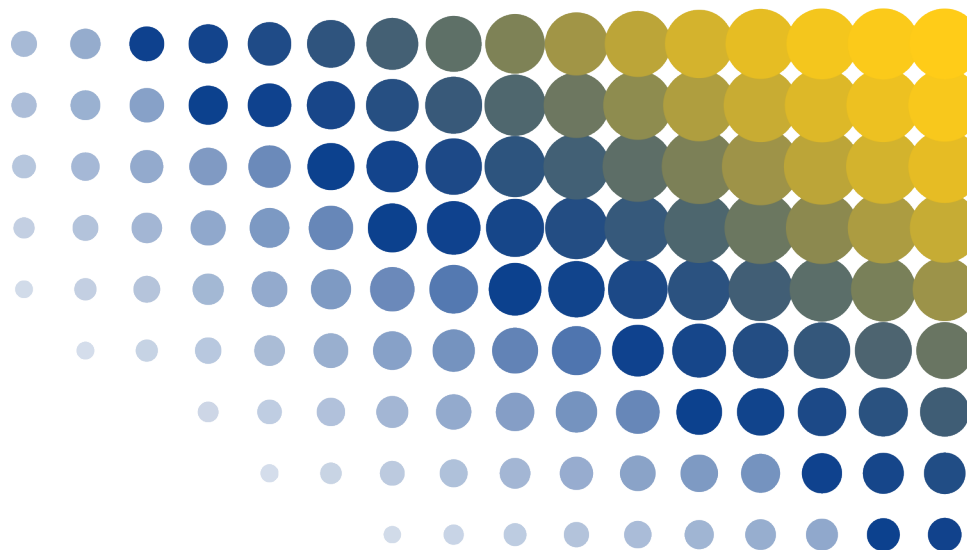




Regulation, Markets & Policy

What every co-op leader should understand

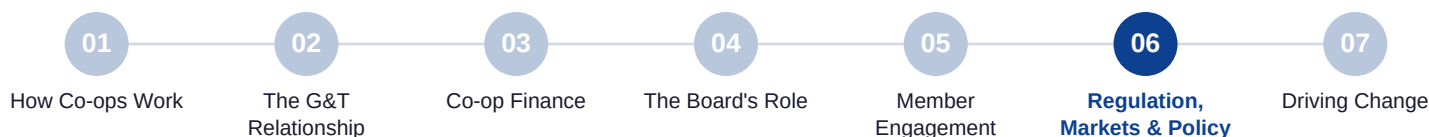
about the rules, markets, and policy that shape a cooperative's choices.

For boards and staff of rural electric cooperatives.

Regulation, Markets & Policy

ABOUT THIS SERIES

This is the sixth resource in the Co-op Foundations Series from Co-op Innovation Network. Earlier volumes cover how the rural electric cooperative is organized, financed, and governed as well as the relationship between a co-op and its member-owners. Volume 6 turns to the rules, markets, and policy a co-op operates within.



Introduction

Regulation, markets, and policy are complicated and nuanced. Rather than a comprehensive explanation of these three topics, this volume offers a straightforward overview of what each means to a rural electric co-op:

- **Regulation** is what a co-op must comply with, from how its rates are set to the safety and environmental rules it follows.
- **Markets** are where a co-op's power comes from and what it costs.
- **Policy** is what the government is trying to encourage or discourage, and how that shapes a co-op's choices.

For a board member or staff leader, the goal is not to master every rule or know every agency. It is to understand enough to ask the right questions and recognize what applies to your co-op so you know your options.

This volume builds understanding of how a co-op is regulated, how its power is bought and sold, and how policy shapes a board's options. Much of this varies by state and by co-op, so the pages ahead point out the broad differences as they come up. For the specifics affecting your co-op, your co-op's counsel is the best resource, and your statewide association can often help as well.

WHY THIS MATTERS

Your Regulatory Status

Whether your rates are set by your board, a state commission, or both, and what else a commission may oversee.

Your Market Exposure

How your co-op buys wholesale power, and what that means for the cost and stability of members' bills.

Which Policies Apply

Which federal and state policies affect your co-op and how they shape its choices.

How Co-ops Are Regulated

Regulation has both a narrow and a broad definition. The narrow definition deals with setting rates. The broad definition is any rule a co-op must follow, including safety and environmental standards. This volume uses the broad sense unless it points specifically to rate-setting.

