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[inaudible]

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welcome to co-op energy talk. I'm Rachel Johnson, the member relations manager here at Cherryland electric cooperative as part of our 2020 reinvisioning of the podcast. One of our ideas was to do podcasts from the road. So in late February, early March, Tony attended the national rural electric cooperative associations annual meeting. We thought it would be a great opportunity to record a podcast that annual meeting isn't any it's an annual event where representatives from co-ops across the country, come together to engage with each other, learn from one another, learn from our national organization, and also to take care of the annual business of our national organization while he was there. He took a few minutes to sit down with some leaders from co-ops across the country. So before we switched you over to that podcast, let me take a second to introduce you to the two gentlemen who joined him.

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Dick Johnson is the CEO of West river electric in wall, South Dakota. He's worked with electric cooperatives for 27 years in various roles. Many of them related to finance. Shane Larson is the CEO of rock energy cooperative in Janesville, Wisconsin. And he's worked with electric cooperatives for 35 years. In addition to the work he's done at his home, co-ops, he's also served on the federated, rural electric insurance board of directors and various other national committees. And I know you all know Tony, but let me just take a second to let you know that he's worked with the electric cooperatives for 37 years. And in addition to working for cops across the country as CEO, he served on the national rural electric cooperative association board of directors for several years. And he's currently serving as the secretary treasurer of that board. So combined these three gentlemen, you're about to hear from have literally just shy of a hundred years of electric co-op experience. So there's, there's much we can learn from them. So let's listen in as they discuss what they've seen over the years and what trends they believe we should be watching as we prepare for the future.

[\(02:01\)](#):

Alright, we're just going to talk a little bit about, uh co-ops and some past history and some outlook at the future. So the first thing we want to talk about is changes we've seen over our career. Anybody want to go first Shane?

[\(02:16\)](#):

Well, I would say probably the biggest is been we're 75% of our cost is on the power supply. Used to be able to have a fixed price with your power supplier. In our case in Wisconsin, we're not part of a June two. We buy directly from an investor on and we used to negotiate a price, but now it's a market rate or a it's a rate based on a formula. So whatever it costs them, they just rolled that out to us. So that's been a big change when it represents so much of our balance and who can stay.

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and that 75% of every dollar you spent

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that's correct.

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What was it? 35 years ago or, or when you started at rock, which is,

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well, I started back in Nebraska, the public power district. And it was probably because we were smaller in back in Seward. We were, it was probably closer to 50%, no cost. Yeah.

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Yeah. I think we're 72% right now or 70%. And we used to be in the sixties, Dick.

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as far as power cross site, ours, probably at about the 55% range.

[\(03:14\)](#):

today.

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today.

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Okay.

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So compare it back to the early years, I guess. I can't, I don't remember, but it has shifted a lot over the years in our case. Uh, so that's, that's, uh, I guess positive, at least it's been

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for explain why it hasn't shifted. You can have a unique source of power that Shane and I don't have R R

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power supply. We get 15% of ours from Western area power, which comes off the hydroelectric dams on the Missouri river. And that's a low cost power source, which I wish we could have a button, 90% of it versus the other 85% that we get from basing our cooperatives a lot higher priced electricity, the planet together, it ends up about 55%.

[\(03:53\)](#):

And one of the things that I see is besides the power supplies side, I was thinking about this question was, I remember when I started the technology, of course, that's pretty obvious how that's changed everything, but I can remember when we, the members would send their meter readings in and we'd build them a month late. I could send them in and you'd build a month late and life was good. And you had line loss that was unbelievable. You know, since then has changed to where we read them every 15 minutes as a inner lower ratings. We can even get shorter than that. If we want to get real time, power

or real time readings. And I think that's probably one of the bigger areas because I look more at the inside the expense size, what's our cash register and that's our revenue side and how we can build that and build on a lot more real time than we used to be able to in the past.

[\(04:42\)](#):

Yeah. In 1983, I started working at a club in South Dakota and the members actually read their meter, wrote down that reading. Then the next month they'd read it again and do the math. And then they'd go to a rate chart and figure out what they owed us and send it in. It was my job to take those envelopes and checks and make sure they did it right. We've come a long ways.

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We certainly have no billing in your past to change.

