

Testimony of Mr. Mel Coleman

**Chief Executive Officer, North Arkansas Electric Cooperative
Vice President, National Rural Electric Cooperative Association
Board of Directors**

**To the Committee on Energy and Commerce
Subcommittee on Energy and Power**

U.S. House of Representatives

Thursday, February 27, 2014

Introduction

Chairman Whitfield, Ranking Member Rush, members of the Energy & Power Subcommittee, thank you for inviting me to testify on the benefits and challenges to electric energy access in the 21st Century. My name is Mel Coleman, and I am CEO of North Arkansas Electric Cooperative (NAEC). I also have the privilege of serving as Vice President of the Board of Directors for the National Rural Electric Cooperative Association (NRECA), and my testimony today will reflect the views of both NAEC and NRECA.

NRECA is the national service organization dedicated to representing the national interests of cooperative electric utilities and the consumers they serve, including more than 900 not-for-profit rural electric utilities that provide electric energy to over 42 million people in 47 states. NRECA's members include approximately 67 generation and transmission ("G&T") cooperatives, which generate and transmit power to 668 of the 838 distribution cooperatives in NRECA. The G&Ts are owned by the distribution cooperatives they serve. Remaining distribution cooperatives receive power directly from other generation sources within the electric utility sector. Both distribution and G&T cooperatives were formed to provide reliable electric service to their owner-members at the lowest possible cost. NRECA member cooperatives serve 19 million businesses, homes, schools, churches, farms, irrigation systems, and other establishments while employing approximately 70,000 people in the United States.

I have had the good fortune of serving the members of NAEC for more than 25 years. NAEC is one of seventeen distribution cooperatives in the state of Arkansas. As a member-owned electric cooperative, we serve more than 36,000 accounts in Northern Arkansas covering six counties. Our cooperative energized its first line in 1940 and has since grown to over 4,800 miles of distribution lines. With a density of 7.41 members per mile of line, our cooperative strives each and every day to improve the quality of life of the 28,000 plus members we serve. With three retirement communities located within our service area, a majority of our members are 60 years of age and older, most living on a fixed income. At NAEC we have a commitment to our members to keep the lights on and rates affordable. Currently the state of Arkansas has an average kWh rate of \$0.0943. In comparison, North Arkansas Electric Cooperative's rate per kWh is \$0.10148. Our commitment to our members is evidenced through recent member satisfaction surveys with an average satisfaction rate of 89 percent.

North Arkansas Electric Cooperative purchases its power from Arkansas Electric Cooperative Corporation (AECC) located in Little Rock, Arkansas. Created in 1949, AECC provides power for more than 500,000 farms, homes and businesses in Arkansas. AECC relies on a diverse generation mix. Of the twelve generating stations that AECC owns or is part owner in, coal is their primary generation fuel followed closely by natural gas. NAEC is a part owner of AECC. According to projections by AECC, EPA mandated environmental coal plant upgrades will cost \$614 million dollars, where the total plant cost was only \$1.17 billion dollars. These costs will be paid by my members, and the rest of the cooperative members in Arkansas.

Barriers to Providing Affordable/Dependable Electricity

At North Arkansas Electric Cooperative, we have an obligation to provide a reliable supply of electricity to our member-consumers at the lowest possible price. We take this obligation to serve very seriously because the personal and economic health of our members and communities depend on it, but this job has not gotten any easier due to new and on-going challenges facing our industry. One such challenge is the heavy infrastructure investment associated with serving in rural service territories. Nationally, electric cooperatives provide service in 2,500 of all 3,141 counties in the United States. Electric cooperatives own and maintain 2.5 million miles (42 percent) of the nation's electric distribution lines, covering 75 percent of the U.S. landmass, while serving just 12 percent of the nation's electric customers.

Co-ops serve diverse communities with sharp economic and geographical differences with service territories that are sparsely populated. NAEC's low density, 7.4 consumers per mile of line, is dramatically lower than the national average of 33.3, resulting in cost implications for our members. Co-ops collect average annual revenue of approximately \$15,000 per mile of line, compared to annual revenue of \$75,500 per mile of line for investor-owned utilities and \$113,000 per mile of line for municipal electrics. NAEC's system covers vast expanses of remote and often rugged topography, presenting unique economic and engineering challenges requiring significant amounts of capital and an unrelenting commitment to system reliability. The legacy of rural electrification and the obligation to serve the "last mile" results in higher maintenance costs as compared to our industry counterparts.

On top of our infrastructure challenges, NAEC serves some of the neediest Arkansans. As with most rural areas, Northern Arkansas is economically depressed with limited economic opportunity for our members. All six counties served by NAEC have an average poverty rate of 19.15 percent and an average median income of \$32,250, compared to the national average of 15 percent and \$51,017 respectively. NRECA member cooperatives serve a large percentage of our nation's "persistent poverty counties" with poverty rates 20 percent or above for the past three decades.

