many power supply alternatives have been identified and evaluated. Second, Cap Rock Electric presents a credible position when discussing power supply arrangements with various utilities, non-utility producers, and bankers.

Transmission System Improvements

Gaining transmission access through TU Electric has solved only part of the transmission problem that Cap Rock Electric faces. As recently as four years ago, Cap Rock Electric had eighteen isolated points of wholesale power delivery from TU Electric, with only five of those being at transmission level voltage. An aggressive transmission improvement program has been pursued to accomplish three objectives:

(1) Adequacy and Reliability

The local transmission facilities provided by TU Electric were proving to be inadequate insofar as capacity and reliability. TU Electric's strict cash conservation requirements resulting from its late and over-budget nuclear plant resulted in limited transmission system improvements for wholesale customers. Cap Rock Electric has found it necessary to upgrade substations and construction transmission lines to provide for adequate capacity and acceptable reliability.

(2) Wholesale Power Cost Savings

Receiving service from so many isolated distribution points of delivery results in considerable additional power supply expense. Upgrading distribution points to transmission delivery points provides a number of economic benefits including transmission level delivery discounts and reduced demand billing units when several distribution points are combined into a single transmission point of delivery. In addition, the integration of substations and transmission lines owned and operated by Cap Rock Electric provides

considerable flexibility and reduced expense of extending distribution service into new areas.

(3) Alternative Power Supply Arrangements

Integrating Cap Rock Electric's wholesale delivery points through transmission owned and operated by Cap Rock Electric can make a number of alternative wholesale power supply arrangements possible. Continuing reliance on TU Electric for wheeling to a multiplicity of isolated delivery points provides them with the means to obstruct economic arrangements through constraining contract terms and predatory wheeling prices. This is less likely if only one or two transmission points of delivery are involved. Furthermore, it may be uneconomic to construct transmission to an alternative power supplier or generating resource if a large number of distribution points of delivery are involved. An integrated transmission system with only a few bulk power points of delivery might facilitate this option. The savings that result from an alternative power supply made possible by transmission investments are very large in comparison to the annual expense of the necessary transmission improvements.

Cap Rock Electric is in the process of implementing a long-range transmission plan that involves integrating the present points of delivery through a 138 KV loop transmission system. It has been extremely fortunate that Cap Rock Electric was proceeding along this path because the principle alternative power supply arrangement that Cap Rock Electric is pursuing involves disconnecting most or all of Cap Rock Electric's load

from the Electric Reliability Council of Texas and connecting it to Southwestern Public Service Company in the Southwest Power Pool.

Control Area Capability

The most favorable arrangements for power supply and coordination services, (e.g., standby, wheeling, economy energy, etc.) are available only to utilities or groups of utilities in a control area. While it is physically possible and sometimes economical to reproduce control area capabilities through purchasing the various services from another utility, it does not seem possible for Cap Rock Electric. The most likely candidate to provide these alternative coordinating services is TU Electric. However, TU Electric is Cap Rock Electric's principal retail competitor and has proven intractable in providing coordinating services at reasonable rates and with workable terms and conditions. As a result, Cap Rock Electric has been pursuing the arrangements necessary to develop an independent control area. This will likely involve the purchase of some coordinating services from TU Electric and others at least in the initial years. Until Cap Rock Electric has sufficient generation to meet its own load requirements, it is not likely to develop a truly independent control area.

Since economies of scale work against a diversified generation system for a load as small as Cap Rock Electric, an independent control area based solely on Cap Rock Electric generation is not likely. As a result, Cap Rock Electric has vigorously pursued with other investor-owned utilities,

cooperatives, municipalities, and non-utility producers the concept of a multi-party power pool with control area capability.

Qualifying Facility Developments

From the very beginning, Cap Rock Electric has emphasized the possibility of one or more qualifying facility cogeneration projects as cornerstone power supply alternatives. Such projects offer a variety of benefits, including:

(1) They are financed by third parties and so do not encumber Cap Rock Electric's balance sheet.

(2) Such projects do not presently require a certificate of convenience and necessity from the Public Utility Commission of Texas.

(3) All expenditures for capacity and energy from projects are recoverable through an automatic power cost recover factor with the need for a rate case.

(4) The necessary transmission system improvements (i.e., the 138 KV transmission loop integration) can also be financed as part of a qualifying facility project development, and the repayment can also be recovered in the automatic power cost recovery factor.

(5) Qualifying facilities are entitled to a number of protections under federal and state law including entitlement to firm wheeling, entitlement to standby power service, and protection from discrimination in rates and contract terms.

(6) Purchases of capacity and energy from a cogeneration project can be made under a contract that provides for essentially fixed price terms. That is, the price of the project is

determined throughout the contract period, thereby eliminating the risk otherwise associated with a generation project built by the cooperative itself.

(7) A cogeneration project can have significant local economic development benefits in assisting local industry and providing additional jobs.

(8) The cogeneration project contract can provide for acquisition of a valuable generation asset at the termination of the contract.

(9) Participation in a cogeneration project aligns the cooperative with the non-utility producer industry that seems to be the wave of the future in electric utility supply.

(10) Cogeneration projects typically have much shorter development and construction schedules than traditional electric utility power plants. A complete combined cycle, gas fueled cogeneration project can be completed within two to three years after contracts are executed.

Of course, there are some notable difficulties with qualifying facility projects. First, qualifying facility developers tend to be quite naive about the electric utility industry in general and particularly about the unique circumstances and challenges facing transmission dependent captive wholesale customer utilities such as rural electric cooperatives. Second, the projects are financed with risk capital which generally has a very high cost. Therefore, the necessary returns are high, adversely affecting the economics of many projects. Third, most cogeneration developers think in

terms of base load operation in which the units are operated at high load factors to take maximum advantage of standard offer for capacity payments. A small utility such as Cap Rock Electric finds intermediate and peaking generation more suitable. Fourth, a former all-requirements wholesale customer such as Cap Rock Electric does not have a diversified generation mix into which a cogeneration project can be conveniently absorbed. All installed and spending reserves, emergency standby service, maintenance power service, and dispatch service must be purchased from other utilities. Fifth, cogeneration projects are subject to significant economies of scale. Projects in the 50-100 MW size most appropriate for Cap Rock Electric do not take sufficient advantage of economies of scale to be cost effective. Sixth, a cogeneration project requires a steam host in order to be a qualifying facility under PURPA. There are a limited number of steam hosts in any region, and there are very few in Cap Rock Electric's service territory.

Cap Rock Electric has pursued an innovative approach to cogeneration project development beyond the departure from tradition in aggressively pursuing such projects. Cap Rock Electric has proposed, and the industry has received well, the concept of a dispatchable project. That is, Cap Rock Electric would pay capacity and energy payments sufficient to cover project debt service and a reasonable development fee (i.e., profit) in the actual O&M expenses including fuel. Cap Rock Electric would then have the right to dispatch the plant in a peaking, intermediate, or base load mode. Second, Cap Rock Electric has vigorously pursued qualifying facility projects that do not require steam hosts, these are projects in which a waste

fuel such as low heating value gas or refinery petroleum pitch are used as fuel. Cap Rock Electric currently performing due diligence on a 20 MW peaking plant that would be located near Wichita Falls, Texas to take advantage of almost 20 BCF of low heating value gas reserves that have been qualified by the Federal Energy Regulatory Commission as unmarketable. This would be a qualifying facility with all of the benefits described above, and with extremely attractive economics because of the low price of the unmarketable gas and the possibility of utilizing surplus or used generation equipment.

G&T Organization

Cap Rock Electric has found it beneficial to form an internal G&T affiliate for purposes of accounting. This provides for a lower TIER requirement for purposes of financing, thereby softening up the bottom line margin requirements by a significant proportion. In addition, such an affiliate provides additional focus for power supply issues, and a convenient vehicle for joint venture activities with other cooperatives, municipalities, investor-owned utilities, and non-utility producers.

Fuel Supplies

Cap Rock Electric is located in a region which accounts for approximately one-fifth of the nation's oil and gas reserves. It appears that much of the new generation in the immediate future will be fueled by natural gas. Cap Rock Electric is aggressively pursuing the acquisition of natural gas reserves both as a hedge against future power supply costs and fuel availability, and as a means of diversifying its business, increasing its size, and

gaining additional financial strength. The low heating value gas reserves near Wichita Falls have provided a convenient vehicle for moving up the learning curve in this process.

Load Consolidation and Joint Ventures

Increasing size, increasing financial strength, and increasing the available resources will be critical to the survival, much less the success, of small utilities such as rural electric cooperatives. While Cap Rock Electric is innovating intensively in a broad range of power supply activities, it firmly believes that gaining size, financial strength, and resources is essential. Without such strategic actions, failure is inevitable if the industry continues its move towards increasing the competition and vigorous mergers and acquisitions. Cap Rock Electric is internally evaluating a wide range of strategic plans and specific tactics for gaining these invaluable advantages. These range from mergers with other cooperatives to joint power supply projects with a variety of utility and non-utility partners to acquisition of generation and fuel supplies through joint ventures with others.

Demand Side Management

Cap Rock Electric has not moved very far in the area of demand side management. The wholesale rate structure that it has faced with TU Electric has not provided any practical price signal to enable such activities to proceed. TU Electric has been unwilling to provide any incentives or price signals outside of its standard wholesale rate. Furthermore, Cap Rock Electric has had just about as much on its plate as it can handle without

the complexities and expense of sophisticated demand side management programs. This will be an area of considerable attention by Cap Rock Electric in the next couple of years. This is the right thing to do in giving customers options, in controlling power supply costs, and in meeting the constraints that will undoubtedly be imposed by regulators.

Load Transfer from ERCOT to SWPP

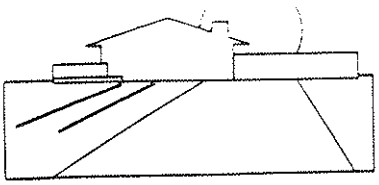
As has already been described, Cap Rock Electric's principle planned power supply alternative is the transfer of most or all of its load from TU Electric in the Electric Reliability Council of Texas to Southwestern Public Service Company in the Southwest Power Pool. Because ERCOT is not synchronously interconnected with surrounding states, this involves crossing the great divide between Texas and the surrounding region. As a result, Cap Rock Electric will be disconnecting the load to be transferred from TU Electric and reconnecting it to a 230 KV loop transmission extension from Southwestern Public Service Company.

Cap Rock Electric has executed an agreement in principle with SPSCO for a twenty year power supply agreement. It would be a ten year all-requirements agreement that could be terminated for converted to partial requirements service thereafter. This agreement involves a variety of significant wholesale power supply contract innovations that cannot yet be shared because of the ongoing negotiations. However, Cap Rock Electric would be able to facilitate its transmission integration investment through this contract, and repay the transmission over the life of the contract while still providing significant reductions in power costs to current and future consumers. Cap Rock Electric

currently projects gross savings in excess of $60 million over the first ten years of the contract. This is because, unlike TU Electric with its expensive nuclear plants and ongoing requirement for new generation capacity, SPSCO has no new power plant construction plans over the next decade and may actually have declining rates during that time. Needless to say, Cap Rock Electric is most enthusiastic about finally reversing tables in its competitive position with surrounding TU Electric.

Western Gas Resources Generation Arrangement

Cap Rock Electric may be the only electric utility in the United States that has a standby power supply arrangement with a large industrial customer than enables that customer to utilize its own on-site generation not only to meet its own load requirements but to do so in a way as to maximize the savings in Cap Rock Electric's wholesale power purchase costs. This does not involve qualifying facility generation, and so Cap Rock Electric is not obligated to do it. However, it falls into the category of the extremes to which Cap Rock Electric is willing to go in serving its consumer members and in pushing the envelope to save on power supply expenses. This is actually a form of demand side management, and it is likely to grow more and more prevalent with commercial and industrial loads in the near future.



CAP ROCK ELECTRIC

INNOVATIONS IN THE ENERGY BUSINESS

III. CUSTOMER SERVICE & PRODUCT DIFFERENTIATION

Product Differentiation

We feel the differentiation of product for electric utilities is the creation of the perception that the customer can get more for less money at your utility than that of your competitor. The idea is to "get your hooks" into the end-use customer so he can't get away emotionally or financially.

Some of the ways Cap Rock Electric differentiates its product are:

(1) **Capstar, Inc.**

Capstar, Inc. is a for-profit subsidiary corporation of the cooperative which offers many behind-the-meter added services. Those services include descrambled satellite TV programming, descramblers and electric space heaters at very competitive prices.

(2) **Total Home Protection**

For an annual fee, Capstar guarantees a customer-member's home against power surge or lightning damage, as well as offering a wide variety of surge suppressors at competitive prices.

(3) **Cap Rock Utility Services**

Cap Rock Utility Services is another for-profit subsidiary company of the cooperative, selling consulting service (engineering, financial, power supply) to companies in the electric utility industry.

(4) **Credit Union**

Cap Rock Electric's customer-members are automatically eligible for membership in the T&P Credit Union, headquartered in a service-area city. All banking and loan facilities are offered by the credit union.

(5) **Appliance/Motor Replacement**

If a customer-member loses an electric motor or major appliance due to surges, high or low voltage, "Act of God" or any other reason, it is replaced at cooperative expense.

CAP ROCK ELECTRIC

INNOVATIONS IN THE ENERGY BUSINESS

Customer Service

(1) Member Information Meetings

Meetings attended by the board, management and staff are scheduled at intervals in varied locations of the service area. Invitation is to any co-op member who wishes to attend. Customers are urged to discuss their service, their complaints or their suggestions. They are exchange-of-information meetings. Advertised in all local newspapers.

(2) Member Advisory Committees

Customer-members, from all portions of the service area, represent all other customer-members in participating in the co-op's operations. The committee members can offer input in several areas:

a. Member Rate Advisory Committee

Members of each rate classification study rate structure and overall revenue needs of the organization, then make recommendations to the board concerning amount of increase, distribution of increase across rate classifications, etc.

b. Irrigation Advisory Committee

Irrigating members discuss problems they have in the rate classifications available for irrigation wells and other problems they may experience in the unique relationship that is ongoing between them and their cooperative.

c. **Annual Meeting Member Advisory Committee**

Members plan several major aspects of the Annual Meeting, as well as work alongside employees at the meeting.

d. **Cotton Gin Managers' Meeting**

Managers and/or owners of cotton gins in the service area meet with the cooperative board, management and staff to discuss ways in which the two entities may assist each other.

e. **Focus Groups**

Focus groups are used in several areas, including new bill format design. Focus groups are used to advise us on how we may improve a plan or how a plan is likely to be perceived by the average customer-member.

f. **Out-of-Headquarters Board Meetings**

Periodically, board meetings are held throughout the service area, giving customer-members an opportunity to view first-hand how their electric company is dire ed, managed and operated. Invitation to all cooperative members is advertised in all the local newspapers.

Member Advisory Committees serve their purpose of accomplishing goals with member participation, while also accomplishing a more important goal - that of building an ever-increasing cadre of loyal cooperative members personally acquainted with the board, management and staff of the cooperative. We feel that if we are ever confronted with an "hour of need", we will be able to call on these members for telephone canvassing and/or any other assistance we may require.

Cap Rock Electric's goal is to involve one hundred new members per year in cooperative member advisory committees, which will ensure the growth of the corps of loyal membership.

(3) **No Membership Fee**

We do not charge a membership fee. We had to meet the competition, and the competition is an IOU that doesn't charge a membership fee. We had to use that as a baseline for what we require. Also, requirement of a membership fee is a bookkeeping nightmare.

(4) **No Deposit On Residential Accounts**

We are in the process of requiring no deposit on residential accounts. However, our bill collector, who is full time, has marching orders: the money, the meter or an agreement. This prevents us from initially having to charge deposits. When we do have to pull a meter for non-payment, we require one-sixth of a year's usage as deposit to reconnect. Therefore, we actually are keeping as much money on deposit, but it's from those "slackers" who deserve to have a deposit required, versus those who just can't establish initial credit.

(4) **Telephone Notification System**

Our telephone system has a direct-calling program than can be used after working hours to remind customers, via a recording, that they need to pay their electric bill within the next 72 hours to avoid termination of electric service.

(5) Use Of Photography

Customer-members who visit the cooperative office with small children or babies are asked if we may photograph their children. They are then mailed the complimentary photographs with a thank you note from the cooperative employee with whom they were doing business.

At the Annual Meeting, photographs are taken of members and members' children. They are then asked to visit the cooperative to pick up any photographs they may desire. In addition, this year's Annual Meeting will include color photographs taken with a video camera, transferred to stills and shown on the giant TV screens while the meeting is in progress.

(6) Charity Luncheon

Directors of charitable organizations and members of the clergy are invited to an annual luncheon at the cooperative to confer with the cooperative staff in ways to facilitate the cooperative's part in taking care of the needs within the service area.

(7) **Press Appreciation Dinner**

Service area media personnel are invited to an annual dinner where they meet one-on-one with the cooperative staff. The event consists of cocktails and dinner at the country club. This dinner assists in the formation of strong working relationships with area media personnel. Plans for this year call for the establishment of a scholarship in the name of the media person who did the most during the past year to foster public community involvement.

(8) **Irrigation Rate Choice**

Customer-members who irrigate may choose between the traditional irrigation rate or a new rate designed from the cooperative's commercial classification. This offer of choice emerged from a Member Advisory Committee made up of irrigating farmers from over the service area.

(9) **Congressional Dinner**

This event cements the relationships between the cooperative and its government representatives. It is an event designed to honor the service area's civil servants and to show appreciation for assistance in reaching cooperative goals.

(10) **Youth Tour**

The Youth Tour Program can be a useful public relations tool. Our last year's essay topic was "What's the Best Deal - Cooperative or IOU?". This year's topic will be "Cap Rock Careers". By choosing such topics, you can stretch the PR potential of the Washington trip for youngsters. We use

local TV celebrities as final judges of the contest, ensuring that the event is always mentioned on the 10:00 news that night.

(11) **Scholarships**

A scholarship designed to cover first-semester college expenses is given to a senior participant in each of the six county livestock shows in the service area. In addition, a cooperative photographer is present at each show and complimentary photographs of each exhibitor and show animal are delivered to the County Agent on the first working morning following the weekend show.

(12) **Annual Meeting**

There are usually 2,500 to 3,000 people at our Annual Meeting. We use pre-registration to cut down on necessity for customer-members to stand in lines once they reach the meeting hall. Those attending the meeting are fed a full meal, we have door prizes. For our 50th anniversary meeting, we gave away 50 door prizes in 15 minutes, used computer drawing of our total membership to name 50 customers who, if present at the event, would be awarded a free electric bill for that month, and gave away white logo baseball caps. We give away a refurbished on-half ton pickup that has been retired from the Cap Rock Electric fleet. The meeting is held in an air-conditioned sports center, using electronic presentation featuring two 16' x 16' screens. The entire business meeting is concluded in just one hour.

CAP ROCK ELECTRIC

INNOVATIONS IN THE ENERGY BUSINESS

CONCEPTS PROPOSED FOR 1991

New Concepts Proposed for 1991

(1) **1-2-3 Electric Service**

For electric oil wells served by Cap Rock Electric.

The (1) one stands for the fact that from the time we're contacted and an agreement is reached, the well will have electric service in place within 24 hours, which is one day. We'll do this either by providing central station electric power or by provable generators and eventually connecting to our central station electric service.

The (2) two stands for two-hour response time to initiate repairs beyond the meter. For instance, repairs to motor controls or trouble-shooting on primary line owned by the oil company. The service would be provided by Cap Rock Utility Services, for a fee and with a contract in place with the oil company in question. The fee will be very competitive with our local electrician's prices.

The (3) three is for guaranteeing a day's free electricity for any oil well that is out of power for over three hours, as well as guaranteeing replacement of motor, motor controls, underground or secondary wiring and/or meter loop damaged by lightning, electric pike, high or low voltage - anything but abuse.

Purpose of 1-2-3 service is to get all the new electric oil-pumping loads and to convert existing wells that are on natural gas to electricity and to provide a service they cannot receive anywhere else.

(2) Guaranteed Hot Water Program

Administered under Capstar, Inc., Cap Rock Electric will introduce a guaranteed hot water program. The program will offer, for a $60 per-year fee, a guarantee that the customer will never be out of hot water for more than six hours. The service will be available for all heaters, whether electric or gas. A 24-hour-per-day service telephone number will be provided and the program will include rebates when heaters are retired, with more rebate available for replacing a gas heater with electric.

(3) Operation Roundup

This program will be implemented in 1991, with the permission of Palmetto Electric Cooperative, Inc., under their copyright rules.

CAP ROCK ELECTRIC

INNOVATIONS IN THE ENERGY BUSINESS

Internal Differentiation

Some ways in which we differentiate our product are internal, operational functions that nonetheless make our service more valuable to the customer. These include:

(1) **One-Man Bucket Operation**

Our service linemen operate bucket trucks alone - freeing up former groundmen who have received additional specialized training to make them more valuable. These groundmen can perform many services for customers that were done formerly only by service linemen, effectively doubling our field operations work force. More trucks in the service area provide faster response, while the groundmen are available to reach service linemen in a short time should the linemen need assistance to perform a particular job.

(2) Standards Committee

All REA cooperatives operate by REA engineering and material standards. We also do as a non-REA cooperative. REA standards at Cap Rock Electric are minimum, not maximum standards. Cap Rock Electric's employee Standards Committee, weighted heavily with linemen, has the goal of determining the best equipment, the best materials, the best tools and the best methods for cooperative operations, the ones that are cost effective and most reliable. Committee

findings are compiled into a Standards List issued to all field departments.

(3) **Zero Outage Team**

Our goal is copied from the Japanese, who strive for zero defects. A team of employees looks for ways to prevent outages. The team inspects faulty equipment and recommends changes they feel will prevent further outages.

(4) **Surveys**

Cap Rock Electric uses survey data extensively in striving to meet several common goals. Surveys utilized include:

a. **Surveys By Substation**

These telephone surveys help us pinpoint any potential trouble spots we may have in the service area. The population where the sample is drawn is membership served by a particular substation and high school students are utilized to contact, by phone, the sample population after 5:00 p.m. Members of the staff are capable of analyzing the data obtained.

b. **New Service Survey**

Each new connect elicits a printed survey that requests information pertaining to customer satisfaction in initial contact with the cooperative, speed at which service was supplied and courtesy of employees. Contains a postage prepaid response card.

c. **Post Annual Meeting Survey**

Each customer-member who attends the cooperative's Annual Meeting receives by mail a survey with prepaid

response to member's satisfaction with several aspects of the meeting, including the meal, prizes and the overall effectiveness of the meeting. Responses are used to help plan the meeting the following year for the average 2,500 to 3,000 members and guests who attend.

(5) Oops - We Goofed

When a substantial number of customer-members are affected by an outage, we send each affected customer a mailing that begins with "Oops - We Goofed", explains the cause of the outage and what is being done to correct the problem and prevent future outages, and ends with an apology for any inconvenience the member may have experienced. The mail-out is made on the same day the outage occurred or the following day. For those customer-members who experience a billing error, individual cards with the same words and space for a personal business card gives the member an employee name to call upon if further problems develop and promotes individual attention to customer problems.

Some More Differentiation Tactics

Some methods of differentiation of product are almost universal in their use. Those that Cap Rock Electric and other utilities use are:

(1) **Members' Forum**

A form is published periodically in the cooperative publication, inviting members to ask questions of the management or staff. The inquiring member decides if the inquiry will be answered by personal letter or in the publication.

(2) **Donations**

Numerous donations are presented to community organizations, such as hot sticks and insulated gloves to volunteer fire departments. These volunteer fire departments have scratched our backs and helped us in many ways and we have tried to reciprocate by making our retired one-ton trucks available to them at a very nominal price. In addition, we have many, many giveaways for any and all occasions.

