

How Rural Electric Cooperatives Work

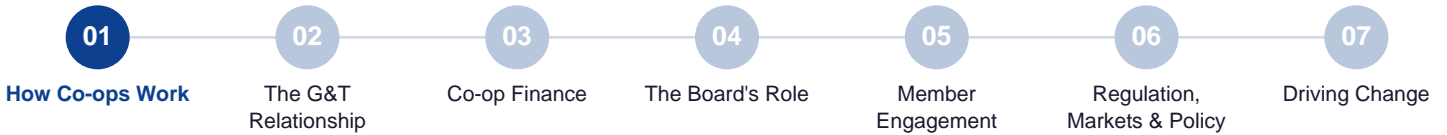
What every co-op leader should understand
about how cooperative structure shapes decisions.

For boards and staff of rural electric cooperatives.

How Rural Electric Cooperatives Work

ABOUT THIS SERIES

This is the first resource in the Co-op Foundations Series from Co-op Innovation Network. Volume 1 introduces how rural electric cooperatives are structured and why that structure shapes nearly every decision a co-op faces. Later volumes go deeper into the relationship between distribution co-ops and their G&T, cooperative finance, governance, member engagement, and more. Together, they form a working knowledge base for board members and staff leading rural electric co-ops.



Introduction

Rural electric cooperatives are one of the most distinctive and most misunderstood models in the U.S. energy system. They were built to solve a market failure: bringing electricity to rural communities that investor-owned utilities deemed unprofitable.

In the 1930s, nine in ten urban households had electricity, while nine in ten rural farms did not. Rural communities organized to electrify themselves, and they built the systems that serve rural America to this day.

The decisions made in those early years still define what is possible, and what is not. Many of the challenges co-ops face today are not just operational. They are structural. This volume starts with the pressures co-ops face today and why structure shapes how they can respond. Then it covers how the cooperative model took shape, how co-ops are owned, who has authority, and what that means for board members and staff.

900+
COOPERATIVES

42M
MEMBERS

56%
OF US LANDMASS

48
STATES SERVED

Today's Pressures on Co-ops

Decisions about power supply, rates, and long-term investments are shaped by governance, financing, and contractual relationships established decades ago. Today, cooperative leaders face a new set of pressures:

1 **Rising costs**

Rate sensitivity is at an all-time high. Members and regulators scrutinize every increase, and the political cost of raising rates is rising.

2 **Rapid load growth**

Data centers, EV adoption, and broader electrification are driving demand in ways co-ops were not built for. Capacity, transmission, and capital plans are all under pressure.

3 **Renewable energy expectations**

Members and policymakers increasingly expect renewable energy options and transparent progress. Yet many co-ops are bound to long-term wholesale power agreements that limit local generation choices.

4 **Aging infrastructure**

Many systems built in the 1940s and 1960s are approaching end of life. Capital investment needs are growing just as members' tolerance for rate increases is shrinking.



THE STARTING POINT

To navigate these challenges, it is essential to understand how co-ops are structured and how that structure shapes decision-making.

Why This Matters



Understanding how co-ops are structured is critical to making effective decisions in today's energy environment. Structure determines who has authority, what options are available, and how quickly a co-op can adapt. In short, structure determines outcomes.

Member benefit

Every decision a co-op makes affects service quality, member rates, and the economic health of the communities it serves. Structure shapes all three.

Affordability

Power supply and financing decisions typically account for the majority of what members pay. Understanding how those decisions are made, and who controls them, is critical.

Reliability

Governance influences infrastructure investment and long-term system performance. Well-governed co-ops plan ahead; poorly governed ones react.

Resilience

Structural flexibility determines how quickly a co-op can respond to change. Contracts, bylaws, and financing all affect this capacity.

The Cooperative Model

Rural electric cooperatives were built to solve a market failure. In the 1930s, investor-owned utilities had little incentive to extend power lines to low-density rural areas, so rural communities organized to do it themselves with federal support.

President Roosevelt established the Rural Electrification Administration (REA), providing federal loans to build distribution systems in underserved areas. Electricity transformed farm operations, household labor, and community life across rural America.



Today, more than 900 rural electric cooperatives serve approximately 42 million people across 56% of the U.S. landmass. They are guided by seven principles from the International Cooperative Alliance.



REA line going to a home, Caswell County, NC, 1940. Library of Congress, FSA/OWI Collection.