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a lot of billing in my past. Yeah. It was a similar, were the members, you had a five digit box or five boxes that they had to fill in and send the meter readings back. But the rate structures were so simple, right. You know, back in Nebraska was either residential three phase or irrigation. Primarily we did, we hardly had any demand, uh, buildings.

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And now we're dealing with, you know, going back to the, the technology side of it. You've got, we're built on it. Our only coincidental peak against star investor on peak. So we're trying to predict that. And then with that comes pretty sophisticated rates. Um, but so we're trying to match up their billing structure to our billing structure and yeah, I mean, that's a fundamental shift. Um, do you think, do you think members understand the rates any more today than they did 20 years ago? I think the member that I have, it's a large, I've got, I have one, that's a 15 megawatt load. They, they understand it very, very well, but no, I think, I think that, uh, you know, we compete on a rate, uh, understanding with cell phones, um, where it's just kind of one flat builder that used to be built for usage on cell phones and, uh, not anymore.

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I don't know. What do you think? Uh, the average person, the typical residential person even looks at their, their electric bill. It's probably a small percentage. They just look at what the bottom line is and that's what it is. And if it goes up, they'll maybe scream and Oliver, other ways they know our commercial site, I would agree with you. It's taken a lot more interest. I feel in what their bill is and how they can do better and what we, what we've seen. I, you know, we've noticed that when we look at our average usage on a per member basis per meter basis on our commercial site is markedly lower than the last 10 years. I just could not get over it. You know, everything under a megawatt, smaller, it's just been phenomenal. Our residential is fairly flat as far as on a per meter basis, but our commercial has got a marked decrease in average usage, which really presented some challenges that a lot of co-ops have already faced, but we really need take a hard look at when commercial sales go down.

[\(07:24\)](#):

You have to make that somewhere else. Yeah. It's hard to make that up on the residential side. A lot of that's came from led lighting and that's where they've taken their bill and they've looked at it, they've evaluated it in there. You know, they're putting a new led lighting, you know, fish and heating and

cooling and refrigeration. That's unbelievable. What have you seen as far as equipment goes? I moved to Wyoming in, what was it? 1991. And we didn't have one bucket truck about 93, 94. We bought our first bucket truck for 20,000. I think I just bought one in Michigan for 250,000. What have you guys seen as far as equipment we're we're right there with you. Governmental requirements on fuels have added a significant amount. And plus you've got these, wait times you go out and work these bucket trucks or Digger trucks, and you're waiting at least in our case we're well over a year.

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Yep. But yeah, I mean it's 250 close to \$300,000. And, um, fortunately at least on a board of directors, I think you get them out here around tech advantage. They see these big pieces of equipment, how expensive they are. It's not so shocking. It's, it's a reality, but yeah, it's certainly a lot safer. I think. Um, I think some of my guys might have a hard time finding their hooks. No, that's exactly what I was going to make the communist. They don't climb this nearly as much as they used to and which isn't, that's not a bad thing from a perspective

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and work comp and there's, I think it's definitely,

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yeah, for sure. Looking back, we've had a lot of big things happened over over the years or, or proposed big things. What are some of the next big things that never happened? Like deregulation, you know, where we're going to have competition from everywhere that didn't happen. How did you handle that at your co-ops?

[\(09:23\)](#):

Well, you know, in our case, I guess, you know, it'd be regulation. I can remember shortly after I got into the program and we were pushed hard and we needed to sell propane, we sell everything to, in order to stay around and we evaluated at the time and decided not to do it. I look back and think that was probably not a bad idea at the time. And I still think there's a little bit of it. And when you're looking at the future, there's more and more of the we're somewhat deregulated, but not irregulated. We see a lot of, a lot of by the meter type stuff that's happening with smart thermostats and all that type of stuff. And I think we really need to, and it's not necessarily to be regulation. We need to take a hard look at, I did chuckle real quick. We just talked about this and I turned 2020. We got to laughing about, remember the year 2000 Y two K O batch net new year's a badass. We spent our new year's. We spent hundreds of thousands of dollars, I think on upgrades in 1999. And then we spent new year's Eve at, at the co-op office and nothing happened. So yeah,