(3) **Life-Sustaining Equipment**

If a cooperative household has a family member who relies on electrically-operated life-sustaining equipment, such as kidney machines, heart monitors or oxygen tanks, the cooperative pays particular attention to their needs. Dispatchers have lists of such members and when an outage

occurs, the field personnel check to make sure those members are not put into a life-threatening situation by the power outage.

(4) **Student Book Covers**

The cooperative distributes over 15,000 school book covers each year to area schools. The covers carry the cooperative logo and safety information.

(5) **Toll-Free Telephone**

A toll-free number for customer-members is supplied and members are urged to use the number for outage reports, information or communications.

(6) **Pay Stations**

Cooperatives with large, rural service areas must have pay stations in different parts of the area for convenience to customer-members.

(7) Night Deposit and Payment Drop Boxes

This is a convenience that not only offers easy bill payment to members, but also cuts down on early-morning member traffic of those members who cannot pay bills during regular working hours. A drive-thru payment box on he cooperative parking lot increases the convenience and a post office drop box in the same location will draw attention from members and non-members alike.

(8) **Alternative Payment Methods**

Acceptance of cash, checks, money orders, VISA, Master Card and bank drafts for payment offers convenience to customers that costs almost nothing.

(9) **Payment Options for Senior Citizens**

If electric bills of senior citizens become due before arrival of their Social Security or pension checks, the cooperative will rearrange the schedule so payment is not due until after their check arrives.

(10) **Level Payment Plan**

A level payment plan offers customer-members an opportunity to pay the same electric bill each month, regardless of usage. Level payment accounts are reviewed regularly and revised annually.

(11) **Deferred Payments**

If circumstances arise which keep a member from being able to pay a bill on time, payment schedules may be set up that will allow for partial payment on the due date, with the balance spread out in payments.

(12) **Member Energy Conservation Loan Program**

This is a program where we will finance nearly anything - from satellites to windows to $8,000 earth-coupled heat pumps. We mark up our money 1% and loan it out. Since we are not a REA cooperative, we do it our way. We get our hooks into customers behind the meter financially. We set up these loans where they are payable on the customer's electric bill.

(13) **Cooperative Publications**

Not only do the cooperative publications keep members informed about their electric company, but they also regularly contain feature stories on the members, themselves. A free want-ad section in the member newsletter has proven to be one of the most popular publication features.

CAP ROCK ELECTRIC

INNOVATIONS IN THE ENERGY BUSINESS

Attitude and Philosophy

Differentiating your product is an attitude and philosophy more than anything else. One of the keys to customer service is permitting employees to have the flexibility to solve customer problems, whatever they might be. You must support front-line people and "CYA" when needed. Some of our philosophies and approaches regarding the perception of our customer service are:

(1) **Follow the Golden Rule**

If Cap Rock Electric will continue to treat its employees the way we want employees to treat customers, we will have superior customer service.

(2) **Empowerment of Front-Line Employees**

We must empower front-line employes to solve customer complaints or problems without obtaining prior approval. Policies are guidelines, not laws. Though we must live with the spirit of policies and endeavor to stay within those policies, we should not hide behind policies in solving customer problems.

(3) **Ask Questions to Determine What the Customer Wants**

We must figure out what a customer wants. Customer service and taking care of business centers around our learning how to ask questions to determine what it will take to satisfy the customer. Many times, if we do not ask the customer

first, we find out we assumed it would take much more than the customer really had in mind to make him happy. Another way to say this is, "To make you satisfied, Mr. Customer, what do you think it would take? Give me the chance to see how close I can get to making you 100% satisfied." With enough questions, you will learn what it will take to satisfy any customer. From there, you determine if you have the means to satisfy him.

(4) **Satisfied Customers Should Be Each Employee's #1 Priority**

We must recognize and be accountable individually for customer satisfaction when the customer asks something of us.

STATEMENT: "People who have learned to care enough about their customer and Cap Rock Electric to put themselves out for the customer are my heroes."

(5) **Whatever It Takes To Satisfy Customers and Quick**

Customer problems only get worse if not solved immediately. Solve problems now to minimize Cap Rock Electric's cost. Solve customer problems in one day or less, or tell the customer why.

(6) **Internal Barriers At Cap Rock Electric Have To Be Destroyed For Better Customer Satisfaction**

As a Cap Rock Electric employee, you know what we need to do internally to break down the communications barriers - to take care of customer service and the customer first -

versus putting first our own fear or pride. Department heads must trust employees enough so they will be willing to tell us what needs to change between and inside departments to further break down those communications barriers. Our fellow employees know what they need to do differently, if we will only encourage them to figure it out.

(7) **Inform Customers**

Let's inform our customers as to their responsibilities and how to best use our product and services. Don't worry so much about the cooperative philosophy and the definition of an electric cooperative. After they know their responsibilities, what to expect from us and what we expect from them, comes the time to show the customer the difference and what a much better deal he has with an electric cooperative versus an IOU. We must prove ourselves first - then show them the advantages of a cooperative.

I would guess a third or more of our complaints, problems or even outages are due to customer mistakes. So let's educate them to minimize those customer complaints.

(8) Under Promise, Over Deliver

If we have a planned outage, we tell our customers the lights will be off two hours, even though we feel we can have them back on in one hour. If we tell them two hours, then get them back on in an hour and fifteen minutes, we are heroes. Conversely, if we tell them one hour, get them back on in an hour and fifteen minutes, we are anything but heroes.

(9) **Treat Customers Fairly**

Situations are not all the same. We should treat customers equally in similar situations. But many times, we must treat customers fairly, following the dictum of the Golden Rule.

(10) **Surprise Customers With Empathy and Compassion**

The customer is always right. His information, his conclusions or his actions may be wrong, but as long as customers pay our bills and our salaries, the customer is always right. Our role is to help him figure out how to be right.

(11) **Over-Compensate to Neutralize a Mad Customer**

We don't gain anything by making a customer mad. To neutralize a mad customer, we must over-compensate and do more than he would expect of us to solve his problem. We must over-compensate as far as our actions concerning time and effort spent to neutralize him. If we do only what he demands, then we have done only what he demands. But if we do more than he demands or expects, we turn a problem into an opportunity to display our concern for him and show him how important he is to us. He will brag on us many times.

(12) **One "Flop" Equals Ten Atta-Boys**

A mad customer will tell ten or more people of his dissatisfaction with a company. One satisfied customer might tell one other person. Don't blow it!

(13) **If You Do A Customer A Favor, Tell Him**

If we bend the policy, if we do a favor, if we do more than we have to for a customer and do not tell him that it was a favor, the next time he will expect it. If you do not do him a favor the next time, he will be disappointed. It's worse than not doing him a favor in the first place. Let him know you think he deserves a favor.

(14) **Superior Customer Service Does Not Cost, It Makes You Money**

The cost of regaining or replacing a customer will always exceed the cost of superior customer service.

(15) **Hunt For Reasons To Say "Thank You"**

Good customer service may be influenced as much by the attitude of the provider as by the actual quality of the service itself.

RURAL ELECTRIC MANAGEMENT DEVELOPMENT COUNCIL
May 20-22, 1991
San Antonio, Texas

Monday, May 20, 1991--1:30 p.m.

TOPIC: **FUTURE FINANCING OPTIONS FOR ELECTRIC COOPERATIVES**
Panel Moderator: Paul Weatherby, General Manager
Cobb EMC--Marietta, Georgia

Paul Weatherby, as Chairman of the Research Committee, made some introductory remarks. Mr. Weatherby stated he felt Bob Bergland wanted the REMDC to undertake this project because he knew we would tell it like we saw it. Mr. Weatherby stated "I don't know of any subject as important to rural electric cooperatives today as finding a regularly available source of financing at a reasonable cost without all the restrictive regulations that apply to rural electric cooperatives that do not apply to investor-owned utilities." To be successful, we believe there has to be something in the program for everybody. We need to continue to work together as a family--our strength has been in that of being a family. It is essential that we find a program that keeps us together. At the conclusion of today's program, Don Howell of the Vinson and Elkins law firm, will expand on this program. Stan Lewandowski, General Manager of Intermountain REA in Sodalia, Colorado, will also be available later this afternoon to explain a plan he is working on.

Mr. Weatherby then introduced a slide show presentation on the Alternative Financing program developed for the REMDC.

Following the slide presentation, Mr. Weatherby introduced a number of individuals present who were there to comment on the REMDC approach outlined in the slide presentation. He introduced: Jim Boatman, of CFC; Keith Applegeet, Vice-President of CoBank. He then introduced Bill McGinnis, General Manager of Denton County Electric Cooperative in Denton, Texas, who serves on the CFC board of directors and is chairman of the CFC Finance Committee.

Remarks by Bill McGinnis:

The CFC board met in a strategic planning session and out of the session came the idea that the board needed to look at the entire CFC organization and program. We recognize that things are changing that we have to be adaptable and make the best plans possible to adapt to changes. The CFC Member Advisory Committee was selected to get a broad representation from across the United States--both geographic and size. The scope of the committee was to look at everything--policies, procedures, financial aspects.

-What the future organization of CFC might be...
-What CFC's role would be regarding mergers...
-CFC efforts to bring in new members...
-A look at diversification of programs offered by CFC...
-Look at involvement in economic and industrial development...
-Look at capital and financial aspects...
-Determine what methods might be used to meet future demands of member systems.

We need to stress that unity is the main thing. We all would agree with what was in the slide show that we need to come out with some new programs and the intent of the Advisory Committee is to do our part in deciding what that program should be. The CFC Advisory Committee is beginning to work with the NRECA Future Finance Study group. Three of the members on the CFC committee are also members of the NRECA committee. CFC plans to put out a survey in June with field hearings planned for the week of November 12.

Remarks by Jim Roberts, NRECA Study Committee

We will be considering a joint survey with the CFC Study Committee. We need to gauge what the membership wants. I think it is necessary that NRECA come out of this thing with something we can recommend to our membership together with CFC and CoBank. The main issue we face is our internal politics. One of the things we need to recognize is the differences that exist among our systems today and then we have to go forward and find a way to deal with these differences. We need to have something that will keep us as a rural electric family if we are to exist in the future.

Remarks by Bob Bergland, NRECA General Manager

We are starting to see the full and true costs of the bank failures and the burdens those failures will put on the U.S. Treasury. Billions of dollars--not in the budget.

Last year the budget process was in absolute turmoil with deficits increasing. During this chaotic period, I talked to you to come up with a plan that could be an alternative. Things have changed since that time--a budget has been adopted; budget process has been adopted--budget reform act is a provision that will last for five years. One of the provisions of the new law is the formation of the, first time ever, Federal Credit Budget--85 separate federal programs. The Credit Reform signed into law at Christmas time made profound changes in the REA and the new law establishes a single common practice of accountability in government guaranteed programs.

We are looking for $650-million (at a minimum there will be $550-million) provided for the loan program. Under the new law, the revolving fund goes out of business on October 1, which will be called the liquidating account. All loans and guaranteed loans prior to October of this year will be assigned to this liquidating account. Proceeds will be used to pay all debts and obligations. The one uncertainty is the G & T defaults--there are currently five in arrears to the REA. Losses will be taken by the revolving fund.

All federal financing bank loan guarantees are guaranteed by a federal agency--in our case, the REA. On October 1, there will be a new line of credit establishing the new REA revolving fund. Under the new line of credit, when a loan is advanced, it will be charged against that line of credit. We know now that the new revolving fund is set by law at some amount not yet agreed upon--about $500-million. FFB will continue to require a guarantee. We will require that the distribution systems back up those guarantees. G & T distribution guarantees are a new dimension. In order to administer the backlog or shortage, it was a first-come, first-serve basis.

Remarks of Doug Sims, President and CEO of CoBank
(Copies of the CoBank overheads used in this presentation are included at the end of this summary of the discussion session.)

Reviewed the overall objectives of the REMDC Research Committee report--objectives, solutions, synergisms, concerns, alternatives and summary.

Objectives:

1) Access to low cost capital. This is a critical issue of the 90's for business of our country not just our industry.

2) Avoid burdensome regulation--What do you really want--do you want to provide leadership committed to your industry? Are you trying to get away from burdensome regulations?

3) Industry expertise--someone that understands your business. What kind of expertise do you want? Do you want expertise in banking and finance?

4) Governance and Control. We want low cost money...we want expertise....we want to be in control of it all...we don't want to be over-burdened.

Solution: Bank for Utility Cooperatives positioned within the Farm Credit System.

This proposal really suggests privatizing a federal program. As you take on the trappings of the federal program--the regulation part of that stays with you.

Concerns: Political Timing--a recovery of Farm Credit Banks; administration/congressional GSE issue.

The Farm Credit System is still recovering from the farm problems of the early 1980's. This may not be a good time for the Farm Credit System to take on an additional program.

Another concern is the Administration/Congressional GSE issue. I believe this will be viewed as a $30-billion growth in the GSE. The timing of this in terms of today is not good.

Program lender is a concern. I think you are asking for the lender to be more deeply involved in your business than the group can accommodate.

Concentration of risk vs. diversification. Concentration of risk for one industry in one bank. Financial institutions across the country are all trying to diversify.

Another concern--below market rate lender. I think the days of low market rate lenders are gone. I think this society will still provide subsidies but not below market capital. Incremental cost of capital plus costs would have to be tacked onto the rate.

Equity in revolving fund. If there were equity in the revolving fund, would Congress be willing to move that equity out of the hands of the taxpayer?

Insurance fund/joint and several liability. I don't see any way a new bank can be formed in FCS without being jointly liable.

ALTERNATIVES:

I think the proposal has lots of merit and deserves attention. Existing institutions in CoBank, CFC, Commercial banks, Investment banks. I think capital is going to continue to be a short commodity. I think this industry needs all of the financial institutions it can get working with it.

CoBank/CFC Joint arrangements. CFC is an eligible borrower of CoBank. CFC and CoBank could agent loans together.

Merger CoBank/CFC--this is an issue for the stockholders and directors. The industry needs as many people bringing capital to industry as we can get.

Holding Company Concept within the Farm Credit System that would allow the government system to be addressed.

SUMMARY

Business problems require business solutions--political problems are temporary.

Key rural electric business issue: "Building balance sheet and operating statements to attract adequate capital and remain competitive."

SOLUTION

Retain REA program as long as possible.
Strengthen NRECA position for utility/discipline.
Strengthen financial statements of industry.
Maintain financing alternatives--program, program related, commercial, investment bankers. Trying to focus on the different needs, I question whether one organization can.

Remarks of Stan Lewandowski

Our proposal is working to get a program that would allow cooperatives to repay REA loans at a discount. We are interested in a pre-pay program because of REA regulations. Pay off REA to eliminate the federal regulations. The availability of money and cost of money is going to be a problem.

Intermountain conducted a survey to determine interest in this type of a program. 300 people indicated they were favorable to legislation. We have never purported to represent any one but Intermountain Electric.

Remarks of Don Howell

Reviewed the objectives of the Research Committee and the lawyers involved in developing the proposal for the REMDC. How do we provide infrastructure...modernize REA...who are we and how do we continue? Rural electric systems have successfully provided electrification for rural America. The investor-owned utilities are implacable. They also agitate to weaken and get rid of all electric cooperatives except the ones they don't want.

What is going on in government today is basically questions about what government ought to be doing--should not be providing subsidized funding for rural electric industry.

The rural electrification movement is at the peak of its political power. I don't believe we will see anything but a decline in your political power. Do you compromise to keep the rural electrics together? One alternative is to continue to piece together the system that we have. Ultimately, the program of patching together is going to fragment electric utilities. You have to have the theology of the cooperative. What's to keep an investor owned electric utility from going to our customers and offering a sum of money to every customer? Rural electric cooperatives need to stay together.

If you are at a peak of political power and have lots of friends in Congress, is there a deal you can put on the table that makes sense for them and makes sense for us? The real question is with respect to the additional money we need every year. How do we handle that?

In terms of the presentation made by the Research Committee, it is in fact trying to create a lender that would lend to the entire industry and in doing so would keep the industry together. Keeping the continuity of our history rather than just the interest rate.

In order to be an effective borrower, you need to be able to aggregate loans together. There needs to be a concentration of risk. The electric utility industry is about as risk free as you can get.

The alternatives we have at this time are not happy alternatives. It is a question of judging where your strengths are and where your weaknesses are. The basic system that needs to be looked at is one that you focus on the question--do you go ahead and patch things up or is there an alternative way you can deal with these problems successfully?

DISCUSSION

Doyle Hines: It appears to me that timing is everything. It is important that we strike when there is an opportunity and there is an opportunity to do what it takes to continue into the future, but you are not going to be able to do that if someone else writes your agenda. What is wrong with us coming together through our committees and striking a course that would carry us forward and get innovative in taking care of some of those who are needy.

Bob Bergland: Politics at NRECA is controlled by the small systems. Average size has 8300 consumer-members. Systems of 10,000 or smaller control. The money, however, is controlled by the larger systems. The large number of little systems that don't borrow money are terrified that REA is going to go away.

Doyle Hines: A lot of cooperatives are going to leave REA if a solution is not made that applies to them.

Paul Weatherby: Unless we do move forward we are going to see our organization crumble. I think we're too late now--probably two or three years too late.

Jim Kiley: We need to try to develop a consensus of this group as to where we go from here.

Bob Bergland: It is the NRECA plan to have a full fledged debate this fall on plans. A board committee will submit a proposal to be brought to the regional meeting this fall for debate and vote which will result in action at the annual meeting. A lot of what you do and say is going to be important this fall. I would anticipate that the Credit Reform Act would give ammunition to those who want to maintain the status-quo.

One of the large unknowns is future power requirements. About 150 distribution co-ops are going to grow steadily.

Tuesday, May 21, 1991:

FUTURE FINANCING DISCUSSION (Continued)

Jim Kiley: Our challenge this morning is to follow up discussion on the events that took place yesterday. What should the position of the Council be and where do we go from here.

The purpose of our session this morning is to discuss the presentations that were made yesterday. This is one of the most important issues that this group and rural electric systems across the country need to address.

Mr. Kiley at this point turned discussion over to Paul Weatherby, Chairman of the Research Committee.

Earl Weeks: Regarding the issue of early pay out. I see people who have paid out and are still as deeply concerned about the program as the rest of us. We need to make a strong public relations effort to inform people that just because people have chosen to go down a different path, they are still just as interested in the rural electric program.

Cecil Viverette: What consideration is being given to G & T side?

Jim Kiley: Most lending institutions should not make 100% direct loans to G & T--they should be pooled loans. You have to have financial institutions that understand the business and the different ramifications and different characteristics of the industry.

Jeff Nelson: There have been proposals from OMB related to the FCS that it impose new accounting standards for measurement of security. What is the ability of the government to impose regulations on GSE's?

Doug Sims: Right now all the GSE's of which FCS is just one--as a result of the savings and loan issue, Congress is reviewing everybody that is a contingent liability to taxpayers which GSE's are. One proposal is to have one regulator overall. Our current sense is that there will be more oversight but probably not a super regulator.

Doyle Hines: I suggest we seriously consider discussing here whether the Council is for or against this proposal. What do you want for the future? Are we challenged sufficiently to do something like this and adopt a resolution in support of it?

Jim Kiley: One thing that made GSE's attractive is it would maintain the government tie-in and our mortgage tie-in with REA has kept IOU's from more attempts of take-overs. Our report or what we have put out so far has not adequately addressed the concerns or the needs of the so-called smaller or no-growth systems. This needs to be addressed.

Don Howell: What about giving systems that want to go through some sort of buy-out the option to refinance and then they aren't coming back. This would leave more for the other systems who want to stay with the traditional source. In any event, the mortgage has to be restructured.

No one is informing the NRECA membership of various alternatives. We can't patch any more. We don't want to give the impression to people that what we presented is the only box we're going to operate with.

Bob Bauman: What are the financial requirements if I were to leave REA? What is the best guess the BUC would have as TIER? I need to know this to make informed judgements. We have been living with government programs that have a consistent interest rate for everybody. If we are tied to an institution that has a varying interest rate--I would like to know financial requirements I would have to meet if I go to the BUC?

Doyle Hines: We have 1.5 TIER--it's hard to give up a comfort blanket. Look at history of revenue bonds. Covenants in bonds is a TIER of 1.25, an equity position of 40% along with 2% debt service. Risk related interest rate would change the way we operate.

Jim Kiley: As an option, they could offer the opportunity to refinance total debt at 5% with the understanding that you would not come back and borrow any more money.

Bill VanDeest: The most important resolve we could make would be to go out and educate our people that REA is not a viable future lending program. We have started this process with this group. Resolve to look for a program that is viable. If we are not going to resolve the education process, it will be a fiasco at the regional meeting.

Dan Bryan: Bob Bergland said it--the position that he is in he has to represent a lot of people. We are governed officially at NRECA by the resolution process. We will work for 25% restoration and we will save REA. This governs the government relations staff--until that is changed that is going to be the governing rule. What position are your directors going to take in approximately one month when the NRECA board meets? How are you going to spend the next four weeks talking to representatives on the NRECA board so they feel they are really representing the people.

Paul Weatherby: Resolutions come from the leadership of the organization. The leadership of NRECA needs to be convinced that we need something else. Will take at least 24 votes on the NRECA board saying let's move forward--go on. We have a hard role to play in educating the people.

Jim Kiley: We have opportunities to show our plan and give out information. Bob Bergland and Don Howell have both agreed to participate in a video to build around and add to the slide presentation and the Council could participate in disseminating information on alternatives. The question is what do we as a Council do? Do we want to try to disseminate this information, to give some direction and information to the NRECA board? We need to determine what specific actions should we, as a Council, be taking in terms of a statement of position or future action?

Bill James: We need to deal with the political window of opportunity. The Vinson & Elkins representative pointed out that this particular plan is very doable because in the view of Republicans it does away with REA and in the view of Democrats it establishes a similar system to REA.

Bob Bauman: We have to agree on the problem before we can begin to address the solution. Before you can make the patient well the patient has to understand its sick. Define the problem is the first education effort before you start moving too quickly at the solution.

Harold Smith: I believe in the cooperative philosophy. With the various study committees, I see us fragmenting even more so than we already are. The effort of the Council in going outside and getting expert, unbiased help is putting a new dimension on the whole process.

I would like to make a motion that this Council go on record supporting the concept that has come out of this study committee and continue to expand on that and further the effort, however the committee deems appropriate.

Derl Hinson: Second that motion. Would like to commend the committee for the work they have done--time and effort that has gone into it. This is typical of this Council and typical of the leadership available. If we decide this is the direction we want to move in, we can move mountains. We may not zero in on a specific target but we are moving. This is an excellent direction. Could we request and give consideration to the committee making a presentation to the NRECA board when they are working on this issue.

Mike Gustafson: Thank you for the opportunity to serve on the Research Committee. I would like to go on record in support of studying this and do this with all of the ability we have and start the education process. I definitely support the resolution that is on the table.

Chairman Kiley asked the group to defer action on the resolution until the business meeting Wednesday morning.

Future Financing Options for Electric Cooperatives

CoBank Report

1991 REMDC Meeting
San Antonio, Texas
May 20, 1991

REMDC Research Committee Report

- Objectives
- Solution
- Synergisms
- Concerns
- Alternatives
- Summary

Objectives

- Access to low cost capital
- Avoid burdensome regulation
- Industry expertise
- Governance/control

Solution

"Bank for Utility Cooperatives positioned within the Farm Credit System"

Synergisms

- Mission of the Farm Credit System
  - Pipeline of capital to Rural America
  - Rural leadership
- Diversification
  - Risk
  - Funding
- Efficiencies
- Political clout

Concerns

- Political timing
  - Recovery of Farm Credit Banks
  - Administration/Congressional GSE issue
- "Program" lender
  - Regulator versus lender
  - Concentration of risk versus diversification
  - Lender to provide unity/discipline
- "Below market rates" lender
- Insurance fund/joint and several liability

Alternatives

- Existing institutions
  - CoBank
  - CFC
  - Commercial banks
  - Investment banks
- CoBank/CFC joint arrangements
- Merger of CoBank/CFC
- Holding company

Summary

- Business problems require business solutions--political solutions are temporary.

