



Message From the CEO

The Value of Electric Cooperatives

Why being a member of a co-op saves you money

THERE ARE THREE MAIN TYPES of electricity providers in the United States. Investor-owned utilities (IOUs) serve primarily densely populated areas. Municipal-owned utilities also serve densely populated cities from large, such as Ames, to the small like Vinton, Iowa. And of course, there are rural electric cooperatives like East-Central Iowa REC that serve less populated parts of the country.

In the utility business, population matters a lot. Since the costs to serve any given area are similar, the more customers you have, the more you are able to spread the costs to keep rates lower. At least that is the theory.

The graphic below shows the national averages

of density and revenue per mile of electrical line for IOUs, municipal-owned utilities, and electric co-ops. Municipal-owned utilities, which operate in cities and towns, have the greatest density—48.3 customers per mile of line, generating an average of \$113,301 of revenue. IOUs follow with 34 customers per mile of line, while generating average revenues of \$75,498. Finally, electric co-ops average 7.4 members (not customers, but members) per mile of line, bringing in an average of \$14,938 of revenue per mile.

Revenue in Review

Because of higher population densities (more consumers served per mile of line), municipal electric systems and investor-owned utilities receive more revenue per mile of line than electric cooperatives.

Consumers served/revenue per mile of line for different utilities:



Source: National Rural Electric Cooperative Association, September 2013

East-Central Iowa REC serves 3.8 members per mile and brings in \$9,723 of revenue per mile.

If I were to give this data to any business school in the country and ask (based on this information) what the rates should be for each of the utilities, the answer would likely be that electric co-ops would have a rate 11.6 times greater than municipal-owned utilities and 7.7 times higher than IOUs—but that is not the case. Why not?

It has to do with the business model. IOUs are owned by outside investors that may or may not be users of the electric utility they own. These companies' stocks are traded on Wall

Street, and those investors demand a return on their investment. This drives up the price that their customers pay. Many municipal systems charge rates that generate a "profit" for their cities to help pay for other services.

East-Central Iowa REC operates on a not-for-profit basis. Of course, we are a business and must generate enough revenue to cover costs (the largest being the purchase of wholesale power). But we don't have to charge rates to pay outside stockholders.

Since our members are our owners, we can provide safe, reliable, and affordable power to you. That is just another way your co-op brings you value. 🌱