

THE WIRE

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Introducing Beacon, a Strategic Planning Product for Electric Distribution Cooperatives



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Today's electric cooperatives face major challenges, ranging from the rise of renewable energy and distributed generation to a growing need for broadband and advanced communications systems, along with other financial concerns. Serving your members now and in the future involves carefully weighing new opportunities in an industry defined by constant change.

As a lender and partner of electric cooperatives across the country, CoBank is often asked to provide financial expertise and perspective on these issues. Now, we are happy to announce the launch of Beacon, a strategic planning concept that will formalize and expand these collaborations, defining and strengthening the ways we work with our cooperative partners.

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Leading the Charge for Rural Broadband

An interview with Rural Utilities Service Administrator Kenneth Johnson

As with electricity in the last century, high-speed internet in the early 21st has rapidly transformed from a luxury into a necessity of life. And, as in those earlier times, rural America trails the rest of the country in getting connected. In March, Congress appropriated \$600 million to help spur broadband connections through the country's less populated areas. To spearhead that effort, President Donald Trump earlier this year tapped Kenneth Johnson, a longtime electric cooperative executive with deep experience in rural broadband.

As chief executive officer and general manager of Co-Mo Electric Cooperative in Tipton, Missouri, Johnson oversaw planning and installation of a fiber-to-the-home network delivering broadband to nearly 16,000 homes and businesses. The landmark, five-year project is already paying off in both business development and quality of life in rural Missouri. Johnson sat down with *THE WIRE* to discuss why a similar transformation must happen across the country.

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THE WIRE: An estimated 24 million Americans lack access to high-speed broadband internet – with a disproportionate number in rural areas. What’s behind that divide?

Ken Johnson: Providing broadband in rural areas poses unique challenges. Difficult terrain increases the cost of construction and maintenance. Lower population density means fewer subscribers per mile, so the economies of scale for infrastructure are lower. That translates into higher rates, often in low-income areas, and reduced ability for companies to recover their deployment costs.

THE WIRE: Secretary of Agriculture Sonny Perdue has identified rural broadband as a top priority. Why is this a critical issue?

KJ: Broadband access creates educational opportunities for young people and enables us to train tomorrow’s workforce. E-connectivity, like affordable power, is a catalyst for economic development. It’s central to an area’s ability to attract and develop businesses. Broadband supports healthcare and emergency response, as well as our ability to combat serious challenges such as the opioid epidemic. In short, broadband is essential to helping rural

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communities prosper, and ensuring a quality of life on par with the rest of the country.

THE WIRE: Why should that matter to people who live in cities?

KJ: Rural America is the breadbasket of the world. It provides goods and services that support the rest of the country, and exports agriculture, minerals and forestry products to the whole world. Much of the country’s manufactured goods come out of rural America. Without e-connectivity, the rest of America cannot efficiently access those goods. Supporting economic development, education and health services in rural America – including broadband – is good for everybody, regardless of where you live.

THE WIRE: What roles do the USDA and the RUS play in this effort?

KJ: The USDA’s rural development programs support infrastructure, housing and businesses. As part of the USDA, the RUS works directly with the utilities, including water, electric and telecommunications, that provide services to rural communities. Our key concerns include access, affordability and safety of vital basic services, as well as economic development.

THE WIRE: What are your main rural broadband goals for 2018 and beyond?

KJ: The \$600 million that was just appropriated by Congress will create a pilot program to finance broadband infrastructure for high-speed internet service for rural homes and businesses, farms, schools and health facilities. One of our top priorities right now is to develop that program to be as effective possible.

THE WIRE: What has your own long experience at electric cooperatives taught you, and how will co-ops help solve the broadband gap?

KJ: Co-ops can play a pivotal role in helping to fill the broadband gap. At Co-Mo Electric, bringing broadband to our members wasn’t easy. It took a lot of commitment and

leadership from our board. It required new partnerships. And it required risk, because no one had done it like this before. At the same time, we felt we didn't have a choice if we were going to meet the needs of our members. We needed to have confidence in our community's future, and that was going to be hard without broadband.