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that would be one really big thing that never happened. We did the same thing. We had a Christmas party at the co op is we didn't think anything was going to happen, but you just didn't know. So there we were all at the office waiting for midnight, but that was because we were prepared for new time. Lots of code was changed to accommodate that. Yeah. You know, you talked about dereg. It, we have about 75% of our leaders down in Illinois and that is a deregulated state. And even today it hasn't worked out. In fact, the government, the attorney general advises the citizens and they did some aggregation with communities and there they come out and say, don't do it anymore. So it played well for awhile dereg, even on the commercial side, even on the big team, we have competition in Michigan on the

commercial side today and G and T has about over 20 customers that are commercial customers that came from an IOU, but nobody came to serve the residential customer because the sales weren't there, that's where the aggregation came in.

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The co walks for the most part in Illinois, didn't, didn't participate, didn't open up their territory so that, that didn't come into play, but we could, we could stand just kind of like not getting into some of these other ancillary things that it turned out to be a good thing, not diving into it. I think there's a lot, there's some very important lessons there, you know, kind of, you know, you hear the scene in your lane, don't get ahead of your skis, that kind of thing. So we did, we do it, we do it, we do electricity and we do it well. Yeah. And that's the challenge. Is that what we do, Lisa? I feel like we do really well is we deliver electricity. What's getting more complicated, is procuring and pricing. Electricity's going to be even more complicated with the DG and in the mix and what, uh, uh, what our members expect from that large load that we've got. They're looking at a 15 megawatt battery behind the meter. It's like, those are, those are things that 35 years ago, we never pondered. Yeah. Anything else that did big thing that didn't happen? So we're energy was big 20 years ago, cells in that age, power power was a hydrogen fuel cell company that was going to revolutionize the industry. Everybody was going to have a fuel cell in their yard and to co-op was going to be out of business. And that got back to your propane. They were talking about propane fueling the yeah, for the hydrogen, for the fuel cell. So

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one of the things that I thought about too, that was at least in our area in our rural areas was the small wind turbines, the little, you know, 1500, okay. Dinner, the backyard that was going to revolutionize the way electricity was. And we actually had a developer in our area that put in a, he had little, 10 acre, lots, and he put in small wind turbines. That was one of his selling points. And as soon as the people would buy the house, we get the phone call and say, our developer told us we wouldn't even have an electric bill. Look what we've got. And so one guy called me and he made the story. He said, I've sat here. And I penciled this out before he bought the house. And he said, if I get that wind turbine down, I sell it on eBay. He said, I can just about pay for my new garage. I said, yes, you can. So he took his winter up and down, sold on eBay and built himself a garage instead of putting up with it. So that was one thing that has never developed in our area. It started out with a bang and it's pretty much disappeared.

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And that's something that never changes. Now, the solar guys are doing that. They're selling home home systems and telling them they'll never have a bill. That's not coming to fruition. I think utility scale solar is growing individual home, solar I haven't seen.

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And then we get the call and we're, we have to work harder to meet their expectations and get them to understand that we are the expert. Or as Curtis said, the investor become their trusted energy expert.

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We have about 60 or 80 individual solar systems at member homes. How many of you guys have, we have less than 12, 12, and out of how many meters? About 20,000 electric meters today, we've got about a 50 units. We had a few small wind ones. Laughter then some solar and your, how many meters? 18,000, 18,000. We got thousand 38. I'm doing the math 35. That's a high penetration. Yeah. Yeah. 75,000

majors. And why do you think that is for you guys? Me, I think it's the cost and people don't want to mess with it. People want their electricity and they want it now. And they don't want to have an inverter in their garage or worry about when the sun goes down and mess with batteries. They want simple. That's what the electricity has always been. It's been easy and it's been simple and complicated when you put all that stuff on your roof derive.

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Most of the ones that we see are small systems that our guys do. It is for a passion, for something to do. Few of them we see on, on wealth type services. We see a few on garages are separated, but they'll use that as a source for power sometimes. But otherwise, most of the hall monitors are not really diving into it very much. Once we changed our kind of a thing philosophy, when it came to members of wanting to sell back to us, we took it a space. Now you want to do business with us up until this point for 85 years, we were selling you something. Now you want to sell us something. So we've got, we kind of rearranged and said, Hey, you you're going to match our power supply structure, which means coincidentally demand and low energy rates. And so it's kind of been a disincentive of to this point without net metering in the truest sense of the needle subsidize it.