- Key rural electric business issue:

  "Building balance sheet and operating statements to attract adequate capital and remain competitive."

- Solution:

  - Retain REA program as long as possible
  - Strengthen NRECA position for unity/discipline
  - Strengthen financial statements of industry
  - Maintain financing alternatives

  Program
  Program related
  Commercial
  Investment bankers

RURAL ELECTRIC MANAGEMENT DEVELOPMENT COUNCIL ANNUAL MEETING
San Antonio, Texas
May 20-22, 1991

GLENN CRAIG, VICE-PRESIDENT/DEVELOPMENT
ENTERPRISE FOR EDUCATION
1320A Third Street, Suite 202
Santa Monica, California 90401

(Copies of additional hand-out materials may be obtained by contacting Glenn Craig at Enterprise for Education.)

ENTERPRISE FOR EDUCATION'S HASSLE-FREE FULFILLMENT SERVICE

Simply stated, our fulfillment service enables you to reach all the schools you want to reach in your service territory without the headaches. We do all the work! Your staff is free to focus on other public affairs concerns.

HERE'S HOW THE SERVICE WORKS:

WHAT YOU DO:

1. Let us know the communities and types of schools you would like to reach (public, private, parochial, elementary, middle school, high school, etc.) and provide us with enough of your letterhead to support a mailing to selected schools.

2. Select the titles you wish to offer.

3. Approve/modify the letter(s) we draft. Only versions approved by you will be mailed to schools in your service territory.

4. Tell us your budget for this program.

5. Pay for the materials and service (low fixed fee).

WHAT ENTERPRISE WILL DO:

1. Research which schools in your service area meet your criteria and prepare a computer database containing the latest data. This includes the name and addresse of each school, its type, the school district it is a part of, the Principal's name, grade levels, and enrollment.

2. Print and store sufficient Skill Builders to cover your fulfillment program's requirements.

3. Mail a letter approved by you, along with samples of the Skill Builders you are sponsoring, a Routing/Request form and a return envelope to each elementary school principal and each secondary school science chairperson you wish to reach.

4. Enter the returned requests into our materials tracking computer system, and:

   - o Assure that the school request is reasonable. If not, the school will be called for clarification and adjustment.
   - o Assure that the approved budget ceiling is not exceeded by the requests.
   - o Send each requesting school a "Grant Acknowledgement".
   - o Send shipping instructions to our Michigan warehouse. Our warehouse will assemble, pack, and ship the requested items via library rate.
   - o Assure that school requests are processed in a two week period.

5. Send fulfillment reports to you that recap budget status, response rates, and participation details.

ADVANTAGES OF ENTERPRISE'S FULFILLMENT SERVICE:

- Many more schools will participate.
- No burden is placed on your staff.
- Costs are lower. Warehouse and fulfillment costs are avoided.
- Excess stock does not occur -- you purchase only what is delivered to requesting schools.
- Superior visability on how your company's education dollars are being spent and exactly who's participating, by school.

WHAT COMPANIES USE OUR SERVICE?

- Babcock & Wilcox
- Boeing Petroleum
- Central Illinois Public Service (starting in the Fall of 1991)
- Central Power & Light Company
- Chevron U.S.A. (in selected states)
- Cincinnati Gas & Electric
- Duquesne Nuclear Center
- Exxon Company U.S.A. (in selected states)
- Fitchburg Gas, Light and Electric
- Indiana Michigan Power Cook Energy Center
- Iowa Southern Utilities
- Los Angeles Department of Water and Power
- Lower Colorado River Authority
- New England Electric
- Pacific Gas & Electric Company
- South Carolina Electric & Gas Company
- Southern California Edison Company
- Vermont Yankee
- Wisconsin Electric

WHAT DOES THE FULFILLMENT COST?

If you'd like to know the cost of our service for schools in your service territory during the upcoming school year, simply fill out the attached form and return it to us in the enclosed envelope. We'll generate a forecast of the demand for the titles you are interested in along with pricing information.

PROPOSAL REQUEST

I'm interested in your "Hassle-Free Fulfillment Service" and would like you to send me an estimate on what the annual cost would be for my company.

I understand Enterprise is prepared to furnish an estimate at no cost to my company and without any obligation being implied by our proposal request.

NAME: _____

TITLE: _____

COMPANY: _____

ADDRESS: _____

PHONE #: _____

FAX #: _____

Please provide cost data on the titles I have checked (✓) below:

[ ] Using Our Resources Wisely
[ ] Electromagnetic Fields
[ ] Math Skill Builders
[ ] The Greenhouse Effect & Global Warming
[ ] Climate & Comfort
[ ] Natural Gas
[ ] Generating Electricity
[ ] Demand for Electricity
[ ] Sources of Electricity
[ ] Energy Transformations
[ ] Efficiency of Electric Appliances
[ ] Working with Energy Graphs
[ ] Nuclear Reactor
[ ] Nuclear Fuel Cycle
[ ] Atom & Radiation
[ ] Coal: Once & Future King?
[ ] Geology of Oil
[ ] Refining Oil
[ ] Hazardous Wastes from Homes
[ ] Energy 90

I am interested in reaching the following types of schools:

[ ] All elementary and secondary schools in my service territory; or:

[ ] Elementary	[ ] Public
[ ] Middle Schools	[ ] Parochial
[ ] High Schools	[ ] Private

My utility has approximately _____ residential meters.

RURAL ELECTRIC MANAGEMENT DEVELOPMENT COUNCIL ANNUAL MEETING
San Antonio, Texas
May 20-22, 1991

EARL W. WEEKS, GENERAL MANAGER
Four County Electric Power Association
P.O. Box 351
Columbus, Mississippi 39703

(Copies of additional hand-out materials may be obtained by contacting Earl Weeks at Four County Electric Power Association.)

Dear New 4-County Consumer/Member:

Welcome to 4-County Electric Power Association! You have become a member of a rural electric cooperative which serves approximately 33,500 homes, businesses, and farms in an eight county area: Lowndes, Clay, Oktibbeha, Noxubee, Choctaw, Chickasaw, Monroe, and Webster. By paying a membership fee and deposit and receiving electric service from us, you are now a member of a non-profit business. We are owned by those we serve---**YOU!**

This new member guide contains important information. It will help you take advantage of our service as your rural electric cooperative. Also, this guide will provide answers to many of the questions you may have regarding various areas of the cooperative's operations. If you have any questions about your service, please do not hesitate to contact your local 4-County District Office. Please save this new member guide as a reference if you should ever need to contact us.

Remember--- membership has its privileges!

Sincerely,

R. Penn Taylor

R. Penn Taylor, President
Board of Directors

TVPPA NEWS
MARCH-APRIL 1991

Customer Service:

Member & TVA Perspective

The DIC Legacy

SHOW AND TELL: THE CUSTOMERS' VIEW

"Service First" is more than a motto at 4-County EPA, it's policy.

Employees in uniform at 4-County Electric Power Association wear a patch on their sleeves. Employees in street attire wear similar looking buttons. The bright red circle is hard to miss and its message is very clear. Big white letters declare "Service First."

4-County EPA, a TVPPA member-system headquartered in Columbus, MS, has 35,000 customers in eight counties. Its 156 employees serve those customers from its main office and five district offices. While the bright-red circles help remind employees of their obligation to customers, they also advertise to customers what to expect.

For 4-County General Manager Earl Weeks, customer service has a very specific goal. "We want to be an organization that the customer would choose to do business with if he had an alternative," Weeks says.

"For years, the electric industry operated in a monopolistic environment to the point we developed an attitude that our policies were geared to the simplest, easiest way for us to do our job and not necessarily to make life simple and easy for consumers. At 4-County, it's our goal to make life as simple and easy for consumers as we can," Weeks adds.

Years ago, the cooperative had a customer perception problem. Technically the service was good, but consumers were in the dark about policies and procedures. Few attended annual meetings or even realized what being an owner meant. When Derl Hinson became 4-County's general manager in 1983, a customer awareness management philosophy was initiated. When Weeks joined the co-op in 1988, he continued the trend adding specific employee training in customer service. In November 1988, the "Service First" program was started.

"The idea behind 'Service First' is for employees to think of everyone as a customer, even fellow employees," Weeks says. "Our employees are now aware of customer expectations because they know how they expect to be treated and therefore know how the co-op expects them to treat other people."

SERVICE EXCELLENCE - Jimmy Franks, right, a 4-County construction and maintenance crew foreman, received the 1990 4-County Service Excellence Award from General Manager Earl Weeks at an employee recognition dinner. Franks was chosen from among nine finalists by fellow employees for exemplifying the qualities of "Service First" on the job and contributions to the community. "The Service Excellence Award is not a popularity contest," Weeks says. "It's real recognition by fellow employees of a job well done."

Management has initiated programs that it hopes make life easier for consumers while giving management a better indication of the quality of co-op service. An example is the computer program that alerts 4-County if a customer's power is interrupted more than three times in three months.

"We research to find out why interruptions occurred and make special, personal calls on customers to let them know we're working on the problem. It doesn't matter what caused the interruptions or how long they were. We want customers to know that service quality is just as important to us as it is to them," Weeks says.

4-County's efforts at influencing customer perception extend to the co-op's actual appearance. At district offices, structural re-designs attempt to make doing business easier for the customer.

"We've set aside a separate area for customer service work. This allows the customer service representative and customer with special needs, such as help paying bills, to talk privately. It demonstrates our sensitivity and doesn't slow down the customers who've come in merely to pay their bill and go home," Weeks explains.

"We've extended office hours on Fridays to 5:30 p.m. for people who work until 5 o'clock. And we're installing drive-up windows at all locations so customers can pay their bill without leaving their car. Customers still want face-to-face employee contact, the kids still get their suckers and it's just more convenient," Weeks adds.

Evidence indicates 4-County customers appreciate the face-to-face contact with employees. On average, in-

than 20,000 customers pay their bills in person and at a 4-County office.

One reason may be that district customer service representatives can make decisions on a case-by-case basis.

"Our customer representatives have guidelines and can make decisions on a variety of issues, such as payment extensions. We're very de-centralized. The only cases that come to the main office are situations which require a variance from policy," Weeks says.

"When we develop policy or procedures, we try to put ourselves in the customer's shoes. Customer perspective is given first shot."

"It's a process of tailoring our response to individual needs while looking out for the whole customer group. We weigh the value of an individual's need against its effect on the whole co-op."

For example, 4-County has one of the lowest bad debt write-off rates among all the Mississippi co-ops. While the co-op works with individuals who may need assistance in paying bills, it maintains a fairly aggressive collection and disconnect policy.

According to Weeks, addressing customer perception goes beyond the cooperative's offices.

"We think our linemen are probably the most important public relations people we have. They have more direct customer contact in a relaxed environment than anyone else. They wear uniforms and keep our vehicles clean and in good working condition. If they happen to damage any customer's property, they try to fix it better than it was before. They clean up after themselves," Weeks says.

"Your line crew can do the best job in the world at getting power restored, but if they leave a tape spool or a piece of wire on a manicured lawn, the customer is going to remember the sloppiness and not the good job you did restoring power. We reiterate this concept every time we meet with employees," Weeks adds.

Employee meetings and communications are a vital part of 4-County's customer service strategy. Besides regular employee group meetings and training sessions, 4-County holds an annual all-employee meeting. The half-day session features short reports from management and employee discussions about jobs and customer service.

Throughout the year, management meeting minutes and board meeting summaries are circulated within one day to all offices. They are posted on employee bulletin boards so every employee has access.

PRIDE AND RESPECT - Meter Technician Lee Sloan says he's proud of his 4-County uniform sporting the "Service First" emblem. "Years ago, I didn't like to go into a store in my work uniform. People didn't treat me well when they saw I was with 4-County. It's a lot different now. People treat me with respect because I'm in a 4-County uniform," Sloan says.

"When our crews meet customers we want them to know what's going on at 4-County and be able to answer questions," Weeks says.

Weeks is quick to give the 4-County board of directors credit for supporting the "Service First" program.

"Our board's goal is to make customer service our driving force. They are totally committed to the concept," Weeks says.

4-County Board President [illegible] Taylor agrees. Taylor, a 10-year board veteran has been a 4-County member since his farm was first hooked up in 1939. In those days, Taylor says customer service was just constructing power lines. Today, it's different.

"We've got to let customers know everything that's happening at the cooperative. If you start holding back information, you get in trouble," Taylor warns.

"When a customer comes to me with a problem, I tell them I'll find out what I can and get right back to them. That makes the customer feel special to the co-op.

"When making policy decisions the board considers what will provide good customer service at the best price. That's the reason we're a cooperative.

"We do what's best for the cus-

(continued on page 24)

MANY THANKS to the 4-County employees who posed for our cover photo. In front of the counter, from left: Troy Little, chief engineer; Ora Jones, computer operator; Debbie Kesler, secretary, and Bob Hazzard, administrative services manager. Behind the counter is Monica Pierce, cashier, who let us use her work station to take the photo.

4-County

(continued from page 17)

and cooperative, but the customer always comes first," Taylor says.

Weeks agrees. "When we develop policy or procedures, we try to put ourselves in the customer's shoes. Customer perspective is given first shot. I want a committee that reviews everything that comes from management or the board to determine its impact from the customer's angle," Weeks says.

"We want employees and customers to feel that their cooperative is providing good electric service and improving their life. And if they feel that they are getting a little bit more than just electricity from 4-County EPA, we will have accomplished our goal."□

COOPERATIVE GOALS SURVEY
PRESENTED BY W. DOUGLAS BECHTEL
GENERAL MANAGER
ORCAS POWER & LIGHT COMPANY
AT THE MAY 19 - 22, 1991 MEETING
OF REMDC
IN SAN ANTONIO, TEXAS

My introduction into the rural electric program came in 1978 when I was selected as manager of Cordova Electric Cooperative, a small Alaskan co-op. In a two year period, beginning in late 1977, nine of the 13 co-op managers in Alaska changed. Many of these were normal retirements and the turnover is more coincidence than an indication of great cooperative upheaval or unrest. Of the nine managers that were hired during that period, only one is still in that position today. A few of these changes were brought about by managers moving on to new jobs, but many of them were caused by a failure in the board/manager relationship. In fact, a few co-ops became revolving doors where managers came and went so rapidly we had difficulty keeping track of who was in charge.

I began thinking about the reason for these turnovers and I felt that it might be the result of boards and managers having a different view of what was important to the cooperative. Having gone through this survey process I don't think that my original assumption was correct. I will explain this in more detail later.

To try to get a grip on what the managers and the boards felt their cooperatives should be doing, I prepared a list of 14 questions to send out to each manager and board member. While these questions were being developed, I accepted a new position in Washington and I never sent the questionnaire around in Alaska. After I moved to Washington I tailored the questionnaire for the Pacific Northwest and mailed it to every director, manager and department head of each Washington cooperative. I will share the results with you.

We received 100% return from managers, 75% return from senior staff members, and a 50% return from directors. Let us look at the questions and the relative ranking of each. The order that I will present them in is the overall ranking beginning with the most important goal.

Before I begin, let me put off any discussion of "internal" or "external" until we complete our review of the list. The "agreement" column indicates the relative agreement among those responding. For example, if half the people felt a goal was high and half felt the goal was of low priority the goal would probably rank in the middle but there would be a low agreement. On the other hand if everybody agreed on the ranking of the goal then the agreement would be high. The agreement is based on the standard deviation of the responses.

[See attached list of goals]

As the goals were prepared, each goal was ranked as "internal" or "external". Those goals which affected the internal workings of the cooperative and did not relate to the co-op's role with its members or the community were considered "internal" goals. Those goals which defined the cooperative in terms of society were considered "external" goals.

It is important to notice that every "internal" goal ranked ahead of every "external" goal. I am not certain that this is good news, but it does indicate that, as a group, we worry more about our organization than we do about our place in society.

I have to admit that I cheated. I redefined one goal from "internal" to "external" so that my preceding statement would be true. I moved the goal entitled "Remove PCB's" from "internal" to "external". My original feeling was that the process of testing, removing and disposing of PCB's was purely an internal matter. My justification for reclassifying it is that, as

cooperative leaders, we may agree with all of the uproar over PCB's. We are playing the PCB game (if that is what we want to call it) to keep our members (and the regulators) satisfied and off our backs.

As I said before, the original hypothesis was that this survey would point out problems in the board/manager relationship. The survey showed me that, at least in the Northwest, there was pretty good agreement between managers and directors on the goals for their cooperatives. I have come to the conclusion that those managers and boards who are not comfortable with their relationship will find that the problem lies, to a greater extent, within the board. The problem is not a difference of opinion between the board and the manager but a difference of opinion within the board. If the board can't agree amongst itself what the priorities are for the cooperative, it will be difficult, if not impossible, for the manager to serve the board well. For every effort that the manager makes in one area, at least part of the board will disagree with the time spent. A cooperative goals survey such as that just presented may be an effective tool in improving the board/manager relationship by identifying areas of agreement and disagreement.

Thank you for your time.

1. Financial Stability — Internal

Our cooperative should strive to establish financial stability in times of rising and falling sales in order to minimize the need for future rate increases.

	Rank	Agreement
Directors	1T	Low
Managers	1	Med
Staff	1T	Med
Overall	1	

2. Reduce Outages — Internal

Our cooperative should strive to reduce customer related outages caused by the distribution system. Replacement of aging facilities, upgrading the system and a comprehensive maintenance program are all elements of a successful plan.

	Rank	Agreement
Directors	3T	Low
Managers	2	Med
Staff	1T	Med
Overall	2	

3. Improve Efficiency — Internal

Our cooperative should strive to improve system efficiency in all areas including personnel productivity, power losses, system design and so on.

	Rank	Agreement
Directors	1T	Med
Managers	3T	Med
Staff	3	Med
Overall	3	

4. Employee Development — Internal

Our cooperative should strive to aid all employees in personal development. This includes training of personnel for advancement, training of personnel in specific areas requiring specialized knowledge or technology and training personnel to accomplish their jobs more efficiently.

	Rank	Agreement
Directors	4	Med
Managers	3T	High
Staff	5	Med
Overall	4	

5. Minimize Cost — Internal

Our cooperative should strive to minimize the cost of electric energy by stressing operating efficiency in all areas. We should minimize costs in all areas which will not adversely affect safety or system reliability.

	Rank	Agreement
Directors	6	Low
Managers	5	High
Staff	4	Med
Overall	5	

6. Informed Board — Internal

Our cooperative should strive to have an informed, capable Board of Directors by encouraging Board members to make use of training opportunities, self-development, and reports from management on issues of interest.

	Rank	Agreement
Directors	7T	Med
Managers	6	Med
Staff	6T	Med
Overall	6	

7. Employee Individuality — Internal

Our cooperative should recognize each employee as an individual requiring attention to their personal needs, realizing that high morale and low employee turnover are in the best interest of our cooperative.

	Rank	Agreement
Directors	5	Med
Managers	7	Med
Staff	8	Med
Overall	7	

8. Public Image — External

Our cooperative should strive to maintain a positive public image. This image should be that of a modern, progressive company dedicated to serving our members.

	Rank	Agreement
Directors	10	Low
Managers	8	Med
Staff	6T	Low
Overall	8	

9. Good Corporate Citizen — External

Our cooperative should strive to be a good corporate member of the community, respected by businesses for our professionalism and respected by our members for our concern for them.

	Rank	Agreement
Directors	7T	Low
Managers	10	High
Staff	9	Med
Overall	9	

10. Economic Growth — External

Our cooperative should strive to foster economic growth in our community by providing an electric utility climate that seeks to attract new businesses and provides incentive for existing businesses to expand. It is important that electric rates not be the cause of a low level of economic growth in our community.

	Rank	Agreement
Directors	9	Low
Managers	9	Low
Staff	10T	Med
Overall	10	

11. Environmental Commitment — External

Our cooperative should have a real commitment to the environment and all major business decisions should consider the effect of the decision on the environment.

	Rank	Agreement
Directors	12	Med
Managers	11	Low
Staff	10T	Med
Overall	11	

12. Role in Northwest — External

Our cooperative should strive to have a larger role in determining the future of the Northwest electric system. We should be more involved with the decisions made by BPA and WPPSS.

	Rank	Agreement
Directors	13	Low
Managers	13T	High
Staff	10T	Med
Overall	12	

13. Remove PCB's — External

Our cooperative should remove all items containing PCB's or other hazardous materials from our system. Until this is accomplished, we should rigorously pursue identification of all items containing detectable levels of PCB's or other hazardous materials.

	Rank	Agreement
Directors	11	Med
Managers	13T	Med
Staff	14	Med
Overall	13	

14. Political Efforts — External

Our cooperative should strive to be politically savvy, making effective use of the local, state and federal political process to accomplish our goals.

	Rank	Agreement
Directors	14	Med
Managers	12	High
Staff	13	Med
Overall	14	

Tuesday, May 21, 1991:

LUNCHEON SPEAKER: Larry Watkins, General Manager
Oklahoma Association of Electric Cooperatives
PO Box 11047
Oklahoma City, Oklahoma 73136

The topic of Larry Watkins presentation was the "Good Neighbor" program implemented by the Oklahoma Statewide Association in 1986. The program was designed to get rural electric people working together for a common purpose.

Mr. Watkins reviewed the key elements of the program that has worked very well in getting their people involved in helping to meet marketing and member relations goals.

RURAL ELECTRIC MANAGEMENT DEVELOPMENT COUNCIL ANNUAL MEETING
San Antonio, Texas
May 20-22, 1991

NRECA REPORT
MANAGEMENT ASSESSMENT AND RESEARCH

Dr. Greg Boudreaux
Management Services Department
National Rural Electric Cooperative Association
Washington, DC 20036

PERFORMANCE MANAGEMENT:

A NEW PARADIGM

Managing Performance and not

Appraising Behavior

BASIC LEGAL REQUIREMENTS

- Tell employees *what* to do
- Tell them *how well* it must be done

- POSITION DESCRIPTIONS TELL EMPLOYEES WHAT TO DO

- PERFORMANCE APPRAISAL FORMS TRADITIONALLY *TRY* TO SAY HOW WELL

WHAT'S WRONG WITH TRADITIONAL APPRAISAL SCALES?

1. It's not acceptable to be "average"
2. Managers manage the *Compa Ratio*
3. No one is satisfied

WHAT'S WRONG WITH TRADITIONAL APPRAISAL SCALES?

RATING		DEFINITION
OUTSTANDING	-	Far exceeding an Acceptable level of performance and leaves little room for further improvement.
EXCELLENT	-	Clearly exceeding an Acceptable level of performance.
COMMENDABLE	-	Performance which is a notch or two above an Acceptable level.
ACCEPTABLE	-	Performance which is considered acceptable in every way and is not harmful to the organization.
MARGINAL	-	Performance which is at or slightly above the minimum requirements for the position; performance improvement is warranted.
UNACCEPTABLE	-	Performance which does not meet minimum requirements; corrective disciplinary action is required.

MBD.