THE SEVEN COOPERATIVE PRINCIPLES

1. Open and voluntary membership
2. Democratic member control
3. Members' economic participation
4. Autonomy and independence
5. Education, training, and information
6. Cooperation among cooperatives
7. Concern for community

These principles define the legal and operational character of co-ops. Because they serve low-density areas, co-ops typically operate with higher infrastructure costs and tighter financial margins than other utilities. Long-term planning and strong partnerships are essential.

How the Co-op System Works

Most electric cooperatives operate within a two-tier structure. Understanding this structure, and the relationship between the two tiers, is essential to understanding where decisions are made and why.

G&T Co-ops

Generation & Transmission (G&T) co-ops generate or purchase electricity wholesale and deliver it to member distribution co-ops. They are owned by their member co-ops but operate at a system-wide level, balancing the needs of co-ops across the region.

Distribution Co-ops

Distribution co-ops deliver electricity directly to member-owners' homes, farms, and businesses. They handle member relationships, billing, outage response, and local infrastructure. Most rely on their G&T for power supply, with limited control over generation or pricing.



This structure creates economies of scale, but it also creates constraints. Long-term wholesale power contracts define how electricity is purchased and priced. A distribution co-op may want to pursue local renewable generation or introduce new member programs, but find itself limited by the terms of its agreement with its G&T.

A KEY TENSION

Distribution co-ops manage member relationships but often do not control their power supply. Volume 2 explores in depth this tension between distribution co-ops and G&Ts.

Governance and Structure

Three groups share responsibility for co-op governance: members, the board, and staff. Their roles and how they interact determine who has influence, when decisions get made, and what options are on the table.

1

Member-Owners

Every customer of a cooperative is also an owner.

- Have voting rights.
- Elect the board of directors.
- Share in financial outcomes.

Engagement is one of the most powerful, and most underutilized, levers in the co-op model. Member influence depends on participation: while members have voting rights, turnout in elections is often low, which limits direct member impact on decision-making.

2

Board of Directors

Represents members and guides the cooperative's direction.

- Sets long-term direction and priorities.
- Sets rates.
- Hires the CEO.
- Establishes rules and ensures accountability.
- Approves budgets and monitors performance.

The board holds formal authority and makes decisions that shape the co-op's future. Board effectiveness depends on the quality of information, strategy, and options presented to them.

3

Staff

Led by the CEO, executes strategy and runs operations.

- Day-to-day operations.
- Power supply planning.
- Financial management.
- Member services.

Staff play a critical role in shaping decisions by developing plans, analyzing options, and presenting recommendations to the board. In many cases, staff influence which decisions get considered and how they are evaluated.

What This Means

Knowing how co-ops are structured informs how decisions get made. Here is how these concepts translate into practical action, and what to take with you as you continue through the series.

To Lead Effectively

- Understand where decisions are actually made.
- Align board, staff, and member expectations.
- Invest in the quality of information your board receives.

To Drive Change

- Work within governance structures, not around them.
- Engage early with the right stakeholders.
- Understand your G&T relationship.

What Gets in the Way

- Misalignment between board and staff.
- Underestimating structural constraints.
- Low member engagement.



KEY TAKEAWAYS

1 Co-ops are member-owned and democratically governed.

Every customer is an owner with voting rights. That shapes which decisions can be considered and how they need to be made.

3 Power supply is often controlled outside the local co-op.

Most distribution co-ops rely on G&Ts for wholesale power, and long-term contracts define much of what is possible on rates, renewables, and new programs.

5 Governance quality impacts strategic outcomes.

How well the board, CEO, and staff work together, and the quality of information they share, is often the biggest determinant of co-op performance.

2 Structure directly shapes decision-making.

Governance, financing, and contractual relationships determine what options are available and who has real influence.

4 The G&T relationship is central to co-op strategy.

Understanding the terms, constraints, and opportunities within that relationship is essential for any leader thinking about long-term direction.

6 Member engagement can drive meaningful change.

Co-ops with active, informed members have more flexibility and legitimacy when facing hard decisions.

Sources & Acknowledgements

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- **We Own It**
 Research on cooperative governance and member engagement (weownit.org).
- **Institute for Local Self-Reliance**
 Analysis of cooperative structure and rural energy democracy (ilsr.org).
- **University of Wisconsin Center for Cooperatives**
 Research on cooperative principles, governance, and member economics.
- **International Cooperative Alliance**
 The seven cooperative principles (ica.coop).

SPECIAL RECOGNITION

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