AN APPRECIATIVE INQUIRY:
HOW SOUTH CAROLINA’S ELECTRIC COOPERATIVES BUILD CAPACITY THROUGH MULTI-LEVEL GOVERNANCE

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Executive Summary

Background

Electric cooperatives serve over 40 million consumers in the United States, and have a history stretching back eight decades. Historically, the provision of high-quality electricity services at the lowest possible wholesale price to its distribution cooperative members might have proven sufficient to declare generation and transmission (G&T) cooperatives a success. But electric cooperatives’ business and governance models are facing new pressures as distributed energy technologies evolve and emerge; consumer-member preferences shift; and the economics of electric utilities changes regarding the cost structures of nuclear, coal, natural gas, and utility-scale renewables. Little information exists on how the governance models of G&T electric cooperatives are prepared to weather these changes. This study, sponsored by Central Electric Power Cooperative (“Central”) of South Carolina, is an effort to address this gap.

Researchers

The University of California, Davis is a public land-grant university that was founded in 1908 as the University Farm to provide research and science-based agricultural instruction for the University of California. Today, UC Davis is known for its continued expertise in agriculture, as well as energy, sustainability, and veterinary medicine. The research in this study was led by Professor Keith Taylor, an expert on cooperatives in UC Davis’ Community Regional Development department. Continuing his work from Indiana University’s Ostrom Workshop, Dr. Taylor now directs UC Davis’ research on the cooperative business model; exploring governance, member engagement, business advantage, and value-add, and community economic development (CED) impacts. Dr. Taylor’s collaborator on this research, Dr. Sarah Outcault is the Market Transformation Research Director at the UC Davis Energy and Efficiency Institute, where she directs research at the nexus of technology, energy policy, and human behavior.

Goals and Objectives

The goals of this study are to: 1) address the knowledge gap on corporate governance of cooperatives, and 2) demonstrate the benefits of pursuing such an inquiry. The specific objectives of the study are to develop an in-depth case study of Central that describes how the entity effectively self-governs by exploring several hypotheses informed by previous research on cooperatives.

Methodology

This research takes an “appreciative inquiry” approach, a strengths-based method that seeks to understand what is done well (from the perspective of Central’s member cooperatives and the research team), and how these positive attributes can be leveraged to enhance performance.

Data was collected from a range of stakeholders related to Central’s operations. A series of in-depth interviews with Central’s executive team and board members was conducted on a range of topics related to self-governance. The research team also visited or interacted with board or management from 15 of Central’s member cooperatives, as well as other actors in the electric cooperative network (e.g., the South Carolina Statewide, Cooperative Electric Energy Utility Supply, Inc., and the Power Team). The research team took notes through a total of over 40 hours of conversations, mostly through face-to-face interviews, and a number of discovery-oriented focus groups.
The research team also reviewed over 20 organizational documents, employing Elinor Ostrom’s Institutional Grammar Tool to analyze the bylaws and policies of the cooperative. These so-called “rules in form” (i.e., official documents) are contrasted with the “rules in use” (i.e., how the management, staff, and board of the cooperative operationalize the cooperative’s rules), as identified in the interviews, to better understand how Central operates in practice.

Key Findings

The key research findings pose answers to questions explored as part of this inquiry, and are summarized below:

How does the Central G&T effectively self-govern?

Strong relationships exist among member cooperatives, a characteristic indicative of a strong, self-governing institution. Member cooperatives have “skin in the game” as the success of all cooperatives are linked. In addition, members engage at multiple levels, serving on multiple committees and boards at various levels. This enhances accountability and information flows, as well as keeps members involved. Central’s investment in member education and training is another critical factor in its ability to effectively self-govern.

How do consumer-members govern over a complex, multi-level energy system? How does the diversity of Central’s member cooperatives contribute to its effective self-governance?

Multi-level model (i.e., the Central model of a cooperative of coops) allows the flexibility (and ability) to reap the benefits of both decentralization and centralization. Centralization offers economies of scale and efficiencies that afford the opportunity to invest in shared services that benefit all members. Decentralization allows member cooperatives to remain in tune with and responsive to consumer-member needs, tailor offerings for their unique communities, and employ more people (a boon for local economies and the consumer-members within them).

How does Central enable its member cooperatives to operate as community-focused, sustainable organizations, delivering affordable, reliable energy to its consumer-members?

Members believe in the notion that the collective good benefits all. The South Carolina electric cooperative system is tightly bound together, out of both a sense of solidarity and mutual benefit. Many distribution cooperative executives interviewed outright said of their counterparts: “Whatever benefits them, benefits me.” Membership with Central provides a mechanism through which the benefits of load growth in one cooperative’s territory may generate both direct and indirect benefits to fellow members of Central.

How do Central’s member cooperatives work together to meet the collective energy, business, and local social needs of the overall system?

Central and its member distribution cooperatives are facing market and institutional threats (e.g., growing preference for renewables, increasing cost of carbon). Together, they are leveraging as competitive advantages their response to such threats. Central’s local distribution cooperative members are creating individual solutions that improve service to their customer-members. Central is well positioned to assist those projects in scaling throughout the system, where appropriate.

Collectively, South Carolina electric cooperatives are also facing modest political pressure for regulatory oversight due to high-profile cases of poor governance. Although the inappropriate behavior at Tri-County was ultimately managed through the checks and balances offered by good
governance and the cooperative business model, it highlighted a prime opportunity for the South Carolina electric cooperatives to communicate their value to their member communities. Through collective accountability and standards of excellence, which are actively enabled and encouraged by Central, member cooperatives are helping each other to continually improve.

Next Steps
A research proposal has been developed to extend the current research to other electric cooperatives. Through a series of statistical and individual case studies, the next phase aims to continue to examine electric cooperative governance across multiple G&Ts, locales, and market contexts. The study will continue to use the lens of the analytical framework of Nobelist Elinor Ostrom, by exploring how cooperatives self-govern at multiple levels, drawing comparisons with cooperatives from other sectors, and identifying the ways cooperatives contribute to economic development and economic democracy.
# Glossary of Terms

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>CBN</td>
<td>Cooperative Business Network</td>
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<tr>
<td>CED</td>
<td>Community economic development</td>
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<tr>
<td>Central</td>
<td>Central Electric Power Cooperative of South Carolina</td>
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<tr>
<td>ECC</td>
<td>Early childhood centers</td>
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<td>G&amp;T</td>
<td>Generation and Transmission</td>
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<td>ICA</td>
<td>International Cooperative Alliance</td>
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<td>IOU</td>
<td>Investor Owned Utility</td>
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<tr>
<td>NRECA</td>
<td>National Rural Electric Cooperative Association</td>
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<tr>
<td>PPA</td>
<td>Power Purchase Agreement</td>
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<tr>
<td>Tri-County</td>
<td>Tri-county Electric Co-op</td>
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Study Background

The University of California, Davis, under the leadership of Professor Keith Taylor and the Community Regional Development department, has developed a long-term research agenda around the cooperative business model, exploring:

- Governance,
- Member engagement,
- Business advantage and value-add, and
- Community economic development (CED) impacts.

This is a continuation of Professor Taylor’s work at Indiana University’s Ostrom Workshop, building off his soon-to-be published book, *Governing the Wind Energy Commons*. The book is part of a new wave of academic research that takes the unique ownership and governance aspects of the cooperative business model into account, and works to understand how that unique variation on the for-profit model impacts organizational performance and CED outcomes.