MANAGEMENT BY DEVELOPMENT

RATING SCALE

Criteria Dimensions	0 1 Ineptly Accomplished 2	3 Marginally Accomplished 4	5 Competently Accomplished 6	7 Proficiently Accomplished 8	9 Expertly Accomplished 10
A. Supervision	Resolves routine problems with close supervision	Resolves routine problems with supervision	Resolves routine problems on own	Resolves sensitive and/or complex problems with supervision	Resolves sensitive and/or complex problems on own
B. Mistakes	Mistakes cause injury or serious setback or loss	Mistakes cause measurable slowdown, inconvenience, or loss	Mistakes correctable without delay, inconvenience, or loss	Mistakes barely perceptible	Mistakes are necessary part of innovative activity
C. Objectives, Standards	Significantly misses target objectives, or standards.	Approaches target objectives, or standards,	Meets target objectives, or standards,	Exceeds target objectives, or standards,	Greatly exceeds target objectives or standards,
D. Speed	Sluggish	Slow	Moderate	Quick	Very Fast
E. Breadth, Depth	Fractionally	Partially	Completely	Thoroughly	Exhaustively
F. Timeliness	Very late, burdens others	Late, delays others	On time, compliments others	Early, assists others	Very early, guides others
G. Orderliness	Chaotic	Disorderly	Arranged	Organized	Systematic
H. Communication	Other person becomes withdrawn or aggressive	Other person withholds information	Other person talks easily	Other person reveals sensitive information	Other person reflects and/or explores in depth
I. Teamwork	Disruptive	Distractive	Supportive	Constructive	Innovative
J. Frequency	Seldom	Sometimes	Frequently	Usually	Almost Always

SAFETY PRACTICES	Superior	Exceeds Standards	Meets Requirements	Needs Improvement
	4	3	2	1
Complies with the co-operative's safety rules and practices. These practices may reflect specific supervisory directives, established policy, or simply forethought to potentially dangerous conditions.	Often identifies and reports on potentially dangerous conditions.	Always wears protective devices and follows assigned procedures. Always complies with established rules and acts accordingly.	Usually complies with safety rules and established practices.	Does not comply with safety rules and practices.

COMMENTS:

_____

_____

_____

_____

OVERALL EVALUATION

Based on the ratings above, this employee's overall evaluation is:

[ ] Needs performance improvement plan. (Plan[s] specified in or attached to this form.)

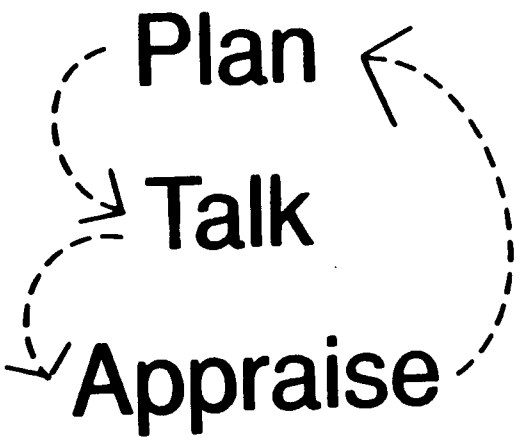
[ ] Meets all normal performance standards.

[ ] Exceeds expectations.

[ ] Greatly exceeds expectations in performance of the job.

(This is not necessarily an average of the factors, because the ratings may have differing degrees of importance.)

Performance Management



NOT JUDGING OR MEASURING, BUT COMMUNICATING

JOB DESCRIPTIONS

RESULTS		*DUTIES*
Outcome	←	Work Assignment

R: PROVIDE INFORMATION

BY

D: ANSWERING THE PHONE

R: PROVIDE ELECTRICITY TO CONSUMERS

BY

D: INSTALLING POWER LINES

THE PURPOSE OF THE JOB

- TO ACCOMPLISH THE RESULT

NOT

- TO JUST DO THE DUTY

ALL POSITIONS ACHIEVE *"6-16"* KEY

RESULTS

PERFORMANCE CRITERIA:

- Performance Standards
- Problems
- Improvements
- Options

TRICOUNTY ELECTRIC COOPERATIVE, INC.

POSITION TITLE: Manager of Administrative Services

DEPARTMENT: Administrative

I. OBJECTIVES

To coordinate the Cooperative's employee relations and personnel programs in a manner that will ensure that employees are treated fairly, paid equitably and developed to their full potential.

II. REPORTING RELATIONSHIPS

A. Reports to: General Manager.

B. Supervises: Administrative Secretary.

III. RESPONSIBILITIES AND AUTHORITIES

A. Performs Personally

1. Maintains a complete file of job descriptions, updating and revising as necessary; prepares job descriptions for new positions.

2. Administers the Cooperative's wage and salary plan, conducting periodic salary surveys, coordinating job evaluation, monitoring and coordinating individual salary actions and recommending revisions and improvements in the plan.

3. Coordinates the performance appraisal program, assuring that supervisors conduct employee evaluations in a timely and objective manner, providing constructive guidance and counseling that results in improved productivity and more harmonious employee relations.

4. Acts as the insurance administrator on behalf of the Cooperative. Handling claims, getting and evaluating bids on various insurance programs.

5. Coordinates training programs with state and national associations and other organizations, maintaining training records and planning for a systematic, budgeted approach that meets the needs of the Cooperative and its employees and directors.

6. Develops and conducts training programs as required as related to insurance and benefits.

7. Acts as the Cooperative's Affirmative Action Officer, assuring equal opportunity employment.

8. Coordinates various staff meetings, making various arrangements.

9. Participates in seminars, conferences and professional groups to stay current in the disciplines of human resources management.

10. Assists the General Manager by conducting studies and researching topic areas that do not fall within the parameters of other departments.

11. Responsible for preparing and reviewing all consumer correspondence for the General Manager, including any research that may be required.

12. Performs other duties as directed.

IV. OTHER RELATIONSHIPS

A. Internal

1.	General Manager:	Discussing plans, priorities and problems.
2.	Supervisors:	Providing advice and assistance to various department heads.
3.	Employees:	Hearing grievances and providing guidance and counseling.

B. External

1.	OAEC/NRECA:	Giving and receiving information about training courses.
2.	Educational Institutions:	Regarding curriculum and employee educational opportunities.

SPECIFICATIONS

Manager of Administrative Services

EDUCATION

Bachelors degree in Business Administration with courses in personnel administration, human relations and management, or related degree is preferred.

EXPERIENCE

One (1) to two (2) years of experience in personnel management or benefits at a rural electric cooperative is preferred. Other appropriate experience will be considered.

JOB KNOWLEDGE

Must have a basic understanding of management and supervisory principles, affirmative action, EEOC regulations, performance appraisal, grievance procedure, job evaluation and job descriptions.

ABILITIES AND SKILLS

Must be able to develop plans and programs to improve employee productivity, handle complaints and grievances and improve employee relations. Must have excellent written and oral communication skills. Must be able to learn to conduct wage and salary surveys.

WORKING CONDITIONS

Works in office under good conditions. Occasional field trips will be necessary to gather information used in job description preparation, to hold employee meetings and to meet with supervisory personnel.

May 10, 1989

EXAMPLE COOPERATIVE PERFORMANCE-MANAGEMENT CONFERENCE FORM

POLICY: We believe that employees are entitled to know how they are performing in relation to expectations, what they can do to excel, and what they must do to improve if improvement is required. Employees should know this, not just once a year, but throughout the year.

POSITION TITLE: Manager of Administrative Services
DEPARTMENT: Administrative

I. OBJECTIVE

Maintains and enhances the human resources of the organization by planning, implementing and evaluating employee relations and personnel programs and policies.

II. REPORTING RELATIONSHIPS

A. Reports to: General Manager.
B. Supervises: Administrative Secretary.

III. RESULTS AND DUTIES

1. *(Result accomplished)* **Maintains a safe working environment**
by
(Duty performed) adhering to policies, procedures and regulations.

(Performance-criteria profile)

___ PERFORMANCE STANDARD (PS) *(What management wants)* - No accidents occur. Safety rules and procedures are followed.

___ PROBLEM (P) *(What management does not want)* - Time is wasted; costs increase; people are injured.

___ IMPROVEMENT (I) *(What employee needs to learn)* - Needs to study and apply safety procedures and eliminate actions that could cause injury or endanger people.

___ PERFORMANCE OPTION (PO) *(More than what management wants)* - Influences others to follow safe procedures. Identifies ways to improve safety procedures.

Comments:

(I) 4

2. **Serves member/customers** by providing service requested, answering questions and offering assistance.

_____	PS	-	Member/customer is treated with courtesy at all times. Questions and requests are responded to when asked or requested.
_____	P	-	Member/customer complains.
_____	I	-	Needs to study and apply customer-relation techniques.
_____	PO	-	Anticipates member/customer's needs and acts in such a way to enhance the image of Tri-County Electric Cooperative, Inc.

Comments:

3. **Maintains the organization work structure** by updating job requirements and job descriptions for all positions.

_____	PS	-	A description for each job exists and accurately identifies responsibilities and requirements.
_____	P	-	Managers and employees do not understand or complete organizational responsibilities.
_____	I	-	Needs to learn and apply writing techniques. Needs to schedule time to accomplish work.
_____	PO	-	Identifies a new approach to job analysis and description.

Comments:

4. **Maintains a pay plan** by conducting periodic pay surveys, scheduling job evaluations, monitoring and scheduling individual salary actions, and planning and recommending revisions.

__	PS	- Employees perceive their pay as fair and equitable. Pay scales of comparable organizations are surveyed annually and recommended changes are competitive. Pay changes are processed prior to effective date.
__	P	- A disproportionate percentage of employees resign, citing inequitable pay.
__	I	- Needs to study and apply techniques of pay administration.
__	PO	- Implements reward and recognition programs that improve employees' attitudes about compensation.

Comments:

5. **Assures appraisal and improvement of employee performance** by scheduling appraisals by supervisors, hearing and attempting to resolve grievances and providing counseling to employees and supervisors.

__	PS	- Performance appraisals are conducted on schedule and accurately identify performance and performance-improvement plans. Grievances are resolved at the lowest possible level. Employees are counselled to resolve job-related problems.
__	P	- Employees are not informed that their performance does not meet standards. Unresolved grievances cause morale to decline.
__	I	- Needs to enforce performance appraisal and performance improvement schedules.
__	PO	- Develops and implements improvements to the performance management system. Uncovers means to reduce the potential for grievances.

Comments:

6. **Maintains employee benefits programs and employee knowledge thereof** by processing claims, obtaining and evaluating bids, adhering to legal requirements, and conducting educational programs.

_____	PS -	Employees understand their benefit programs. Employees perceive programs as beneficial and equitable. Claims are processed within two days.
_____	P -	Employees complain about benefit programs or service.
_____	I -	Needs to stay informed of trends, newer programs and legal requirements. Needs to study techniques for explaining benefit programs.
_____	PO -	Recommends system that obtains more benefits for same expenditures. Improves claims processing system.

Comments:

7. **Maintains general liability and related insurance programs** by processing claims, obtaining and evaluating bids and meeting requirements.

_____	PS -	Bids are obtained and analyzed. Claims are processed on time. REA and other requirements are met. Policies are renewed on time.
_____	P -	Member/customers or employees are dissatisfied because of claim filing delays. The organization is exposed to undue risk if policies are not renewed.
_____	I -	Needs to study and implement methods for evaluating bids.
_____	PO -	Recommends system for obtaining more benefits for same expenditures. Improves claims processing system.

Comments:

8. **Meets the performance and statutory needs of employees and directors** by identifying training needs and scheduling programs and by maintaining training records.

__	PS	-	Employees and directors are prepared to perform their job as required. Training sessions are coordinated with other organization to keep costs down. Annual training budgets are submitted. Training records are complete and up to date.
__	P	-	Losses result because employees are not prepared.
__	I	-	Needs to study methods of identifying training needs.
__	PO	-	Finds new, cost effective approaches for training employees and directors.

Comments:

9. **Assures legal compliance** by monitoring and implementing applicable human resource federal and state requirements.

__	PS	-	All regulatory requirements are met.
__	P	-	Fines are imposed.
__	I	-	Needs to study and follow legal requirements.
__	PO	-	Helps the cooperative be publicly recognized as a "model" complier.

Comments:

(I) 8

10. **Assists the general manager** by preparing, reviewing or researching consumer correspondence, conducting studies and researching special topics.

_	PS	-	The general manager is informed about critical issues on a timely basis.
_	P	-	Priority issues are not addressed. Corporate image is diminished. Opportunities are lost.
_	I	-	Needs to study and apply time management and research techniques. Needs to obtain priorities from the General Manager.
_	PO	-	Anticipates critical long-term trends and issues and prepares effective presentations.

Comments:

11. **Maintains the payroll system** by directing payroll practices and activities.

_	PS	-	Payroll records and reports are accurate, and in legal compliance, and schedules are met.
_	P	-	Paychecks are incorrect. Employees complain. Company is fined.
_	I	-	Needs to study computerized record keeping systems. Needs to study tax changes.
_	PO	-	Creates new, less expensive payroll system.

Comments:

12. **Accomplishes department goals** by developing and recommending annual work plan and budget, including capital needs.

__	PS	-	The work plan and budget is complete, clear and on time.
__	P	-	Extra expenses are incurred because capital needs are not anticipated.
__	I	-	Needs to study and use budgeting techniques.
__	PO	-	Identifies more efficient, less time consuming budget and planning process.

Comments:

13. **Maintains staff performance** by appraising, counseling and disciplining employees and by recommending employee selection and training.

__	PS	-	Subordinate job descriptions are reviewed and updated and appraisals are completed on schedule. Legal and policy requirements are met when employees are disciplined. Growth opportunities for employees are explored. Competent employees are selected and prepared to perform their job.
__	P	-	Resources are lost because legal requirements are not met. Employee pay increases are delayed. Employee morale declines.
__	I	-	Needs to acquire supervisory and interpersonal communication skills.
__	PO	-	Helps subordinate find new and creative ways to use their talents and advance organization performance.

Comments:

(I) 10

14. **Helps others** by performing other related duties as may be requested.

__	PS	-	Other duties are performed accurately and on time.
__	P	-	Resources are wasted.
__	I	-	Needs to accept additional duties as requested. Needs to schedule time.
__	PO	-	Seeks out additional duties without being asked.

Comments:

PERFORMANCE SUMMARY

A. Enter number of items marked as:

Performance Standard Met	_____
Problematic	_____
Improvement Needed	_____
Performance Option	_____

B. Written Summary:

C. Employee Comments:

Employee's Signature: _____ Date: _____

Supervisor's Signature: _____ Date: _____

Reviewer's Signature: _____ Date: _____

(I) 11

Supervisor's Summary:

Employee Comments:

Employee's Signature: Date:

Supervisor's Signature: Date:

Department Head: Date:

Manager of Administrative Services: Date:

General Manager: Date:

PS	P	I	PO

MANAGING PERFORMANCE THE TRI COUNTY WAY

I. AN OVERVIEW OF THE PROCESS

A) At Tri County, Performance Management is designed to help supervisors and employees identify job expectations.

B) You are entitled to have a written document that explains your job requirements and performance standards. You are also entitled to have detailed discussion with your supervisor about these requirements and standards, as well as to hear his or her appraisal of your performance.

C) The Performance Management form identifies the title of your position, the department in which you work, the objective or purpose of your job, the person to whom you report, plus any positions which you may supervise. In addition, this document identifies Results and Duties that you are expected to accomplish in your job. A "Result" is the outcome of work, that is what you accomplish for Tri County. A "Duty" is what you do to accomplish this result.

D) You should review each Result and Duty with your supervisor to ensure you understand what it means and agree that this is a requirement of your job.

E) Each Result and Duty is described in four additional ways. These statements are important because one of them will be checked in an appraisal of your work to describe your performance.

PS: **Performance Standard** - tells how well the Results and Duties must be performed. Tri County expects you to perform at this level, and will provide the necessary support to enable you to do so.

P: **Problem** - gives examples of what could go wrong if the job is not performed according to the performance standard; examples of such are, a consumer complains, or someone is injured, or resources are wasted.

I: **Improvement** - gives examples of what you would need to do if you require further training or if you need to undertake additional steps in performing your job.

PO: **Performance Option** - gives examples of how you could perform beyond what is expected of you. You're not required to achieve this, but you have the option to do so. The word "option" is important.

II. HOW THIS FORM SHOULD BE USED TO MANAGE JOB PERFORMANCE

1) All employees should receive a formal performance appraisal at least once a year. The appraisal meeting is attended to allow you and your supervisor to talk openly together about your job.

2) Tri County assumes that in most cases your supervisor will be able to check the PS (Performance Standard) box.

3) In some cases one of the remaining three boxes may be checked. If "P" is checked, there is a problem with performance. In this case, the job is not being performed according to standard and a change in behavior is required. Your supervisor should explain the specific problem in the comments section and should identify how you have agreed to change performance in the future. It's important for you and your supervisor to work together to determine the best solution.

4) If "T" is checked, you need to study, to take a course, or to change and improve how you perform some aspect of your job. Tri County EC recognizes that any employee may need additional training or feedback to perform up to standard, and it is willing to support this effort in accordance with its policies. If the "T" is checked, your supervisor should explain the improvement needed in the comments section, as well as the agreed upon schedule for how and when the improvement will be undertaken. Again, it is important for the two of you to work together.

5) Finally, if "PO" is checked, you're being told that you have made a truly significant contribution to Tri County. Again, you're not required to do this. Tri County wants to recognize employees who consistently make this kind of contribution.

III. HOW PERFORMANCE MANAGEMENT JOB DESCRIPTIONS CAN CHANGE

Job requirements can change as improvements are made. For example, computers are now commonly used for duties that previously were accomplished manually. Over time, key job results and performance standards will evolve. You and your supervisor should discuss the results and standards when you meet for your appraisal meeting and throughout the year as needed.

IV. TRI COUNTY's COMMITMENT

Your dedication and performance are what enable us to survive as a high-quality provider of energy services to our members/customers. We are committed to the proposition that every employee will receive an honest, fair supervisory appraisal. You are encouraged to give your feedback to management about this process to help ensure that the organization is the best it can be.

KEY BENEFITS

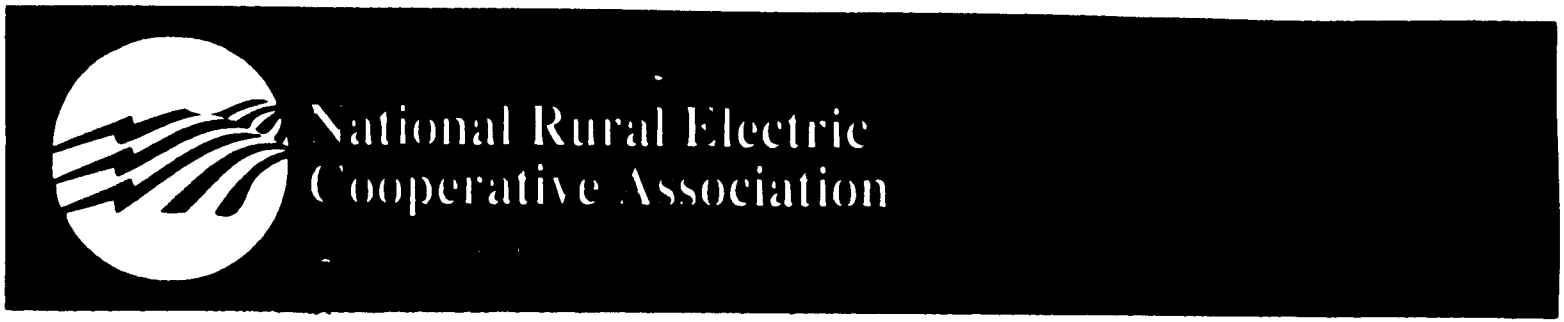
1. Supervisors have a tool that helps start the performance review conversation

2. Supervisors are guided to focus their time and attention on the "extremes": problems, improvement needs, and performance options

3. Most employees aren't made to feel inadequate for being "average" (i.e., for meeting standards)

4. Opportunity for creating a fair bonus system with defined rules

5. Organizational Development: performance options evolve into standards



REQUIP

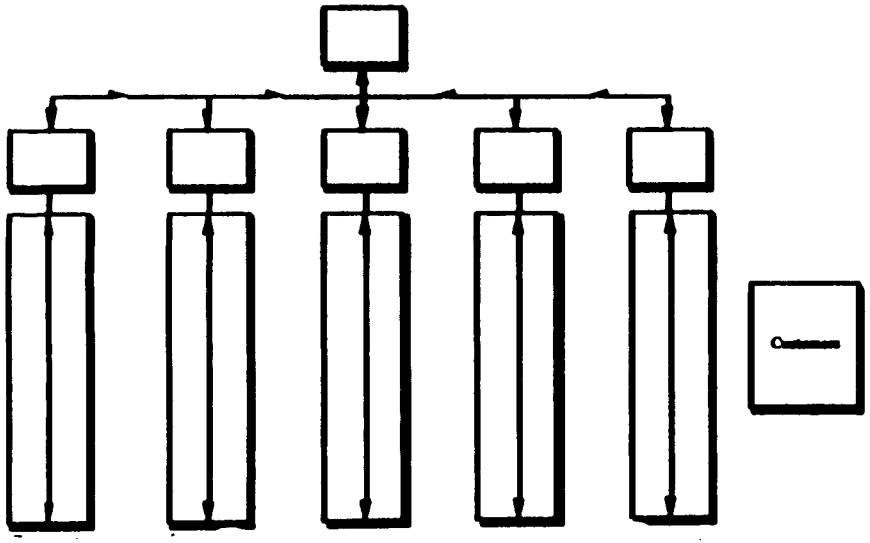
Quality: What Is It?

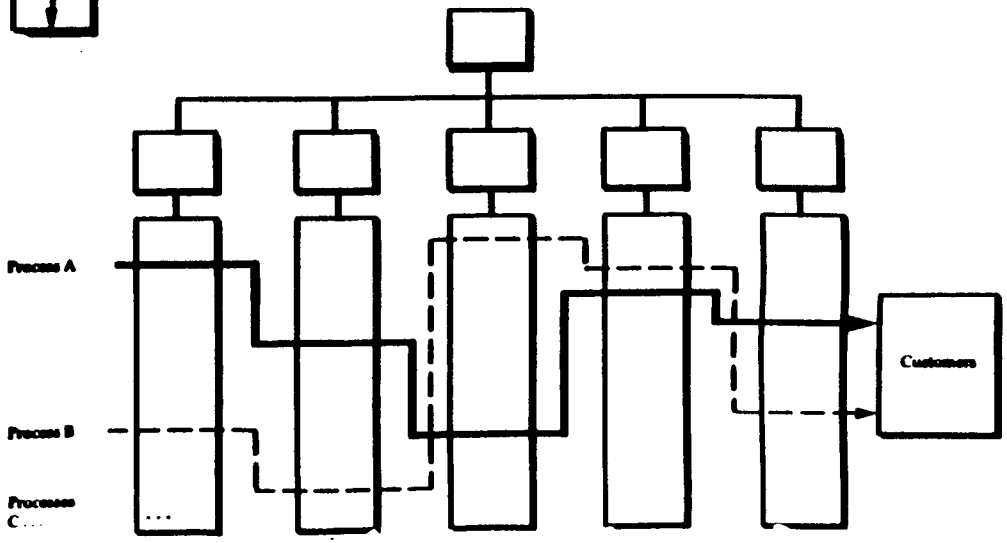
Continually meeting customers' needs and expectations at a price they are willing to pay that allows our company to be a viable, long-term entity in the marketplace

WHAT IS PROCESS IMPROVEMENT?

