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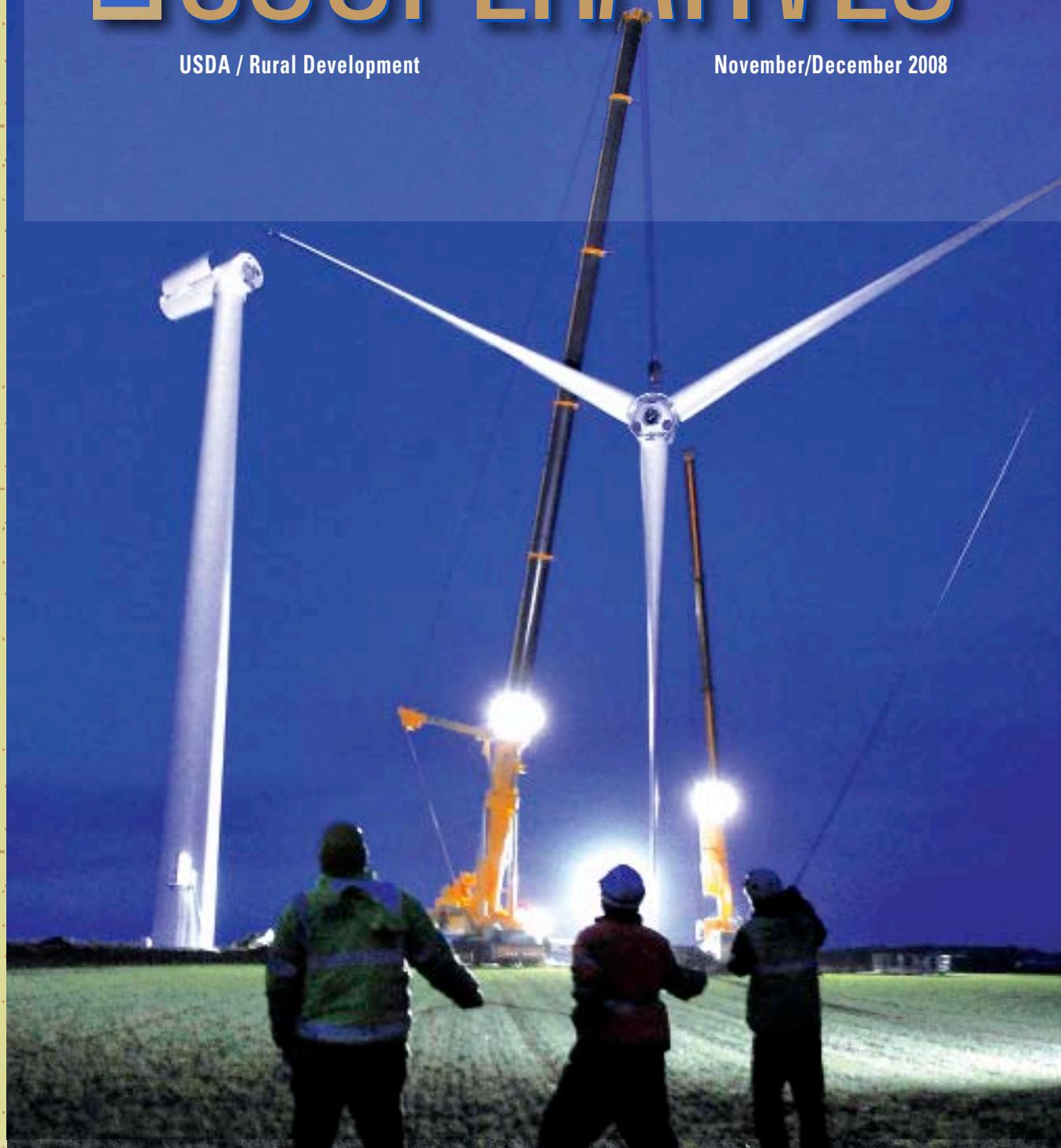
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Rural

COOPERATIVES

USDA / Rural Development

November/December 2008



Rewards of Local Ownership

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Commentary

Co-ops and the future of rural America



The future for rural America is a bright one, studded with new economic opportunities. Many of those opportunities stem from the rapid development of renewable energy and other value-added products from basic agricultural materials, using both proven and innovative, cutting-edge technologies.

While we have seen a significant increase in research, development and production of value-added products in recent years, the best is yet to come. New concepts are evolving at a rapidly escalating pace. Promising new technologies are on the drawing board, while others are just in the conceptual stage.

But the reality is that all will require investment capital. America's cooperatives have a unique opportunity to play a significant role in developing this growing economic sector.

In the energy arena — because of site selection and feedstock requirements — wind, solar, ethanol, biodiesel and geothermal are primarily *rural* resources. Expansion of this sector offers the opportunity to harvest an increasing amount of energy from renewable, inexhaustible sources.

Vast stretches of the American rural landscape are ripe for solar projects. Wind energy is emerging as a potentially significant source of electricity in much of the country. Biofuels derived from corn and soybeans (and coming soon from cellulosic sources, such as switchgrass) augment energy refined from petroleum. There is no question that renewable sources of power will continue to play an expanding role in America's energy picture for generations to come.

