



Strategies that can help cooperatives thrive

By Erin Huntimer

It's a big world with big risks, big uncertainties – and big bills – around every corner. What's a small electric cooperative to do?

Get lean, get tough and take it on. Sometimes that means coming together with neighbors to get the job done.

Mergers, consolidations or management alliances can help electric cooperatives streamline to better serve their members. They're big tools that are not always right for the job; every cooperative's story is unique. But when it is right, the members at the end of the line see benefits by way of more stable rates and reliable power resulting from more efficient operations.



Chris Baumgartner

– and many others that researched the possibility. Chris Baumgartner, Basin Electric manager of member relations, has assisted with many of those as a facilitator. He and the member relations division also assist member cooperatives with strategic planning.

Since 1986, Basin Electric has assisted member cooperatives with 18 successful mergers, consolidations and management alliances involving 41 cooperatives

“Co-ops are trying to find ways to be more efficient, to manage their risk,” he says. “One of the things we do in strategic planning is to help them discuss what co-ops around the country, around our region and our membership have done that they can do – things they have control over to mitigate risk and control costs.”

Such discussions can sometimes – but not always – lead to talks about merging or consolidating with a neighbor. Spreading controllable costs over more meters is an attractive way to manage risk. Member-consumers often benefit from improved service area coverage, quicker response times to outages, and better system reliability. Other benefits include savings by having one CEO and a smaller board. Employees can focus on more specific areas, and may even see further opportunities for growth. Combined operations eliminate duplication of effort. A larger membership base can help justify the use of new technologies. It also can increase political clout and strength in the marketplace.

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Member cooperatives often ask Basin Electric to serve as a third-party facilitator, mediator or analyst in these studies depending on the needs of the cooperatives. But Baumgartner stresses, Basin Electric will never tell a cooperative what to do. “Basin Electric does not know what's best or even claim to know what's best for our members, but we are here to help them determine that for themselves,” he says.

Sometimes even when cooperatives have the best intentions, a square peg just won't fit in a round hole. “It's not always the right fit or the right timing. What drives these discussions is generally a need to be more efficient and to control costs. What stops these discussions is not at all about costs; it's generally about culture of the organizations and personalities. We use an analogy of a marriage. There is a dating or courtship period, and if it just doesn't feel right, something isn't right,” he says.

Some boards have a certain comfort level on how they set their rates, their capital credit retirement rotation, their equity level or the size of their board. And sometimes cooperatives are not

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on equal footing financially – one cooperative could have everything to gain, the other very little.

“These types of things are big issues; you cannot overlook them,” Baumgartner says.

Impact on employees and communities is another concern.

A merger or consolidation can mean closing an office and those employees having to commute. “I’ve seen mergers that look like they will save some money on paper, but the boards said no because of the uncertain impact on the employees. These are tough choices for any board member,” he says.

Cooperative boards have many difficult decisions to make over a long process that can take a year and a half or more. If the formal studies show substantial benefits, and the respective boards choose to move forward with a vote of the membership, the final word comes from the member at the end of the line.

The experiences of two Basin Electric member cooperatives provide snapshots of the challenges and rewards of using these risk management tools. Southeastern Electric Cooperative of Marion, SD, and Dakota Valley Electric Cooperative of Edgeley, ND, were both formed as the result of consolidations. Dakota Valley

Electric is also part of a management alliance with Northern Plains Electric Cooperative of Carrington and Cando, ND.

Southeastern Electric Cooperative **Marion, SD**



Brad Schardin

Turner Hutchinson Electric and Lincoln-Union Electric formed a management alliance in 1997 that ultimately led to the cooperatives’ consolidation in

2000. The result: Southeastern Electric Cooperative. Brad Schardin was manager of Turner Hutchinson, share-managed with Lincoln-Union, and went on to manage Southeastern Electric. Southeastern Electric and neighboring McCook Electric formed a management alliance in 2002, which ultimately resulted in McCook merging into Southeastern Electric in 2006.

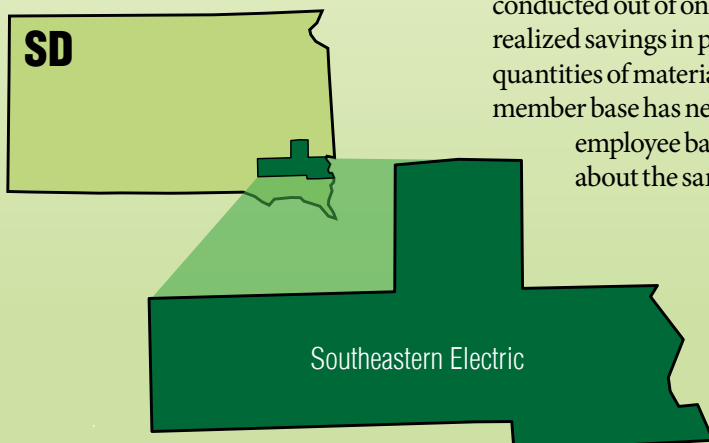
Schardin says it’s been 10 years since the first consolidation, and the biggest benefit Southeastern Electric has realized is the long-term operating efficiencies and cost savings. Almost immediately, he says they implemented automated metering throughout the membership, which allowed for all the billing to be conducted out of one office. They’ve realized savings in purchasing larger quantities of materials. And while the member base has nearly doubled, the employee base has remained about the same.