A system of employee involvement to measure and improve daily work processes

. . . An Integrated Approach to Doing Work





FIVE PRINCIPLES

1. A customer-driven orientation
2. Everyone is both a customer and a supplier
3. Process improvements are driven by data
4. Process improvement requires teamwork and involvement
5. Management's job is to facilitate the improvement of work processes

OUTCOMES

- Improved customer service by eliminating variation and small errors and decreasing response time
- Cost savings
- Employees solve problems; managers have more time to plan and coach

REQUIP COMPONENTS

- Management guidance and support
- Designated facilitator
- Quality advisory team
- Quality improvement teams
- Improvement story

GETTING STARTED

1. Formation of the Quality Advisory Team

   - From any level
   - Weekly half-day meetings
   - Defines its mission and performance expectations for members
   - No interruptions
   - Every meeting must be productive

THE KEY RESPONSIBILITY

To identify and recommend "high impact" projects and problems to be studied by quality improvement teams

GETTING STARTED

2. Formation of Quality Improvement Teams

   - Small groups
   - Cross-functional
   - Finite life
   - Produce an "improvement story"

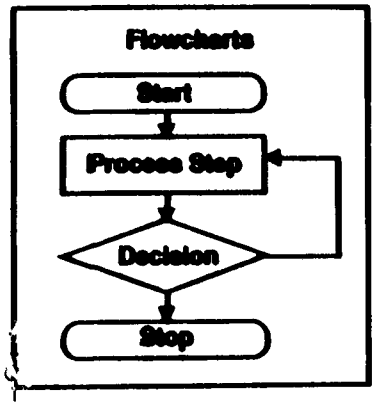
GETTING STARTED

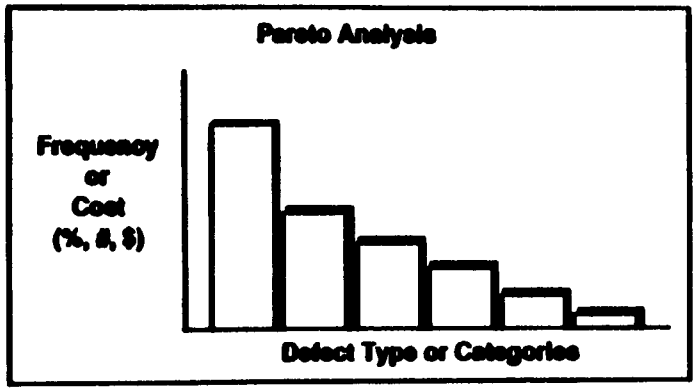
3. QIT and QAT Training:

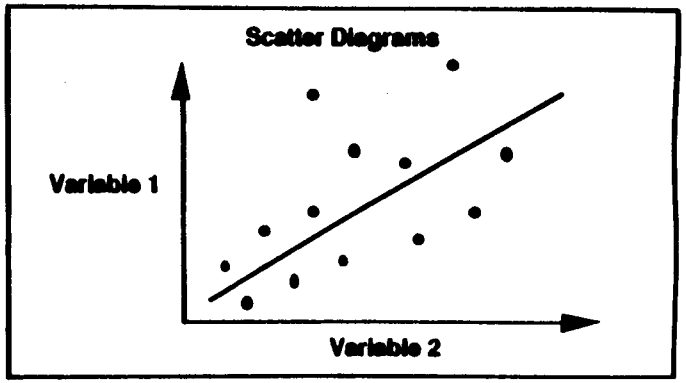
   - Problem solving

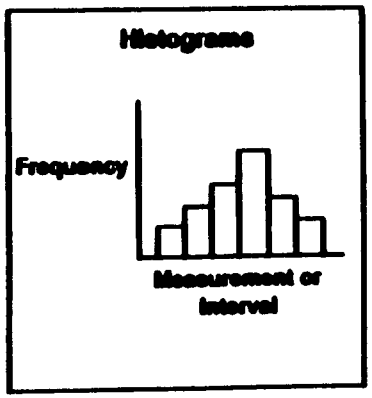
   - Measuring work process outcomes

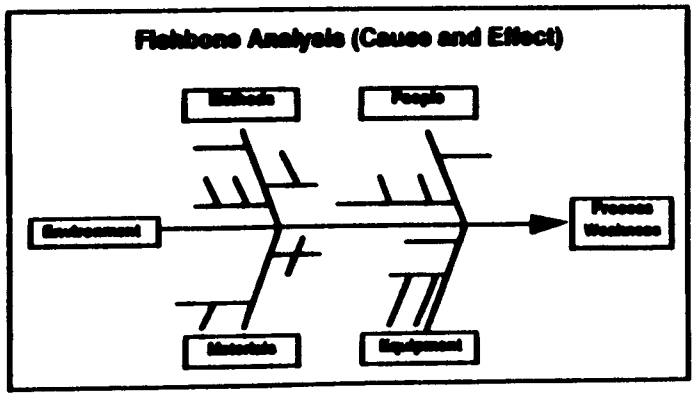
Basic Statistical Tools

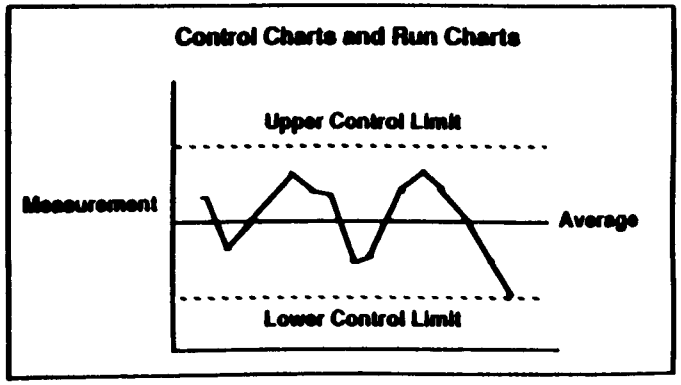












Basic statistical tools allow you to identify and eliminate the root causes of problems

WHAT RESEARCH SAYS ABOUT WHAT CUSTOMERS OF SERVICE INDUSTRIES MOST WANT

1. Reliability - doing what you say you'll do
2. Competence - knowing what you're talking about
3. Helpfulness - showing you want to be of service

RURAL ELECTRIC MANAGEMENT DEVELOPMENT COUNCIL ANNUAL MEETING
San Antonio, Texas
May 20-22, 1991

CFC UPDATE

Mr. Jim Boatman
Director of Program & Planning Analysis
National Rural Utilities Cooperative Finance Corporation
Woodland Park, 2201 Cooperative Way
Herndon, Virginia 22071-3025

CFC UPDATE

BY: Jim Boatman/CFC

As you may know, the workout of Colorado-Ute's financial problems has become a somewhat complicated activity. The bankruptcy court-appointed trustee has been meeting with the affected organizations and reviewing proposals for reorganization of Colorado-Ute. Two plans are still in contention for confirmation both of which are essentially buyouts. One has been proposed by Tri-State, a Denver-based G&T cooperative and the other plan was developed by Public Service of Colorado and PacifiCorp, both investor-owned companies.

As of now, ten of the distribution co-ops in the Colorado-Ute system favor the Tri-State plan with four preferring the PSCO/PacifiCorp. Tri-State, under its plan, would assume the CFC debt and other obligations, pay arrearages in cash, and offsets would be permitted on a dollar-for-dollar basis. Under the PSCO/PacifiCorp plan, the debt to CFC would be paid in cash in full, including all allowed pre-payment penalties, guarantee obligations would be released and CFC released or fully indemnified.

Turning to a positive note, I'd like to tell you about a new seminar series offered by CFC to its members. Titled "Financial Strategies for the Future," the seminar is designed to help its members focus attention on their long-term financial goals and to show how financial health can directly impact the cost and availability of capital in the future. The seminar will tell participants how they can help plan for their system's long-term financial viability by developing a comprehensive capital management plan. The seminar will be available starting June 1, 1991 and you can get more information through your statewide association, your CFC Area Representative or by calling Lauren Munro at CFC's headquarters.

The biggest physical news at CFC is the relocation of the offices from Washington to Virginia. We moved into the new building last September and dedication ceremonies were held in December. CFC's new building contains about 120,000 square feet in six stories. It's on a 12-acre site in the Woodland Park office development about four miles east of Dulles Airport.

Getting down to some of the dollars and cents, I'll take a couple of minutes to review some of the figures from the latest quarterly report. CFC's third quarter financial results exhibited modest loan growth reflecting the utility industry's current minimal capital requirements as well as improved margins and interest coverage ratios compared to the year-ago period.

Net margins of $10.8 million were earned from the quarter, up 52% over $7.1-million for the prior year. For the nine months ended February 28, net margins of $41.7 million exceeded the prior year's $35.7 million by 17%. The Times Interest Earned Ratio of 1.16 for the nine months exceeded CFC's objective of 1.10 and the prior year's TIER of 1.14. The increase in net margins was mainly due to higher earning asset levels and cash payments of interest on loans classified as non-performing.

CFC's members, which increased to 1021 during the quarter, have been extended credit or have commitments to borrow $11.7 billion, including $5.0 billion in gross loans, $2.8 billion in financial guarantees and $3.9 billion in unadvanced loan commitments. Of the $7.8 billion in loans and guarantees outstanding at February 28, only 2.7% are unsecured. Total outstanding credit has increased $184 million, or 2.4% in the nine month period.

Assets at February 28 were $5.14 billion, up only $177-million, or 3.6% during the nine month period as a result of a low-down in new loan advances. Net loans to members totalled $4.8 billion, or 94% of total assets. The leverage ratio (excluding debt guaranteed by REA) increased to 4.45 from 4.29 at the end of the prior fiscal year. The allowance for loan and guarantee losses totalled $122.5 million at February 28.

On February 27, CFC issued $150 million in Series U, 8.50%, non-callable Collateral Trust Bonds due 2/15/98. This new issue, replacing Series I and J, will effect a reduction in funding costs of $8.6 million per year for the next seven years.

CFC expects a moderate increase in loan advances during its final fiscal quarter, with the current economic environment encouraging borrowers to convert from variable to fixed rate loans.

CFC's present credit ratings were affirmed last February by three rating agencies following annual review and issuance of CFC Series U Collateral Trust Bonds. Standard and Poor's Corporation, Moody's Investors Service, and Fitch Investors Service maintained their current ratings despite recent positive developments related to two troubled borrowers. CFC had hoped for a ratings upgrade from Standard & Poor's following the restructure agreement recently concluded with Deseret G&T and the progress made toward a resolution of the financial problems experienced by Colorado-Ute Electric Association. The lack of a firm power sales contract for Deseret's generating capacity and the unfinished workout of Colorado-Ute's difficulties weighed against an upgrade, however.

On the topic of debt restructure and problem loan workouts, let me touch on just a couple.

Last January, CFC and other major creditors entered into a formal debt restructuring agreement with Deseret G&T Cooperative. The agreement, which will make it possible for Deseret to remain in operation until access to additional power markets is available, provides for the reduction of Deseret's debt service and rental obligations on its Bonanza power plant until 1996. A $13.7 million shortfall in Deseret's payments has been written off by CFC, with $12.8 million charged to the loan and guarantee loss allowance and about $0.9 million applied as an offset to patronage capital that would otherwise be owed to Deseret. The agreement has been approved by the Public Service Commission of Utah and features amended power purchase contracts between Deseret and its member systems.

Deseret has a contract for power sales to the City of Los Angeles that is pending approval by the city's department of water and power. Off system sales would help Deseret's over-capacity problem.

Another new item at CFC is actually a new organization called Rural America Fund, or RAF. RAF just received a license from the Small Business Administration that will allow it to operate as an SBIC, that's Small Business Investment Corporation. RAF will strive to improve and stimulate rural area economic growth by encouraging and providing private equity capital, long-term loan funds, financial guarantees and other means to provide capital for small business concerns.

RAF will be privately organized, privately managed, operated for profit and regulated by the Small Business Administration. With the CFC minimum start-up capital of $3 million, RAF may leverage that capital at a three to one ratio in guarantees from the Small Business Administration.

Initial RAF loan guidelines include an estimated 13 percent interest rate on loans, an approximate loan amount of $200,00 and loan terms of a 5-year minimum and 20-year maximum. Terms and structure will depend on the financial condition of the small firm, its stage of growth and other market factors.

CFC's general financing strategy for RAF is to infuse a small business with the capital it needs to become competitive and profitable. Under the CFC/RAF management agreement, CFC will initially provide management services and will develop loan application forms, application procedures, credit criteria, credit review and documentation procedures.

CFC will also work closely with member system staff to facilitate local project analysis. Formal recommendations will be made to the RAF Board on each loan or investment application, and CFC will assist local systems in marketing the lending and investment strategy. CFC Senior Financing Consultant Dick Weber is serving as Financial Investment Advisor and Manager of RAF.

GREEN COWS, QUAGGAS AND MUMMIES

Lowell B. Catlett, Professor
Department of Agricultural Economics and
Agricultural Business
New Mexico State University

1. Technical Information

Technical information is moving rapidly. Knowledge is currently doubling every 19 months. Approximately 40,000 scientific journal articles are published every week. Sony, IBM and Apple provide the world with approximately 55 new products every week. Every day over 50 new food products are placed on the shelves of the nation's supermarkets. It is important to try and understand and be part of a changing world.

2. Artificial Intelligence

A. Robotics--approximately 44,000 commercial robots in the United States currently. Growing at an annual rate of over 4,000. Japan currently has over 225,000 commercial robots. Major reason we will continue to use robots--work force will grow at about one percent during the 1990's (grew at 2.7% during the last 30 years). Robots will provide for most of our physical work needs in most industries before the end of the next two decades.

B. Virtural Realities--simulations that will provide advances in education, management and entertainment.

C. NanoRobots--very small robots that will be used in medicine, agriculture and surveillance.

3. Biotechnology

A. Microbes--use of microbes in environmental cleanups and product transformations. Microbes currently exist that will transform toxic wastes into inert compounds. Also, microbes will be used to transform low value products (such as crop residues) into high value products (such as an acid, oil or dye).

B. Genetic engineering for plants--transfer genes into plants that will produce pharmaceutical products (over 100 currently identified), acids, oils, dyes and energy products.

C. Genetic engineering for medicine--many of the more than 4,000 genetic diseases that affect mankind will be removed by the early part of the 21st century.

MINUTES

1991 RURAL ELECTRIC MANAGEMENT DEVELOPMENT COUNCIL MEETING

****

On Wednesday, May 22, 1991 Chairman James Kiley convened the membership for the annual business session of the Council. Chairman Kiley called upon Paul Weatherby, Chairman of the Research Council to review a proposed resolution concerning alternatives to the existing lending program of the Rural Electrification Administration. After review and discussion, a motion was made by Mr. Weatherby, that the following resolution be adopted by the Council:

> WHEREAS, the Rural Electric Management Development Council, at the request and challenge of Bob Bergland of NRECA, did undertake a study of viable alternatives to the existing lending program of the Rural Electrification Administration, and
>
> WHEREAS, the Council, through its Research Committee, beginning in October of 1990 and with the advice and counsel of the international law firm of Vinson and Elkins, did conduct a comprehensive exploration of long term financing alternatives, giving consideration to the needs of all rural electric systems of all types and of varying short and long term capital needs, and
>
> WHEREAS, the Council did coordinate its exploration of alternatives with and through NRECA, and did solicit input and reaction from CFC and CoBank, through numerous face to face meetings with NRECA, CFC and CoBank, and
>
> WHEREAS, the Rural Electric Management Development Council, did at its annual meeting on May 20, 1991, provide a forum for a thorough review of the existing situation regarding the REA lending program, and
>
> WHEREAS, the Council's members at their annual meeting did conclude the following:
>
> 1. That the REA lending program, as it is structured and being administered today, is not a viable long term financing alternative.
>
> 2. That the strength of the rural electric program is directly dependant upon the unity and cohesiveness of all rural electric systems.

3. That any alternative financing plan for rural electric systems must consider the future financing needs of all rural electric systems, distribution systems and G & T systems, as well as the broadly diverse funding needs of these systems.

4. That the political strength and influence of rural electric systems will never be greater than it is today.

5. That it has been contended by many in Congress, the Administration, and others than rural electric systems no longer need access to financing from the federal government in the traditional manner.

NOW THEREFORE BE IT RESOLVED, that the Council should continue its efforts to explore viable financing alternatives and to communicate and interpret the results of its explorations to rural electric systems throughout the country, and

BE IT FURTHER RESOLVED, that all such efforts shall be coordinated with and through NRECA as closely as possible, and

BE IT FURTHER RESOLVED that the firm of Vinson and Elkins and Don Howell in particular, be retained and made available to NRECA and others to develop and interpret additional financing alternatives, and

BE IT FURTHER RESOLVED, that the members of the Council agree to help fund the cost of Don Howell's advice and counsel within the limits established at this annual meeting.

The motion was seconded by Paul Bienvenue and carried by a unanimous vote.

Allen Ritchie, treasurer, was recognized for a report. The report covered the period of May 17, 1990 to May 15, 1991 and indicated reserve funds of $45,780.91. To-date, 38 systems had paid current dues. Following a motion by Larry Hopke, and a second by Tom Upshaw, the treasurer's report was approved as presented.

Chairman Kiley reported that the Council's Research Committee had committed a payment of $10,000 to the Vinson and Elkins law firm for the work they had done to-date on the REMDC proposal for Alternative Financing for Rural Electric Cooperatives. Mr. Kiley asked for input from the members of the Council concerning a recommendation made at a meeting of the officers and committee chairmen, that the Council consider proposing to Bob Bergland of

NRECA that if NRECA chose to utilize the services of Vinson and Elkins, and Don Howell in particular, that the Council underwrite an amount not to exceed $25,000 towards the legal fees of Vinson and Elkins to make certain that Don Howell's thoughts and ideas regarding alternative financing proposals be communicated. He asked if the Council felt an assessment of the membership in order to establish the funds for this project would be appropriate.

Chairman Kiley proposed for consideration of the group that a one-time assessment of $500.00 to each member system of the Council be made in the interest of helping fund this project. Discussion on the proposed assessment was held. Mr. Hines stated that to emphasize the importance of the project, his system would forego out-of-pocket expenses incurred to-date. Chairman Kiley stated that at a meeting held earlier of the officers and committee chairman, several systems had offered to forego out-of-pocket expense in order to further the alternative financing efforts.

A motion to approve a $500 per member system assessment to underwrite the services of Vinson and Elkins (not to exceed the maximum amount of $25,000) was made by Doyle Hines. Tom Upshaw asked that the motion be amended to exclude those systems foregoing out-of-pocket expenses from the special assessment. The motion as amended was seconded by C.J. Hoke and carried by a unanimous vote of the members present. Chairman Kiley stressed that if any members of the Research Committee felt they should be reimbursed for expenses incurred they should submit a statement of those expenses.

Bob Bauman, Chairman of the Nominating Committee, was recognized for a report. On behalf of the Nominating Committee, Mr. Bauman made a motion that the following nominations be approved (nominees are underlined):

Officers:		Term Expires
Chairman:	Jim Kiley	1993
Vice-Chairman:	Joe Satterfield	1993
Treasurer:	Allen Ritchie	1992
Secretary:	Edie Larsen	1993

Program Committee:		Term Expires
Chairman:	Paul Bienvenue	1992
	George Weaver	1994
	Dorothy Postel	1993
	Dan Bryan	1992
	Bob Roberts	1992

Nominating Committee:

Chairman:	Bob Bauman	1992
	Gene Joslin	1994
	Derl Hinson	1992
	Dave Pruitt	1993

Membership Committee:

Chairman:	Layton Wheeler	1993
	Steve Fausnaugh	1994
	Marlynn Cox	1992
	Wayne Swann	1992

Management Research Committee:

Chairman:	Paul Weatherby	1992
	Doyle Hines	1992
	Jim Sherfey	1994
	Bill James	1993
	Mike Gustafson	1993
	Kim Colberg	1993

There being no further nominations, a motion was made by Mr. Bauman, seconded by Dave Pruitt, that the slate of candidates be approved as presented.

Mr. Bauman reported that the Nominating Committee had reviewed the existing organizational structure of the Council and presented proposed changes in the organizational structure--to be reviewed at this year's meeting and voted on at the 1992 annual meeting of the Council. (The proposed changes would not affect the existing chairman or vice-chairman.)

The proposed reorganization would change the term of office for the Chairman and Vice-Chairman from three years to one year. A new position of Second Vice-Chairman would be created--to assume all duties of the Chairman in the absence of or inability of both the Chairman and Vice-Chairman. The term of office for the Second Vice-Chairman would be one year. The proposal would also change the members of the Cabinet to include the Secretary of the Council. The Committee composition would be changed to include "at least" three members in addition to the chairman.

A copy of the existing organization and the proposed organization changes is attached to and made a part of these minutes.

Layton Wheeler, chairman of the Membership Committee was recognized for a report. Mr. Wheeler stated that the Council had received nine new applications for membership and most of these cooperatives were represented at the meeting. Recertification was requested from two members. These are detailed in the attached report from the Membership Committee. With a motion by Bob Bauman and a second from Paul Bienevenue, the new members and those requesting recertification were approved.

Chairman Kiley thanked Doyle Hines and the Program Committee for the excellent program this year. All feedback concerning the program indicated everyone felt the program topics were timely and appropriate.

Chairman Kiley stated that several invitations to host the REMDC annual meeting in the coming years had been received. After discussion a motion was made by Allen Ritchie, seconded by Joe Satterfield to set the following meeting locations.

1992:	Hilton Head, South Carolina Host: Thomas Upshaw, Palmetto Electric Cooperative
1993:	Atlanta, Georgia Host: Derl J. Hinson, Georgia EMC
1994:	Williamsburg, Virginia Host: Cecil Viverette, Jr., Rappahannock Electric Cooperative

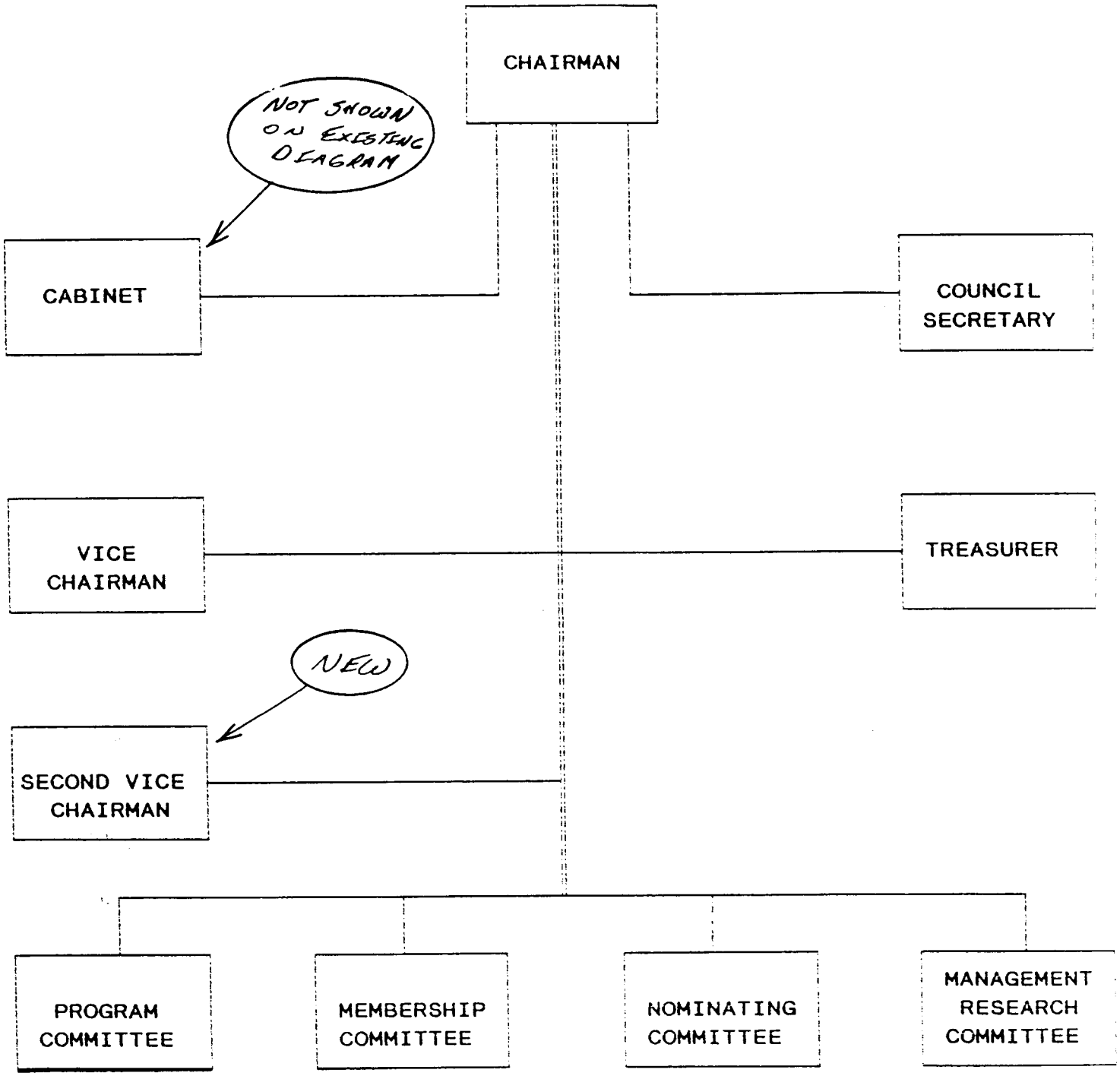
Chairman Kiley again expressed appreciation to Doyle Hines and his Guadalupe Valley staff for the excellent meeting place and the hospitality.

