

Trinity Valley Electric Cooperative (TVEC) Background

TVEC History:

Electric cooperatives began to emerge with passage of the Rural Electrification Act in 1936, and by the end of 1937, citizens of Kaufman County started plans on what would become Kaufman County Electric Co-op (KCEC), which was officially incorporated in early January, 1938. The first KCEC board set up the business end of the Co-op, establishing from scratch a plan to bring power to the communities of Ola, Gastonia, Becker and Jiba. The first 100 miles of electric distribution line was built and energized by December, 1938, and it became the starting point for rapid expansion as the rural community banded together to recruit new Co-op members. The initial \$5 membership fee was the equivalent of about \$88 in 2018 dollars.

In Henderson County and surrounding areas, New Era Electric Cooperative followed a similar path starting in 1940. The rationing of materials during World War II put a hold on many line extension projects, but after the war, the co-ops continued to expand their service areas. After decades of growth, the two co-ops voted to consolidate operations in 1997 to form the Trinity Valley Electric Cooperative (TVEC), with a combined total of about 50,000 meters served.

By the end of 2017, TVEC operated more than 7,700 miles of line to 52,138 members. TVEC's Mission Statement is: "At Trinity Valley Electric Cooperative, we are committed to our member-owners to deliver safe and reliable electric power at a competitive price, with a strong emphasis on member service, community and sound business practices."

TVEC Organization and Governance:

Cooperative businesses are unique because they are owned by the consumers they serve. TVEC is an electric cooperative corporation organized and operating under the Electric Cooperative Corporation Act (art. 1528b, V.A.C.S.) and the laws of the State of Texas and is owned by its members. The Cooperative's business affairs are managed by a board of directors who are elected to the board from and by the Cooperative's Customers in accordance with the provisions of their bylaws.

TVEC provides electric utility service through the operation of a retail electric distribution system. The Cooperative does not engage in the generation of electric power, but instead purchases all of its electric energy requirements through Rayburn Country Electric Cooperative, Inc. The Public Utility Commission of Texas authorized the Cooperative to provide electric utility service by the issuance of a Certificate of Convenience and Necessity. The service area of the Cooperative includes all or portions of the following counties:

Anderson	Henderson
Kaufman	Dallas
Hunt	Van Zandt

The service area of the TVEC includes all or portions of the following incorporated municipalities:

Berryville	Forney	Moore Station
Rosser	Caneyville	Frankston
Murchison	Scurry	Canton
Grays Prairie	Oak Grove	Seven Points
Coffee City	Gun Barrel City	Oak Ridge
Star Harbor	Combine	Kaufman
Payne Springs	Tool	Cottonwood
Log Cabin	Post Oak	Bend
Talty	Crandall	Mabank
Poynor		

TVEC is a *Touchstone Energy Cooperative*, which is a national cooperative federation composed of more than 750 local, consumer-owned utility cooperatives in 46 of the 50 United States. Touchstone Energy co-ops serve more than 30 million members and provides support to its member cooperatives in various ways. Among other things, support has included training in strategy development and execution best practices.

All cooperatives adhere to and are guided by seven principles that reflect the best interests of their consumers:

1. **Voluntary and Open Membership** — Cooperatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.
2. **Democratic Member Control** — Cooperatives are democratic organizations controlled by their members, who actively participate in setting policies and making decisions. The elected representatives are accountable to the membership. In primary cooperatives, members have equal voting rights (one member, one vote) and cooperatives at other levels are organized in a democratic manner.
3. **Members' Economic Participation** — Members contribute equitably to, and democratically control, the capital of their cooperative. At least part of that capital is usually the common property of the cooperative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing the cooperative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the cooperative; and supporting other activities approved by the membership.
4. **Autonomy and Independence** — Cooperatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy.
5. **Education, Training and Information** — Cooperatives provide education and training for their members, elected representatives, managers and employees so they can contribute effectively to the development of their cooperatives. They inform the general public,

particularly young people and opinion leaders, about the nature and benefits of cooperation.

6. **Cooperation among Cooperatives** — Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures.
7. **Concern for Community** — While focusing on member needs, cooperatives work for the sustainable development of their communities through policies accepted by their members.



TVEC Annual Membership Meeting

TVEC Rates:

TVEC requires an agreement for electric service with a minimum term of 1 year or more. The maximum term is determined in accordance with TVEC's line extension policy. TVEC's rate schedule may be changed by the Cooperative's Board of Directors.

Each monthly billing period the Customer shall be obligated to pay the following charges:

- Customer Charge: \$20.00 per meter, and
- Energy Charge: \$0.104848 per kWh

Each billing period the Customer shall be obligated to pay the following charges as a minimum, whether or not any energy is actually used, subject to all applicable billing adjustments:

- Customer Charge, and
- Any amount authorized under the Cooperative's line extension policy for amortization of line extension costs.

The Customer Charge assists in recovering a portion of the fixed costs associated with the delivery of electric service to each meter location. These costs are incurred by the Cooperative regardless of the amount of energy that is consumed at each meter location. The Customer Charge component includes billing, accounting, customer service, meter reading, a portion of the distribution wire expense for metering, transformers, general operations maintenance and other expenses based on service to a minimum size customer. The Customer Charge has not changed since 2008.