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That there's the profit isn't there. Yeah. We took the view. We want it to be agnostic. We don't care what you, we don't care. If you turn your breaker, all your breakers off or you throw something on. But if you throw something on and sell it back, then that's now we've got a different relationship. So what is your meter charts then your availability chart. It's \$19. So we're 18.6 26. Yeah. Which is, yeah, we should be higher. We should be closer to 26 metering. You're really subsidized. Exactly. So we're only about half of what our actual cost of service should be at our fixed charge. But we also put up a guest investor all in this 10 bucks, weigh that into that game too. Has the investor ever tried to buy it or have people ever wanted to say let's sell it off to the investor owns their power's cheaper. No comment. No, they've never. No one's ever approached us on that. I'm pretty good. We've got a good relationship.

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Have we ever been approached? Well, actually in 2007 we bought an investor on utilities. So it was a little bit different. They wanted to get out of the state of Illinois because it was so heavily regulated. They weren't making any money. They had actually, they were coming to the end of a 10 year rate freeze, the Illinois legislature and post, which is in the era of high, higher costs and rate freeze. It's not very, it's not, not a way to make a lot of money when you're losing on a per kilowatt hour basis. So yeah, it's pretty rare. Or I don't even know if it's ever happened for an IOU to buy co op in the last 30 years. It's, you know, it's usually like here's situations the other way you wants to get out of the losing business. So they sell it to the co op and that's what we do is try to make some money off of it.

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Great. Given everything that you see at your age chain, your Dick, same scenes will show up on older than seems a lot older than Dick. Who is the grooves here? Well, I have the greatest hair cause I'm the most stressed. So I have to be friends with people. Like you tell you a story about Tony. I played football against him in high school. Didn't even know it. Yeah. We go back to 1979 in South Dakota. Yeah. Was it like for five minutes? That would be nine minutes. Yeah. We didn't water the grass back then either. It really was five yards in a cloud of dust or the stadium lights. It was the lights from the car surrounding

the football field. As we had seen the lights. Except when you went to with the Buffalo play, we played some afternoon games out because we're going to have lights.

[\(19:07\):](#)

Yeah. One game a year. We'd be somewhere electricity. Yeah. So now that we've been way back, what are you looking at going forward? What's the risk to electric co-ops moving forward in the next five, 10, 20 years. What are you worried about? Hopefully I'm worried about, I guess it would be worries. I'll start out. The thing that we're working hard with is member expectations, member engagement, try to get, I know we talked earlier about, they don't really care about the available. We would like to get them involved in our cooperatives. So they understand when they get approached by solar or any of these types of things, they become engaged. And I think we've found that. So the traditional, they come to us, you know, we're working harder to go to them. Annual meetings. New scale though is back a little bit. We still have those traditional members where we want to connect with no doubt, but you know, we've gone to more appreciation days, tailgating events, you know, have a ballgame well serve at that or give away, t-shirts throw the ball game, handed out some things just to try to get our name out there.

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If you could try to engage more with more member advisory committee work is trying to get them to understand what the co-op is about. So they'll, they'll be on our side. If we do have issues legislatively or whatever it is, it's more aggressive. I just feel it's very important. And then going back to all, everything that's behind the meter, we need to be, make sure they call us first instead of going out and trying to listen to people selling. So it's kind of the same model we've had for the last 80 years. Stay in touch with your customer and be there for them and take care of, I think before most of them in our case were ones that remember when the lights

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came on, I really appreciate it. Cause they were small town and we serve a large urban area. They have no idea. You know, they, most of them, a lot of our members are barely remember what the internet, wasn't a thing, you know, much less electricity. So I think that's made a difference.

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No, it was kind of a, it's kind of funny in the sense that having done this for so long power costs, are those things that were discovered time in your case. Yeah. Very long time. But how long were you? 37. So younger. Yeah. But so w w we're we're more comfortable with those things that we think we understand what power costs, 75%, but yet those things that seem to cause at least for me and my team was most stress or some of these social media issues that we it's when you don't have control that it seems to be the most stressful. Um, even, even when you've got an iced one that rolls through or high winds or something like that, you know, that's just part, we understand that we've been doing this a long time. Eventually people get a little bit frustrated being off, but then they turned to the social media side and you all of these different paths, these different apps, these ways of communicating it, if it gets a little bit worrisome is how, how are we going to stay ahead of it?