The investment has transformed that Missouri community. Even before the project was finished in 2017, you could see people's attitudes changing. Businesses were becoming more vibrant. Jobs were created – and saved. That was very exciting to see. We also helped enhance education and healthcare services. Increasingly, we're seeing similar success stories around the country.

THE WIRE: What can an electric cooperative that's interested in getting involved in broadband do to get started?

KJ: I always encourage the co-ops to think about their hometown's digital future. You really have to step back and think about your community. The choices are not going to be the same for all co-ops. Some communities, especially those that may be served by a telecom provider with perhaps a recently financed RUS loan, are already building fiber to the home. Some communities have great opportunities to partner with existing telecom, cable or broadband providers. So look around and check your resources.

THE WIRE: What loans, grants or other resources are available from the RUS?

KJ: I've been here only a few months but I assure you that our agency will be working very hard to help our co-ops and other borrowers meet their members' needs. Through our lending programs, RUS can make low-cost financing available for fiber-based smart grids. That's really a key. For electric co-ops, broadband service could be attached to a smart grid build-out. Other components of a broadband project might or might not be funded by RUS, but there are opportunities through different parties



to leverage your assets and help bring broadband to your area. Our mission is to help harness all available resources.

THE WIRE: How do private partners fit in with RUS plans to bring high-speed internet to rural America?

KJ: Partners like CoBank, which has made infrastructure investments in co-ops and communities for decades, help us do far more with the resources that we have. Such partners can draw on deep expertise when offering insights on how the projects we help fund can generate growth, improve economies, add jobs or offer education to schools. That's the best form of partnership I can imagine.

THE WIRE: Assuming these efforts are successful, in what ways will rural America be transformed?

KJ: Rural America already has great inherent strengths. Its people, productivity and ingenuity inspire all of us. Having lived in rural areas for my entire career before coming to Washington, I also know there are big challenges. Modern utilities – whether providing clean water, affordable electric power or high-speed broadband – connect rural America to its future. This call to action will enhance rural prosperity and contribute to the strength of our nation's economy. ■

This Issue's Expert



KENNETH JOHNSON is administrator of USDA Rural Development's Rural Utilities

Service (RUS), overseeing rural electric, telecommunications, broadband, and water and sewer infrastructure programs. Prior to joining the RUS, Johnson served as chief executive officer and general manager of Co-Mo Electric Cooperative in Tipton, Missouri, and led the co-op's internet subsidiary, Co-Mo Connect.

Among other positions, Johnson has served as a director and president of the Central Electric Power Cooperative and as a director of the Association of Missouri Electric Cooperatives. Raised on a farm in Nebraska, he earned his undergraduate degree from Kearney State College in Nebraska, and is a graduate of the National Rural Electric Cooperative Association (NRECA) Robert I. Kabat Management Internship Program.

CASE STUDY:

Tombigbee Electric Cooperative

When Steve Foshee, president and CEO of Tombigbee Electric Cooperative, describes Tombigbee's quest to provide ultra-high-speed fiber optic internet service to all residents across 1,000 square miles of Northwest Alabama, the typical response is disbelief. "Our objective is to serve every home at the end of the line in our most rural areas," Foshee says. "People constantly say, 'You're kidding! I can't believe we're going to have this.'"

As ambitious as that goal is, Tombigbee benefits from some key partnerships. With financing and support from CoBank, a \$3 million grant from the U.S. Department of Agriculture's Rural Utilities Service and an unflinching sense of mission, Tombigbee Communications, the co-op's broadband subsidiary, has already installed 400 miles of fiber line and plans to lay an additional 1,600 miles. *THE WIRE* asked Foshee to talk about the project.

THE WIRE: Can you describe the area that Tombigbee serves?

Steve Foshee: Our service area represents typical rural America – and like most of rural America, we're hurting. In rural Alabama, we have a per capita income that's about 40 percent of the state's, and income in Alabama lags that of much of the rest of the country. With our project to expand access to true broadband internet – which about 80 percent of our families don't have – we want to change that narrative.

THE WIRE: How does your broadband initiative fit your mission as an electric cooperative?

SF: In a sense, we were created in 1941 to distribute electricity. But the real reason

for our founding by the rural farmers in northwest Alabama was to make life better for our rural people. Fiber takes us in a completely new direction, but it still fulfills our original mission.