Professor Taylor is partnering with Dr. Sarah Outcault of the UC Davis Energy and Efficiency Institute to conduct research within the rural electric cooperative sector. Central Electric Power Cooperative has agreed to partner with UC Davis to promote the broader research agenda and provide initial funding to begin an appreciative inquiry into how generation and transmission (G&T) cooperatives conduct effective self-governance to generate optimal value to their stakeholders.

Below is a background on the need for this research and a description of a two-phased approach for the initial assessment of Generation and Transmission Cooperatives, which serves as the launch of UC Davis’ research program on the cooperative business model.

Study Rationale

The National Rural Electric Cooperative Association’s (NRECA) 2018 CEO Close-Up event made the following statement about the mission of electric cooperatives:

“Well are electric cooperatives; community-focused organizations who work to efficiently deliver affordable, reliable, and safe energy to our consumer-members. We are led by consumers like you who understand and listen to the community. We belong to the communities we serve so any profits are shared back with the members. We were built by the communities we serve so each cooperative is different depending on the community’s specific needs. And across the country, local cooperatives work together to develop new technologies and infrastructure, learn from each other, and keep the grid secure” [emphasis added].

Embedded in this statement is a testimonial to the rich history of collective action, how rural residents organized, how their self-governance and public entrepreneurship advanced the electric cooperative sector, and a general sense of electric cooperatives’ responsibilities for community stewardship.

Democratic organizations like cooperatives are challenged with attracting competent board members and staff, and enhancing the general public’s capabilities to participate in the appropriate operations of the democratic organization. There exists a general civic decline in the United States (Putnam, 2000). We see consolidation of municipal governments, and a trend toward more
centralized command-control type governance arrangements (Boettke and Aligica 2009). Civics courses are being cut from K-12 school curricula, and even at the university level. The laboratories of democracy that reinforce and enhance our capabilities to self-govern and engage in public entrepreneurship are diminishing (Ostrom 2014).

Cooperative businesses must be vigilant against the erosion of self-governing competencies of the citizenry (Fairbairn, 2003). Electric cooperative leaders are increasingly concerned that the “origin story” of the electric cooperatives reinforcing the consumer-member bond to the sector is fading as the founding cohorts pass on, leaving the sector to a new wave of consumer-members.¹

The concern is well-founded. If interest in electric cooperatives wanes, so too will its influence and capacity. Who would be poised to assume cooperatives roles in:

- Providing rural American communities with access to affordable energy, distributed electricity, and energy efficiency programs?
- Supporting critical community economic development programs?

Cooperatives are placed in a paradoxical position. On one hand, they are tasked to economize for members’ needs. On the other hand, cooperatives bear a burden unlike their investor-owned counterparts; they must perpetually invest in educating the general public about the cooperative business model, the industry the cooperative serves, and increasing the self-governing competency of the general electorate. Such investments are at odds with the need to economize in the short-run.

New trends in corporate business like corporate social responsibility, social entrepreneurship, triple bottom line, and B Corporations are a direct response to the public demand for incorporating the social in the economic. Yet we do not have to reinvent the wheel – coops have a long history of balancing purpose and profit; cooperatives are, for all intents and purposes, the original social enterprise.

If the popularity of these new social business models is any indication, perhaps there exists a strategic opportunity in embracing the tension of the social and the economic?

Applying the lessons of the successes and failures of cooperatives requires a better understanding of how they operate. Perhaps the economic efficiencies that cooperatives offer is secondary – though necessary – to the entrepreneurship arising from the act of self-governance that: 1) connects and bonds the members to the cooperative, and 2) incentivizes the members to reveal new business opportunities and economizing features. There is reason to believe that those cooperatives best positioned to address the social needs of their members will gravitate toward enhanced business performance as a result, not the other way around.

¹ See this industry produced video for a brief overview of the origin story - https://www.youtube.com/watch?v=p0lez3g7lyU
utility cooperatives: Positioned to Serve Communities and support Public entrepreneurship

the general public lacks awareness of the cooperative business model. the for-profit and investor-owned business models are part of daily conversations. Disney’s shareholder reports make front-page news, and with each new device released, Apple is the recipient of media praise for beating their annual profit projections. profit-oriented business is so central to our daily lives that many high school students get experience running stock trading simulations in their economics courses.

By contrast, cooperatives are absent from the public square and our classrooms despite their prevalence in day-to-day life. media coverage of cooperatives is virtually nonexistent as news desks lose reporters with expert knowledge of cooperative businesses. A report from 2000 found that “only six of 17 North American introductory economics texts even mentioned cooperatives, and almost always briefly and dismissively” (Schneider 2016). A more recent study shows that not only are coops increasingly absent from economics textbooks, but even when they are discussed, the rigor of the discussion around the cooperative business model has noticeably diminished (Kalmi 2006).

Academic literature is not much better. there is little of it, and the few available resources paint a negative picture. For example, a recent manuscript by a South Carolina law professor scans the existing research and news stories about the electric cooperative sector and makes two dramatic, negative conclusions:

1. Electric cooperative leaders are not attuned to the wants and needs of their members (in particular with respect to clean energy systems), and
2. G&Ts are the primary drivers behind this misalignment due to their long-term contractual obligations (i.e., power purchase agreements).

Yet electric cooperatives successfully serve over 40 million consumers in the United States. Historically, the G&Ts’ provision of high-quality electricity services at the lowest possible wholesale price to its distribution cooperative members might have proven sufficient. But the classic spoke and wheel business and governance model of electric cooperatives is under tension as new technologies emerge, consumer-member preferences evolve, and the economics of electric utilities changes with the rise of new distributed generation sources.

The disconnect between the rhetoric and the reality, as well as the changing nature of the electricity sector, calls for further exploration. there is a need for a nuanced approach in the academic literature to tell the story of public entrepreneurship, member self-governance, and self-correction when electric cooperatives go off the tracks. In this research at UC Davis, three key challenges common to all cooperatives have been identified:

- The general public’s self-governing competencies are diminishing.
- Those individuals who qualify for cooperative business leadership posts are likely to be trained in the investor-owned business model and have little knowledge of the cooperative model.
- The next cohort of cooperative leadership is unaware of the unique attributes of the cooperative model. this then means that the cooperative leaders of the future may not have the proper skills to adequately strategize for the advancement of the cooperative enterprise.
Kalmi succinctly summarizes what we lose when cooperatives are not studied in our educational institutions.

“There are three important reasons why cooperatives should be studied in university… courses. First, they are an economically significant organisation known all over the globe. Second, cooperatives are oriented towards broader social goals that distinguish them from the investor-owned corporation. Third, cooperatives can be used to illustrate important issues in economics” (Kalmi 2006, p. 627).

Cooperative business leaders must have a special skillset that accomplishes the economic goals of the cooperative, while also addressing social attributes, a marginal concern of the for-profit firm (Cook 1994). Professor Fairbairn’s *Three Strategic Concepts for the Guidance of Cooperatives* further highlights the need for specialized management training (2003).2 While the fundamental economics are essential, stewardship over the social aspects will determine the success of the cooperative, and in many cases provide a value-add contributing to a competitive advantage. Members develop a stronger bond with their cooperative, assuring a strong patron base and flow of business-critical information. That flow of information can also help the cooperative leadership assess the array of programs and services to provide that further reinforces that bond (Error! Reference source not found.). And so the cycle continues.