MODELS FOR SETTING RATES

Electric co-ops often work differently from investor-owned utilities (IOUs) when it comes to setting rates. For an IOU, a state commission approves rates. The utility files a rate request that the commission reviews through a public legal process before approving what it may charge. This is the model many people picture when they hear the word regulation, though it is not the only one co-ops follow. For example, a co-op's member-elected board can set rates directly, filling the role the commission plays for an IOU.

Commission-Regulated

A state commission reviews the utility's rates and decides what it may charge. This is how most IOUs work, and how co-ops work in some states.

Board-Regulated

The co-op's member-elected board sets rates directly, with no commission review. Members hold the board accountable through their votes.

Although many co-ops are board-regulated with no commission review, some are entirely commission-regulated while others fall under a combination of the two. How many fall into each group varies widely by state and by how oversight is defined.

REGULATION BEYOND RATES

Even where a commission does not set a co-op's rates, it often still handles safety, service territory, siting, and certain customer disputes. So a co-op may sit outside commission rate regulation while remaining subject to a commission in other respects.

WORTH CONFIRMING

Regulatory status varies from one co-op to the next. Confirm yours with your co-op's counsel before assuming either model applies.

A NOTE ON TERMINOLOGY

*The state body that regulates utilities has different names by state, including **public utility commission (PUC)**, **public service commission (PSC)**, and **corporation commission**. All refer to the same kind of agency. This volume most often calls it by its general term, **state commission**.*

Who Regulates and Who Influences

It helps to separate the bodies that regulate a co-op from those that only influence it. A regulator can require your co-op to do something. An influence shapes your costs or choices but holds no authority over your co-op.

THESE REGULATE

Can require your co-op to act

- **Federal Energy Regulatory Commission (FERC)**

Oversees the wholesale selling and transmission of electricity between states. Many co-ops are exempt from most of FERC's wholesale-rate regulation. However, some federal requirements (including reliability and market-integrity rules) can still apply, usually through a co-op's G&T or a regional market it belongs to.

- **North American Electric Reliability Corporation (NERC)**

Sets and enforces mandatory reliability and cybersecurity standards for large power plants and high-voltage transmission, under FERC oversight. These mainly bind a co-op's G&T, so most distribution co-ops feel them only indirectly.

- **Environmental Protection Agency (EPA)**

Sets environmental standards under laws such as the Clean Air Act. A co-op that owns generation (usually a G&T) must comply with those standards. Co-ops have historically relied more heavily on coal generation than the utility sector as a whole, though that mix continues to change. Much of that generation sits with their G&Ts, so these standards can carry real costs for a G&T, such as installing pollution controls, retiring older coal units, or investing in replacement generation. Most distribution co-ops feel this only through the cost of power from their G&T.

- **State Utility Commission**

Reviews and approves co-op rates in states that regulate them. Even where the state does not regulate rates, it commonly keeps authority over safety, siting, territory, and some disputes.

If it applies, you must follow it.

THESE INFLUENCE

Cannot require your co-op to act

- **Rural Utilities Service (RUS)**

Lends to co-ops as part of the U.S. Department of Agriculture (USDA). It does not set rates and generally cannot order a co-op to act. Its loans, though, carry binding conditions, so a co-op that borrows from RUS is bound by those terms. RUS once played a larger oversight role. Into the late 1990s, it reviewed and approved co-ops' proposed rate changes, a requirement it later dropped. Its role as a lender is covered more fully in the finance volume.

- **Power Marketing Administrations (PMAs)**

Sell electricity generated at federal hydroelectric dams, with co-ops among the customers that receive first preference to buy it. Four operate regionally, each covering a different part of the country, though not the Northeast or much of the Midwest. Their rates and terms shape a co-op's costs, but they do not regulate it.

- **Cooperative Associations**

Provide shared services, training, and a collective voice on policy. This includes statewide and national groups such as the National Rural Electric Cooperative Association (NRECA). They may influence the choices co-ops make and represent their shared interests, but they hold no authority over any individual co-op.

It affects you, but you decide.