There being no further business to come before the Council, the meeting was adjourned.

Edie Larsen

Edie Larsen, Secretary

RURAL ELECTRIC MANAGEMENT DEVELOPMENT COUNCIL



EXISTING	PROPOSED
CHAIRMAN	CHAIRMAN
To act as general coordinator of activities of the Development Council and preside at all business meetings. To issue notice of all regular meetings of the membership or special meetings of the Cabinet. (The Cabinet to be composed of the Chairman, Vice Chairman, Treasurer, and all committee chairmen.) To represent the Development Council in relation to other organizations. Term of office to be three (3) years.	To act as general coordinator of activities of the Development Council and preside at all business meetings. To issue notice to all regular meetings of the membership or special meetings of the Cabinet. To represent the Development Council in relation to other organizations. Term of office to be one (1) year.
	CHANGED TERMS FROM 3 YEARS TO 1 YEAR
VICE CHAIRMAN	VICE CHAIRMAN
To assume all duties of the Chairman in the absence of or inability of that officer. Term of office to be three (3) years.	To assume all duties of the Chairman in the absence of or inability of that officer. Term of office to be one (1) year.
SECOND VICE CHAIRMAN	SECOND VICE CHAIRMAN
Not an existing position.	NEW POSITION
	To assume all duties of the Chairman in the absence of or inability of both the Chairman and the Vice Chairman. Term of office to be one (1) year.
CABINET	CABINET
See Chairman for existing description.	PULLED DESCRIPTION OUT OF CHAIRMAN DESCRIPTION AND ADDED "SECRETARY"
	To assist officers of Development Council. Meetings may be called by the Chairman, Vice Chairman or Second Vice Chairman. The Cabinet is composed of the Chairman, Vice Chairman, Second Vice Chairman, Treasurer, Secretary, and committee chairmen.
COMMITTEES	ONLY CHANGE WAS TO ADD "AT LEAST"
All committees to be composed of a Chairman and three (3) members. The Chairman to be nominated by the Nominating Committee. All committee chairmen and committee members to serve staggered terms of three (3) years each.	COMMITTEES
	All committees to be composed of a Chairman and at least three (3) members. The Chairman to be nominated by the Nominating Committee. All committee chairmen and committee members to serve staggered terms of three (3) years each.

RURAL ELECTRIC MANAGEMENT DEVELOPMENT COUNCIL

MEMBERSHIP COMMITTEE

1991 REPORT

COMMITTEE:

Layton Wheeler, Chairman
Delaware

Jean Stansell
Central Georgia

Marlynn Cox
Four County
Mississippi

Wayne Swann
Southern Maryland

Recertification was received from two (2) members:

Four County Electric Power Assn.
Columbus, Mississippi

Lee County Electric Cooperative
Ft. Myers, Florida

Membership invitations and/or meeting attendance was sent to the following:

Walt Truitt, General Manager
Aiken Electric Cooperative, Inc.
P. O. Box 417
Aiken, South Carolina 29801

James P. Ramseyer, Manager
Blachly-Lane County Co-op Electric Association
90680 Highway 99
Eugene, Oregon 97402

John S. Dean, Jr., General Manager/CEO
Amicalola Electric Membership Corporation
P. O. Box 10
Jasper, Georgia 30143

Charles E. Dalton, Manager
Blue Ridge Electric Cooperative, Inc.
P. O. Box 277
Pickens, South Carolina 29671

Rick Newland, Manager
Anoka Electric Cooperative
2022 N. Ferry Street
Anoka, Minnesota 55303

Robert M. Alderson, General Manager
Boone Electric Cooperative
P. O. Box 797
Columbia, Missouri 65205

E. E. (Skip) Strickland, Jr., Manager
Berkeley Electric Cooperative, Inc.
P. O. Box 1234
Moncks Corner, South Carolina 29461

Gary M. Bullock, General Manager
Carroll EMC
P. O. Box 629
Carrollton, Georgia 30117

William C. Phillips, General Manager
Clay Electric Co-op., Inc.
P. O. Box 308
Keystone Heights, Florida 32656

Robert Occhi, General Manager
Coast Electric Power Assn.
P. O. Box 2430
Bay St. Louis, Mississippi 39521

Joe B. Cade, General Manager
Coosa Valley Electric Cooperative, Inc.
P. O. Box 837
Talladega, Alabama 35160

Jimmy D. Springs, General Manager
DeWitt County Electric Co-op, Inc.
P. O. Box 231
Cuero, Texas 77954

David Bruce Weaklend, Manager
Farmers Electric Co-op, Inc.
P. O. Box 330
Greenfield, Iowa 50849

Jimmy White, Manager
Gibson County EMC
P. O. Box 47
Trenton, Tennessee 38382

John Browning, General Manager
Haywood EMC
1819 Asheville Road
Waynesville, North Carolina 28786

Ms. Connie M. Shireman
General Manager
Jo-Carroll Electric Co-op, Inc.
P. O. Box 390
Elizabeth, Illinois 61028

Charles Y. Walls, General Manager
Kootenai Electric Cooperative, Inc.
P. O. Box 278
Hayden, Idaho 83835

Jack Wolfe, Manager
Mid-Carolina Electric Co-op, Inc.
P. O. Drawer 669
Lexington, South Carolina 29072

James O. Baker, General Manager
Middle Tennessee EMC
810 Commercial Court
Murfreesboro, Tennessee 37129

Roger W. Geckler, General Manager
Minnesota Valley Electric Cooperative
P. O. Box 125
Jordan, Minnesota 55352

Gerald W. Freehling, General Manager
Mitchell EMC
P. O. Box 409
Camilla, Georgia 31730

Grant J. Earl, General Manager
Moon Lake Electric Association, Inc.
P. O. Box 278
Roosevelt, Utah 84066

Richard L. Arnold, Manager
N. W. Electric Power Co-op, Inc.
P. O. Box 312
West Grand Avenue
Cameron, Missouri 64429

John Bellgowan, General Manager
New Hampshire Electric Co-op, Inc.
RFD 4, Box 2100
Plymouth, New Hampshire 03264

Wayne D. Keller
Executive Vice President
North Carolina Association of
Electric Co-ops
P. O. Box 27306
Raleigh, North Carolina 27611

Daniel M. Walker, Vice President
Old Dominion Electric Cooperative
4201 Dominion Boulevard, Suite 300
Glen Allen, Virginia 23060

W. Douglas Bechtel, General Manager
Orcas Power & Light Company
P. O. Box 187
Eastsound, Washington 98245

Mark A. Glaess, General Manager
Oregon RECA
575 Union Street, N.E.
Salem, Oregon 97301

Steve A. Glaim, General Manager
Polk-Burnett Electric Co-op
1000 Highway 35
Centuria, Wisconsin 54824

Carl Sederlund, General Manager
Radiant Electric Cooperative, Inc.
P. O. Box 390
Fredonia, Kansas 66736

Cecil E. Viverette, Jr.
Executive Vice President & General Manager
Rappahannock Electric Cooperative
P. O. Box 7388
Fredericksburg, Virginia 22404

John Q. Adams, General Manager
San Bernard Electric Co-op, Inc.
P. O. Box 158
Bellville, Texas 77418

Jack Ware, General Manager
Singing River Electric Power Assn.
P. O. Box 767
Lucedale, Mississippi 39452

Marv Athey, General Manager
Trico Electric Co-op, Inc.
P. O. Box 35970
Tucson, Arizona 85740

Robert O. Toombs, General Manager
Tri-County Rural Electric Cooperative
22 North Main Street
Mansfield, Pennsylvania 16933

Wayne Livingston, Exec. Vice President
& General Manager
Troup Electric Membership Corporation
P. O. Box 160
LaGrange, Georgia 30241

Ross L. Dohlen
Valley Electric Association
P. O. Box 237
Pahrump, Nevada 89041

Applications for membership have been received from:

Amicalola Electric Membership Corporation
Jasper, Georgia
John S. Dean, Jr., General Manager/CEO

Berkeley Electric Cooperative, Inc.
Moncks Corner, South Carolina
E. E. (Skip) Strickland, Jr., Manager

Coosa Valley Electric Cooperative, Inc.
Talladega, Alabama
Joe B. Cade, General Managear

Jo-Carroll Electric Cooperative, Inc.
Elizabeth, Illinois
Connie M. Shireman, General Manager

Minnesota Valley Electric Cooperative
Jordan, Minnesota
Roger W. Geckler, General Manager

Orcas Power & Light Company
Eastsound, Washington
W. Douglas Bechtel, General Manager

Polk-Burnett Electric Cooperative
Centuria, Wisconsin
Steve A. Glaim, General Manager

Rappahannock Electric Cooperative
Fredericksburg, Virginia
Cecil E. Viverette, Jr., General Manager

Troup Electric Membership Corporation
LaGrange, Georgia
Wayne Livingston, Exec. Vice President & General Manager

ACTION TO BE TAKEN

1. **Mr. Chairman, the Membership Committee recommends the acceptance of nine (9) new members:**

Amicalola Electric Membership Corporation
Jasper, Georgia

Berkeley Electric Cooperative, Inc.
Moncks Corner, South Carolina

Coosa Valley Electric Cooperative, Inc.
Talladega, Alabama

Jo-Carroll Electric Cooperative, Inc.
Elizabeth, Illinois

Minnesota Valley Electric Cooperative
Jordan, Minnesota

Orcas Power & Light Company
Eastsound, Washington

Polk-Burnett Electric Co-op
Centuria, Wisconsin

Rappahannock Electric Cooperative
Fredericksburg, Virginia

Troup Electric Membership Corporation
LaGrange, Georgia

2. **The Committee additionally recommends 1991 recertification of the following members:**

Four County Electric Power Assn.
Columbus, Mississippi

Lee County Electric Cooperative
Ft. Myers, Florida

Systems to recertify in 1992:

Blue Ridge Mountain EMC
Young Harris, Georgia

Central Georgia EMC
Jackson, Georgia

Brunswick EMC
Shallotte, North Carolina

Southside Electric Cooperative
Crewe, Virginia

Wells REC
Wells, Nevada

Our 1992 membership with this action is as follows:

A. Daniel Murray, General Manager
Adams Electric Cooperative, Inc.
153 North Stratton Street
Gettysburg, Pennsylvania 17325

John S. Dean, Jr., General Manager/CEO
Amicalola Electric Membership Corporation
P. O. Box 10
Jasper, Georgia 30143

E. E. (Skip) Strickland, Jr., Manager
Berkeley Electric Cooperative, Inc.
P. O. Box 1234
Moncks Corner, South Carolina 29461

Douglas W. Johnson, Executive Vice President
Blue Ridge Electric Membership Corporation
Caller Service 112
Lenoir, North Carolina 28645

Joe Satterfield, General Manager
Blue Ridge Mountain EMC
P. O. Box 9
Young Harris, Georgia 30582

David J. Batten, General Manager
Brunswick EMC
P. O. Box 826
Shallotte, North Carolina 28459

Robert J. Bauman, General Manager
Butler County REC
P. O. Box 98
Allison, Iowa 50602

David Pruitt, General Manager
Cap Rock Electric Cooperative, Inc.
P. O. Box 700
Stanton, Texas 79782

Michael D. Gustafson, General Manager
Cass County Electric Cooperative, Inc.
P. O. Box 8
Kindred, North Dakota 58051

Gary J. Hobson, General Manager
Central Area Data Processing Cooperative
P. O. Box 408
St. Peters, Missouri 63376

George L. Weaver, President
Central Georgia EMC
P. O. Box 309
Jackson, Georgia 30233

Donald J. VanDeest, General Manager
Central Wisconsin Electric Co-op
P. O. Box 255
Iola, Wisconsin 54945

Bob Mackey, Executive Vice President
Clark County REMC
P. O. Box L
Sellersburg, Indiana 47172

Paul E. Weatherby, President
Cobb EMC
P. O. Box 369
Marietta, Georgia 30061

Joe B. Cade, General Manager
Coosa Valley Electric Cooperative, Inc.
P. O. Box 837
Talladega, Alabama 35160

H. Wayne Wilkins, General Manager
Davidson EMC
P. O. Box 948
Lexington, North Carolina 27293

E. Paul Bienvenue, General Manager
Delaware Electric Cooperative, Inc.
P. O. Box 600
Greenwood, Delaware 19950

Melvin D. Nicholas, General Manager
Eastern Iowa Light
& Power Cooperative
E. Fifth & Sycamore Streets
Wilton, Iowa 52778

Dan Bryan, General Manager
Farmers' Electric Cooperative, Inc.
P. O. Box 680
Chillicothe, Missouri 64601

Harold B. Smith
Flint EMC
P. O. Box 308
Reynolds, Georgia 31076

Edward E. Brown, Jr., General Manager
Four County EMC
P. O. Box 667
Burgaw, North Carolina 28425

Earl W. Weeks, General Manager
Four County Electric Power Association
P. O. Box 351
Columbus, Mississippi 39703

Derl J. Hinson
Executive Vice President
Georgia EMC
151 Ellis Street, N.E., Suite 422
Atlanta, Georgia 30303

Milton Doyle Hines, General Manager
Guadalupe Valley Electric Cooperative, Inc.
P. O. Box 118
Gonzales, Texas 78629

John A. Cheney, General Manager
Hancock-Wood Electric Cooperative, Inc.
P. O. Box 188
North Baltimore, Ohio 45872

Bruce Bosworth, General Manager
Iowa Lakes Electric Cooperative
1724 Central Avenue
Estherville, Iowa 51334

Randall Pugh, President/CEO
Jackson EMC
P. O. Box 38
Jefferson, Georgia 30549

Hollis E. (Gene) Joslin, General Manager
Johnson County Electric Cooperative
Association
P. O. Box 16
Cleburne, Texas 76033

Connie M. Shireman, General Manager
Jo-Carroll Electric Co-op, Inc.
P. O. Box 390
Elizabeth, Illinois 61028

James D. Sherfey, General Manager
Lee County Electric Cooperative, Inc.
P. O. Box 3455
North Fort Myers, Florida 33918

Kim R. Colberg, General Manager
Linn County RECA
P. O. Box 69
Marion, Iowa 52302

Dorothy A. Postel, General Manager
Maquoketa Valley REC
P. O. Box 370
Anamosa, Iowa 52205

Roger W. Geckler, General Manager
Minnesota Valley Electric Cooperative
P. O. Box 125
Jordan, Minnesota 55352

Kevin D. Sump, General Manager
Morgan County REMC
300 Morton Avenue
Martinsville, Indiana 46151

Lyle D. Brigle, Manager
North Western Electric Co-op, Inc.
P. O. Box 391
Bryan, Ohio 43506

William W. James, Jr.
President/General Manager
Northeastern REMC
P. O. Box 171
Columbia City, Indiana 46725

W. Douglas Bechtel, General Manager
Orcas Power & Light Company
P. O. Box 187
Eastsound, Washington 98245

G. Thomas Upshaw, General Manager
Palmetto Electric Co-op, Inc.
P. O. Box 21239
Hilton Head, South Carolina 29925

Robert L. Roberts, General Manager
Pioneer REC, Inc.
P. O. Box 604
Piqua, Ohio 45356

Steve A. Glaim, General Manager
Polk-Burnett Electric Co-op
1000 Highway 35
Centuria, Wisconsin 54824

Cecil E. Viverette, Jr.
Executive Vice President & General Manager
Rappahannock Electric Cooperative
P. O. Box 7388
Fredericksburg, Virginia 22404

Doug Wine, Executive Vice President
Shenandoah Valley Electric Cooperative, Inc.
P. O. Box 236
Mt. Crawford, Virginia 22841-0236

James Kiley, General Manager
Sioux Valley Empire Electric Assn., Inc.
P. O. Box 216
Colman, South Dakota 57017

Wayne Swann, General Manager
& Executive Vice President
Southern Maryland Electric
Cooperative, Inc.
P. O. Box 1937
Hughesville, Maryland 20637

Larry E. Hopkey, General Manager
Southeast Iowa Cooperative Electric Assn.
P. O. Box 440
Mt. Pleasant, Iowa 52641

C. J. Hoke, General Manager
Southern Nebraska RPPD
P. O. Box 1687
Grand Island, Nebraska 68802

John C. Anderson, Executive Vice President
Southside Electric Cooperative
P. O. Box 7
Crewe, Virginia 23930

Wayne Livingston, Exec. Vice President
& General Manager
Troup Electric Membership Corporation
P. O. Box 160
LaGrange, Georgia 30241

Noble Ray Stallons, General Manager
Utilities District of Western Indiana REMC
P. O. Box 427
Bloomfield, Indiana 47424

Daniel L. Kessler, Jr., General Manager
Wells REC
P. O. Box 365
Wells, Nevada 89835

TREASURER'S REPORT

THE RURAL ELECTRIC MANAGEMENT DEVELOPMENT COUNCIL

OPERATING STATEMENT

May 17, 1990 to May 15, 1991

INCOME:	
1990 Dues (Schedule A) - 2	$ 600.00
1991 Dues (Schedule B) - 38	11,400.00
Interest from Investments	1,774.29
TOTAL INCOME	$13,774.29
EXPENSES:	
Council- General	
1990 Meeting	
Wells Rural EC - Meeting Room, Ref., etc.	$ 6,064.49
Presentation - NRECA (Kabat- Expenses)	989.69
Flint EC - Placque - C. Beam	68.25
Blue Ridge EMC - 1990 REMDC Proceedings	670.10
Total 1990 Meeting	$ 7,792.53
Research Project	
Delaware EC - Expenses - Bacon	$ 519.75
Scott R. Herriott - Complete Project	2,621.32
Total	$ 3,141.07
TOTAL EXPENSES	$10,933.60
NET INCOME:	$ 2,840.69

SCHEDULE A

1990 Dues Paid After May 16, 1990		
Davidson EMC	6/05/90	$ 300.00
Southeast Iowa Co-op. EA	6/05/90	300.00
Total		$ 600.00

SCHEDULE B

1991 Dues Paid as of May 15, 1991		
Adams EC	5/15/91	$ 300.00
Blue Ridge EMC	5/15/91	300.00
Blue Ridge Mountain EMC	5/15/91	300.00
Brunswick EMC	5/15/91	300.00
Butler County REC	--	--
Cap Rock EC	5/15/91	300.00
Cass County EC	5/15/91	300.00
Central Area DP	--	--
Central Georgia EMC	5/15/91	300.00
Central Wisconsin EC	5/15/91	300.00
Clark County REMC	5/15/91	300.00
Cobb EMC	5/15/91	300.00
Davidson EMC	5/15/91	300.00
Delaware EC	5/15/91	300.00
Eastern Iowa Light & Power Co-op.	5/15/91	300.00
Farmers EC	5/15/91	300.00
Flint EMC	5/15/91	300.00
Four County EMC-NC	5/15/91	300.00
Four County EPA-MS	5/15/91	300.00
Georgia EMC	--	--
Guadalupe Valley EC	5/15/91	300.00
Hancock-Wood EC	5/15/91	300.00
Iowa Lakes EC	5/15/91	300.00
Jackson EMC	5/15/91	300.00
Johnson County EC	5/15/91	300.00
Lee County EC	5/15/91	300.00
Linn County RECA	5/15/91	300.00
Maquoketa Valley REC	5/15/91	300.00
Morgan County REMC	5/15/91	300.00
Northeastern REMC	5/15/91	300.00
North Western EC	5/15/91	300.00
Palmetto EC	5/15/91	300.00
Pioneer REC	5/15/91	300.00
Shenandoah Valley EC	5/15/91	300.00
Sioux Valley Empire EA	5/15/91	300.00
Southeast Iowa CEA	5/15/91	300.00
Southern Maryland EC	5/15/91	300.00
Southern Nebraska RPPD	5/15/91	300.00
Southside EC	5/15/91	300.00
Utilities District of Western IN REMC	5/15/91	300.00
Washington EC	--	--
Wells EMC	5/15/91	300.00
Total Members Paid - 38		$11,400.00
Grand Total		$12,000.00

THE RURAL ELECTRIC MANAGEMENT DEVELOPMENT COUNCIL

BALANCE SHEET

May 15, 1991

	5/15/91	5/16/90
ASSETS		
Current		
Cash in Checking Account	$12,475.46	$ 6,409.06
Investments - Savings Account	33,305.45	36,531.16
Total	$45,780.91	$42,940.22
MEMBERS' EQUITY		
Retained Earnings	$42,940.22	$42,871.59
Net Gain (Loss)	2,840.69	68.63
Total	$45,780.91	$42,940.22
	* * * * *	* * * * *

Respectfully submitted,

Allen R. Ritchie
Treasurer

SCHEDULE OF REMDC MEETING DATES AND LOCATIONS

Meeting	Date	Location
1st	May 22-23, 1958	Hotel Pickwick, Kansas City, MO
	(8 people present--Clyde Ellis participated)	
2nd	October 13, 1958	Hotel Pickwick, Kansas City, MO
3rd	March 9-10, 1959	Hotel Pickwick, Kansas City, MO
4th	October 1-2, 1959	Hotel Pickwick, Kansas City, MO
5th	May 19-21, 1960	Hotel Pickwick, Kansas City, MO
6th	May 24-26, 1961	Town House, Kansas City, KS
7th	May, 1962	Kansas City, KS
8th	May 15-17, 1963	Town House, Kansas City, KS
9th	May 6-8, 1964	Town House, Kansas City, KS
10th	May, 1965	Chicago, IL
11th	May 9-11, 1966	St. Louis, MO
12th	May 9-11, 1967	Fountainbleau Lodge, New Orleans, LA
13th	May 7-9, 1968	Peabody Hotel, Memphis, TN
14th	May 6-8, 1969	Antler Plaza, Colorado Springs, CO
15th	May 12-14, 1970	Bucanneer Lodge, Jekyll Island, GA
16th	May 12-15, 1971	Holiday Inn, Kimberling City, MO
17th	May 9-11, 1972	Radisson, Denver, CO
18th	May 8-10, 1973	Holiday Inn, Fargo, ND
19th	May 7-9, 1974	Landmark Inn, Myrtle Beach, SC
20th	May 20-22, 1975	Ramada Inn, Sioux Falls, SD
21st	May 11-13, 1976	Velda Rose Hotel, Hot Springs, AR
22nd	May 10-12, 1977	Sheraton Airport Hotel, Denver, CO
23rd	May 22-26, 1978	Crown City, Kansas City, MO
24th	May 21-25, 1979	Quality Inn, Hilton Head, SC
25th	May 19-22, 1980	Marriott (Bloomington), Minneapolis, MN
26th	May 18-22, 1981	Hilton, Myrtle Beach, SC
27th	May 24-27, 1982	Hyatt Regency, Nashville, TN
28th	May 23-26, 1983	Harley Hotel (Earth City), St. Louis, MO
29th	May 20-24, 1984	Waverly Hotel (Smyrna), Atlanta, GA
30th	May 20-23, 1985	Marriott Inn, Clarksville, IN
31st	May 19-22, 1986	Sheraton Inn, Myrtle Beach, SC
32nd	May 18-21, 1987	Sheraton West Port Inn, St. Louis, MO
33rd	May 16-19, 1988	Holiday Inn, Columbus, MS
34th	May 15-17, 1989	Holiday Inn, Fargo, ND
35th	May 21-23, 1990	Caesars Tahoe Resort, Lake Tahoe, NV
36th	May 19-22, 1991	LaMansion del Rio Hotel, San Antonio, TX

Note: Two meetings each were held in the years 1958 and 1959.