Utility cooperatives are uniquely positioned to meet the economic and social needs of the member communities they serve. However, they can realize their potential only if they first recognize their unique attributes that differentiate them from other types of firms, and govern and manage from the perspective of user control and benefit, at a scale that provides for market competitiveness.

**Electric Cooperatives: Theorizing Community Governance and Entrepreneurship at Scale**

For the past 80 years or so, 833 distribution and 63 generation and transmission cooperatives have provided electricity to 42 million Americans, yet little is known about electric cooperatives among policymakers, the general public, and even the consumer-members served by electric cooperatives. Since the New Deal era, electric cooperatives have evolved to become remarkably robust institutions generating more than $42 billion in annual revenue. According to Yale Law and Economics Professor Hansmann, the resilience of the electric cooperative model is based in part on its unique member-owner design as defined by the International Cooperative Alliance’s (ICA) list of Cooperative Principles and Values 3 (see Table 1, below).

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2 See a video presentation of Fairbairn’s *Three Strategic Concepts* here - [https://www.youtube.com/watch?v=GHOYJP_OTpQ](https://www.youtube.com/watch?v=GHOYJP_OTpQ)

3 The ICA is seen by international and national legal bodies as the official keeper of the trust of the cooperative sector’s Principles and Values.
Table 1: Co-operative Principles and Values

<table>
<thead>
<tr>
<th>Seven Co-operative Principles</th>
<th>Co-operative Values</th>
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<tbody>
<tr>
<td>1. Voluntary and Open Membership*</td>
<td>• Self-Help</td>
</tr>
<tr>
<td>2. Democratic Member Control</td>
<td>• Self-Responsibility</td>
</tr>
<tr>
<td>3. Member Economic Participation</td>
<td>• Democracy</td>
</tr>
<tr>
<td>4. Autonomy and Independence</td>
<td>• Equality</td>
</tr>
<tr>
<td>5. Education, Training, and Information</td>
<td>• Equity</td>
</tr>
<tr>
<td>6. Cooperation among Co-operatives</td>
<td>• Solidarity</td>
</tr>
<tr>
<td>7. Concern for Community</td>
<td>• Honesty</td>
</tr>
<tr>
<td></td>
<td>• Openness</td>
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<tr>
<td></td>
<td>• Social Responsibility</td>
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<td></td>
<td>• Caring for others</td>
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*Membership is synonymous with Ownership in co-operatives

Professor Elinor Ostrom, the 2009 Economics Nobelist, provides additional social-scientific basis for Hansmann’s claims based on real-world observations, building on the understanding of how individuals self-govern together through user-designed and managed institutions. Interestingly, Elinor Ostrom’s Design Principles (see Error! Not a valid bookmark self-reference.) – a set of well-validated principles that have been shown to be present in resilient organizations – neatly overlap with the cooperative’s Principles and Values, despite being developed without cooperatives specifically in mind.

Table 2: Ostrom Design Principles

<table>
<thead>
<tr>
<th>User boundaries:</th>
<th>Clear boundaries between legitimate users and nonusers must be clearly defined.</th>
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</thead>
<tbody>
<tr>
<td>Resource boundaries:</td>
<td>Clear boundaries are present that define a resource system and separate it from the larger biophysical environment.</td>
</tr>
<tr>
<td>Congruence with local conditions:</td>
<td>Appropriation and provision rules are congruent with local social and environmental conditions.</td>
</tr>
<tr>
<td>Appropriation and provision:</td>
<td>The benefits by users from a common-pool resource (CPR), as determined by appropriation rules, are proportional to the amount of inputs required in the form of labor, material, or money, as determined by provision rules.</td>
</tr>
<tr>
<td>Collective-choice arrangements:</td>
<td>Most individuals affected by the operational rules can participate in modifying the operational rules.</td>
</tr>
<tr>
<td>Monitoring users:</td>
<td>Monitors who are accountable to the users monitor the appropriation and provision levels of the users.</td>
</tr>
<tr>
<td>Monitoring resources:</td>
<td>Monitors who are accountable to the users monitor the condition of the resource.</td>
</tr>
<tr>
<td>Graduated sanctions:</td>
<td>Appropriators who violate operational rules are likely to be assessed graduated sanctions (depending on the seriousness and the context of the offense) by other appropriators, by officials accountable to the appropriators, or by both.</td>
</tr>
</tbody>
</table>
The study of the cooperative model was of interest to Ostrom shortly before her death. Dr. Keith Taylor was brought to Ostrom’s research center to develop a research program, addressing the areas of self-governance, complex systems, member participation, and community economic development. He continues that work now at the University of California, Davis.

**Exploratory Phase: How Do Electric Cooperatives Thrive in a Challenging Political and Economic Environment? The Case of Central Electric Power Cooperative.**

Comprehensive research on the topic of user-ownership of infrastructure is long overdue. Considering the scale and longevity of the local electric cooperatives and their support system, the Cooperative Business Network (CBN), it seems that what is old may be new again: the electric cooperatives are the original social business, and it would seem that the social dimension is the key determinant in its ongoing resilience. In an effort to understand how the electric cooperatives have thrived for so long, and are adapting to new challenges, we undertake a two-phase research approach on cooperatives in the Cooperative Business Network.

The exploratory phase was conducted through a case study of the Central Electric Power Cooperative and its twenty-member cooperative system in South Carolina. This initial work took place from December 2018 through May 2019 and included the design and refinement of the case study, including the interview instrument. The intention for the second phase is to expand the data collection across multiple organizations and locales from June 2019 through October 2020, with the engagement of 4-6 additional G&T cooperatives.

This report is the result of Phase I and builds upon the seminal work of Nobel Prize winner Elinor Ostrom. The knowledge gained will contribute to the efforts of Dr. Taylor and UC Davis to better understand the cooperatives’ governance and member engagement, the relationship between G&T and distribution cooperatives, and the impact electric cooperatives have on community economic development.

**Exploratory Phase Research Objectives**

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*4 The Cooperative Business Network is a commonly used, albeit undefined, term in the electric cooperative sector. The Cooperative Business Network represents all of those second and third tier cooperatives that serve the local, first tier cooperatives. They themselves are separated from the local consumer-members, in that they are directly owned and governed by the local cooperatives themselves, not the individuals at the end of the line.*
The research objective of the Exploratory Phase is to develop an in-depth case study of a single G&T that describes its governance structure. Important questions related to how Central Electric Power Cooperative effectively self-governs are:

- How does Central enable its member cooperatives to operate as community-focused, sustainable organizations that deliver affordable, reliable energy to its consumer-members?
- How do consumer-members govern over a complex, multi-level energy system?
- How do the diverse perspectives of Central’s member cooperatives contribute to its effective self-governance?
  - How do consumer-ownership and governance affect the performance of Central?
- How do Central’s member cooperatives work together to meet the collective energy, business, and local social needs of the overall system?
  - How does community capital (see Figure 2) flow between consumer-members and the G&T cooperative?

**Figure 2: The Community Capitals Framework**

![Community Capitals Framework](image)

The intent of the study is not to make any definitive statements about the overall wellbeing of the electric cooperative sector, but rather to develop an example of how to answer such questions and the benefits of doing so.