Other exciting value-added opportunities are developing as well, ranging from agri-tourism to production of foodstuffs that are in growing demand by consumers.

A good example of an investor-owned entity is the Plymouth Energy Ethanol Plant and Plymouth Oil in Merrill, Iowa. Now under construction, the ethanol plant will soon produce 50 million gallons of ethanol from corn each year. The plant has more than 300 local investors, mostly farmers.

Located near the ethanol plant is Plymouth Oil, which will use byproducts from ethanol production to manufacture about 80 tons of corn oil per day for human consumption. It will also produce feedstock for cattle. Most of the corn will come from fields within 60 miles of the two plants. The oil plant was financed with a bank loan guaranteed by USDA Rural Development.

As consumer demand grows for high-value products, such as energy and processed food, America's cooperatives must serve not just as an outlet for production, but as vehicles to

channel investments into worthwhile projects. In order to fully capitalize on the new demand, the traditional cooperative model is being complemented by other concepts, such as "new-generation" cooperatives which provide greater liquidity through tradable delivery rights. These co-ops also promote formation of partnerships with outside entities and other provisions that enable greater outside investment, along with transparency, liquidity, transferability of ownership interest and equal appreciation of asset value.

Where should rural Americans turn for the capital needed to buy into these opportunities? An obvious investment source for agricultural producers is their farm equity, which now exceeds \$2 trillion. By leveraging the value of their land, producers can raise the investment capital they need to participate in the new rural economy, not only for energy development but for other value-added ventures that use new technologies — such as broadband Internet — to market processed goods directly to consumers. Responsible and transparent leveraging of land and other assets will assist in providing the equity needed to develop new high-value opportunities which are of greater value than basic commodities.

What does this mean for the 60 million people who call rural America home? It presents them with the unprecedented chance to generate wealth, job opportunities and a self-supporting rural economy that provides a high standard of living. But in order for that to happen, a large subset of rural residents will need the opportunity to participate — to become owner-investors, providing the capital to encourage development and then reaping a share of the profits to be realized from the sale of high-value products.

Cooperatives are one potential investment vehicle available to rural Americans, but they're not the only vehicle. To maintain and increase market share in a rapidly changing rural environment, cooperative managers and members need to be flexible, adaptable and willing to re-examine their business models and change them as needed.

In the dynamic marketplace that is rural America, investment will occur, whether through cooperatives or other sources. In that light, it is important that our cooperatives — which have served rural America for so long — position themselves to participate fully in the new rural economy. This will benefit not just the members, but will improve the economic vitality of rural America as a whole.

— By Thomas Dorr, Under Secretary
USDA Rural Development ■

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FEATURES



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On the cover: Wind turbine installation was a round-the-clock job at the Westmill Wind Farm Cooperative, in Oxfordshire, England. The co-op is owned by more than 2,300 members of the local community. See page 4. Photo by Martin Phelps, courtesy Westmill Wind Farm Co-op



Rewards of Ownership

*Community-based
renewable energy projects
can produce big benefits*

By Julie Curti and Justin Goetz

Editor's note: Curti and Goetz are both Truman-Albright Fellows who have been working with the Cooperative Programs of USDA Rural Development.



Like many communities around the country, the school district in Wray, Colo., faced a sharply growing electricity bill, coupled with state budget cuts and declining student enrollment. To make up for the shortfall, in 2002 a vocational and agricultural technology teacher at the high school suggested a creative solution: build a wind turbine.

Not only would the turbine bring a new source of revenue, but it also would provide hands-on opportunities for students to learn about renewable energy. After receiving approval from the board of education, a citizen committee formed to conduct a



feasibility study and carry out the project.

The community rallied around the project, with donations, a bond project and in-kind support providing the school district with funds for the 900-kilowatt (kW), 335-foot-tall turbine. An innovative company, NativeEnergy, provided the final funding boost by purchasing the carbon benefits the turbine has been generating since it began turning in February of 2008.

NativeEnergy (www.nativeenergy.com) funds community-based

renewable energy projects on tribal lands and family farms in rural areas. Since the company's founding in 2000, it has sold renewable energy credits and carbon offsets to businesses and individuals. Revenue from these sales are then used to finance renewable energy projects.

"NativeEnergy is committed to solving the climate crisis by helping indigenous groups and at-risk communities to build renewable energy projects as a meaningful step toward developing sustainable economies in



These wind turbines, part of the Westmill Wind Farm Cooperative, provide electricity to 2,500 homes. Photo by Martin Phelps. Above, residents of Ashland, Ore., can purchase a solar panel (or a portion of one) on this city-owned building to receive a credit on their electrical bill. Photos courtesy Westmill Wind Farm and city of Ashland

Boulder Creek Hydro Project, which is owned by the Confederated Salish and Kootenai Tribes on the Flathead Reservation in Montana.

Models for community energy projects

Many successful models exist for rural communities to follow when creating renewable energy cooperatives or partnerships with private enterprise.