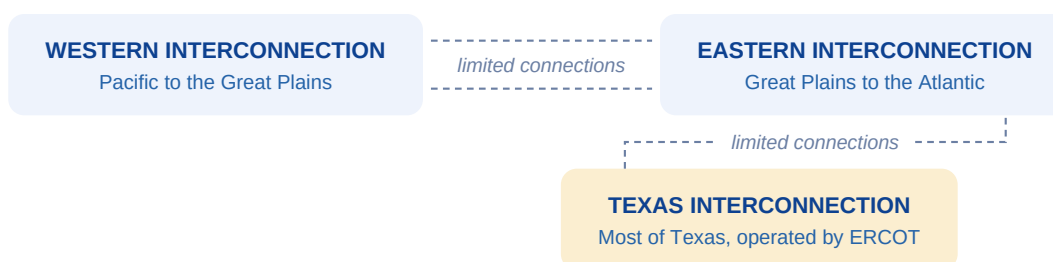
The same co-op can answer to a regulator in one area, deal with an influence in another, and stand entirely on its own in a third.

The Grid: How Power Moves Across the Country

Regulation is one part of the picture. Markets and policy are another, and to understand them, it helps to start with the physical system that carries electricity. Most people picture a single national grid. There is no such thing.

THREE SEPARATE GRIDS

The continental United States runs on three large, mostly separate networks, formally called interconnections but often referred to as grids. The Eastern Interconnection covers roughly the eastern two-thirds of the country, the Western Interconnection most of the West, and the third, operated by the Electric Reliability Council of Texas (ERCOT), most of Texas. Within each, the system runs as one synchronized machine. Between them, only limited connections exist.



WHY THE SEPARATION MATTERS

Within an interconnection, a shortfall in one area can be met by power flowing in from another. A region tied to its neighbors can lean on them during a crisis. A region that stands largely apart cannot.

The clearest example is Texas. The ERCOT grid connects to neighboring grids through only a few small links (to the Eastern Interconnection and to Mexico), so it can import very little power during an emergency. The same separation limited the state's ability to draw on neighboring grids during a February 2021 winter storm, when generation across many fuel types failed at once and demand was extreme.

By contrast, a co-op in Minnesota sits inside the much larger Eastern Interconnection, with far more ability to share power across a wide area. Neither arrangement is free of tradeoffs, but the difference in how much a region can rely on its neighbors shows up in a crisis.

Whichever interconnection serves it, a distribution co-op sits at the end of this system, delivering power to members over local lines. Its G&T, where it has one, owns larger generation and high-voltage transmission within the interconnection. The next page explains how power is bought and sold across that system.

GOOD TO KNOW

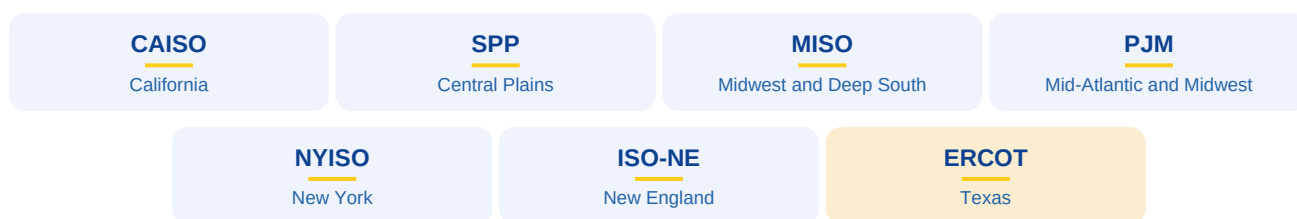
Know which interconnection and which region your co-op operates in. It shapes both your reliability and your exposure to power costs.

Markets: How Power Is Bought and Sold

Within the grids, electricity is bought and sold in more than one way, and how a co-op's power is bought affects what members pay and how stable those costs are.

ORGANIZED MARKETS AND TRADITIONAL ARRANGEMENTS

In much of the country, wholesale power is bought and sold through an organized market run by a regional grid operator, known as a Regional Transmission Organization (RTO) or Independent System Operator (ISO). Seven operate across the country, and all but ERCOT are rate-regulated by FERC, which oversees wholesale power sold and moved between states. Since ERCOT's grid and market stay mostly within Texas, how it prices and sells power is overseen by Texas authorities instead.



Not every region works this way. In much of the Southeast, the Northwest, and parts of the West, there is no organized market. Utilities there buy and sell power through direct, negotiated contracts with one another. A co-op may sit in either kind of region, and that shapes how its power is priced.

THE GRID OPERATOR'S ROLE

An RTO or ISO operates the grid and runs the market. It does not own power plants, and it does not generate electricity. It matches supply with demand and sets a market price, but the power itself comes from generators, including G&Ts.



WHAT IS AN RTO OR ISO?

