



2009 Issues Committee Report and Proposed Resolutions

The Issues Committee met on June 19 and 20, 2009 at NRECA in Arlington, Virginia.

The Issues Committee conducted its discussions aware that policymakers at all levels of government are intent on a lasting transformation of our nation's energy infrastructure and policies. Throughout two days of discussions and the preparation of this report, the Committee considered how cooperatives will operate in a carbon-constrained world.

The Committee's discussions repeatedly turned to the prospect of federal legislation compelling reductions of greenhouse gas emissions. Climate change legislation presents electric cooperatives with challenges among the greatest we have faced since the initial creation of the electric cooperative program. However, our goal is the same as it was in the 1930s – ensure that electric cooperatives can provide our member-owners with affordable, reliable electric power.

Each electric cooperative is unique and will be affected differently by climate legislation and policy. At the same time, all cooperatives share many goals and ideals as the national cooperative program addresses the climate debate. All share the common goal of providing affordable, reliable power. All have concerns about rising costs to member-owners and responsible environmental stewardship. All have the desire to uphold the cooperative principles, particularly “cooperation among cooperatives.”

The Committee noted two outstanding examples of “cooperation among cooperatives” during the U.S. House of Representatives' consideration of H.R. 2454, the “American Clean Energy and Security Act.” While original provisions of the bill allocated emission allowances according to a formula that incidentally benefited cooperatives in the Northeast and Northwest regions, these systems stood with all cooperatives nationwide as NRECA told top congressional leaders that the original allowance allocation formula would hurt many millions of cooperative consumers.

The Issues Committee offers these resolutions as a starting point for NRECA's members to consider during this fall's Regional Meetings. Active attention and involvement on the part of NRECA's members is essential to best defining our grassroots policy. We invite that participation.

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Chair

2009 Issues Committee Members

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Proposed Resolutions:

Carbon Allowance Allocation – The Committee wishes to recognize and thank systems in the Northwest and Northeast. Even though the original allowance allocation formula in House climate legislation benefitted their regions, these systems stood with NRECA as it negotiated for a different formula fair to all cooperatives.

Support for Domestic and International Offsets – After evaluating the importance of greenhouse gas emission offsets in controlling costs, the Committee proposes a new resolution that clearly states cooperatives’ support for agricultural and forestry practices that make offsets possible.

Resolve Public Policy Conflicts to Encourage Renewable Energy Development – Current NRECA resolutions on renewable energy standards, energy efficiency mandates and transmission are sufficient. This resolution highlights that while cooperatives are working to build cost-effective, well-planned renewable generation, often-conflicting federal policies create additional hurdles.

Responsibility to Protect Electricity Infrastructure – Grid reliability issues are growing more complex, as evidenced by the rise in cyber-security threats. Cooperatives take reliability issues seriously and are diligent in protecting against them. However, some in government favor overly-broad definitions and remedies that aren’t likely to protect the grid but are likely to increase costs. This resolution proposes a more measured approach to reliability.

The Value of Energy Financial Product Transactions – Cooperatives are active in the financial markets, making complex financial transactions to insure their purchases of power and generation fuels. The Committee proposes a new resolution, recognizing that overly prescriptive rules in these financial markets could be very costly.

Bankruptcy Protection – Recent legislative developments in the bankruptcy arena may impact cooperatives’ ability to collect adequate assurance of payment. This resolution advocates for legislation that protects cooperatives’ ability to receive payments for electricity delivered to commercial and industrial loads.

(1) Proposed Resolution

Carbon Allowance Allocation

As preference customers of the Bonneville Power Administration (BPA), electric cooperatives in the Northwest have long relied upon ways of meeting electrical demand without generating CO₂ emissions, specifically through renewable hydroelectric power, conservation and nuclear energy. However, electric cooperatives in the Northwest are not immune to changes in federal carbon policy, and they are susceptible to federal salmon recovery initiatives that reduce the amount of preference power available from BPA which dramatically increases electric rates paid by Northwest cooperative members.