Rural electrification is one of the most successful efforts in our nation's history of tackling poverty and raising standards of living. However, despite great progress through the efforts of many, co-op service territories are still lagging in many economic indicators. Rural consumers are more dependent on electricity to meet their household energy needs than those living in urban and suburban households due in part to limited access to natural gas. The average electricity rate of usage for co-op served households is 1,128 kW a month, significantly higher than the investor-owned average of 829 kW and the muni average of 971 kW. Another factor contributing to household electric usage being higher in more rural areas is due to the prevalence of detached single unit homes as well as energy inefficient manufactured housing. At 14.7 percent, the share of mobile homes in the housing stock of co-op territories is more than double the U.S. average of 6.5 percent. So it stands to reason that increased electricity costs have a disproportionate impact on rural consumers. Given the high cost of propane and heating oil, rural households often lack alternatives when electric rates rise sharply.

Recently, consumers have been hit with the double whammy of increased costs and higher rates of usage due to the recent cold snap. Not even a southern state like Arkansas was

immune. Arkansas' electric cooperatives set new peaks for winter power consumption with this being the coldest winter the state of Arkansas has experienced in 20 years. The Energy Information Agency (EIA) recently attributed the increased electricity prices to the cold weather which has produced spikes in natural gas use and prices. Natural gas spot prices averaged \$4.71 per million Btu in January, an increase of \$0.47 per million Btu since December. High demand for electricity and natural gas along with localized gas supply disruptions forced the grid to rely heavily on coal generation to meet power needs this winter. Interestingly, natural gas prices rose to a level that incentivized bringing on unused coal capacity to help back out natural gas demand. As we have all seen first-hand this winter, natural gas prices are volatile and can spike even during short term weather events with a direct impact on electric bills. I hope we can all take a lesson from these events to appreciate the stability of coal pricing as a hedge against natural gas price volatility. The severity of the recent winter weather brings into focus another significant challenge facing our industry: the challenge of providing an abundant and growing supply of affordable electricity adequate to meet the peaks of the winter heating season.

In Arkansas, when it comes to providing electricity, we like to say "the mix matters," which is to say we believe the smart solution to providing the power is to do right by our members and the environment by using a balanced mix of generation resources. AECC utilizes wind, hydro, biomass, solar, natural gas and the cleanest coal technology available to power communities throughout the state. AECC's coal based generation resources protected electric cooperative member-consumers from the full effect of the recent spike in natural gas prices. AECC dispatches coal units as much as possible because they provide member-consumers a lower price than gas. Although it would seem that EPA's goal is to shutdown coal plants, this winter proves that such a move would jeopardize reliable and affordable electricity for Arkansas. Unfortunately, EPA's proposed standard to limit carbon dioxide emissions from new coal units will require carbon dioxide capture technology that is costly and not viable on a commercial scale, effectively removing new coal generation as a hedge against future natural gas price spikes.

I would add that AECC owns a portion of the cleanest and most efficient coal plant in the United States, the John W. Turk, Jr. Power Plant, the only U.S. plant in operation using advanced ultra-supercritical technology. In August 2013, POWER magazine named the Turk Plant as its Plant of the Year; a distinction presented to the industry leader in the deployment of advanced technology and maximized efficiency while minimizing environmental impact. How unfortunate is it that, while China will continue to deploy ultra-supercritical technology, the EPA's new unit rule will effectively prohibit the construction of this highly efficient and environmentally advanced technology here at home. EPA's climate regulations may well be the greatest threat facing our industry. We are extremely concerned that EPA will propose a standard to existing coal units this summer that will threaten the viability of our existing coal fleet, result in increased costs to our members and undermine the reliability of the nation's power grid.

In the development of national energy policy, public-private partnerships and incentives are much more beneficial for all concerned rather than mandates and regulations. We support an "all-of-the-above" electric generation approach to ensuring electric cooperatives have the resources they need to meet future electricity demand. Advanced nuclear, carbon capture and

storage technologies and renewable resources require federal incentives and financial support in order to encourage their development and help bring down their costs to consumers. Such incentives must be provided on an equitable basis to not-for-profit electric cooperatives, just as they are provided to for-profit utilities.

The Powerplant and Industrial Fuel Use Act was passed in 1978 in response to concerns over national energy security. The Fuel Use Act required all new electric generating facilities to be “coal capable.” Due to the capital cost differentials between facilities constructed to be coal capable compared to those designed solely for natural gas use, and the significantly higher fuel costs associated with using natural gas as compared to coal, the Fuel Use Act prohibited new electric generating units that were coal capable from using natural gas as the primary fuel. The Act was repealed in 1987, but during the time the Fuel Use Act was in effect, electric cooperative generation needs grew substantially. As a consequence, about 60 percent of cooperative total baseload electric generation was constructed under the Act and is coal based.

Now roughly 30 years later, the phrase “everything is cyclical” is evidenced in the administration’s push toward natural gas and renewable generation and away from coal fired generation. Why push our economy away from an economical choice in fuel generation such as coal? Renewable electric generation definitely has a place in the fuel mix, however the technology does not exist today for these renewables to be utilized as base load generation. Additionally, the dependability of these fuels is not adequate to meet load requirements during times of exceedingly hot or cold weather. Common sense says there must be a balance and we need the cooperation of federal policymakers to help cultivate a diverse and sensible fuel mix.