In Nebraska, the town of Plainview was beginning to fade economically. Since the town of 1,350 is in the center of a large corn-producing area, residents began thinking about the potential for ethanol production. After conducting a resource assessment, the town pooled millions of dollars to build a 25-million-gallon, community-owned ethanol facility. The plant has been operating for four years, and has generated \$130,000 in property tax revenue and \$30 million in added income to local farmers during that

time.

The city of Ashland, Ore., took another approach to community-based renewable energy. In July 2008, the city-owned electric utility installed a 63.5 kW community solar electric system on a city facility. Citizens can purchase a panel or portion of a solar panel, enabling them to buy the output of the solar system for 20 years and receive a credit on their electric bill for the amount of renewable electricity their panels have generated.

Under this system, residents who either don't have the capital to invest in a solar system for their home or business, or who do not have the solar exposure, can still use renewable energy. In addition, the city has a cooperative marketing partnership — called Green Tags (www.b-e-f.org/offsets/ashland.cfm) — with the Bonneville Environmental Foundation. Under this program, citizens can purchase carbon offsets. For every green tag purchased,

harmony with core cultural values," says Tom Boucher, NativeEnergy president and CEO.

NativeEnergy has collaborated with rural communities on 15 projects to date. In 2006, it provided funding by purchasing expected carbon emission reductions from the member-owned Alaska Village Electric Cooperative (www.avec.org/about-us.php), which owns and operates several wind turbine projects serving 53 remote villages and tribal communities in Alaska. Another recent effort supports the low-impact



the city receives funds to invest in local renewable energy programs.

Many countries, from India to South Africa, have started successful community-based renewable energy projects and co-ops. The United Kingdom, for example, is home to a number of thriving community-owned cooperative wind farms clustered around a dozen communities (www.energy4all.co.uk).

In these co-ops, community members purchase a portion of a wind farm and receive an annual dividend on its profits. Community ownership empowers local decision-making and maximizes the local economic benefits of renewable energy projects, as more money stays in the community than when outside owners are involved.

Community-cooperative wind farm

One successful community-based wind cooperative in the United Kingdom, Westmill Wind Farm Cooperative, is 100 percent locally owned by more than 2,300 co-op members (www.westmill.coop). Since February 2008, the project has been using five wind turbines that produce electricity for 2,500 area households.

In addition to providing a source of clean energy and adding to the local revenue stream, Westmill Co-op promotes energy efficiency and conservation measures in the community. It is the largest

community-owned and built wind cooperative in the United Kingdom.

“Westmill Co-op is a superb example of what individuals intent on making a difference can achieve together,” says co-op director and local farmer Adam Twine. “It’s very exciting that after such a long struggle the turbines are now up and generating green power. I hope Westmill will inspire other communities to take similar initiatives in their own locality and in their own way.”

From Wray to Plainview, community-based renewable energy projects have already positively impacted many rural areas. And this trend has the potential to continue: analysts predict that in the next 20 years, we will see upward of \$1 trillion invested in renewable energy projects.

Yet, it is important to realize that every renewable energy project will not necessarily provide net benefits to its community. To ensure that a renewable energy project is beneficial, it is critical for that community to be actively involved in planning for a project and to think and plan beyond just the feasibility study.

Communities need to consider the broad range of a project’s economic, social and environmental impact and integrate the project as fully as possible

Students from Rosebud Elementary School tour an Alaska Village Electric Cooperative wind turbine. Photo courtesy Intertribal Council on Utility Policy

into their vision for the future. In short, if they haven’t already done so, communities that are considering a renewable energy project should

first complete a community development strategic planning process. They also must ask how the proposed project will help the community achieve its vision.

Strategic planning process

There are four phases that comprise a community development strategic planning process. They are (in order):

- **Community assessment** — community leaders and citizens collectively assess local resources and the strengths, weaknesses, opportunities and threats facing the community.

- **Strategic planning** — community members use results of the assessment to determine where the community wants to go (the vision) and how it can get there (a strategic plan).

- **Implementation and benchmarking** — the strategic plan is implemented; the community takes action on specific strategies and measures progress.

- **Evaluation** — the overall community development process is judged based upon results produced.

Ultimately, the strategic planning process revolves around a community-based assessment of resources and opportunities, planning and the implementation of the plan. The community determines the objectives and timeline of the process, with citizen



input and feedback gathered every step of the way through town hall meetings, focus groups and outreach to community organizations.

This input and feedback from community members is key to the final decisions. Typically, overall authority and ultimate decision-making are in the hands of a steering committee made up of local stakeholders, leaders and development experts who represent a diverse cross-section of the community.

By completing this process, a community will be in a much better place to understand its priorities and needs, and to make strategic choices about what kinds of renewable energy projects will best enable it to move in its desired direction.

Benefits of local ownership

Among the most important questions for a community to consider are those of ownership and scale. John Farrell, a research associate at the Institute for Local Self-Reliance, stresses that: "The key to sustainable rural economic development and the renewable energy future of America is a series of modest sized, locally owned wind farms, solar plants and biofuel refineries."