A **Regional Transmission Organization (RTO)** or **Independent System Operator (ISO)** is an independent, not-for-profit body that operates the grid across a region and runs its wholesale power market. It coordinates the flow of power and runs the market, but owns no generation of its own.

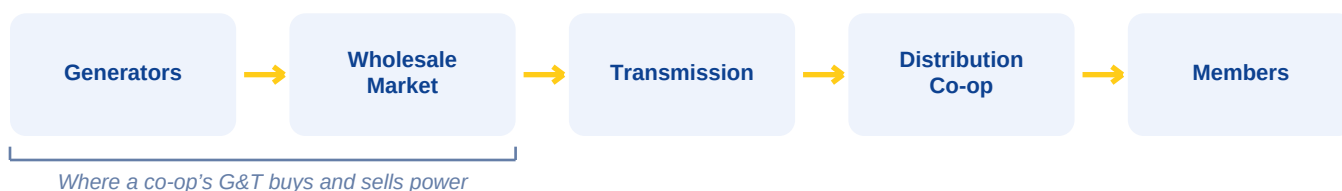
How a Co-op Buys Its Power

Two things shape how a co-op buys its power: how it takes part in the wholesale market and whether any of its supply comes from a federal source.

WHOLESALE MARKET AS A SUPPLY SOURCE

Most distribution co-ops do not buy directly in the wholesale market. Their G&T does it for them. That role can be more involved than it sounds. Where the G&T takes part in an organized market, it both sells its own generation into the market and buys what its members need, all at market prices. That exposes it, and indirectly its member co-ops, to prices that rise and fall.

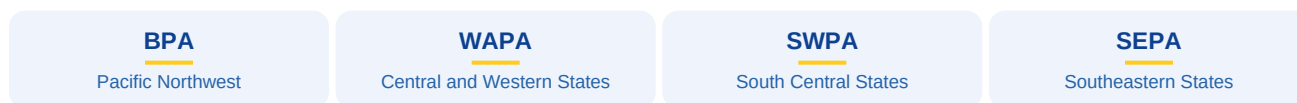
Owned generation and longer-term contracts can soften those swings. When prices rise, a G&T's own power plants earn more selling into the market, which offsets much of the higher cost of buying. Longer-term contracts help as well, locking in prices ahead of time.



FEDERAL POWER AS A SUPPLY SOURCE

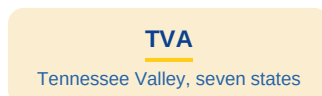
Some of a co-op's power may come from federal hydroelectric dams rather than from a market. Four federal Power Marketing Administrations (PMAs) sell the electricity generated at federal dams: Bonneville (BPA), Western Area (WAPA), Southwestern (SWPA), and Southeastern (SEPA). By law, not-for-profit utilities, including co-ops, receive preference, meaning first claim on that power. They can buy it at cost rather than at a market price.

POWER MARKETING ADMINISTRATIONS



They market power generated at federal dams that other agencies operate.

TENNESSEE VALLEY AUTHORITY



It generates its own power and owns its transmission.

The Tennessee Valley Authority (TVA) plays a comparable role for co-ops in its region, though it works differently from the PMAs. It is a federally owned utility, generating its own power and selling it wholesale to local distributors (including co-ops) across a seven-state region.

The PMAs do not regulate a co-op, though their rates and contracts shape its cost of power. TVA is different. Beyond supplying power, it also regulates the rates of the local co-ops and utilities it serves.

Policy and the Rules That Shape Choices

Beyond the agencies and markets that affect a co-op day to day, broader policy sets the terms it operates under. Boards and staff do not need to track every development, only the ones that matter directly to co-op decisions.

A HISTORY OF THE RULES

The system this volume describes was built over decades. A few milestones helped shape it:

BUILDING THE CO-OPS

- 1936** The Rural Electrification Act brings federal lending to rural electric systems, the foundation of the cooperative network.

OPENING THE MARKETS TO COMPETITION

- 1978** The Public Utility Regulatory Policies Act (PURPA) requires utilities to buy power from qualifying non-utility generators.
- 1992** The Energy Policy Act expands wholesale competition.
- 1996** FERC Orders 888 and 889 require utilities to open their transmission lines to competing sellers on equal terms.
- 1999** FERC Order 2000 encourages utilities to form regional transmission organizations.
- 2020** FERC Order 2222 requires grid operators to let distributed energy resources, like rooftop solar and batteries, compete in their markets.