**Hypotheses Guiding Research Questions**

This study begins with a number of hypotheses informed by previous research on cooperatives. These hypotheses provide additional analytic weight for understanding the observed behavior.

Considering past research addressing electric cooperatives (Hansmann, 2001; Molk, 2015; Taylor, 2019), the research team developed a few hypotheses on how community capital flows through a G&T electric cooperative (itself, a subset of the overall electric cooperative system, and the electric cooperative system itself a subset of the overall electric grid):

1. Leadership in the management and governance of the cooperative is key to delivering on the community economic development potential of the cooperative model (see Sherwood & Taylor, 2013).

2. U.S. public policy on cooperatives remains incomplete and deficient. Public policy can hamper the performance of cooperatives by narrowly incentivizing and enforcing the
cooperative Principles & Values (see Cook, 1994). This selectivity can diminish the unique institutional design of the cooperative model, leading to institutional corrosion of the cooperative model, and contagion from other institutional models elsewhere (the DNA from for-profit enterprise may influence cooperatives far more than cooperatives’ DNA influences for-profits). For example, tax credits/deductions are a common public policy used to incentivize certain behavior. While cooperatives have been creative in accessing their use, they are designed for the for-profit model which therefore see more benefit.

Cooperatives can lose their distinctiveness as well as their resiliency features identified by Ostrom in her Design Principles. The self-governing features of the cooperative become even more important, as information and knowledge access and exchange come from one of two primary sources: 1) the electric cooperative support network, or 2) the for-profit utilities system.

3. Electric cooperatives in particular are more resilient than cooperatives in other industries. The longstanding industrial culture, monopoly orientation, and unique identity of electric cooperatives has imbued resiliency traits specific and unique to the electric cooperative utility.

The unique identity of the electric cooperative sector arises from its founding under the Rural Electrification Act, and other key events in the sector’s growth. The monopoly structure better protects or bounds institutions from influence since electric cooperatives are relieved of the threat of external competition. Those electric cooperatives not preparing for open, competitive service territories will be most vulnerable to disruption in the electricity sector.

Analyses Through the Lens of Key Literature

G&Ts are second tier cooperatives, or cooperatives of local-level distribution cooperatives (themselves, directly owned by their ratepayers). Sixty-three G&Ts exist around the US, in a number of different regional and cultural contexts.

The core differentiating factor of the electric cooperative is the user-ownership and self-governance features, managed and operated to aggregate the procurement and provision of specific goods and services for the collective.

Individual member benefit is not sufficient. **In order to maintain a tight, connected, and loyal member ownership, the G&T must demonstrate value to the collective member-owners.**

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5 For an in-depth discussion of how different types of institutions can cross-pollinate, see Beckert, J. (2010). Institutional isomorphism revisited: Convergence and divergence in institutional change. *Sociological Theory, 28*(2), 150-166.
Member needs may vary widely. G&Ts mostly aggregate the generation and transmission needs of their collective member cooperatives, but their mandate often goes beyond to areas such as:

- Economic development policies and programming,
- Human resources services,
- Board-management training,
- Policy advocacy, and
- Cybersecurity.

This analysis is focused on the discovery of the value-add provided by selected electric cooperatives to their collective membership, and how that contributes back to the performance of the cooperative.

**Methodology**

**Appreciative Inquiry:** This research informs the study’s questions by asking cooperative stakeholders “How do you do [X] best?” and “What would you like to do better?” For example: “How do you best engage your member-owners?” and “How could you do member engagement better?” Since Central Electric Power Cooperative is the primary focus of this study, researchers asked “How does Central contribute to the performance outcomes of their member cooperatives?” This approach to social science inquiry seeks to better understand the opportunities for respondents to engage deeper with their organization’s capacities as opposed to focusing on reflecting deficiencies. This allows the research team to position the study to be the most useful to the study’s participants and stakeholders.

**Network analyses:** Electric cooperatives do not operate in isolation. They optimize their service offerings by aggregating into a network of cooperatives, operating at multiple scales. Any analyses
of electric cooperatives must account for that network.

Figure 3: Geographical Representation of the South Carolina Central Network

and Figure 4 illustrate Central’s network, helping to better analyze the interaction among the cooperative network and the communities hosting those cooperatives. This represents only the formal network, and therefore only a partial picture since there exist informal ties among the distribution cooperatives as well.
Researchers constructed the external and internal network, with Central as the central node. Identifying the role that Central plays regarding the actors in the network, the team inquired:

- Who are the players?
- How are the connections structured and designed?
- How are those relationships governed?
Interviews & Focus Groups: Data was collected from a range of stakeholders related to Central’s operations. The research team conducted a series of in-depth interviews with Central’s executive staff (including five members of the Central executive team) and board members on a range of topics related to self-governance. They also visited or interacted with board or management of 15 of Central’s member cooperatives, as well as other actors in the electric cooperative network (e.g., the South Carolina Statewide, Cooperative Electric Energy Utility Supply, Inc., and South Carolina Power Team). The research team took notes through a total of over 40 hours of conversations—mostly through face-to-face interviews, and a number of discovery-oriented focus groups.

Archival Analyses: The team reviewed over 20 documents, employing Elinor Ostrom’s Institutional Grammar Tool to analyze the bylaws and policies of the cooperative. These so-called “rules in form” (i.e., official documents) are contrasted with the “rules in use” (i.e., how the management, staff, and board of the cooperative operationalize the cooperative’s rules), as identified in the interviews.

Exploratory Findings

Unlike distribution cooperatives, G&Ts are not technically owned by the consumer-members, but instead by the electric distribution cooperatives themselves. While the G&T is ultimately in service to the consumer-members, this level of separation may result in features that give the appearance that the G&T is merely an economizing firm, as opposed to an organization seeking to address the collective action challenges of its local member cooperatives. Traditional economics would raise concerns about principle-agent challenges, where the individuals representing the member-owners do not necessarily act in the member-owner best interest. This may arise in the form of:

- Management capture, in which the members have forgone or lost the ability to hold management accountable, and the organization is inordinately serving management interests, or
- Public-service paradox, when the services provided by the organization are not aligned with the needs and wants of the member-owners.

Ostrom’s Bloomington School⁶ and institutional economists as a group take a much less cynical view of institutions of collective action (i.e. cooperatives), and have focused on the myriad approaches in which cooperative leaders might engage their member-owners to enrich the member-owner experience and enhance the performance on the business side. More advantageous outcomes might arise from:

- **Clearly-defined roles & responsibilities**—Successful federated cooperatives develop focused strategy through the principle of subsidiarity (the G&T cooperative is able to focus on specialized areas, while avoiding others that are retained as the domain of the local distribution cooperatives);

- **Satisfying the needs of the users**—Electric cooperatives can do more than just provide electricity. They can also provide consumer-facing programs to help their member-owners reduce their monthly household bill;

- **Voice**—Those actors, including consumers, dependent on the organization for various services are also provided a voice in the design and delivery of those services. The more voice allowed, through the proper channels, the more likely the agents – management and trustees – operating on behalf of the consumers are able to provide needs-aligned goods and services;

- **Monitoring by the users**, and others effected by the organization—Cooperatives can post transparent reports, and allow members access to organizational records in an effort to develop greater trust and accountability;

- **Graduated sanctions** for those who violate community rules—Instead of harsh punishments that expel rules-violations, cooperatives can use sanctioning mechanisms that reflect fairness, and allow for rules violators to correct their behavior. Such processes send a signal to other user of the cooperative that violations will not be accepted, but also that the cooperative does not operate to unduly harm its member users;

- **Cheap, simple mechanisms for conflict resolution**—Cooperatives being user-owned institutions have every incentive to avoid costly legal battles. Such skirmishes can readily amount to zero-sum gains that harm all users of the cooperative who must, in the end, bear the costs;

- **Self-determination** recognized and codified by external agents (e.g., regulators)—The more that a user-controlled organization like a cooperative is controlled by external agents, the less likely the cooperative is to operate in the best interest of its users;

- **Nested systems**, which allow localized enterprise to scale—Community-based enterprise is more capable of securing itself against system shocks when it is able to nest into a system providing for market and political power.