Schardin says from a membership standpoint, their major concern was whether getting bigger was going to hurt their service. “That was probably our biggest hurdle, telling our members, ‘No, your services are going to be as good as or better than they are today. Yes, there will be changes but we’re going to have a structure in place so that people will continue to service your issues locally.’” Southeastern Electric continues to maintain offices in Marion, Alcester, Parkston, Salem, Sioux Falls and Viborg.

He says employees were skeptical at first whether this was the right thing to do. “But ultimately, they have some buy-in into the implementation of the new organization and a commitment to making it work, and with a good employee group, that makes a huge difference.”

Schardin compares the evolution of electric cooperatives to that of the ag industry. “You don’t see many 500-acre, 1,000-acre farms around anymore. They’ve generally had to get bigger and farm more ground to be able to pay the bills and to keep up with the technology and the changes going on. I think that’s what we looked at as far as the co-ops, too. As everything’s changing around us in the farm and the ag industries, we need to be adapting and changing, too,” he says.

“The strongest part of the whole process has been the commitment and vision of the board to say, you know, we’re doing okay as individuals, we’re not financially in difficult situations . . . but we need to do the best job we can at controlling our costs at the local distribution level, and combining and consolidating and looking long term was a vision they had,” Schardin says.



Dakota Valley Electric Cooperative Edgeley, ND



Jay Jacobson

Dakota Valley Electric Cooperative was formed when RSR Electric and James Valley Electric consolidated in

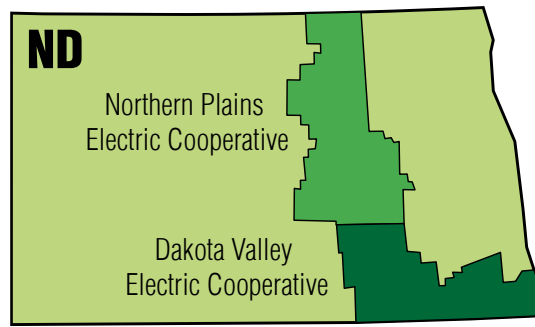
2000. Today, Dakota Valley and Northern Plains Electric Cooperative are part of a management alliance.

Jay Jacobson, manager of Dakota Valley Electric, says the biggest drivers for bringing the two cooperatives together in 2000 were to achieve economies of scale from an employee standpoint and expand the member base.

“There was a desire from both cooperatives to better embrace the technical aspects of service to the customers and what we can do to improve that, and they felt that coming together would give us greater resources both in equipment and in manpower to be able to move better in that direction,” he says.

Jacobson says even with the successful consolidation, the board saw further opportunity in looking to its neighbors to the north, Northern Plains, which was formed from the consolidation of Tri-County and Baker Electric in 1997.

Jacobson says they started talking about consolidation, but identified detriments in that. The respective boards were concerned about losing



representation at the Central Power, Basin Electric and statewide levels. But the desire to work together still existed.

They found a solution in forming a management alliance, the first in North Dakota. Jacobson and Lowell Stave, manager of Northern Plains at the time, were placed in a separate management company. “We were given specific tasks: managing both of the cooperatives and managing the alliance transactions between the cooperatives. Then we were given authority to start bringing the operations together step by step,” Jacobson says.

Beginning in 2005, the department heads at each of the cooperatives

– engineering, information technology, operations, member services and communications – were brought into the management alliance. “They oversee both

groups of employees, and from their perspective the two cooperatives are really like two districts,” he says.

Jacobson says the cooperatives have the same number of employees they did in 2005. “When we brought in the alliance, it wasn’t so much to reduce the work force but to reorganize the work force, moving

employees closer to the work, and reducing the need for duplicate levels of supervision,” he says.

The original management alliance agreement between the two cooperatives was for five years. Jacobson says both boards have indicated a desire to continue the alliance.

“We feel it is working well; it’s giving us the benefits of a larger cooperative while at the same time trying to retain the identity of a small cooperative. And we felt if we were to consolidate again, we would have lost maybe a little more connection with the members,” he says.

“Folks will ask us if this is going to lead to consolidation, and there really isn’t any reason why it has to. Working together on the operations can work as well as a consolidation,” Jacobson says. “There are plusses and minuses for both. What we found is that both are very legitimate types of processes, that either one can work well into the future.”

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What’s the difference?

In a merger, Cooperative A merges into Cooperative B, and Cooperative A essentially ceases to exist.

In a consolidation, Cooperative A and Cooperative B come together to form a new organization, Cooperative C.

Management alliances can be structured a variety of ways. The cooperatives maintain their individual identities, but can share staff and resources, sometimes through an independent organization, to gain operating efficiencies.