TAX POLICY: A SHIFTING WINDOW

Because co-ops are not-for-profit and largely exempt from federal income tax, they historically could not use federal energy tax credits the way a for-profit utility could. Two federal laws changed that, and the picture continues to shift.

2022 Elective Pay Opens the Door

The Inflation Reduction Act of 2022 created elective pay, or direct pay, letting tax-exempt co-ops receive certain energy tax credits as a direct payment. This made it more affordable to own generation (including renewable energy), not just buy it.



2025 The Window Narrows

A 2025 federal law (P.L. 119-21), often referred to as the One Big Beautiful Bill Act, accelerated phase-outs for many of these credits and ended others outright, while leaving elective pay in place. The window for new projects has narrowed, and what remains available depends on the project.

STATE POLICY

States also set policies that may or may not apply to a self-regulated co-op, from renewable energy standards to net metering (crediting members for power they send back to the grid) and rules for connecting customer-owned generation to the grid. Which ones bind you largely depends on the state and your co-op's regulatory status.

Co-ops are not only subject to policy. Through their statewide and national associations, they help shape it.

What This Means for Your Co-op

The detail in this volume comes down to a few questions every board and staff should answer about their own co-op:

Regulatory Status

- Are your rates set by your board, a commission, or both?
- What else does your state commission oversee?

Market Exposure

- Does your power come through a market, contracts, federal power, or a mix?
- How exposed are members to market prices?

Which Policies Apply

- Which state rules bind your co-op, given its status?
- How do federal tax rules affect your generation options?

A board and staff that can answer these questions understand where their co-op sits in the larger system, and where it has room to act. Markets and policy will keep changing, but a co-op that knows its own position can act with clarity and keep its focus where it belongs, on its members.

COMMON QUESTIONS

Are electric co-ops regulated?

Yes, but how varies by state and by co-op, and the details can get technical. For where your own co-op stands, your co-op's counsel or statewide association is the best guide.

Who sets our rates?

It depends on your state. In some states, the co-op's elected board sets rates directly. In others, a state commission also reviews them. Knowing which applies to your co-op is the starting point.

Are we part of a power market?

Some co-ops are, and some are not. Much of the country buys and sells power through organized regional markets, but parts of the Southeast, Northwest, and West use negotiated contracts instead. Most distribution co-ops take part through their G&T rather than directly.

Do we deal with FERC?

Usually not directly. FERC oversees wholesale power sold across state lines and regional markets, which is typically your G&T's role. A distribution co-op that only delivers power locally generally does not deal with FERC directly.

Does our state's renewable energy standard apply to us?

That depends on the state and on your co-op's regulatory status. Some state policies apply to co-ops, while others exempt them or treat them differently. Check how your state treats co-ops specifically.

Can our co-op own generation?

It can, though an all-requirements contract (a commitment to buy power from its G&T) may limit how much or require the G&T's approval. When generation is allowed, federal tax credits can make it more affordable. But the rules shifted in 2025, so a board weighing an investment should seek current guidance.

Sources & Acknowledgements

The Co-op Innovation Network (CIN) extends its gratitude to the authors, organizations, and industry leaders whose research, insights, and expertise informed this resource.

- **Federal Energy Regulatory Commission (FERC)**
Regional transmission organizations, independent system operators, and open-access transmission orders (ferc.gov).
- **U.S. Energy Information Administration (EIA)**
The structure of the grid, the three interconnections, and electricity generation (eia.gov).
- **U.S. Department of Energy (DOE) and the Power Marketing Administrations (PMAs)**
Federal hydropower and preference customers. The Tennessee Valley Authority serves a comparable federal role in its region (energy.gov).
- **U.S. Environmental Protection Agency (EPA)**
Environmental standards affecting electricity generation (epa.gov).
- **U.S. Department of Agriculture (USDA), Rural Utilities Service (RUS)**
Federal lending to rural electric co-ops (rd.usda.gov).
- **Internal Revenue Service (IRS) and U.S. Department of the Treasury**
Elective pay and federal energy tax credits (irs.gov).
- **National Association of Regulatory Utility Commissioners (NARUC)**
State regulation of utilities (naruc.org).

SPECIAL RECOGNITION

Frances Sawyer

Pleiades Strategy

Special thanks for her contribution to the Co-op Foundations Series. Her research helped shape the content of each volume.

Contact

www.coopinnovation.org

info@coopinnovation.org