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⁶ Ostroms’ body of research, and her scholarly practices, provided the energy at the core of what has come to be known as the “Bloomington School” of institutional analysis and political economy (quoted here - http://www.indiana.edu/~wow5/FourVolumeOverview_WG13.pdf)
What follows is a restatement of the initial research questions, description of findings from the fieldwork, and the subsequent research questions these findings pose.

**How does the Central G&T effectively self-govern?**

**FINDINGS:** *Strong relationships exist among member cooperatives—features indicative of a strong, self-governing institution.* The South Carolina electric cooperatives are actively engaged, and expected to directly participate in the management and governance of the cooperative systems. This is partially due to having “skin in the game,” where every cooperative pays into the system of Central. And they get tangible returns on wholesale power. This conduit for coproducing system-wide services and goods complements the return on investment, increasing the likelihood that the member cooperatives remain attached to Central, and incentivized to participate in its stewardship.

Central’s principal governing body is the Board of Trustees, who meet on a regular basis. Central forms committees in order to specialize and focus on key issues (e.g., Finance, Member Services, Power Team). These subcommittees are comprised of Trustees, as well as experts from Central’s internal staff.

Each member cooperative of Central is represented on the Board by both a member of *its* local board and the CEO of *its* cooperative. The seating of a member cooperative board representative does a number of interesting things:

- **Governance at multiple scales**—The local consumer is able to govern at a number of scales by virtue of serving at the local electric cooperative, and having a seat at the G&T. This means unique access to governance that is not normally provided to consumers in investor-owned service territories. Even municipal electric utilities do not typically provide governance beyond the local service territories.

- **Enhanced accountability and information flows**—The joining of the member cooperative’s board member with the member cooperative’s CEO does several things, including: 1) Allows for information to better flow from the local consumer-member up through the electric cooperative chain of communication, and back down to the local consumer membership; and 2) Better holds management accountable by subjecting them to increased scrutiny through the cooperative’s system of provision and procurement.

- **Education and Training**—Central appears to provide robust training and education for trustees and employees. Any educational services not provided by Central or the SC Statewide are typically provided by NRECA or another Cooperative Business Network cooperative.

The investment in training and education is essential for the long-run durability of self-governing institutions, particularly in a complex socio-technological system. One cannot presume that all individuals serving as representatives of the membership are de facto competent. First, Trustees must understand the fundamentals of board governance. This entails the ability to differentiate between legal practices and simple best practices that might not be addressed under the law. Second, compounding the first point, is the complexity of the electric grid. The vast majority of electricity consumers
are unaware of the workings of the grid, and are most likely unaware of how the cooperative sector itself functions. In this manner, the investment in training and education is a contribution to both the public good in terms of transference of knowledge about the sector, but also in elevating the self-governing and public entrepreneurial skills of the general membership.

FUTURE QUESTIONS: How prevalent are education and training programs across G&Ts like Central? What is the focus of the content? Do they align with specific strategic objectives? And what are the performance outcomes of such training initiatives?

These findings redirect us briefly to a general sub-question:

**How do consumer-members govern over a complex, multi-level energy system? And how does the diversity of Central’s member cooperatives contribute to its effective self-governance?**

FINDINGS: A multi-level model (i.e., the Central model of a cooperative of coops) allows the flexibility (and ability) to reap the benefits of decentralization and centralization simultaneously. Considering so much attention has been paid to the decline in civic participation, it is interesting to observe what appears to be varying levels of engagement by the consumer-member ownership of the electric cooperatives. There appear to be different incentives for the democratic participation of the stakeholders of cooperatives than what might be observed in government.

“Skin in the game”—There are clear benefits/advantages of participating in the cooperative at the local level and above. The localized presence of the cooperative provides a key feature: ease and low-cost of access. And Central’s critical role as an economizing force produces ever greater efficiencies that reinforce the value-add of the local electric cooperatives, driving member-owned bonds.7

The distributed nature of the electric cooperatives means that service centers continue to be a feature, not an aberration of the sector. The service centers then reinforce the consumer-facing aspect of the electric cooperative, elevating the appearance of access. It is here, at these access points, that the consumer member-owner can learn more about their utility bill and how the cooperative is run, meet with employees of the electric cooperative, and themselves become engaged.

**Autonomy and community fit**—The electric cooperatives, being embedded and beholden to their member communities, claim to be more responsive to member wants and needs. Electric cooperative leaders expressed great pride in tailoring localized programs in consumer-owned energy (such as community solar) and community economic development.

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7 Unlike electric cooperatives, investor-owned utilities continue to consolidate (from roughly 140 in the 1990’s, to around 60 today). As they consolidate, investor-owned utilities reduce their local presence in order to decrease their overhead and provide higher returns to their shareholders. The scale-back in service provision reduces the number of venues providing opportunities for participation by the consumer ratepayer. As the organizational access points are diminished, participatory access points are largely relegated to the Public Utility Commissions. At that regulatory arena of participation, the barriers to engagement with the utility become virtually impossible to overcome by the everyday consumer.
Part of the “fit” comes from distinct customization of the cooperative due to closer ties to local community (reinforcing the adage “Once you’ve seen one co-op, you’ve seen one co-op”). Customization involves better service delivery (e.g., faster restoration of power, local branch offices), and other benchmarks held up against the performance metrics of their investor-owned and municipal counterparts.

**More cooperative jobs**—While the investor-owned utilities consolidate, electric cooperatives maintain their workforce numbers to serve their decentralized assets. Many electric cooperatives are among the highest paying employers in their communities, and the electric cooperatives in this study claim to be able to do so while also economizing for the end consumer.

What is more, the electric cooperative employee benefits programs are aggregated through another CBN organization created by the NRECA. The aggregation of employee benefits means that not only are electric cooperative jobs some of the best compensated in their communities, but also competitive against benefits packages offered throughout the electricity industry.

**Know member needs**—The electric cooperatives claim to provide community services that would have otherwise not been provided in rural areas by other forms of rural enterprise. And it does appear that the electric cooperatives themselves receive a number of performance benefits due to proximity to the consumer member-owners being served. This is an area that warrants further exploration, in order to determine if the claims match up to reality, and, if the claims hold true, how electric cooperatives can optimize their approaches for meeting member needs.

**Co-production**: bottom-up and top-down innovation. This proximity to member voices and needs is a potential competitive advantage. Yes, cooperative staff are the individuals who implement key programs in the electric cooperative. But, the cooperative serves as an arena for public entrepreneurship. By convening local members, and being close to the ground, electric cooperative staff are the recipient of new information and ideas.

