

Membership Matters 101.2

Energy Lifestyles Magazine

August 2012

By Mark Pendergast, President/CEO

Governance and Regulatory Controls

This article is the third in a series about your membership and ownership in St. Croix Electric Cooperative. This is our 75th Anniversary year and there is no time like the present to tell the story of your Cooperative and our mission.

In the first two articles, I reviewed the legal and ownership structure and tax exempt status of the cooperative. I also previewed the power of membership and the associated rights and privileges resulting from membership

Bylaws

The Cooperative's Articles of Incorporation and Bylaws, as approved by the State of Wisconsin in 1937, describe in a very detailed way the purpose of the Cooperative and the general requirements and restrictions for its operation. The bylaws outline the powers of the board of directors and their role in conducting the business affairs of the co-op. The bylaws also set forth procedures for the allocation and payment of equity capital credits to members. The allocation and retirement of each member's equity capital credits is a requirement of the Internal Revenue Service (IRS) in order to maintain our not-for-profit status.

The bylaws and their provisions cannot be changed by the Board of Directors or management. The bylaws can only be amended by a vote of the membership. Every new member receives a copy of the bylaws and copies are also provided upon request to any member free of charge.

Policy and Decision Making

The Cooperative's nine-member board of directors is elected by and from the membership. There are nine director districts, and elections are held each year in three of these districts. Directors are nominated by a committee of members and elected by mail ballot to serve three-year terms. Directors receive no salary for their work but are paid a per diem of \$250 for each full-day spent on approved Cooperative business.

There are no mandatory training, experience or education qualifying requirements to be a director candidate. However, new directors in each year of their first term are required to attend a minimum of four days of training. A director may not be employed by or have a financial interest in a competing business. A director must have their primary residence in the district they are representing. The Board of Directors holds monthly meetings, approves annual operating and capital budgets, sets electric rates and makes policy.

The primary duty of a director is to act on behalf of the entire membership in making business decisions to further the goals of the Cooperative. These decisions include establishing written operating policies, thereby directing me and the other staff in carrying out the day-to-day affairs of the Cooperative and service to members. Most of the operating policies are requirements not

guidelines. Each member is entitled to receive equal treatment and is bound by the same service rules and requirements. Members may request copies of these operating policies.

In my role as the CEO, I work for the Board of Directors in service to the membership. My job is to hire a staff and together we work to meet the goals and objectives of the board and the needs of the membership. However, I am not the final decision maker in many co-op matters, nor do I have the authority to change board policy. I help the board in developing policies and makes recommendations from time to time to amended policies.

State and Regulatory Control

Because the Cooperative is a not-for-profit business governed by a member- elected board of directors who are also member/consumers of the co-op, the state of Wisconsin has exempted the co-op from regulatory control by the Public Service Commission. The power to regulate the Cooperative rests primarily with the membership and their elected board. The board sets all rates and rules for service. With this said, we are bound by state statute regarding service boundaries and when and where we can compete for service to new accounts. We are also are required by law to collect fees from each member to fund state-approved conservation and renewable energy programs and low income energy assistance.

Our cooperative's capital financing needs are supplied both by our members (44%) via retained equity capital credits and from two primary lenders. Our main source of outside financing comes from the Rural Utilities Service (RUS, formerly REA) an agency within the U.S. Department of Agriculture. Loan funds are available as reimbursement of eligible capital expenses for materials such as poles, wire, meters and the labor to install this equipment. Loan funds from RUS are not at subsidized interest rates.

We are heavily regulated by RUS regarding financial operations and reporting as well as the planning, design and construction of our electric distribution system.

Your Cooperative is a self supporting sustainable business directed and controlled primarily by its Board of Directors for the sole purpose of serving the members' needs, not making a profit. Each member has a financial ownership interest in the business in the form of Equity Capital Credits. These capital credits are the result of margins or annual income in excess of expenses each year. Equity Capital Credits are allocated to members based on the amount of business done with the Cooperative during the year. These Capital Credits are refunded – paid to members on a scheduled basis.