



Broadband Initiative

Member-Regulated Cooperatives / Rural Broadband for the Eastern Shore Act of 2020

Background

- Our not-for-profit cooperative was started in 1938 by 184 rural families to bring electricity to their homes and farms when for-profit electric companies would not.
- Today, Choptank delivers electricity to **54,150 members** in nine counties on the Shore. Choptank is **owned by its customer/members, not shareholders**.
- Choptank's member base represents **less than 3% of electric consumers in the state** of Maryland. The majority of Marylanders are served by for-profit Investor Owned Utilities (IOUs) rather than not-for-profit cooperatives.
- The Co-op owns 6,290 miles of power lines with **650 miles** of middle-mile fiber serviced by 160 full-time employees.
- Choptank is governed by a Board of Directors who are members of the co-op and **democratically elected** by their fellow members.
- Co-op members want to bring high speed, fiber internet service to their homes, farms and rural businesses.
- Despite numerous studies and significant financial investment, **universal broadband** internet service to the rural residents of Maryland's Eastern Shore **has not occurred**.
- Current statutory and regulatory restrictions prevent the members of Choptank Electric Cooperative from using their **economies-of-scale** to deliver Broadband services quickly and efficiently to their homes.

How to Address it

In 2019, MGA authorized the use of existing electric service easements and rights-of-way to deliver broadband fiber. The **next step** is allowing Member Regulation of the Cooperative. This will:

- Allow our members to control the use of assets and staff to deliver broadband;
- Put us **on par with 83% of the nation's 825 cooperatives in 36 states**, including Delaware;
- Eliminate duplicative regulation;
- Eliminate duplicative cost and allow economies-of-scale

The 2020 Bill

SB 540/HB 999 - **Member-Regulated Cooperatives – Establishment** or “The Rural Broadband for Eastern Shore Act of 2020” is introduced by the Eastern Shore delegation, to address our local need for internet access with a solution provided by a trusted, local partner, our electric cooperative.

The bill allows our electric cooperative on the Eastern Shore to become a “**Member Regulated Cooperative**” in order to relieve regulatory and economic hurdles to incentivize broadband deployment to the home.

A **Member Regulated Cooperative** will make decisions about electric rates and additional offerings to members (like broadband) by vote of its Board of Directors with input from members. The bill relieves the Member Regulated Cooperative from taking the additional step of seeking approval from the Maryland Public Service Commission on these matters.

A Member Regulated Cooperative may not adopt a **new rate** or increase or decrease existing rates without inviting **member participation**. The Cooperative must notify its members, provide opportunities for comment and allow members to be present for Board votes concerning rates.

A Member Regulated Cooperative **must comply with all statutory requirements for electric companies** in Maryland, including Net Metering, Customer Choice, Underground Safety, Territory Establishment and more.

A Member Regulated Cooperative **must share information about electric and broadband policies** with members, such as rate schedules, tariffs and financial information (including operating revenue, revenues per rate class, number of members per rate class and meters). Data on load management, energy conservation and consumer education must also be made available.

A Member Regulated Cooperative must adopt **procedures to hear, decide and resolve** in a prompt and fair manner, **complaints** from its members.

The bill provides a **mechanism for members of the cooperative to revert to full regulation** by the Maryland Public Service Commission if desired in the future.

The bill provides for **transparency and accountability** by a Member Regulated Cooperative to protect customers.

“Distributing services that seem financially impossible to deliver to rural customers is what cooperatives were designed to do. Our business model incorporates high infrastructure costs and very small margins. That’s how we brought electricity to the last-mile customers in the 1940s and it’s how we’ll deliver broadband to the unserved in the 2020s.”

Mike Malandro, Choptank Electric President & CEO

Will there be accountability? Will consumers have appropriate protection?

Absolutely. Co-ops have built-in accountability because:

- (1) the Board is democratically elected from among the membership,
- (2) “shareholders” and “customers” are one in the same, and
- (3) a co-op is a not-for-profit entity in which all profits are returned to the members,
- (4) rate-making by the Member Regulated Cooperative will continue to include an extensive examination of costs to correctly apply the expenses associated with electricity service versus the expenses of broadband service in a customer’s bill to fairly recover those costs.

From SB 634, which passed in 2019: “To ensure that electric customers do not subsidize the cost of Broadband services, an electric cooperative shall allocate properly all costs incurred under subsection (A)(12) of the section between electricity-related services and broadband related services. *(This provision still applies in the member-regulated cooperative bill.)*”