Locally owned renewable energy projects are more likely to use locally obtained inputs, profits are more likely to circulate locally and the community has an increased chance of retaining higher-paying management jobs associated with the project. There are

The village of Kasigluk, Alaska, (seen here from the air) is getting electricity from wind turbines operated by a member-owned utility cooperative. Photo courtesy Alaska Village Electric Cooperative

direct economic advantages from inputs into the project and indirect economic advantages in terms of added businesses and industries that will prosper from money that is re-infused into the local economy by the project.

"The success of homegrown renewable energy lies in two key findings," Farrell says. "Very large renewable power plants and biorefineries cannot be locally owned past a certain size because the capital costs are beyond the community's wherewithal. But the rewards of local ownership are significant, delivering anywhere from 25 to 300 percent more economic impact to rural communities than from identically sized absentee-owned facilities."

There are further tangible advantages to community-driven renewable energy projects. Strategic planning for renewable energy brings a community together and allows its citizens to focus positively on their future. It also gives a community a direct stake in the renewable energy project.

Benefits can also come in terms of working towards energy independence and improving the local environment by using renewable energy sources. A renewable energy project could even be a source of tourism revenue. In Wray,

the project provided a platform to engage young people in cutting-edge technology education.

Ultimately, each community needs to

decide what kind of renewable energy projects will be best for its needs and what kind of projects best fit its vision for the future. Engaging in a community development strategic planning process and focusing on community-driven models will help to ensure a renewable energy project's success.

It is also important to realize that successful renewable energy projects don't necessarily happen quickly. The wind turbine project in Wray took more than six years to complete. In the case of the Westmill Wind Co-op, the idea of a wind farm was first raised 15 years ago and ultimately took four years of community planning and action to bring to completion.

In some cases, where community-driven strategic planning was not used, rural renewable energy projects have failed to be economically viable. But communities that are actively involved in assessing their needs and planning for their future can safeguard the investments they put into renewable energy projects and ensure a bright future for their community, on their own terms. ■

Focus On

Craftsmanship paired with technology as Bongards' celebrates centennial



Bongard's Creameries is celebrating 100 years of making prize-winning cheeses, including Champion Cheddar Awards in 2004 and 2007. Photos courtesy Bongard's

By Anne Todd
USDA Rural Development



Bongards' Creameries, a farmer-owned creamery co-op, was launched in 1908 in the town of Bongards, Minn., when 72 area dairymen banded together to market their milk. Their goals were straightforward: to produce fresh, wholesome and great-tasting dairy products at a price that could sustain their livelihood.

Each member invested \$25 a share in the co-op. They transported milk to Bongards' in cans and trucks. Onsite, they sold milk and cream and made butter.

In 1942, Bongards' Creameries expanded to include cheese-making facilities, and entered into the cheese-

making business. The co-op made natural cheese for 30 years, and subsequently expanded production again to include processed cheese.

Traditional crafts still practiced

Today, Bongards' still makes one of the country's most distinctive cheeses using the same traditional craftsmanship that the original members brought to Bongards' starting in the 1900s. Those skills, now paired with 21st century technology, produce quality cheese with a distinctive taste.

In the last 10 years alone, the co-op has received almost a dozen awards for its cheddar cheese, including Champion Cheddar awards in 2004 and 2007, and international recognition in 2005 at the British Empire Cheese Show.

Bongards' Creameries currently manufactures dozens of dairy products,

from butter and whey powder to cheese curds. Bongards' has 490 members, and about 300 to 400 more if dairy producers who supply the co-op's "feeder" plants are factored in.

In 2003, the co-op purchased a building from Land O'Lakes and moved its natural cheese production to Perham, Minn. This was a more cost-effective option than upgrading the facility in Bongards.

The Perham plant makes all of the natural cheese and has total control over its quality and consistency, day in and day out. High-quality whey powder is also produced at the Perham location. In an average year, Perham produces millions of pounds of both natural cheese and whey powder.

The Bongards site includes the plant for processed cheeses, a warehouse and a recently expanded and

upgraded retail outlet.

Private label focus

The majority of Bongards' products are sold to private labels. However, Bongards' name brand products are sold online on its website, at the retail store at Bongards' main facility and at local stores in the Upper Midwest.

Selling to private labels has allowed Bongards' members' to focus on their product rather than on their competitors in the dairy industry. "We're large enough to serve our customers, yet small enough to be responsive to their needs," says Bongards' Creameries General Manager Keith Grove.



Being able to use so much of the milk trucked into Bongards' facilities is a big key to the co-op's success. Bongards' adds value to that milk throughout the processing cycle, and isn't dependant on outside commodities.

In the future, Bongards' hopes to

build on its success in the dairy industry while making the Bongards' site a destination for travelers. The co-op is now selling sandwiches and ice cream at its retail store, in addition to their cheese and milk products. It is also adding a picnic area, and even moving the giant Bongards' cow across the street to encourage travelers to visit.

"We want to make it a country stop," says Grove.