The Power Cost Recovery Factor (PCRF) is the formula used to adjust electric bills to reflect increases or decreases in the cost of electricity TVEC purchases from its wholesale power supplier for distribution to its members. Some electric utilities refer to this type charge as fuel costs adjustments.

The base rate of the PCRF includes the average cost of wholesale power purchased by the cooperative. The actual purchased cost each month is variable and may fluctuate from month to month. To prevent constant over-charge or under-charge, the PCRF formula was developed to make appropriate adjustments on a monthly basis. Some months the PCRF will be positive and some months a negative. The amount is calculated by multiplying the "KWH Usage" by the PCRF factor.

Capital Credits:

The cooperative business model is unique, leveraging local control and nonprofit cost advantages for co-op members. This is particularly effective for rural electric utilities, which provide reliable electricity at competitive electricity rates while receiving about 25% the amount of revenue per mile of line compared to the rest of the electric industry.

As a nonprofit company, TVEC can operate with lower revenue margins without the need to satisfy outside investors or owners. Instead, TVEC members own the co-op through their monthly electricity bill and the use of capital credits.

What are Capital Credits?

While for-profit companies may have private owners or stockholders who have invested money to gain equity, co-op members build ownership of the company over time with each electric bill they pay. The capital credits system is the way members' ownership stake is tallied, and it is how any excess revenue (which would be profit in a for-profit company) is returned to members fairly. While each co-op has slightly different ways of handling capital credits, it is a time-tested system for sound fiscal management of an organization with so many member-owners.

How TVEC Capital Credits work...

1. Members purchase electricity from TVEC, but the monthly bill is also an investment in the shared electric grid throughout the TVEC service area, covering the rural areas in parts of six counties.

2. At the end of each year, if TVEC has received more revenue above its expenses, that amount is recorded as additions to each member's capital credits account. The amount accrued to each member is based on how much electricity was purchased for the year. Over time, each member's equity grows, and their investment allows for the Co-op's continued operation, line upgrades and repairs, equipment purchases and new technology.
3. At the discretion of the TVEC Board of Directors, when financial conditions allow, members are paid back a portion of their capital credits balance. Capital credit retirement typically focuses on refunding the oldest credits. In this way, as time goes by, ownership of the company is transferred to newer members, and legacy members are repaid for their equity in the Company.

Investment goes back to members...

Over the last 10 years, TVEC has paid back more than \$32 million in capital credits to its Members. Most recently, for 2019 the TVEC board approved a \$5 million capital credit retirement. Capital credit retirements are returned to Members in two ways:

1. Current members are given their refunds as a bill credit
2. Former members receive a check, mailed to the address on file

Capital credits are a return of money paid for electricity, and are generally not taxable income for residential consumers. Capital credits that go unclaimed for three years is turned over to the State of Texas.

Electric Deregulation:

In 1999, the Texas Legislature passed Senate Bill 7 which introduced competition to the retail electric market in Texas. Beginning January 1, 2002, electric customers of Texas investor owned utilities (IOU's) had a choice of their retail electric provider (REP). Electric cooperatives and municipal electric systems, as well as those customers of IOU's in non-Electric Reliability Council of Texas (ERCOT) regions were exempted from participating in deregulation. Instead, electric cooperatives and municipal electric systems were given the choice to opt into electric competition.

The State's electric grid is comprised of four regions, the Texas Regional Entity (TRE); i.e., ERCOT, the Southeastern Electric Reliability Council (SERC), the Western Electricity Coordinating Council (WECC), and the Southwest Power Pool (SPP). The Texas Public Utility Commission (PUC) delayed implementation of retail access in the SERC in southeast Texas, WECC in western Texas and areas covered by the SPP in the Texas Panhandle and North and East Texas regions. The PUC cited a lack of a regional transmission organization (RTO) in the SERC region and the absence of marketing by retail electric service providers as the primary reasons for the decision. Reasons cited for the delay in the SPP included: the lack of an RTO in that region, no retail electric suppliers, and wholesale electricity markets in the area were not yet competitive.

The complexities of establishing a competitive marketplace and the Texas Legislature's action delaying competition in non-ERCOT regions of Texas directly affected TVEC's potential ability to implement retail access. Approximately half of TVEC's service territory was located in the SPP while the remainder was located within the ERCOT. Currently only one of Texas' 73 electric cooperatives – and none of the city-owned utilities – has opted into retail competition. As such, TVEC members must purchase electricity from TVEC and no other Retail Electric Provider.

Co-ops, TVEC and Rural Broadband:

Several electrical co-ops around the Country are actively providing broadband internet service, and many more are in various stages of development toward that goal. Co-ops are using several different technological solutions to provide service, and each one must develop a model that suits their membership needs, geographic limitations, infrastructure costs, existing service provider coverage and many other factors.

In 2019, Texas legislators passed Senate Bill 14 making it possible for Texas electric co-ops to use their existing electrical right-of-way easements to provide broadband internet service. Co-ops must provide written notice of intent to provide such service to landowners, and the landowners may respond to deny the change in the easement.

TVEC is monitoring the progress and developments regarding rural broadband; however, based on current estimates and the experiences of other co-ops who are further along in the process, providing broadband service to the TVEC service area could require an investment of over \$200 million or more, a level of financial commitment that TVEC members are unable to invest at this time. Therefore, TVEC does not have any current plans to provide internet services.