**Member access to resources** they would not otherwise have (e.g., economic development, financial analysis, ratemaking support) by leveraging the knowledge of local assets, and connecting those resources to the CBN.

Central and the Cooperative Business Network serve as a platform to share learnings and experiences across member cooperatives (e.g., sharing how they addressed an issue in their territory at a managers’ meeting, picking up the phone and calling a fellow manager to ask a question). Statewide and national meetings are arenas for the sharing of local entrepreneurship. Many of these programs get replicated, and become electric cooperative standards (such as Operation Round Up, where the members can round their bill up to the next dollar, providing a centralized fund to help pay electricity bills for other members facing financial hardship).

**Governance is far more dynamic** than just the formal mechanisms that apply at the Board of Trustee level. In fact, governance occurs in a number of informal ways, allowing for enhanced communication and coordination.

Leadership through the electric cooperative sectors often serve in multiple governance affiliations and redundancies that reinforce key practices and build trust and credible commitment. Many Board members and managers serve on multiple committees (e.g., Distribution, Central, working group, managers’ meeting) requiring that they switch hats and
perspectives, facilitating the ability to see issues from different angles. It also allows members to get acquainted with many others, helping to knit together relationships across distribution cooperatives.

There are also **regional approaches to governance and management**. All of the managers of the distribution cooperatives in South Carolina meet every other month to stay abreast of system-wide issues. Regionalized Board working groups form in order to address specific, pressing issues (e.g., policy on matters ranging from low-income consumer access to broadband service provision).

Distribution cooperative board participation on CBN-level boards (e.g., Statewide and Central) appears robust, albeit with incomplete participation from all distribution cooperatives (e.g., Statewide does not have 100% participation from all South Carolina electric cooperatives).

Local-level governance is reinforced through the active development of governance capacity-building by the Cooperative Business Network. It must also be emphasized that democratic self-governance does not simply come “from below,” but also “from above.” Central provides resources that its member cooperatives find valuable. Some such examples include the following:

- Greater clout in terms of market and political power in negotiating power purchase agreements with power suppliers. Individually, it seems the distribution cooperatives would spend more resources on internal staff time, and lose negotiating power for power purchase agreement. However, under the Central umbrella, the distribution cooperatives are better able to operate as a singular, statewide utility with all of the requisite benefits of scale.
- Central also provides for an array of **shared services** (e.g., load forecasting, ratemaking, economic development), and all members coops reap the benefits of such services provided with economies of scale. Also, the very opportunity to engage in shared services provides a platform for creative public entrepreneurship that would not otherwise exist at a smaller scale. This allows for new, innovative programs that could help establish new industry norms (such as Operation Round Up, which originated from Statewide).
- The shared service most discussed was in terms of **economic development**. Virtually all electric cooperatives engage in some form of economic development, even if it is relegated to industrial customer attraction and retention. Central’s investment in the South Carolina Power Team allows individual electric cooperatives to aggregate economic development services, providing far more capacity to engage in economic development activities collectively than alone. The Power Team staff and their expertise are available for support at the local distribution levels for a number of services. And the coordinating features through the Power Team provides a unified voice and advocate on legislative and regulatory matters.

**FUTURE QUESTIONS:** What motivates individuals to become involved in the governance of the electric cooperative? What are the mechanisms utilized by the electric cooperatives to allow for participatory governance? And are there any best practices or outliers?

A frequent comment by cooperative leadership held that—unlike their investor-owned counterparts—the electric cooperatives are in close proximity to the ratepayer. The proximity
translates to more access and participation—Is this true? Where does one observe electric cooperatives better using local facilities for member engagement? How are these facilities designed to interact with members? (Do they have informational marketing? Do the facilities attempt to provide varying degrees of access with staff at multiple levels to member-owners?)

The research team observed a number of overlapping, redundant governance roles by management and trustee members. Is this unique to Central and the South Carolina electric cooperatives? How does this form of redundancy influence performance outcomes of individual cooperatives and the Cooperative Business Network?

**How does Central enable its member cooperatives to operate as community-focused, sustainable organizations, delivering affordable, reliable energy to its member-owners?**

**FINDINGS: Members believe in the notion that the collective good benefits all.** The South Carolina electric cooperative system is tightly bound together, out of both a sense of solidarity and mutual benefit. Many distribution cooperative executives interviewed said outright: “Whatever benefits them, benefits me.”

The team gained a deeper understanding of the difference between a “paper” G&T and a G&T that owns generation assets. The “paper” orientation of Central may provide for an added advantage in a rapidly changing energy market. As one official in the CBN said: “Steel and concrete are expensive to maintain. I think it’s a great thing we don’t carry those assets on our books.” As a result, Central may have more agility and opportunity to engage with rising consumer demands for distributed and community-oriented energy projects, such as community solar.

The mutual benefit is best exemplified by the wholesale power purchase agreements arising from membership to Central. Absent of Central, the individual member cooperatives would have to maintain in-house marketing, contracting, and legal services, resulting in significantly higher utility bills for consumer-members. Beyond the additional internalized costs that would be incurred by the distribution cooperatives, there are also the added costs from lost market power. Alone, each individual distribution cooperative would be at the whim of investor-owned generators. Central provides enormous collective bargaining and market power, assisting the members in driving down wholesale costs, and organizational overhead. For rural electricity consumers, this provides enormous economic advantages and opportunities to apply scarce resources to other individual, family, and community pursuits.

The benefit of collective action and solidarity activity extends well beyond Central’s stewardship. Multiple members cited the residential or industrial growth in another cooperative’s service territory as a benefit to their members. The economic development spills over through a number of mechanisms. The primary benefit of economic development in another cooperative’s territory is increased load on the system, allowing for the spreading of fixed costs across more members. Secondary benefits cited include employment and feeder businesses in surrounding communities (e.g., locally manufactured auto parts for the BMW plant) and beyond (e.g., export of BMWs drives increased traffic through the Charleston port).

**FUTURE QUESTIONS: It seems obvious that G&Ts provide real market power to their member cooperatives, but with new distributed energy generation on the horizon and the increasing consumer demand for such generation sources, how will G&Ts adapt? Is the collective action and purchase-pooling mechanism an advantage for cooperatives (and, potentially, for investor-owned firms, who may have unique challenges in adapting)?**
Absent of the G&Ts, how vulnerable are distribution cooperatives to the whims of investor-owned generators?

**How do Central’s member cooperatives work together to meet the collective energy, business, and local social needs of the overall system?**

**FINDINGS:** Central and its member distribution cooperatives are responding to market and institutional threats, and making the response to such threats competitive advantages.

First, on the matter of turning threats into opportunities:

- Mismanagement of nuclear power plant construction of Santee Cooper 2 and 3 has negative pricing impacts on Central’s member distribution cooperatives. Central is working to address the challenge through a number of legal and collective bargaining mechanisms.
- Investing in regional community economic development is a complex process that could cause competition and negative relationships between member cooperatives. The elevation of the Power Team – a nonprofit servicing the economic development needs of South Carolina’s 20 distribution cooperatives – mitigates potential conflicts between electric cooperatives by facilitating economic development initiatives in a manner that enhances spillover benefits to neighboring cooperative service territories and beyond.
- Prior differences between cooperatives in the northern and southern regions of South Carolina (and the different power costs they face) could cause strain. But the leadership from both groups have worked through the CBN to create agreements mutually advantageous to everyone involved.