For more information about Bongards' Creameries, visit: www.bongards.com, Or contact General Manager Keith Grove: keithg@bongards.com, (952) 466-3514. ■

Strips of cheese head for the slicer, after which they will be wrapped for the co-op's packs of individual slices (above).



Carbon Credits for Farmers



Co-ops can play role for members managing dairy waste with digesters

By K. Charles Ling & Carolyn Liebrand
Agricultural Economists
USDA Rural Development

Editor's note: This article is based on a forthcoming USDA report on cooperative approaches for implementation of dairy manure digesters.

 Methane from anaerobic digestion of dairy cow manure may qualify for carbon credits if collected and prevented from emitting into the atmosphere. According to the Second Assessment Report (1996) of the Intergovernmental Panel on Climate Change (IPCC), the global warming potential of methane is equivalent to 21 times that of carbon dioxide. This means the reduction of the emission of one metric ton of methane gas has the effect of reducing the amount of greenhouse gas emission equivalent to 21 metric tons of carbon dioxide.

(Although IPCC has updated the global warming potential of methane to 23 carbon dioxide equivalent in its Third Assessment Report (2001) and to 25 in the Fourth Assessment Report (2007), 21 carbon dioxide equivalent

continues to be used for consistency in greenhouse gas inventory reporting.)

A business or organization may strive to reduce its contribution to global warming potential by taking steps to mitigate its direct or indirect greenhouse gas emissions. In case its effort is short of its own set mitigation goal (or cap), the firm may want to offset its shortfall by purchasing greenhouse gas reduction credits ("carbon credits") from others who could provide credible net-reduction claims.

In this way, the firm disciplines itself by paying a financial penalty for not meeting its own emissions reduction goal, while offering incentives to providers of offset credits, such as dairy farmers who capture methane from anaerobic digestion of cow manure for use as fuel. This so-called "cap-and-trade" system works to cut overall greenhouse gas emissions, which are usually measured in carbon dioxide equivalent.

Carbon credit trading systems

Various systems for buying and selling carbon credits are in varying stages of evolution in the United States. These transactions could be made by private negotiations, or the trading could be through formal exchange mechanisms. For example:



Sale of carbon credits can at least partially offset the cost of treating manure in anaerobic digesters.
Photo courtesy
University of Vermont
Cooperative Extension

allowances and Kyoto-based carbon credits to U.S. voluntary carbon credits, renewable energy credits and emissions allowances.” (Source: *Green Exchange*.)

• **Auction:** The World Green Exchange, launched by the World Energy Exchange in February 2008, brings together buyers and sellers of carbon credits (among other green commodities) by holding auctions. The Exchange claims the auction process provides “a superior price discovery mechanism by enabling buyers and sellers to see what the market will command in real time, thus allowing the true forces of market competition to deliver the efficient pricing result.” (Source: *World Green Exchange*.) Occasionally, the Chicago Climate Exchange also conducts auctions for members to fulfill specific needs.

Carbon credit trading standards

Just like all traded commodities, certain standards and specifications are required of carbon credits to facilitate the transaction. Some basic requirements of the underlying offset projects for carbon credits could be:

- The methane gas that is captured from anaerobic digesters actually results in net reduction of carbon emissions, as compared to a certain base period.
- The claim of carbon credits (i.e., net reduction of carbon emissions) is measurable and verifiable.
- The ownership of the claim of carbon credits is clearly established.

On the Chicago Climate Exchange, the closing price of Carbon Financial Instrument Vintage 2008 started the year at \$1.90 per metric ton of carbon dioxide equivalent. It rose to peak at \$7.40 at the end of May and the beginning of June, and then declined to \$4 on July 15. The simple average for the first 137 trading days this year is \$4.98, which amounts to an extra income of about \$25 per lactating cow per year for dairy farmers who have carbon credits to sell.

This potential revenue will not fully cover the cost of installing anaerobic digesters. But the sale of carbon credits could at least partially offset the cost of animal waste treatment. Under certain conditions, further credit also may be available if the captured methane gas is used as fuel for electricity generation.

Costs of carbon credit trading

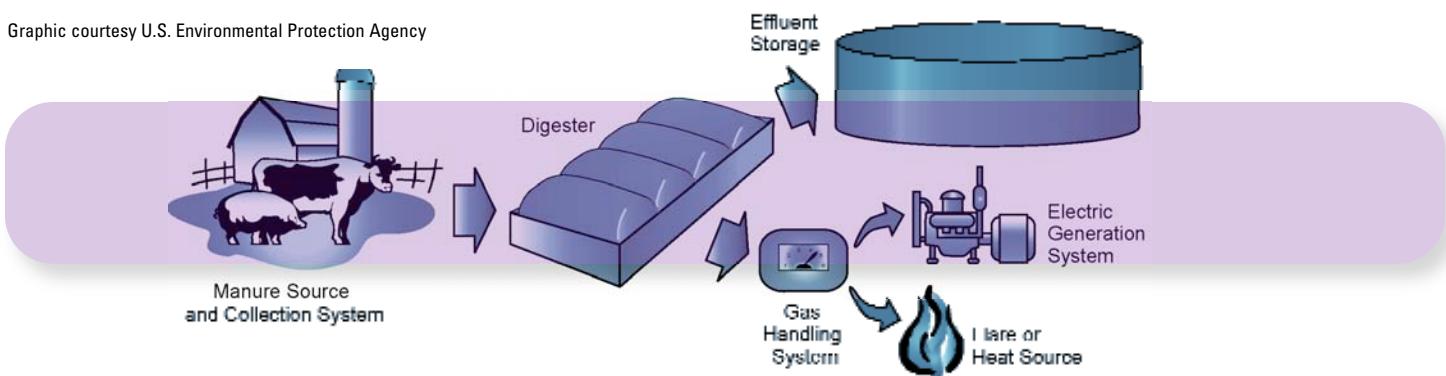
There are costs involved in selling carbon credits to cover administrative and trading expenses. If the credits are sold through an aggregator, the costs may include one or all the following:

- An aggregation fee charged by the aggregator, the going rate of which is around 10 percent of the value of the carbon credits, or about \$2.50 per cow at the carbon credit value cited above. (More about aggregation is explained below.)
- A trading fee, such as fees for registration and sales through the Chicago Climate Exchange. For example, one aggregator quoted a trading fee of 20 cents per metric ton of carbon dioxide equivalent, or \$1 per cow per year.

• **Cash market:** The Chicago Climate Exchange claims to be “North America’s only — and the world’s first — global marketplace for integrating voluntary, legally binding emissions reductions with emissions trading and offsets for all six greenhouse gases.” It was launched in 2003. (Source: *Chicago Climate Exchange*.) Trading on this exchange is similar to a commodity cash market.

• **Futures market:** The Chicago Climate Futures Exchange, a wholly owned subsidiary of the Chicago Climate Exchange, “is a CFTC-designated contract market, which offers standardized and cleared futures contracts on emission allowances and other environmental products.” (Source: *Chicago Climate Futures Exchange*.)

The Green Exchange contracts began trading in March 2008. However, the Commodity Futures Trading Commission (CFTC)-regulated Green Exchange is expected to launch during the first quarter of 2009. The Green Exchange — a partnership between New York Mercantile Exchange and Evolution Markets — claims that it “will be the most globally integrated marketplace for the trading of environmental products. It will enable market participants to gain exposure to environmental trading markets and manage their risk via a diversified product slate, from Europe’s carbon



- A project verification fee(s), if the anaerobic digester system and the claim to the carbon credits need to be verified. Initial and annual verifications may be required. (For other examples, see: Michigan Conservation and Climate Initiative; National Farmers Union; Iowa Farm Bureau.)

Potential roles for cooperatives

As of November 2007, the U.S. Environmental Protection Agency (EPA) was aware of 95 anaerobic digester projects in 19 states. These digesters collectively reduce 20,892 metric tons of methane emissions per year (438,742 metric tons of carbon dioxide-equivalent).

The number of digesters in any region may not constitute the kind of critical mass cooperatives would need in order to play a significant role (at this time) in marketing carbon credits. However, as a service to members, a dairy cooperative may want to inform them of the opportunity to generate returns by marketing carbon credits as an additional benefit of treating waste with an anaerobic digester. Indeed, some cooperatives have already done so.

If installations of anaerobic digesters on dairy farms become more common, a critical mass of members may ask their cooperative to pool and help market their carbon credits. Pooling is most likely necessary to aggregate a large enough volume for efficient marketing.

The reason for this is that a lactating cow weighing 1,376 pounds generates about 5 metric tons of carbon dioxide equivalent of methane gas in a year through anaerobic digestion of her manure. That amount is only about 20 percent of the size of a Chicago Climate Exchange's Carbon Financial Instrument contract (i.e., a contract represents 100 metric tons of carbon dioxide equivalent). In other words, it would take 20 to 25 cows a year to satisfy one single contract.

The Chicago Climate Exchange defines aggregators as "entities that serve as the administrative representative, on behalf of (greenhouse gas) offset project owners, of multiple offset-generating projects." The Exchange further stipulates that "Offset projects involving less than 10,000 metric tons of CO₂-equivalent per year should be registered and sold through an Offset Aggregator."

Offsetting 10,000 metric tons of carbon dioxide-equivalent by flaring methane produced from anaerobic digestion of dairy manure would require the waste of more than 2,000

lactating cows. However, only 595 dairy operations had that many cows in 2007, representing just 3.5 percent of all U.S. farms with more than 100 cows (*USDA National Agricultural Statistics Service*). Therefore, most dairy farms would need to register and trade through an aggregator.

Co-op bargaining role

Through joint actions by members, a cooperative may be able to bargain for lower marketing fees and/or higher returns. Depending on the needs of the members, cooperatives may play these roles in the marketplace of carbon credits:

- A co-op may engage a broker(s) to negotiate with carbon credit purchasers on prices and terms of trade.
- A co-op may act as a broker to negotiate with carbon credit purchasers on prices and terms of trade.
- A co-op may engage an aggregator(s) to trade carbon credits for members.
- A co-op may act as an aggregator if there is enough volume of carbon credits generated by members. In essence, the function of an offset aggregator is similar to that of a milk-pool administrator, and dairy cooperatives are well experienced in the pooling operations.
- A co-op may form a joint venture with other co-ops to provide aggregator services to members. The joint venture would have a broader membership base to operate.
- Because verification of the anaerobic digester system's impact on greenhouse gas reduction is usually required, a cooperative may engage verifiers, or have verifiers on its field service staff to carry out the function.