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Because like you said, Dick you're out there and you hope you develop that trust. But we have approximately 200 new members every, every month, every month cutting in and out. And most of those people have never, ever been on a co op, they don't care about capital credits. There's going to be

these, uh, like there's a neighborhood app that we saw a lot of action on. And, but how it's, how, how do you, how do you group those together? How do you try to participate effectively? Um, you know, we, we, we all talk about Facebook, but I've got four kids in their twenties and they don't use Facebook anymore. Do you have anybody at your co-op who is on Facebook or whatever the social media is where your members are congregating? Well, they can start these groups and in just a few clicks, Facebook groups, Facebook groups, or go off into these other neighborhood apps that unless you live in that neighborhood, you can't participate in.

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So there could be both groups, closed groups and well, they can't that's right. But I'm okay. Being so old. Right. I'm okay. Not knowing things. I don't know it I'm okay. Well, that's why you hire a 30 year old to take care of your social media. But what I do, do they worry? Don't worry about no, no, they don't know. At least we can blame somebody. That's why I got the third year old on Facebook. If something goes wrong. Well, you know, now my fault, that's your job. We can pass the buck. That's what all guys do. We didn't roll that rock down the Hill. All right. So full responsibility for what I do until something goes wrong. As far as social media, though, you mentioned that. Yeah, we struggle. And Vicky yet. We have the youth excursion where we try to get young people to go to the base and spend three days teaching block co-ops and the power in this Creek struggled to get sign outs, our social media guy stuck it out on tick tock.

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Use that guy to, to you with excursion applications you've never had before earlier. So you can see the power of social media has picked up several three Instagram. It was, I just heard about tick-tock for the first time last week, I don't have a clue what that is. I had to sign up to make sure too I'd heard of it, but I hadn't signed up now. I've got it. So I can watch the tick dock videos. What about employees? Are you having trouble attracting employees at your cooperate, particularly linemen and finding the next generation? Yeah, I think it's going to be a huge challenge. Um, we're, we're unionized on, on our alignment side and we're, you've got to develop that relationship with your union so they can help provide a better program to, um, fortunately we've been pretty successful in retaining those employees that have been good for the call for a good long time.

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But yeah, it's, uh, we're, we're competing against, um, big investors that pay a lot of money. That's what the situation is in our place too, which lost to lineman recently to the investor role. And it was scripted and money thing. Our benefits were better. We can prove that to them, that they were young enough, that all they were worried about was what the check was. I understand that. I see that, but that's a struggle. That's what's going on in Michigan too. So here we have at South Dakota, Wisconsin, Michigan, we're all, it's a highly competitive situation for employees. Absolutely. Especially on the, out in the field, you know, these kids are here and there's nothing wrong with going to college. I think we probably all did that around the table and some of us better than others. Some were only there we're running out of time.

[\(26:08\)](#):

I actually brought my transcript. Mine's framed on my wall at my office slowly on by what's that yeah, it's going to be, it's going to be really tough. And, and the, the pay is escalating faster than the rate of inflation. Yes, I would agree. And that's um, and that's, that's the, that's your reality for now? Could it

switch? We've seen it, the recession, if it ever hits, it could be tough, but right now it's, it's, it's a supply and demand. What concern I have is also as our staff, physicians are upper staff. So you have all those types of positions, especially where they're putting the headquarters office, where it's a smaller town. It's really more difficult than even attracting people into rural America, rural America. It's just very, very difficult. It's going to take a lot to get him to stay or get them there first place. Very, very good. All right. Well, we're about to reach the end of our time. So what's one positive parting shot. You'd like to leave the listeners as we step out in here today. You're better looking in person than you are on TV. Okay. Yeah. I don't know what that means, but I can't top that just keeps showing up, showing up. April May 3rd will keep showing up. I want to thank you both. We've been friends a long time and we appreciate you taking the time here at the annual meeting and having this conversation, please. Thanks. Appreciate it.