THE WIRE: What are some ways a broadband connection increases opportunity?

SF: One of the most important is to improve education. We have to give our students a way to be connected to the latest information, and we're doing that by giving every child a fiber connection at home. The number one educational system in the state of Alabama, even better than in the rich communities, is going to be right here in northwest Alabama.



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— STEVE FOSHEE, President and CEO,
Tombigbee Electric Cooperative

The second thing is health care. Why should people have to go into a medical office to receive routine care? Why can't there be smart sensors that send blood pressure readings or other information instantaneously to your doctor? And with



a 10 gigabyte connection that has high resolution audio and video, your local doctor will be able to connect you with the best specialists, anywhere in the world.

The third is economic development. You can't have a robust economy without good jobs. Rural America brings so much value to the table, yet so many projects go to more urban areas. Having high-speed connections opens the door to better-paying high-tech jobs and plants in our area.

THE WIRE: Beyond those key issues, how does broadband access affect the quality of life in rural areas?

SF: It's a profound change for all of us. We live in a communication society, and fast internet connections help our people participate in it. If you have a very high-speed connection, you can see your grandkids, talk to them and watch the football game they're playing at a high school 500 miles away. By providing a fiber connection that's as good as any in the world, we change the entire negative narrative about quality of life in rural areas. ■



CoBank and NRECA – A Partnership to Strengthen America’s Electric Cooperatives

CoBank is proud to partner with NRECA to power communities and empower members to improve their quality of life. As a key conference and meeting sponsor, we commit significant resources to support NRECA’s educational offerings that equip cooperative members with the knowledge, skills, tools and resources needed to succeed in today’s rapidly changing and complex electric utility industry.

CoBank is committed to our partnership with NRECA and we look forward to many more years of cooperation.



CONFERENCES AND MEETINGS

- NRECA CEO Close-Up
- NET Conference
- NRECA Annual Meeting
- NRECA International Program
- TechAdvantage
- NRECA Directors Conference
- Gettysburg Leadership Experience
- Legislative Conference
- CONNECT Conference
- NRECA Legal Seminars
- NRECA Tax, Finance & Accounting Conference
- NRECA Regional Meetings
- PowerUp Conference
- NRECA Youth Tours

ADVERTISING

- RE Magazine Ads and Advertorials

BEACON, from cover

When a cooperative requests a consultation, the process includes a “discovery” phase followed by a planning meeting to establish the cooperative’s goals and desired outcome from an engagement session. We’ll work closely with cooperative leaders before, during and after the engagement to help them assess and resolve issues, devise strategies, reach consensus on initiatives or provide hands-on education sessions.

If a cooperative is planning a renewable energy project, for example, a Beacon engagement session might focus on whether it should build its own asset or contract with an outside provider. The Beacon team’s financial analysis will include hard numbers to help the co-op weigh its choices.

One cooperative recently sought our guidance on how best to deploy savings it realized after ending an expensive power supply contract. We shared insights based on industry experience and used our real-time financial forecasting model to show how several options would affect the

cooperative over the next 10 years. The leaders emerged understanding how much in capital credits they could retire, and with clear options for adjusting rates to satisfy their membership while maintaining financial stability.

At CoBank, we’ve focused on helping electric cooperatives serve rural America for more than 50 years. We understand the industry and its challenges and want to be there with you as you navigate an evolving, increasingly complex environment. If you think Beacon may be able to help your cooperative, reach out to your CoBank representative for more information. ■



CoBank 2018 Webinar Series

SAVE
THE
DATE

Beyond dependable credit and financial services, CoBank seeks to help our customer-owners by providing thought leadership, high-quality information and timely insights on a number of energy-related topics that may impact you and your organization.

Our 2018 series continues:

■ Friday, September 28.....Interest Rate Update

- Robert Eisenbeis, Chief Monetary Economist, Cumberland Advisors

■ Tuesday, November 13.....Battery Storage

- Taylor Gunn, CoBank Lead Energy Analyst

All webinars will be held at 11:00 AM Eastern Time.

**For more information or to register,
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