Yet another barrier to providing affordable electricity is our dear friend Mother Nature. We all know the devastating impact that weather can have on the electric distribution system. In 2009, NAEC experienced a monumental ice storm that destroyed over 5000 poles, and 20 percent of our total distribution system. At one point, all 36,000 of our accounts were without electricity. Some of my members had to exist without power for 19 days. To say we take electricity for granted is an understatement. If you truly think about how much of our lives revolve around the single flip of light switch or the simplicity of an electrical outlet, you realize how vital electricity is to our quality of life. And we must be able to deliver it reliably and affordably.

Benefits of Reliable/Affordable Electricity in Rural Areas

Cooperatives like North Arkansas Electric Cooperative have always emphasized electric energy conservation to their members. NAEC is one of the first cooperatives in the nation to utilize the Rural Utilities Services Energy Resource Conservation Loan program to our members for home efficiency upgrades. We offer low interest financing on high efficiency geothermal heat pumps, insulation, energy efficient windows, and other measures that save electric energy....and save our members real dollars. Our small cooperative has loaned in excess of \$15 million dollars since the late 80’s for residential energy efficiency improvements. We educate our members on energy efficiency and conservation, and offer free energy audits to all we serve. All this is part of our efforts to be good stewards of the electric energy resources we have. Every kilowatt-hour we help a member to ‘not use’, is a kilowatt-hour of generation that doesn’t have

to be constructed. That also improves the quality of life for our members by helping them keep more of their hard earned dollars.

As electric cooperatives our purpose is to power communities and empower members to improve the quality of their lives. All aspects of modern society — including the business sector, benefit from abundant, highly-reliable, inexpensive, and secure electricity — which is the very foundation of modern society. Make no mistake....the very foundation. Everyone benefits when people of every economic level can access electricity whenever they wish. By having a sound, reliable distribution system with affordable rates, electric cooperatives are more competitive in recruiting industry to their area, which in turns leads to more jobs and lower unemployment. Improved economic opportunities have a direct impact on the financial stability of all utilities and service companies, as citizens are able to pay their financial commitments on time, lowering write-off rates for businesses.

The most distinctive difference that sets electric cooperatives apart is not the products and services we offer, but how the electric cooperative “bottom line” differs from that of investor-owned utilities. Our “bottom line” is the empowerment of our member-owners. I get up every day, not concerned in the least about profits or stock prices. My only concern is for my members, their families, and their quality of life.

Many Americans feel that they are increasingly on their own, with few trusted institutions to help them ensure a better life for themselves and their families. There is a yearning for organizations that people can trust and with which they can identify. Institutions like electric cooperatives are as necessary today as they were when they were created

Conclusion

The sole benefit of access to electric energy is quality of life. And the sole beneficiaries are my member-owners. My cooperative is not in the electric business....we are in the life improvement business. We work with and live with the members we serve. Those that own the cooperative. We must make sure that their lights stay on un-interrupted, and that their bills are affordable. That can only be accomplished with a commitment to our communities and our members, and with an all-of-the-above electric energy fuel strategy.

The electric cooperative story is about ordinary people who banded together to improve their quality of life by bringing electricity to their communities when no one else would. One just needs to look back at the debate captured in the Congressional Record leading up to the Rural Electrification Act of 1936. I am sure some of you, like me, have read the hundreds of pages in the record. Yes it’s about electricity and about fairness. Yes it’s about rural farms and businesses. But, it’s all about quality of life for people who were in desperate need of something better. This is the vision that President Roosevelt manifested in the people of rural America when the Act was signed. Cooperatives were formed by people going door-to-door to sign up members. Poles and wires were set by hand. Backbreaking work for and by the people.

Empowering people to improve their quality of life is not only the history of electric cooperatives, it is also our heritage – it’s who we are. Quality of life is important wherever you live – in urban areas or in rural areas. Our partnership with NRECA’s International Program has

only confirmed my sentiments about our commitment to quality of life. To see what rural America was like before the Rural Electrification Act, just visit a third world country. I hear old timers talk about the "day the lights came on." But I did not experience that day. I am fortunate to be a part of an electrification project in the remote areas of Northwest Guatemala. Last year I saw first-hand the day the lights came on in a village. As the electrons flowed for the first time, so did the tears of all who witnessed. That day was the beginning of a new quality of life for those villagers. In their face I saw our grandparents and felt what they experienced in our country 75 years ago. That's what we must protect.....electricity is the foundation of our quality of life and we must never forget that. We have and continue to help bring the most basic commodity of electricity to improve their quality of life.

At the end of the day when we all go to the comfort of our homes, we must be confident in knowing that we have done everything humanly possible to keep electricity flowing. And more importantly, that we keep it affordable to every single person in our great country.

Members of the committee, I thank you again for the privilege of providing this testimony.