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THE SEVEN COOPERATIVE PRINCIPLES

By John Wolfram

Utility cooperatives operate all over the U.S., but many people outside of the cooperative community do not really understand how a cooperative works. This is especially true of customers familiar only with the investor-owned utility (“IOU”) model. The utility cooperative is founded on principles that are unique to the cooperative business model. This model is quite different from that of the IOU. While the IOU has both customers and shareholders, the cooperative has customers who are also the owners. In other words, in the cooperative model, the customer and the shareholder are one and the same.

In broad terms, a cooperative is a self-governing association of people united voluntarily to meet their common economic needs or goals through an enterprise that is both jointly-owned and democratically-controlled.

Cooperatives have existed for many years and are not limited to electric utilities. In the business model, the cooperative is governed by a set of key precepts known as *The Seven Cooperative Principles*. The Seven Cooperative Principles were originally compiled by Charles Howarth, one of the founders of the Rochdale Society of Equitable Pioneers in Rochdale, England in 1844.

The Seven Cooperative Principles are:

- 1) Open and Voluntary Membership
- 2) Democratic Member Control
- 3) Members' Economic Participation
- 4) Autonomy and Independence
- 5) Education, Training, and Information
- 6) Cooperation Among Cooperatives
- 7) Concern for Community

These principles were introduced into the United States in 1874 and were documented by the International Co-operative Alliance (“ICA”) in 1937.

The National Rural Electric Cooperative Association (“NRECA”) reports that in the United States, as late as the mid-1930s, nine out of 10 rural homes were without electric service. The unavailability of electricity in rural areas kept rural economies almost entirely and exclusively dependent on agriculture. Factories and businesses chose to locate in urban areas where electric power was easily acquired. This remained the case for many years.

Then, in 1933, the U.S. Congress passed the Tennessee Valley Authority (“TVA”) Act. This law authorized the TVA Board to construct transmission lines to serve “farms and small villages that are not otherwise supplied with electricity at reasonable rates.”¹ In 1935, President Franklin D. Roosevelt established the Rural Electrification Administration. From this point forward, the number of electric cooperatives grew dramatically. By 1953, more than 90 percent of U.S. farms had electric service. That number is now close to 99 percent.²

Today, the cooperative model is embraced by utilities throughout the United States. Most provide electricity, water, or telephone services, but a small number of cooperatives also provide natural gas, propane, or sewer services.

The Seven Cooperative Principles apply to all cooperatives, including cooperative utilities. The section that follows describes each principle in further detail.

The Seven Cooperative Principles³

1. Voluntary and Open Membership

Cooperatives are voluntary organizations, open to all people able to use its services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

Note that this principle does not prohibit the cooperative from setting reasonable and relevant ground rules for membership, such as residing in a specific geographic area or paying a membership fee to join, so long as all persons meeting such criteria are able to participate if they so choose. The cooperative must not prevent anyone willing to participate from doing so on the basis of social discrimination, including gender, social, racial, political or religious differences.

2. Democratic Member Control

According to the ICA's Statement on the Cooperative Identity, cooperatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. These individuals serve on the Board of Directors of the cooperative and are ordinarily elected by the members (often on the basis of geographic region, commercial sector, or other subsets of representation). Directors usually serve defined terms. In addition to holding routine meetings of the Board of Directors, many cooperatives also host an annual meeting open to all members, for presenting relevant information to the membership and for building community. The latter objective is addressed in several other cooperative principles discussed below.

¹ “Tennessee Valley Authority Act of 1933.” [48 Stat. 58-59, 16 U.S.C. 831h-1]

² “History of Electric Co-ops.” NRECA. nreca.coop. Web 30 Jul. 2014.

³ “Co-operative Identity, Values & Principles.” International Co-operative Alliance. ica.coop. Web 30 Jul. 2014.

3. Members' Economic Participation

Members contribute equitably to, and democratically control, the capital of their cooperative. At least part of that capital remains the common property of the cooperative. Members allocate surpluses for any or all of the following purposes: developing the cooperative; setting up reserves; 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 the cooperative enters into agreements with other organizations or raises capital from external sources, it is done so based on terms that ensure democratic control by the members and maintains the cooperative's autonomy and identity.

5. Education, Training and Information

Cooperatives provide education and training for members, elected representatives, managers and employees so they can contribute effectively to the development of their cooperative. Members also inform the general public about the nature and benefits of cooperatives.

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 communities through policies and programs accepted by the members.

These principles are underpinned by six ideals, referred to as the cooperative values of Self-Help, Self-Responsibility, Democracy, Equality, Equity, and Solidarity. Additionally, the ICA lists cooperative “ethical values” of Honesty, Openness, Social Responsibility, and Caring for Others.

The Seven Cooperative Principles have served cooperatives well for decades and will continue to function as the cornerstone for the utility cooperative model in the United States in the years to come.

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