In addition to the loss of preference power from salmon recovery initiatives, the new BPA post-2011 power contracts have introduced marginal pricing for load growth which may limit BPA's involvement in meeting the load growth of many of its preference customers. As a result, many electric cooperatives will need to invest in new resources to meet their load growth. In order to meet base-load requirements of load growth, and replace hydropower lost because of salmon recovery initiatives, it is probable that many of the new resources will be fossil-fired. In the near future, Northwest cooperatives may be adding carbon based resources, rather than eliminating them.

As Congress debates cap-and-trade legislation and allowance allocation issues, Northwest electric cooperatives are not advocating for a disproportionate share of allowances. No utility should be provided a disproportionate share of allowances. Northwest cooperatives support a fair, equitable allowance allocation proposal that protects our ability to meet future load growth and addresses replacement of lost renewable hydropower, while mitigating the impact on electric cooperatives that have a heavier reliance on coal. However, it would be unfair for the Northwest to be disadvantaged on carbon allocations, and then forced to build carbon based facilities because of shifting federal policies on hydropower generation.

Accordingly, we commend the Northwest cooperatives for standing with the cooperatives across the nation during the legislative debate over climate change in the U.S. House of Representatives. We urge NRECA to engage its federal lobbying resources in Northwest federal hydropower issues.

We also acknowledge that cooperatives in the Northeast stood with the national cooperative program during this policy and legislative debate and commend them.

(2) Proposed Resolution

Resolve Public Policy Conflicts to Encourage Renewable Energy Development

The numerous interests advocating for increased development of renewable energy have created public policy conflicts. Increasingly, state and federal policies direct electric cooperatives to develop renewable energy and the transmission lines to move it to load centers. However, other policies make siting, financing and construction of renewable and transmission assets very difficult.

This has been particularly true in the case of siting new wind resources. Wildlife advocates strongly believe that wind towers compromise avian populations. In some cases, much-needed wind projects are being delayed and potentially derailed as federal agencies work at cross purposes. A similar trend is developing in regions without wind resources, where cooperatives have worked steadily to develop renewable biomass projects.

Cooperatives should not be left in the middle of competing policies, unable to progress on developing cost-effective renewable energy. We call on lawmakers to recognize and solve these dilemmas before imposing renewable energy mandates.

(3) Proposed Resolution

Support for Domestic and International Offsets

An “offset” component of cap-and-trade climate change legislation allows utilities to satisfy a portion of their compliance obligation with government-certified emissions-reducing or sequestration-increasing activities. Offset activities can occur domestically or internationally. The Environmental Protection Agency (EPA) estimates that domestic agricultural and forestry offsets can potentially offset 2 billion metric tonnes of greenhouse gas emissions annually. Much of this sequestration would occur in areas served by electric cooperatives and provide a revenue stream to rural landowners.

Offsets are a lower cost means of achieving real greenhouse gas emission reductions. Land management techniques can be much less costly than acquiring new, lower-emission generation sources. Eliminating or severely curtailing the use of offsets could result in significant increases in the price of emission allowances.

NRECA supports an effective, sustainable offset program according to the following principles:

- An offset program must be voluntary and should include bonus allowances for emission-reducing agriculture and forestry activities. It should give agriculture and forestry producers the flexibility needed to accommodate the wide range of ecological and economic circumstances found throughout the country.
- Offsets should be unlimited. The number of voluntary participants and the verification process itself will limit the size of the domestic offset program. If the goal of climate change legislation is to reduce CO₂ in the atmosphere, there is no reason to limit the use of carbon offsets that can be measured, monitored, and verified.
- Offsets should be real, additional, verified, registered, and permanent (or hold CO₂ for an agreed upon amount of time). A measurement protocol must be developed that allows for a practical, workable system that will result in real emission reductions and a robust offset market. USDA should perform verification services, rather than EPA or other agencies.
- Qualifying international offset credits should be awarded based on methods, protocols, and standards as stringent as the methods, protocols, and standards applied to domestic offsets.
- One offset credit should be equivalent to one allowance, thereby fully protecting a buyer from any project-specific offset risk.