RURAL ELECTRIC MANAGEMENT DEVELOPMENT COUNCIL
OFFICERS AND COMMITTEES FOR 1991

Officers:		Term Expires
Chairman:	Jim Kiley	1993
Vice-Chairman:	Joe Satterfield	1993
Treasurer:	Allen Ritchie	1992
Secretary:	Edie Larsen	1993

Program Committee:		Term Expires
Chairman:	Paul Bienvenue	1992
	George Weaver	1994
	Dorothy Postel	1993
	Dan Bryan	1992
	Bob Roberts	1992

Nominating Committee:		
Chairman:	Bob Bauman	1992
	Gene Joslin	1994
	Derl Hinson	1992
	Dave Pruitt	1993

Membership Committee:		
Chairman:	Layton Wheeler	1993
	Steve Fausnaugh	1994
	Marlynn Cox	1992
	Wayne Swann	1992

Management Research Committee:		
Chairman:	Paul Weatherby	1992
	Doyle Hines	1992
	Jim Sherfey	1994
	Bill James	1993
	Mike Gustafson	1993
	Kim Colberg	1993

A. All committee members and officers are elected for three-year terms as noted.

B. Chairman of each standing committee named by the Nominating Committee and serves three years when elected, unless completing an unexpired term as a replacement.

SIOUX VALLEY ELECTRIC

P.O. Box 216 • Colman, South Dakota, 57017-0216

Phone: 605-534-3535

Toll Free: 1-800-234-1960

MEMO

TO: Participants in the 1991 REMDC annual meeting
San Antonio, Texas--May 20-22, 1991

FROM: James M. Kiley, Chairman/REMDC

DATE: May 29, 1991

SUBJECT: Council Resolution Regarding Alternative Financing

==========

I would like to thank you personally for your attendance and participation in the Rural Electric Management Development Council annual meeting in San Antonio last week. I felt we had an excellent program and that everyone attending left the meeting very well informed and challenged.

During the business meeting of the Council, on Wednesday morning, the members unanimously adopted a resolution urging continued exploration of alternative rural electric financing and their strong support for the alternative being proposed by the Council. This resolution includes the establishment of a $25,000 fund to underwrite the fees and expenses of Don Howell, of Vinson and Elkins, to make his expertise available to both NRECA and CFC.

We feel we have an opportunity to provide some constructive influence in one of the most important issues confronting the rural electric program today--that of future financing.

Anything you can do at your local system, with your G & T, or with your statewide organization, to inform managers and rural electric directors from your area about our proposal will be most helpful and appreciated.

For your information, I am enclosing a copy of the script for the slide presentation you saw in San Antonio. We are planning to have this presentation put on video tape and made available within the next few weeks. If you would like a copy of the slide presentation or video tape, please let me know.

If you feel the Council's alternative financing proposal deserves serious consideration, it would be very helpful if you would personally call Bob Bergland and let him know this. A call to your local NRECA director would also be helpful.

Again, thank you for your attendance and participation as well as anything you can do to help make our alternative financing proposal better known in your area.

Enclosures

RURAL ELECTRIC MANAGEMENT DEVELOPMENT COUNCIL
May 22, 1991

RESOLUTION

WHEREAS, the Rural Electric Management Development Council, at the request and challenge of Bob Bergland of NRECA, did undertake a study of viable alternatives to the existing lending program of the Rural Electrification Administration, and

WHEREAS, the Council, through its Research Committee, beginning in October of 1990 and with the advice and counsel of the international law firm of Vinson and Elkins, did conduct a comprehensive exploration of long term financing alternatives, giving consideration to the needs of all rural electric systems of all types and of varying short and long term capital needs, and

WHEREAS, the Council did coordinate its exploration of alternatives with and through NRECA, and did solicit input and reaction from CFC and CoBank, through numerous face to face meetings with NRECA, CFC and CoBank, and

WHEREAS, the Rural Electric Management Development Council, did at its annual meeting on May 20, 1991, provide a forum for a thorough review of the existing situation regarding the REA lending program, and

WHEREAS, the Council's members at their annual meeting did conclude the following:

1. That the REA lending program, as it is structured and being administered today, is not a viable long term financing alternative.

2. That the strength of the rural electric program is directly dependant upon the unity and cohesiveness of all rural electric systems.

3. That any alternative financing plan for rural electric systems must consider the future financing needs of all rural electric systems, distribution systems and G & T systems, as well as the broadly diverse funding needs of these systems.

4. That the political strength and influence of rural electric systems will never be greater than it is today.

5. That it has been contended by many in Congress, the Administration, and others that rural electric systems no longer need access to financing from the federal government in the traditional manner.

NOW THEREFORE BE IT RESOLVED, that the Council should continue its efforts to explore viable financing alternatives and to communicate and interpret the results of its explorations to rural electric systems throughout the country, and

BE IT FURTHER RESOLVED, that all such efforts shall be coordinated with and through NRECA as closely as possible, and

BE IT FURTHER RESOLVED that the firm of Vinson and Elkins and Don Howell in particular, be retained and made available to NRECA and others to develop and interpret additional financing alternatives, and

BE IT FURTHER RESOLVED, that the members of the Council agree to help fund the cost of Don Howell's advice and counsel within the limits established at this annual meeting.

CERTIFICATION

The above resolution was unanimously adopted by the members of the Rural Electric Management Development Council at their annual meeting in San Antonio, Texas, on May 22, 1991.

James M. Kiley, Chairman
Rural Electric Management Development Council

ALTERNATIVE FINANCING FOR RURAL ELECTRIC COOPERATIVES
SLIDE PRESENTATION

1. The REA loan program is in trouble.....

2. The primary source of financing for most of the nation's nearly 1,000 rural electric cooperatives, REA, is under fire....

3. Many in the rural electric program fear the REA lending program as we know it today is doomed....

4. They worry that without the cohesiveness REA has brought to the national rural electric program, individual systems will be left to fend for themselves, eventually leading to a total disintegration of the program that has served rural America so long and so well.

5. It would be difficult, if not impossible, to find a more successful partnership between the Federal government and rural citizens than the REA. In 1936, when the original REA Act was passed, only about 11-percent of American farms had electric service.

6. REA made low-interest loans and provided a wide range of expertise and assistance to rural electric cooperatives that were being organized to do what their members had been told could never be done.

7. Today, rural electric cooperatives in 46 states (and Puerto Rico) serve nearly 12-million farms, homes, schools, businesses, churches, irrigation systems -- more than 25-million people in-all.

8. When a typical rural electric cooperative needs financing, its usual resources are REA, the National Rural Utilities Cooperative Finance Corporation (better known as CFC) and the National Bank for Cooperatives (CoBank).

9. Today, most REC's get a portion of their loan funds from REA at 5-percent interest. The balance must come from CFC or CoBank, at prevailing market rates.

10. REA makes two types of loans -- Insured, and Guaranteed.

11. Insured loans are direct loans made to borrowers from REA funds currently available; they carry a five-percent interest rate.

12. Based upon established REA criteria, borrowers receive a percentage amount of their total loan requirements in the form of Insured loans -- 90 percent, 80 percent or 70-percent.

13. The balance of a cooperative borrower's loan requirements must be secured from a supplemental lender -- CFC or CoBank.

14. REA's sources of funds for Insured loans are:

    A. The Rural Electric & Telephone Revolving Funds.

    B. Congressional appropriations ($622-million in 1989 -- $485-million in 1991).

    C. Principal and interest payments being made by REA borrowers.

    D. Proceeds from the sale of "Certificates of Beneficial Ownership" (CBO's).

15. As of 1991, REA had $12-billion in outstanding Insured loans.

16. REA's other type of loan -- its GUARANTEED loans -- are made through the Federal Financing Bank, and are 100-percent guaranteed by the Federal Government.

17. The interest rate on Guaranteed loans is the cost of money to the U.S. Treasury plus 1/8th of one percent.

18. As of 1990, there was $21.2-billion in outstanding Guaranteed loans, primarily to G&T cooperatives.

19. In addition, REA makes loans to rural telephone systems, both direct and through the Rural Telephone Bank.

20. The Omnibus Budget Reconciliation Act of 1992 proposed a reduction of 25% in annual REA lending activity, reducing available loan funds to just over $400-million for the current fiscal year.

21. Further, REA has proposed a "Means Test" which would reduce access to REA funding to as low as 15% of a borrower's loan requirements. This would have an immediate and obvious impact on a borrower's interest expense and retail rates. Many industry observers predict this "Means Test" would also destroy the cohesiveness which has always characterized the rural electric program. In recent weeks and months a series of proposed rule changes from REA contain provisions that would reduce appropriations to the $200-million level and introduce further restrictive and divisive loan criteria.

22. Given the attitude of the current Administration, the long delays associated with REA loan applications, the age and maturity of most REA borrowers, and the very diverse needs of those borrowers, rural electric systems cannot function in such a climate of uncertainty.

23. The need to develop a workable alternative financing plan for the future appears evident.

24. Last year, NRECA General Manager Bob Bergland asked the Rural Electric Management Development Council (REMDC) to explore alternatives to the present REA lending program.

25. The Council is a group of about 35 rural electric managers who have met annually for over 30 years to explore ways of improving rural electric management and operations. They represent systems of all sizes and geographic areas. Over the years, this group has worked closely with REA, CFC and NRECA.

26. Council Chairman Jim Kiley of Sioux Valley Electric in Colman, South Dakota, assigned this project to the Council's Research Committee. The Research Committee includes the following general managers of rural electric cooperatives:

Paul Weatherby, Cobb EMC, Georgia as Chairman
Doyle Hines, Guadalupe Valley EC, Texas
Bill James, Northeastern EC, Indiana
Mike Gustafson, Cass County EC, North Dakota
Kim Colberg, Linn County EC, Iowa

For additional expertise, the Council retained the services of the international legal firm of Vinson & Elkins. Vinson & Elkins has had a long association with rural electric systems, and has provided financing advice and counsel to a number of REC's.

27. Early-on, it became obvious that any successful long-term financing program for rural electric cooperatives would need to possess certain important characteristics:

A. It would require constant access to the market for funds.
B. It would require arms-length regulation.
C. It would require an adequate "safety net".
D. It would require expertise in lending to the rural electric industry.
E. It would require a competitive source of funds.

28. In cooperation with Vinson & Elkins, the Council made a comparative analysis of the three primary sources of loan funds currently available to rural electric cooperatives. In a report entitled "Privatizing REA Funding for Rural Electric Cooperatives on a Sustainable Basis," the report concluded that while REA at present DOES possess the characteristics described above, CFC and the Bank for Cooperatives do not:

A. CFC is the rural electric program's second largest lender, but is not regulated except by the REA itself on a de facto basis, and it is "highly unlikely" according to that report that Congress would transfer REA's outstanding loans to CFC without "creating a regulatory scheme."

B. Without REA, CFC would have only limited access to financial markets.

C. CFC was designed to supplement REA; it would have to be substantially restructured if REA was to be eliminated.

D. CoBank appears to have most of the characteristics cited above, but its principal expertise is in lending to agricultural cooperatives, which constitute its principal constituency.

29. The Council's report recommends "Creating a 'Bank for Utility Cooperatives' as a Government Sponsored Enterprise, using the mechanism of the Farm Credit System."

Current Farm Credit System Banks hold $50-billion in loans to agriculture, agribusiness and rural housing; they are the dominant lender to the agricultural sector of the American Economy.

The System is an efficient financial intermediary, issuing AAA-rated bonds to the investing public at small margins above comparable Treasury notes and loaning the proceeds to borrowers at favorable rates.

Because all System banks are COOPERATIVES, their borrowers hold all their voting stock and elect their directors.

30. A Bank for Utility Cooperatives could use existing Farm Credit System machinery, including the Government Sponsored Enterprise (GSE) status of the System.

Like other Government Sponsored Enterprises such as "Fannie Mae" and "Freddie Mac," the Farm Credit System is privately held. It is federally chartered, however, and is so closely identified with the Government that investors "perceive an implicit Federal backing."

GSE status produces low-cost funding second only to the cost of funding directly from Treasury, and that would greatly benefit rural electric borrowers. The Bush Administration, however, does not favor the creation of new GSE's, so the creation of a new GSE for rural electric cooperatives would be unlikely. That problem would be solved by creating a Bank for Utility Cooperatives under the existing GSE status of the Farm Credit System.

31. A Bank for Utility Cooperatives within the framework of the Farm Credit System would meet ALL of the tests for a sustainable alternate source of funding for rural electric systems:

A. ACCESS TO THE MARKET FOR FUNDS has been constant for Farm Credit System banks, even in times of financial stress. During the agricultural economic crisis of the mid 1980's, Congress passed special legislation to address the problems of the System. The investing public continued to buy the System's bonds throughout that period, and those bonds were never downgraded from AAA.

B. FEDERAL REGULATION OF THE SYSTEM is performed by the Farm Credit Administration (FCA), an independent agency of government. The Farm Credit Administration is an "arms length" regulator with audit, examination and enforcement functions over System banks. The Farm Credit Administration does not regulate System bank borrowers, however, and as a regulator of the BUC would have NO direct authority over rural electric cooperatives.

The agency status of FCA would facilitate the government's transfer of the REA's $34-billion portfolio out of Treasury and into the regulated BUC. While FCA has no current expertise in utility cooperative lending, Vinson & Elkins in its report says "It would be expected that the creation of a BUC... would involve a transfer of personnel from the REA to FCA." This, the report continues, "would ease one of the political impediments to sun-setting the REA -- the potential dislocation of its professional staff...."

C. The Farm Credit System's SAFETY NET is the Farm Credit Insurance Fund. Premiums on outstanding loans make-up this fund, and it will insure that System banks can make payment on their bonds.

D. The Farm Credit System's present Banks for Cooperatives, as well as CFC, could continue to provide supplemental and COMPETITIVE SOURCES OF ELECTRIC UTILITY COOPERATIVE LOANS. An additional and very important continuing source of funds would be the Federal Financing Bank. Maintaining the Federal Financing Bank's government guaranteed loans is vitally important for the G & T's, as well as in the future, for the larger distribution systems.

E. EXPERTISE IN RURAL ELECTRIC COOPERATIVE LENDING, says the report, "would have to be built, perhaps with key personnel from the CFC or the REA...."

32. Once that expertise is in place, a BUC would provide rural electric cooperatives all of the current beneficial features of REA, but in a cooperative bank governed by directors elected by its borrowers.

33. Still another major reason for proposing a BUC using existing FCA machinery is operational flexibility:

A. The FCA would regulate the BUC, but not individual rural electric borrowers. Direct regulation such as REA exerts over current borrowers would be eliminated.

B. A BUC would be able to offer flexible lending programs. Farm Credit System banks commonly make direct loans and hold them. However, System banks also have the authority to pool loans and sell them on a secondary market. The BUC could be given those powers as well as the authority to guarantee loans.

C. A BUC with flexibility in matching financing needs of all REC's, including G & T's, would allow it to obtain workable access to financial markets.

D. Legislation could allow the BUC to replace current REA all-inclusive mortgage requirements with more appropriate forms of loan documents.

E. Loan terms could be tailored to meet the needs and credit-worthiness of particular borrowers, and might permit both secured and unsecured loans, operational covenant-based borrowing, parity and subordinate debt, or any combination of those features.

F. The BUC could eliminate the requirement to comply with the National Environmental Policy Act.

34. The impact of higher cost long-term financing, predicted to be as low as 6.5 to 8%, through the BUC would be softened through a phase-in process. Only new loans would be subject to the new higher interest rates and all existing loans could retain their present financing rates.

35. New loans would continue at below-market rates. Internally generated money through transfer of the Revolving Fund would be blended with new borrowing at rates that would likely be within 20 basis points of comparable Treasury bills.

36. The future roles for both CFC and the Farm Credit System's CoBank have also been considered in this proposal.

A. CoBank

1. Shift utility lending to BUC.
OR
2. Retain authority to make either direct loans to REC's or to supplement BUC loans.

B. Cooperative Finance Corporation (CFC)

Merge CFC into BUC bringing CFC's extensive management expertise to the BUC.

OR....

Retain its present role as a supplementary lender--to the BUC rather than REA.

37. Whichever of these options is ultimately adopted, would be reassuring to the rural electric cooperatives, the Congress and the capital markets.

38. To accomplish this requires an Implementation Strategy. The report proposes a four-pronged approach of simultaneous activity:

A. Financial Analysis

A detailed analysis and financial feasibility study utilizing the expertise of a financial consulting firm with experience in financing rural electric cooperatives or municipal electric systems would be made which would include:

1. Merging of data bases at:
   REA
   CFC
   CoBank
2. Projection of loan fund requirements.
3. Cash flow forecasts.
4. Rewriting existing mortgages.
5. Evaluation of market access for funds.
6. Projection of loan terms and interest rates.

B. Organization and Governance

The organization structure of the BUC would represent another key challenge. A detailed study would have to be made to determine the most suitable structure, staffing and board composition. For the BUC to meet its intended purpose would require structure and staffing built on a unique blending of professionalism and a commitment to rural electric objectives. Included in the organization would be:

1. Composition of the Board of Directors--to be elected from borrowers.
2. Qualifications of a Chief Executive Officer--to be appointed by board.
3. Key staff and employees required.

C. The third element of this approach would be:

Research and Drafting

Vinson and Elkins, utilizing expertise in their Houston and Washington offices would perform, in consultation with NRECA, research and necessary drafting of proposed legislation, loan agreements, etc. that deal with:

1. Antitrust Issues.
2. Tax Questions.
3. Lender Liability Laws.
4. Securities Issues.
5. Impact of State Laws.
6. Uniform Lending Standards.

D. The fourth element would be:

Political Action

An undertaking of this magnitude requires astute planning and execution of appropriate political and legislative action. The membership of NRECA should call on NRECA to provide the leadership and direction needed including:

1. Informing and developing support of the NRECA membership through publications and field hearings.
2. Establishing a joint planning and implementation staff involving representatives of NRECA, CFC, and a law firm. Vinson and Elkins seems eminently qualified for this responsibility.

3. Proposing BUC to the Executive Branch including the White House and Treasury.
4. Obtaining support from Farm Credit System.
5. Working with and developing support of the relevant Congressional Committees.
6. Having legislation introduced with as many sponsors as possible.
7. Working with allied organizations and other interested political constituencies to develop a coalition to support the proposed legislation.

39. CONCLUSION

In conclusion, this is a long-term future financing plan that will assure a role for rural electric cooperatives in this country's next fifty years. It is a plan that will preserve the cohesiveness that has for so long been one of the key strengths of the rural electric program. It is a plan which meets the "five key tests" for sustainability and success. It is a plan which meets the concerns of the Administration and Congress regarding today's REA lending program. Finally, it is a plan drafted BY and FOR rural electric cooperatives.

The Role of the Rural Electric Management Development Council is to make this concept known, so that representatives of rural electric cooperatives nationwide may express their feelings to NRECA through field hearings or whatever other vehicle might be most appropriate.

The Council stands ready to work for and support ANY plan which will best meet future financing needs and preserve rural electric systems as a cohesive industry group.

RURAL UTILITY
INSIGHT

Financial Insight for the Nation's Rural Utilities
CoBank, Springfield Bank...

SPRING
1991

The Banks for Cooperatives
St. Paul Bank, Farm Credit Leasing

INTEREST IN ALTERNATIVE FINANCING ESCALATES

As the Rural Electrification Administration (REA) and Rural Telephone Bank (RTB) financing programs are being scrutinized, rural utilities are taking a close look at alternative sources of financing.

The scrutiny of REA and RTB is fueled by one overriding concern: the federal deficit. "Increasingly, our government is unable to meet the needs of people in rural America," says Doug Sims, president of CoBank, who addressed the National Rural Electric Cooperative Association (NRECA) annual meeting in New Orleans in February, as well as to the NRECA board's Cooperative Finance Study Committee in Washington, D.C., in April.

CoBank is one of three Banks for Cooperatives (BCs); others include the St. Paul Bank and the Springfield Bank. The BCs provided $2.8 billion in loans and commitments to more than 400 rural utilities at year-end 1990.

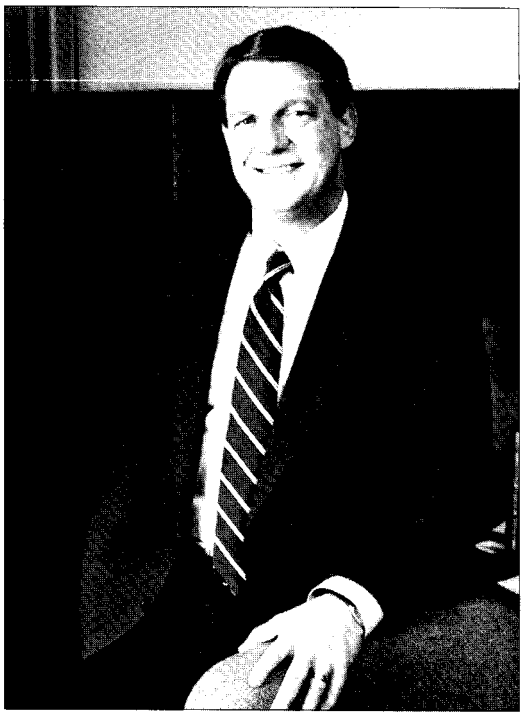
"The BCs provide financing to agricultural cooperatives as well as rural utilities, and federal budget concerns also affect them. The 1990 Farm Bill will cut farm programs by $13 billion in the next five years, and the cuts will be felt by all who serve rural America.

"Despite what some of the President's economists may think," Sims continues, "private lenders can meet only part of the credit needs of rural electric and telephone systems. Supplemental lenders like CoBank must charge market interest rates—well above the five percent REA rate. Some utility systems simply may not be able to attract capital from other sources without government assistance."

REA was formed more than 50 years ago to help bring electricity to rural America. Today, REA provides financing to both rural electric and telecommunications systems. Earlier this year, the Bush administration proposed that the availability of REA direct loans be greatly reduced. RTB, a quasi-governmental bank which provides loans to rural telephone companies, is also being scrutinized.

"The BCs have not taken a position on any of the proposals which offer a solution to REA and RTB concerns," Sims says. "An acceptable solution would have to take into account the diverse financial requirements and resources of all rural utilities, including those which couldn't attract capital without some type of federal assistance."

Understandably, REA and RTB borrowers will fight to preserve the programs. "Meanwhile, it's only prudent that these borrowers take a closer look at other sources of financing," Sims says. "They can't afford to have all their eggs in one basket." ◆



Doug Sims of CoBank spoke to NRECA's Finance Committee in April.

AGENCY STATUS HELPS KEEP BC INTEREST RATES COMPETITIVE

As a result of the S&L bailout, the U.S. Treasury is looking at ways to strengthen government-sponsored enterprises (GSEs).

"The Banks for Cooperatives have been able to offer competitive interest rates to rural utilities in part because of our agency status as part of the Farm Credit System,"

Continued on last page

VIDEO ON BANKING IN THE '90s AVAILABLE

The banking industry faces many changes in the '90s. How will this affect you? To find out, view "Change and Opportunity," CoBank's new 25-minute videotape featuring interviews with industry and opinion leaders ranging from the president of the American Bankers Association to the president of J.P. Morgan Securities. To order, call (303) 740-4159.◆

RURAL UTILITY

INSIGHT

SPRING 1991

OUR PURPOSE

RURAL UTILITY INSIGHT is published quarterly by the Banks for Cooperatives (BCs) to provide financial insight to the nation's rural utilities.

SERVICES WE PROVIDE

The BCs provide financial services to rural utility systems and provide leasing through the Farm Credit Leasing Services Corporation. The BCs include CoBank, Springfield Bank and St. Paul Bank.

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BCs ASK FOR SUPPORT FOR GSEs

Continued from first page

explains Jack Cassidy, senior vice president of CoBank. "We're currently fighting to keep all the benefits of agency status." The Banks for Cooperatives (BCs) include CoBank, the Springfield Bank and the St. Paul Bank.