Thus, a cooperative could help its members maximize the benefit available from the sale of carbon credits by negotiating the highest prices possible for the credits and minimizing the costs associated with selling carbon credits. Combined with other revenue streams associated with byproducts of anaerobic digestion (avoided purchases and/or sales of energy and of other byproducts), carbon credits could contribute additional cash flow to enhance the economic feasibility of digester projects.

Editor's note: References used for this article will be listed in the forthcoming USDA research report upon which it is based. They are also available upon request from the authors: Charles.Ling@wdc.usda.gov, or Carolyn.Liebrand@wdc.usda.gov. ■

Vermont dairy farm turns manure into renewable energy



Vermont dairy producers Brian Rowell (center) and Bill Rowell (right) check on the on-farm generator that produces electricity from a manure-to-methane gas digester on their Green Mountain Dairy Farm. Photo courtesy University of Vermont Cooperative Extension

By Lisa Halvorsen

Editor's note: The article was contributed by the University of Vermont Cooperative Extension Service.



Like many top dairy producers in Vermont, Brian and Bill Rowell attribute their success in large part to their ability to think outside the box to maximize available resources to maximize profits. Cow comfort ranks high on their agenda, as does communicating effectively with their 15 fulltime employees and using sustainable practices to protect the environment and preserve the land for future generations.

The owners of Green Mountain Dairy LLC, a 1,050-cow operation in Sheldon, Vt., also embrace changing

technologies to improve their herd average and increase revenue from their cows beyond what they get for their milk. Installation of an anaerobic methane digester system two years ago enables them to convert manure produced on the farm into renewable energy. The Rowells milk 900 cows on a twice daily milking schedule in a double-15 milking parlor, shipping their milk to the St. Albans Cooperative Creamery.

For their innovative practices, this dairy farm has been named the 2008 Vermont Dairy Farm of the Year. University of Vermont (UVM) Extension and the Vermont Dairy Industry Association, in cooperation with the New England Green Pastures Program, select one outstanding Vermont dairy operation for this prestigious award every year. Each nominee is evaluated on several criteria

including pasture, crop and herd management programs; production records; conservation practices; contributions to the dairy industry and local community; and overall excellence in dairying.

Glenn Rogers, a UVM Extension farm business management specialist based in St. Albans, notes that "this is a very clean, very well-kept operation. They do an outstanding job with their cows. They pay attention to detail, as indicated by their well-managed herd and quality crops going into the bunkers.

"They also provide lots of outreach to the community with open houses for the public and other farmers to tour the farm and the methane digester system. An estimated 7,500 people from more than 20 countries have toured the farm since 2006. That all played into the judges' decision to present the award to this farm this year."

Numbers needed to make system work

Green Mountain Dairy is one of the largest farms in Franklin County, milking 900 cows and growing corn and grass for haylage on 1,200 tillable acres on farms purchased in Sheldon, Swanton and Highgate, as well as some leased land.

While the farm is regulated by the Large Farm Operations Program of the Vermont Agency of Agriculture, Food and Markets, Brian Rowell is quick to point out that this is a family farm. The numbers are what make it work economically, he explains. "When we were in the planning stages 10 years ago for this farm, we ran the numbers and found we needed 800 cows. Having 400 cows would have worked for us back then, but to succeed, you need to make it work for today and for tomorrow."

"Every farm, be it big or small, in *continued on page 36*

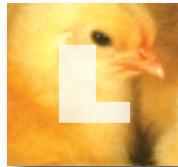
Co-op Development Action

Poultry industry explores ecological options to save energy



Rising fuel and other production costs are hitting poultry producers very hard. A USDA-funded study examined alternative fuel sources that might help reduce heating costs.

By Donna Uptagraff,
Cooperation Works!



Like many agricultural businesses, the poultry industry is experiencing tough times. Surveys of poultry growers in southern Missouri, northwest Arkansas and northeast Oklahoma indicate that propane costs and environmental issues are top concerns. Rising production costs are making it difficult for growers to make a living. Soaring propane prices

have led to increased interest in bioenergy systems for heating poultry houses.

Recognizing poultry producers' interest in lowering fossil fuel consumption while also decreasing fuel costs, Winrock International's Arkansas Rural Enterprise Center engaged Jim Wimberly of BioEnergy Systems LLC to perform a review of biomass furnaces for heating poultry houses in the northwest Arkansas region. Biomass furnaces burn renewable products, such as wood, corn or litter pellets in order

to create heat. Funding for the study was provided by a Cooperative Development Grant from USDA Rural Development.