(4) Proposed Resolution

Responsibility to Protect Electric Infrastructure

Cooperatives are fully committed to maintaining and improving bulk power system reliability and security. Electric cooperatives are aware that the bulk power system is vulnerable to attacks through computer-based and telecommunication networks. Over the last several years, cooperatives have worked diligently to mitigate vulnerabilities and protect their systems from attacks. Cooperatives have also worked closely with the North American Electric Reliability Corporation (NERC), the Federal Energy Regulatory Commission (FERC), the Department of Homeland Security (DHS), and other federal partners on cyber-security issues. Cooperatives understand that cyber-security threats or attacks can become national security issues.

In nearly all situations, cooperatives can protect the reliability and security of the bulk power system without government intelligence information. However, in the limited circumstances when the industry does need government intelligence information on a particular threat or vulnerability, it is critical that such information is timely and actionable. After receiving this information, the electric power industry can then direct its proven operators and cyber-security staff to make the needed adjustments to systems and networks to ensure the reliability and security of the bulk power system.

Cooperatives support a limited federal authority to protect against imminent and substantial threats to the bulk power system. If the federal government has actionable intelligence about an imminent threat to the bulk power system, cooperatives are ready, willing and able to respond. We accept that it may be necessary for government authorities to issue orders which could require certain actions. In these limited circumstances, FERC should be the government agency directing the needed emergency actions. These actions should only remain in effect until the threat subsides or upon FERC approval of related NERC reliability standards.

Overly broad definitions of critical infrastructure are detrimental to the core mission of protecting the bulk power system. Currently, interconnected system facilities with voltages higher than 100 kilovolts are included in NERC's compliance registry. This threshold is too low, causing NERC and system operators to focus on facilities with a very small chance of having a material impact on the bulk power system. The compliance registry threshold should instead be set at 200 kilovolts. Regional reliability councils should examine assets below 200 kilovolts and recommend their inclusion in the registry on a case-by-case basis.

(5) Proposed Resolution

The Value of Energy Financial Product Transactions

Participating in commodity trading markets can be a valuable tool to help stabilize and lower energy costs for consumers. Cooperatives trade derivatives in these markets in order to hedge, or insure, large purchases of electricity and generation fuels. Electric cooperatives use derivatives to hedge on the over-the-counter (OTC) market to keep costs down. Electric cooperatives do not enter into OTC transactions for the purpose of speculation.

In order to make hedging a useful, cost-effective tool, these markets must be transparent and free of manipulation, but also must not be subject to unnecessary regulation. In an effort to rein in speculation in the OTC markets, some in Congress have proposed requiring OTC transactions to be cleared and margined.

If electric cooperatives are required to clear and margin these trades on a Derivatives Clearing Organization (DCO), the costs of hedging will increase and many cooperatives will be unable to hedge. As not-for-profit, consumer-owned utilities, the electric cooperative consumers will see increased costs and more rate instability.

Accordingly, as Congress crafts financial regulatory reform legislation, it should not impose OTC clearing and margin requirements that make it difficult, if not prohibitive, for electric cooperatives to use this valuable risk-management tool.

(6) Proposed Resolution

Bankruptcy Protection

On average, commercial and industrial members account for a substantial share of electric cooperative power sales. While prior federal law tried to protect electric cooperatives and other utility providers when a commercial or industrial member initiated bankruptcy proceedings, courts often ignored or minimized the law. The result was that through paying higher rates other co-op members were at risk of higher costs.

The Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 (BAPCPA) amended federal law to enhance financial protection for utilities serving chapter 11 bankrupt commercial or industrial customers. Section 366(c) of the Bankruptcy Code requires businesses to make a specific “assurance of payment” that is “satisfactory” to their utility provider such as a cash deposit or prepayment. However, in bankruptcy proceedings, some courts continue to ignore this provision and require utilities to keep these bankrupt businesses running even without adequate assurance of payment.

Recent legislation proposed in the U.S. House of Representatives has called for the rescission of Section 366(c). If successful, the bill would strike the enhanced protective language and reinforce court decisions requiring electric cooperatives to maintain service without satisfactory or adequate assurance of payment during bankruptcy proceedings.

To prevent electric cooperatives and cooperative members from subsidizing large commercial and industrial members which file for bankruptcy, we oppose any legislation striking Bankruptcy Code Section 366(c).