Farm Credit is one of seven GSEs; more well-known GSEs include the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac).

"GSEs were created to serve specific public policy and credit functions such as housing, education and, in our case, agriculture and rural America," Cassidy says. "As federally chartered entities, the GSEs have a special relationship with the government and are perceived as being backed by the government. As a result, GSEs have been able to acquire funds at competitive rates. We've passed this along to our customers in the form of competitive interest rates."

Farm Credit raises funds through the sale of bonds and securities. The BCs provide financing to rural utilities and ag co-ops, and other parts of the Farm Credit System provide credit to farmers and ranchers.

While GSE funding is not counted in the federal budget, the administration seeks to distance GSEs from the government. In 1989, Treasury announced a proposal to make itself a super-regulator over all GSEs. The proposal would require GSEs to obtain, without any implicit government guarantee, triple-A ratings from two national credit rating services. Only one major bank has a triple-A rating.

"National credit rating services have already informed us that a triple-A rating would be nearly impossible for a single-industry lender such as Farm Credit to achieve," Cassidy says. He adds that Farm Credit already has in place most of Treasury's other recommendations: a strong independent regulator; risk-based permanent capital standards; an insurance fund to protect investors and securities; and tight management controls.

"More regulations and a triple-A rating would mean higher capital requirements, tighter credit and higher interest rates for customers," Cassidy says.

The Treasury plan was set back by a recent report issued by the Congressional Budget Office (CBO). The CBO report concluded that a new regulatory structure would increase costs and impede Farm Credit's ability to carry out its mission. Congress is holding hearings on the CBO report.

Will Treasury succeed in reducing the benefits of agency status for GSEs? Not without a fight. Key congressional leaders have taken a strong stand against the plan.

While Farm Credit has its supporters, some have compared Farm Credit's financial problems in the '80s to recent S&L problems. Congress authorized a $4 billion loan for Farm Credit; however, the S&L debacle is estimated to cost up to $500 billion. "It's an unfair analogy," Cassidy says. "There wasn't any hint of fraud with Farm Credit's problems; they were due largely to the U.S. economy. And unlike the S&Ls, Farm Credit has already begun to repay its assistance."

Those who wish to comment on the need for agency status are urged to contact Congress and the administration. ◆

PRIVATIZING REA FUNDING FOR RURAL ELECTRIC COOPERATIVES ON A SUSTAINABLE BASIS

Creating a "Bank For Utility Cooperatives" using the Mechanism of the Farm Credit System

This proposal addresses the privatization of Rural Electrification Administration ("REA") lending for rural electric cooperatives, including both distribution and generation-and-transmission cooperatives, through the transfer of the REA's portfolio from Treasury to a private source of stable and sustainable funds. For reasons discussed below, rural electric cooperatives can no longer count on the REA's lending programs as their principal sources of funds in the future. Furthermore, existing supplementary sources of lending cannot take the REA's place.

Rural electric cooperatives need to create a permanent alternative funding source. The most practical solution is to establish a new Bank for Utility Cooperatives ("BUC") within the framework of the Farm Credit System, that would be owned by rural electric cooperatives and dedicated to rural utility cooperative lending.

Part I of this proposal sets out the problem that rural electric cooperatives now face. Part II explains the proposed solution. Part III discusses the roles of existing private sources of funds. Part IV sets out an implementation strategy.

I. The Funding Problem for Rural Electric Cooperatives

The Administration has put REA lending programs under strong political and budgetary scrutiny, calling them unnecessary.

> "The REA was established to ensure electric and telephone service to rural areas. It has fulfilled its mandate . . . . There is no longer any need for Federal subsidies." See "Major Policy Initiatives" in the Administration's proposed Budget for FY 1990, at p. 106.

The new (February, 1991) proposed FY 1992 Budget declares (p. II-244):

> "The REA loan program is a clear example of a Federal program that has outlasted its original mandate. The program's goals have essentially been accomplished. . . . Nearly all borrowers can raise funds in private credit markets, without causing a significant increase in subscriber rates."

As the FY 1992 Budget notes:

> "Currently, REA has over $37 billion in outstanding loans to about 2,000 borrowers. Its electric borrowers provide 11 percent of the total electricity sold in the U.S., and its telephone borrowers serve four percent of total U.S. access lines. For 1991, *direct loans* are authorized at $1.8 billion.
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> Total REA loan *subsidies* in 1991 are estimated to be $157 million." (p. II-244-245, italics added.)

The Administration proposes that the previously enacted 1990 OBRA trend of reducing direct loans and moving to guaranteed loans be intensified, that 2% telephone loans be abolished, and that distribution cooperatives be required to guarantee the repayment of power supply loans (with concomitant authority for REA to preempt state regulatory bodies and raise wholesale power rates) (p. II-244-245). Reductions in actual REA *outlays* caused by the shift from direct to guaranteed loans over the next five years are shown as:

	1992	1993	1994	1995	1996
			(in millions)		
$	-13	-38	-59	-74	-67

While some congressional opposition will surface, it is likely that the REA ultimately will be significantly modified or eliminated altogether.[1/]

Although current proposals for REA shrinkage or elimination assume that funding can be replaced by existing private sources, there would be very serious short-term and long-term problems. Over the short-term, the cost of funds would rise for all rural electric cooperatives, with the increased burden falling hardest on the smallest and weakest. There would be decreased access to funds for many cooperatives and no guarantee of access for any cooperatives during times of stress. Furthermore, private sources of funding would not replace the beneficial aspects of federal supervision and standardization that many cooperatives need. If REA service territories were also lost, then investor owned utilities ("IOUs") would be free to try to raid selected parts of the rural system. For many reasons, even short-term reliance on private funding would fragment the cooperative movement.

[1/] Several phase out initiatives of REA-related activity are already under way: the Alaska Pilot Project on Privatization (7 U.S.C. § 940a) and the current authorization for privatizing the RTB (7 U.S.C. § 950).

The most serious long-term problem would be the loss of a sustainable banking system, which is the REA's principal function for rural electric cooperatives. Any banking system must satisfy five factors in order to survive economic adversity and serve borrowers well:

(1) *access to the market for funds on a constant basis* to meet borrower needs when they arise, especially during hard times, which the REA satisfies through its access to the Treasury;

(2) *arm's-length federal regulation* to restrain excessive lending, which the REA provides (but, for example, the S&L industry lacked);

(3) *an adequate safety net* such as the REA's agency status, which is provided in other sectors by such devices as an insurance fund;

(4) *expertise in lending to the industry doing the borrowing*, which the REA has about rural electric cooperatives to a unique degree; and

(5) *competitive sources of funds* such as, in the rural electric utility sector, the National Rural Utilities Cooperative Finance Corporation ("CFC") and the Farm Credit System's Banks for Cooperatives ("BCs").

No existing source of rural electric funding other than the REA meets all of these tests. The CFC, which is the sector's second largest lender with approximately $4.5 billion in loans outstanding, is not regulated except by the REA itself on a *de facto* basis, and it is highly unlikely that the Administration would transfer $35 billion in REA lending to the CFC without creating a regulatory scheme. Furthermore, the CFC would only have limited market access were it not for the REA's status as the dominant lender, and the CFC has no safety net. The CFC was designed to supplement the REA and would have to be substantially restructured in order to replace it.

The tests are almost met by the BCs, which include the National Bank for Cooperatives ("CoBank") as the rural electric sector's third largest lender with $1.6 billion in electric and telephone utility loans outstanding. As explained further below: (1) the BCs do have constant market access; (2) they are federally regulated; and (3) the Farm Credit System does have its own safety net. However, utility lending is only 17% of CoBank's business, with CoBank's real expertise in the specialized financing of agricultural cooperatives (49% of its portfolio) and international agricultural business (34%).

II. Creating a Bank for Utility Cooperatives Within the Farm Credit System's Framework

Any effort to replace the REA will require federal legislation, if only to sunset the agency and to transfer its accounts to another entity. A sustainable replacement for the REA would be created if that legislation authorized a new bank within the framework of the Farm Credit System, able to use the existing machinery of the System and devoted to rural utility cooperative lending -- a Bank for Utility Cooperatives or BUC. In all probability, a BUC would also allow rural electric cooperatives more operational flexibility. There are four reasons.

First, a BUC within the framework of the Farm Credit System would meet all tests for a sustainable alternate source of funding for rural electric cooperatives. Current System banks hold $50 billion in loans to agriculture, agribusiness, and rural housing, and they are the dominant lenders to the agricultural sector. The System is an efficient financial intermediary, issuing AAA-rated bonds to the investing public at small margins above comparable Treasury notes and loaning the proceeds to borrowers at favorable rates. Because all System banks are themselves cooperatives, their borrowers hold all of their voting stock and elect the directors.

Access to the market for funds has been constant for the System even in periods of financial stress. Investors have been historically correct in believing that the System is too important to the agricultural sector for the federal government to allow it to fail, which would happen if the System were not able to access the market on a continuing basis to roll over its debt. Thus, during the recent, severe downturn in the agricultural economy, Congress passed special legislation to address the problems of System components in 1985, 1986, and 1987. The investing public continued to buy the System's bonds throughout that period, and those bonds were never downgraded by Moody's from AAA. The System's market access makes the System an unusually stable and constant source of funds for a BUC.

Federal regulation of the System is performed by the Farm Credit Administration ("FCA"), an independent agency of the government. FCA is an "arms-length" regulator, with audit, examination, and enforcement functions over System banks.[2/] FCA does not regulate System bank borrowers, and, as a regulator for the BUC, would have no direct authority over rural electric cooperatives. However, the agency status of FCA would

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[2/] Congress imposed "arms-length" status on FCA in 1985 to reform the agency's prior orientation as a "promoter" of the System. FCA's past role as promoter contributed heavily to recent financial problems of certain System components, just as the promoter role of the Federal Home Loan Bank Board contributed to the recent S&L crisis.

facilitate the government's transfer of the REA's $34 billion portfolio out of Treasury to the regulated BUC. While FCA has no current expertise in utility cooperative lending, it would be expected that the creation of a BUC to use existing System machinery would involve a transfer of personnel from the REA to FCA. The possibility of such a transfer would ease one of the political impediments to sunsetting the REA, which is the potential dislocation of its professional staff.

The *safety net* for the Farm Credit System is the Farm Credit Insurance Fund, created by Congress in 1987 and currently in a 5-year phase-in period. The Insurance Fund is being funded by the System's banks through premiums based on outstanding loan volume, and it will insure the ability of System banks to make payments on their bonds. Thus, the Insurance Fund will contribute to the assurance of investors in the stability of System bonds as well as prevent any financial problems in individual System banks from affecting other banks.[3/] A BUC could participate in the current Insurance Fund, or it would likely be large enough to establish its own, according to its authorizing legislation. In any event, a BUC would probably want a lower premium rate for Insurance Fund payments than is paid by current System banks, due to the relative safety of electric utility loans over agricultural loans.

Expertise in rural electric cooperative lending would have to be built, perhaps with key personnel from the CFC or the REA. Once that expertise is in place, however, rural electric cooperatives would have in a BUC all of the beneficial aspects of the current REA, but in a cooperative bank governed by directors chosen by the rural utility borrowers.[4/] A BUC could also continue the financial and other services currently provided by the REA to borrowers, because System banks commonly provide such services.

Competition from different funding sources would continue from the System's BCs, as noted in Part III of this proposal.

The second major reason for proposing a BUC that could use existing System machinery is the Government-Sponsored Enterprise ("GSE") status of the System. Like

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[3/] There is one exception to this preventative function. System banks share joint and several liability under the bonds they now issue, to be activated under present law only if the Insurance Fund becomes exhausted. Joint and several liability on System bonds has existed since 1978 without being triggered. A BUC could avoid even the possibility of such liability by not joining in such joint and several issuances. Furthermore, legislation to authorize a BUC could establish a different rule.

[4/] Merely expanding one or more of the System's current BCs to replace the REA would leave that expanded bank split between lending to agricultural cooperatives and utility cooperatives, which have very different needs.

other GSEs such as Fannie Mae and Freddie Mac, the System is privately held, although it is federally chartered and so closely identified with the government that investors perceive an implicit federal backing. Because GSE status produces low-cost funding second only to funding by the Treasury, GSE status for the BUC would greatly benefit rural electric cooperatives. However, the Administration is opposed to the creation of new GSEs, and a free-standing, new GSE for electric cooperatives would be unlikely. That problem would be solved by creating a BUC under the existing GSE status of the System.

The third reason is operational flexibility. FCA would regulate the BUC, not the utility cooperatives who would be the BUC's borrowers. Therefore, direct regulation such as the REA exerts over rural electric cooperatives would be removed. Furthermore, a BUC within the System's framework would itself be a cooperative governed by directors chosen by the borrowers, so that BUC-imposed requirements would still be likely to prudently allow more management discretion to rural electric cooperatives than they now have. The BUC would also be able to offer flexible lending programs. While System banks commonly make direct loans and hold them, System banks have authority to pool loans and sell them on a secondary market. The BUC could be given those powers as well as the authority to guarantee loans to rural electric cooperatives. Flexibility in matching financing needs of rural electric cooperatives, including the generation-and-transmission cooperatives, to the realities of the capital markets would be an important part of its authority in order for it to obtain workable access to the capital markets. Appropriate legislation could also allow the BUC to replace the monolithic REA form of all-inclusive mortgage with new, more modern forms of loan documents. Such forms could themselves be tailored to fit the needs and credit worthiness of particular borrowers and might permit secured or unsecured loans, operational covenant-based borrowings, parity and subordinate debt, or any combination of these features. Lastly, the Farm Credit System does not have federal agency status (being a GSE), and the National Environmental Policy Act ("NEPA") does not apply to actions taken by System banks or their borrowers. Therefore, rural electric cooperatives would not be subject to NEPA compliance. In short, by borrowing from the BUC, rural electric cooperatives would gain much or all of the operational flexibility of agricultural cooperatives or IOUs.

The fourth reason favoring a BUC within the System's framework lies in preserving and using the long tradition of the rural cooperative movement, represented in large part by rural electric cooperatives and Farm Credit System institutions. The Administration has shown a strong philosophical/intellectual opposition to cooperatives in the recent past, but "privatizing" the REA merely by phasing the agency out could lead quickly to financial difficulty for many electric cooperatives and a fragmentation of the cooperative movement, as noted at the beginning of this proposal. The rural electric cooperative system can be

kept together and strengthened by joining with the Farm Credit System, which would produce a strong political constituency dedicated to cooperative principles.

III. The Roles of Existing Private Sources of Funds

The Farm Credit System's present BCs could continue to provide supplemental and competitive sources of electric utility cooperative loans. While all BC utility lending authority could be shifted to the BUC, that might be unnecessarily restrictive. There would be more funding options if the BCs were to retain independent authority to make direct loans to rural electric utilities and to participate in BUC loans.

The CFC could play a key role in the very creation of a BUC. One option would be for CFC simply to retain its supplementary role (becoming dependent on BUC mortgages as it is now dependent of REA's). Another option (which has significant political advantages and would strengthen CFC operations as well) would be for CFC to become Congressionally merged into the new BUC, with the BUC being presented to Congress and the capital markets as the Congressionally created successor to both REA and CFC. Such a contribution of equity to the BUC from the cooperatives who own CFC would thus match the government's contribution to BUC of its equity in REA's portfolios. The result would not only make political sense, but would ensure the strengthening of the investments by the current CFC cooperative owners by moving them into an entity with GSE status.

This option also means that CFC's extensive management expertise in rural electric cooperative lending would be available to the BUC, thus meeting one of the other fundamental tests discussed above. This should be reassuring to the borrowing cooperatives, the Congress, and the capital markets.

IV. Strategy for Implementation

Implementation of a BUC proposal should proceed on three tracks more or less simultaneously: (1) financial analysis; (2) research and drafting; and (3) political action. It will be critically important to coordinate all work very closely.

Financial Analysis

- Collect current data on all types of REA assets and liabilities, such as: principal and interest payments by borrowers to the REA on insured and guaranteed loans, by year; principal and interest

payments by the REA on its interim note to the Treasury, by quarter and by year; principal and interest payments by the REA on CBOs, by year; principal payments by the REA on non-interest bearing mortgage notes to the Treasury, by year; and payments on guaranteed loan defaults, by year.

- Analyze cash flow on REA accounts to determine whether there should be restructuring of the payback schedules on the CBOs and for principal on the non-interest bearing mortgage notes used to fund the Revolving Fund.

- Analyze mortgages of REA, CFC and Co-Bank to determine if prepayment or other restructuring affecting the cash flows of the BUC would be necessary to produce the operational flexibility required for BUC mortgages in the capital markets.

- Analyze the levels and timing of future funding needs of rural electric cooperatives.

- Analyze the ability of a BUC to continue the funding of certain cooperatives at less than market interest rates.

- Analyze potential market access for the BUC, and whether the BUC should fund its operations by issuing bonds in conjunction with existing Farm Credit System banks or on a stand-alone basis.

- Analyze different lending options for the BUC such as direct loans, loan guarantees, and loan pooling for sale on a secondary market, with respect to the range of effective interest rates that the BUC could offer to rural electric cooperatives.

- Analyze how the BUC could assume any existing obligations of the REA to the CFC and how the BUC could become the Congressionally mandated successor to the CFC or otherwise work with the CFC.

- Analyze the potential risks for BUC operations in order to determine whether the BUC should establish its own insurance fund or participate with System banks in the Farm Credit Insurance Fund, and at what premium rates.

It would be beneficial to retain an investment banking firm with experience in financing rural electric cooperatives or municipal electric utilities and perhaps an economics firm to assist Vinson & Elkins and the NRECA in this work.

Research and Drafting

- Research would be needed on:

  * antitrust issues that could be raised if exclusive REA service territories were lost and rural electric cooperatives became able to compete with one another;

  * tax questions relating (1) to transition from the REA system to a privatized system, and (2) to future privatized operations;

  * the application and implications of lender liability law to the BUC and ways to minimize potential liability;

  * securities issues if the BUC were to issue bonds directly rather than through the fiscal agent for Farm Credit System banks;

  * the applicability of state laws to rural electric cooperatives, the BUC, and the CFC under a privatized system; and

  * the advisability of providing for uniform classes of lending documents and operational covenants through federal legislation.

- Drafting of proposed bills, floor statements, and section-by-section analyses for creating the BUC, sunsetting the REA, and transferring the REA's accounts out of the Treasury.

- Drafting of loan agreements of different types for the BUC to use with rural electric cooperative borrowers.

Vinson & Elkins would conduct this work through its Washington and Houston offices.

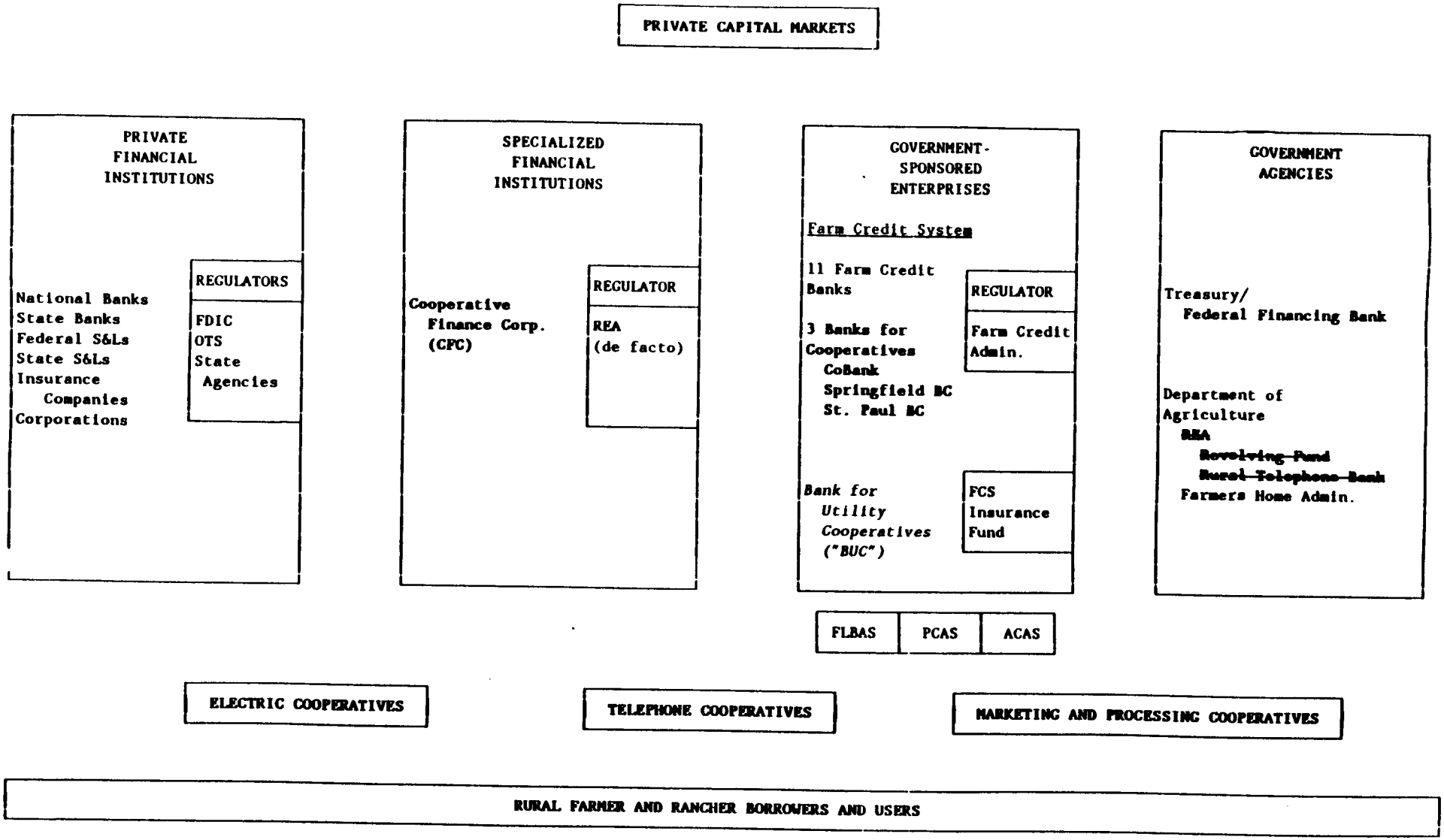
Political Action

- Organize the NRECA membership.
- Work with the CFC.
- Propose a BUC to the White House and to Treasury.
- Obtain support from the Farm Credit System.
- Identify and work the relevant congressional committees.
- Have legislation introduced.
- Identify and work other interested political constituencies.

Vinson & Elkins and NRECA staff would coordinate this effort.

Timing

Financial analysis should be initiated immediately. Research concerning issues that would affect the specific legislation to be introduced should also begin immediately, and the legislation should be drafted as soon as possible. The process of drafting actual legislation may reveal other important issues. When the proper political support is garnered, the legislation would be introduced, possibly in early 1991.


PRIVATE CAPITAL MARKETS
PRIVATE FINANCIAL INSTITUTIONS
National Banks
State Banks
Federal S&Ls
State S&Ls
Insurance Companies
Corporations
REGULATORS
FDIC
OTS
State Agencies
SPECIALIZED FINANCIAL INSTITUTIONS
Cooperative Finance Corp. (CFC)
REGULATOR
REA (de facto)
GOVERNMENT-SPONSORED ENTERPRISES
Farm Credit System
11 Farm Credit Banks
3 Banks for Cooperatives
CoBank
Springfield BC
St. Paul BC
Bank for Utility Cooperatives ("BUC")
REGULATOR
Farm Credit Admin.
FCS Insurance Fund
GOVERNMENT AGENCIES
Treasury/ Federal Financing Bank
Department of Agriculture
REA
Revolving Fund
Rural Telephone Bank
Farmers Home Admin.
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