However, there is an important question as to the extent to which the electric cooperatives are communicating the value they provide to their members and member communities. There are a number of challenges facing the system that are not unique to Central and South Carolina but shared by all electric cooperatives. A few respondents noted that a number of long-term power-purchase agreements at other G&Ts were of some concern due to changing consumer preferences (i.e., for renewables) and market fundamentals (e.g., the increasing cost of carbon). Renewable generation goals established by state public utility commissions and the increasing demands of corporate customers for higher rates of renewable generation are proving difficult to meet so far. However, local distribution cooperative members of Central are creating individual solutions, and Central is well positioned to assist those projects in scaling throughout the system.

More generally, the research team wants to highlight a vitally important series of issues facing the sector, namely collective accountability and standards of excellence.

First, the research team found a number of noteworthy examples of the benefits of electric cooperatives in South Carolina. Some electric cooperatives have very high consumer satisfaction and employee satisfaction scores (i.e., Best Places to Work in South Carolina). Some electric cooperatives have remarkable member engagement programs, and those programs serve as platforms to recruit future board members. Despite this, there exists a collective action challenge:

*How do cooperatives harness examples of excellence, and convert them into industry standards?*

Elevating excellence in performance of the business and governance is essential for the durability of electric cooperatives, as well as to fortify electric cooperatives as a whole whenever a public relations crisis occurs at a single cooperative.
Take the case of Tri-County Electric Co-op. The board had been captured by a self-interested group of trustees. Over time, and with the entrance of a new CEO, some of the trustees grew more brazen in their attempts to extract their own individual benefits from the cooperative. While the case of Tri-County has seemingly resolved itself due in part to the efforts of the CEO and engaged membership, the entire South Carolina electric cooperative sector has suffered for it.

The Tri-County board caused a public relations crisis, providing the appearance of a need for government regulation. As the state legislature reached deeper into the sector, it became obvious that the low profile of the CBN support system was looked upon with skepticism. In interviews with electric cooperative leaders, the research team heard a number of stories about the renewed public skepticism of the sector.

- “Who are these guys at Central, and why are they making money off of the local electric cooperatives?”
- “Why do the electric cooperatives waste so much money on travel for their trustees?”

If the general public and legislators are unaware of the sophistication of the electric cooperative sector, they could not know that Central serves to lift up the market power of rural consumers nor that providing training and education to the trustees is vitally important to maintain the system.

The electric cooperatives appear to be reactive to political crises. Yes, electric cooperative leaders are currently actively engaged in crafting state policy on electric cooperative governance. This active engagement helps protect electric cooperatives from the relative ignorance of policymakers, assuring that policy reinforces trust in the sector while at the same time improving the overall governance picture. But this leads to an important tension that must be addressed:

*What is the responsibility of cooperatives throughout the system in holding their peers accountable when a particular cooperative is in need of course-correction?*

The South Carolina electric cooperatives should find some degree of comfort in knowing this is not just an electric cooperative problem, nor a cooperative problem, but a problem of self-governing, democratic firms.

But here is the vexing problem in the case of South Carolina. On the one hand, there exists remarkably high performing distribution cooperatives, with high employee satisfaction and consumer satisfaction. On the other, the local cooperatives are not telling their story, but instead proudly expressing humility, i.e., “I don’t like to wave the flag…” Yet when electric cooperatives refuse to “wave the flag,” two significant opportunities are missed:

1. Best practices and new standards are not disseminated; and
2. Public relations crises are not mitigated by a foundational knowledge of the benefits of the electric cooperatives.

Leaders of electric cooperatives must be clear-headed. *What is the best governance tact for electric cooperatives?* Should they be driving best practices and new standards through the cooperative

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system? Such a practice would invariably open new tensions, and certainly result in diminished local autonomy as monitoring and enforcement responsibilities would then reside outside of the local cooperative. Or should electric cooperatives allow government regulators in the public utility commission, environmental agencies, and elsewhere to develop public policy on an ad hoc basis during times of public relations crises?

The aforementioned high performing electric cooperative—who did not want to “wave the flag” in “bragging” about their accomplishments—said: “[The] Tri-County [board] made a train wreck for everybody! Now we have the legislature breathing down our neck.” The Tri-County story allowed for a negative event to cause governance reform at the state regulatory level. But what would have happened had the electric cooperatives engaged in regular governance reform processes within the system, through new approaches to checks and balances? What if the electric cooperatives elevated their success stories of governance, business, and economic development performance?

There are clearly opportunities to do just that. The electric cooperatives could:

**Catalog the array of governance practices across the sector—and explore best practices in their sister cooperatives in other sectors**—to begin to strategize around the optimal choices for new governance practices.

- Assess new scholarly research on self-governance, monitoring, and sanctions. The research from Elinor Ostrom’s Bloomington School provides a number of leading practices that promise to optimize the overall performance of the sector and improve public perception.
- Create transparent monitoring mechanisms that empower actors at the cooperative in question—and throughout the CBN—to implement course-correcting sanctioning mechanisms.

**Tell and promote the stories of excellence.**

- Energy and efficiency programs such as Help My Home and On-Bill Financing are remarkable value-adds that arguably should be bragged about. This helps to set new standards in electric cooperatives, highlighting the benefits of cooperatives relative to IOUs, but can only occur if electric cooperatives engage in a concerted effort to convey these success stories to the general public.
- The CBN, being an essential part of the success of the electric cooperatives, could co-brand with their member cooperatives to tell their stories. While Touchstone provides more generalized branding, there is an opportunity for distinct branding that tells the story of the Cooperative Business Network.

The CBN could in some instances, provide non-member businesses access to their suite of goods and services to small firms in the communities in which their member cooperatives are nested. Indeed, this is already done with the industrial supply cooperatives, such as CEEUS. CEEUS, while owned, governed, and in service to their member cooperatives, sells to investor-owned and municipal utilities. This is both good for the industry in terms of having access to competitively priced goods, but also to the cooperatives who receive patronage for such sales, further allocating resources.
FUTURE QUESTIONS: How do electric cooperatives build the governance capabilities and capacities of their general membership? And does the existence of electric cooperatives contribute to an enhanced spillover effect, benefiting public entrepreneurship and civil society?

How do electric cooperatives communicate their unique value-add to the general public? Do electric cooperative leaders fully understand how the electric cooperative model differs from other utility ownership models? And—for those cooperatives communicating the ‘cooperative difference’—does one see variance in member bonding to the cooperative?

Discussion and Conclusions

Central’s business fundamentals appear to be sound, and the management methodical and intentional. There exist high degrees of collaboration and consensus-building among the member cooperatives, which assures bonding mechanisms of trust and reciprocity. These bonding mechanisms are essential for maintaining the membership that makes Central not just a viable enterprise, but a necessary component to the functioning of the local electric cooperatives.

There are indicators of concern about the community perspective of Central and its member cooperatives, as well as the future role of actors in the Cooperative Business Network.

What is the future role of G&Ts? There is a great deal of consternation among Central’s peers around topics such as: long-term power purchase agreements; blending power sources; and at what point is it the role and responsibility of CBN cooperatives to take an innovation from the local level and make it a standard for all, reinforced through incentives or sanctions. In all of these topics, there are significant opportunities for the future role of the G&T to not only enhance the performance of the electric cooperative sector, but to be publicly known as the leaders of new energy technologies.

There are significant opportunities for “paper” G&Ts like Central to replicate many of the negotiating strategies employed by IOUs in order to renegotiate PPAs to deliver enhanced economic benefits to their member cooperatives. G&Ts could serve as a market-rationalizing force for the unceasing and increasing demand for distributed energy. First, could G&Ts incentivize community-oriented distributed energy projects (in an effort to relieve their distribution coops of being in a reactionary role, responding to costly, one-off, low-return single-family homeowner projects)? By elevating the conversation around community solar, could G&Ts reinforce the cooperative’s commitment to collective benefit with the member, cooperative, and community? Second, could G&Ts pool the purchasing power of individuals and member cooperatives to enhance community energy projects? Third, could the G&Ts drive distributed energy projects to be managed by their member cooperatives, while serving a coordinating role? Would this further reinforce the value that G&Ts serve their member communities? Just because the research team is observing Central’s capability to leverage the “paper” orientation of the G&T, they cannot presume it is wholly advantageous—further information is needed to compare “paper” G&Ts to their “hard-asset” counterparts.

Another observation is that the CBN cooperatives more broadly could offer an array of convening services that continue to reinforce the bond between member, cooperative, and community. Yes, many electric cooperatives see themselves as a cornerstone of the health of rural communities, but they could do even more for their rural communities by aggregating their social services through the CBN.
A few examples come to mind:

- Energy efficiency opportunities are abundant. Building codes and appliance standards in some rural communities are antiquated, and, as a result, there may be significant opportunities for better insulation, especially beneficial to lower-income ratepayers. There are also opportunities to increase baseload with electric vehicles, fuel switching, and building electrification (and heat pumps).
- Statewide could provide specialized training for local-level staff, training them as social workers (a model used by the Canadian Vann City credit union). By training frontline staff as social workers, they would be well positioned to draw consumer member-owners into the suite of services offered by the CBN.
- South Carolina electric cooperatives have a high percentage of consumer-members that live in manufactured housing. There are opportunities to connect such residents with associations (i.e., ROCUSA, an association representing mobile home park that have converted to resident ownership), or develop and negotiate shared services and joint purchasing (i.e. select preferred, vetted vendors to work with lower-income homeowners for essential upgrades).

The research team also observed significant opportunities for the electric cooperatives to contribute to rural community governance and public entrepreneurship vis-à-vis governance capacity building. The electric cooperatives are deeply engaged in training boards and management on best practices and principles. Electric cooperatives could—in some instances—open up their trainings to the general public, perhaps in coordination with groups such as the United Way, who could convene other cooperatives’ leaders, non-profits, and public officials. This could do a few things: 1) Grow the pool (or “farm team”) of board trustee prospects; 2) Engender trust and connectivity with the local community by providing a real civic and economic development benefit by enhancing individual capacities to work together. The electric cooperatives could also work on the development of member advisory committees. Such committees could serve as an advisory subcommittee to the board, and as criteria for running in the future; and 3) Committees could be directed at key demographics. The electric cooperatives used to have a strong presence with local 4H groups, for example. This could be a significant opportunity to reengage with that bond, and tap into a ready-made program to drive youth development, while also catalyzing the development of future leaders.

Electric cooperatives could leverage their significant economic development support system to drive new forms of local-level public entrepreneurship around job creation, as well as reinforce critically important local public goods and businesses. For example, researchers heard comments from electric cooperative leaders that the USDA’s Rural Economic Development Loan & Grant Program was heavily under-utilized; could electric cooperatives develop a collective strategy around this program? And could that initial push be used to develop more enduring, self-supporting initiatives that elevate localized economic development for the long-term?

Any effort will require ongoing research for the understudied electric cooperative sector. Further research would provide the electric cooperatives with new innovations and practices. Clearly, a need exists to simply identify and inventory the noteworthy initiatives, who is operating those initiatives, and understand their transferability.
Additionally, the story of the electric cooperatives is one of consumer and community benefit. The sector has yet to create effective metrics to measure the array of consumer benefits. Research would go a long way toward capturing the data, providing analyses, and ideally developing scorecards to facilitate marketing and advocacy for the sector.

In summary, outcomes from this research include two major findings:

1. Overall, the governance structure of Central is healthy and the proper approach to corporate governance has positioned the G&T to be responsive and continually provide value to its distribution cooperatives and their members, even though it faces and will face a challenging business environment; and
2. Additional research is necessary, both to further understand the successful programs that Central is operating, and also to understand what other G&Ts are doing well across the country.
Next Steps

The research team proposes to build on the findings of the current study with subsequent research (“Phase 2”) on a broader range of electric cooperatives. The purpose of the proposed research is to examine electric cooperative governance at the distribution and Cooperative Business Network levels through the lens of the analytical framework of Nobelist Elinor Ostrom. The research proposal has been developed over eight years, informed by fieldwork in Illinois, North Dakota, South Carolina, Indiana, California, and Washington, DC. The proposed research will be performed through a series of statistical and individual case studies, guided by the following research objectives:

1. **How do cooperatives self-govern?** Analyses of Self-Governance within the Electric Cooperative Enterprise
   
a. Examine the governing rules of electric cooperatives to determine the specific ways in which they direct: (i) the composition, structure, and decision-making processes of cooperative boards; and (ii) organizational functions of cooperatives and, in turn, affect cooperative performance and member-owner satisfaction with cooperative services.
   
b. Identify major governance opportunities and barriers to effective cooperative performance.

2. **How do cooperatives govern at multiple scales?** Describe and assess the performance of the complex system of the electric cooperative sector
   
a. Examine the complex governance arrangements of the electric cooperative sector, and how it impacts the performance of distribution/member-owned cooperatives.
   
b. Assess what role the Cooperative Business Network plays in governance, performance, and innovation of distribution cooperatives. Specifically, evaluate how the performance of electric cooperatives is affected by degree of connectivity to the Cooperative Business Network.
   
c. Collect feedback from electric cooperative leaders about what role they think members, cooperatives in the Cooperative Business Network, and other organizations should play in supporting the effective governance and performance of cooperatives.

3. **How do cooperatives contribute to community wellbeing?** Analyses of Community and Economic Development Spillovers from the Electric Cooperative Firm
   
a. Examine how the cooperative governance model may influence public entrepreneurship capabilities.
   
b. Document effects of such a diffusion of knowledge and skills resulting in increased potentials and/or instances of greater public and market entrepreneurship in sectors of the community beyond direct participation in electric co-ops.

4. **How do electric cooperatives compare to cooperatives in other sectors?** Contribute to the understanding of the cooperative business model. What are the common issues facing all cooperatives? A comprehensive analysis of the cooperative business sector will provide invaluable insights to the cooperative sector as a whole. This will in turn help increase performance outcomes of cooperatives, and by extension, enhance the communities cooperatives serve.
5. **How can electric cooperatives contribute to research and policy on economic democracy?** Contribute to the work of Elinor Ostrom by clarifying the relationship between the design of user-governed organizations (cooperatives) and models and public service delivery. Specifically, findings from this research program will help to better understand how individuals self-govern within a complex socio-technological system, how the actors in the system structure their governance arrangements, how systematic self-governance impacts performance, and how organizational diversity—cooperative-owned, investor-owned, and municipally-owned—effects policy outcomes.
References