Fuel costs are the primary expense for poultry growers, but changing a broiler house's heating system involves costs as well. The initial assessment found that typical poultry houses using propane gas for heating require a savings of approximately \$12,300 per year for a bioenergy system to achieve break-even economic performance.

Fuel costs are not the only reason for

poultry farmers to switch to bioenergy systems. Growers report a variety of reasons for interest in the systems, including a preference for using a renewable fuel.

Additionally, air emissions from biomass furnace systems are far below regulated levels, and numerous environmental and economic benefits are associated with the dry heat nature of biomass-fired furnaces.

Study weighs efficiency of five biomass fuels

The Winrock study evaluated five types of bioenergy systems. These furnaces use a variety of fuel sources, including: cordwood, corn, wood pellet, raw litter, and pelletized raw litter. Each system has its own particular traits, and is in a different state of development.

A cordwood-fired furnace, for

example, requires manual fuel loading and ash removal. Such furnaces have been commercially available for many years and fuel is readily available. A corn-fired furnace system, on the other hand, is available with automated fuel storage, handling and in-feed, but requires manual ash removal.

These furnace systems are commercially available, and more than 30 units have been installed at poultry farms in the region during the past two heating seasons. Recent fluctuations in corn prices raise some questions about the economic sustainability of this model.

Wood pellet-fired furnace systems use a wood-based fuel with automated fuel storage, handling and in-feed, with manual ash removal. Several such units have been demonstrated in the past. Most of the commercially available corn-fired furnace systems can be

modified to use readily available wood pellets as well.

Litter-fired furnace systems are still in development, but were evaluated because of many positive features. Litter-fired furnaces would turn waste products into fuel and produce heat with an extremely low-cost fuel source. While a raw litter-fired furnace system was evaluated due to farmer interest, no such units are commercially available despite numerous efforts and investments during the past 25 years.

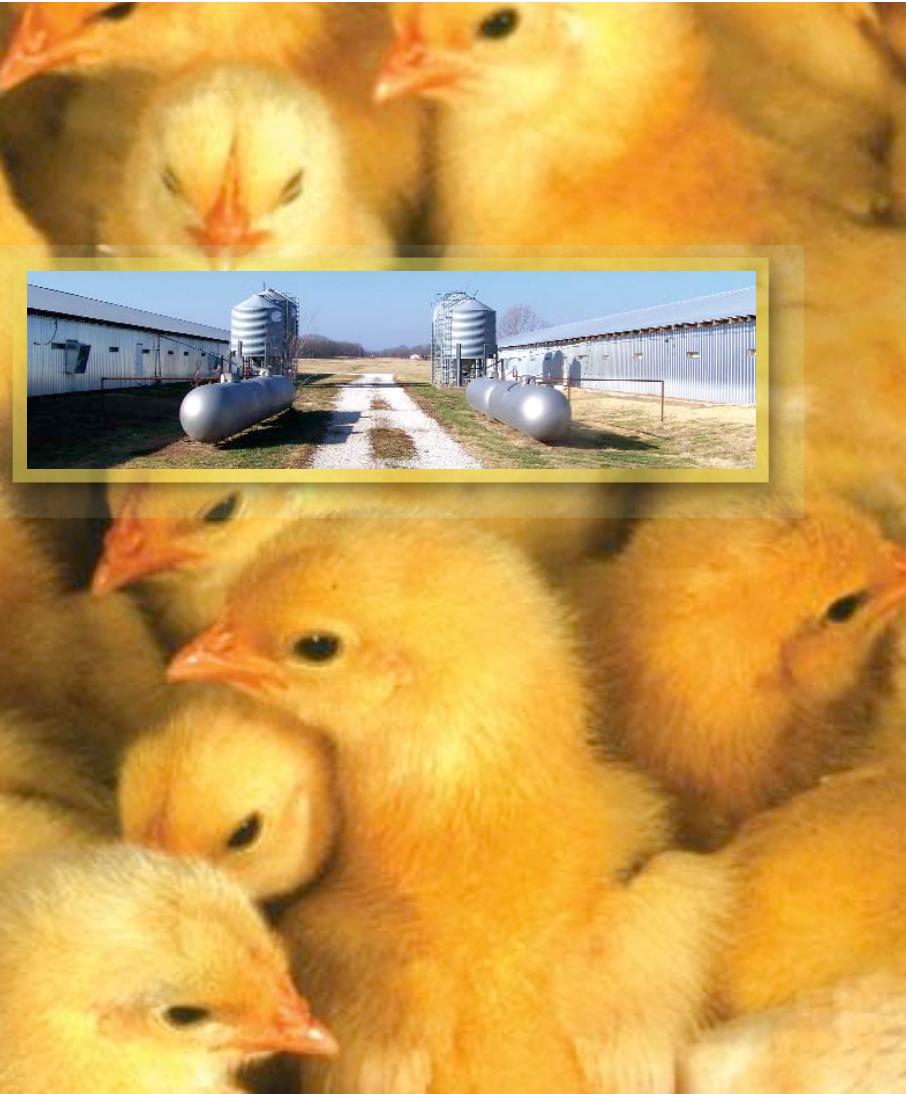
Likewise, pelletized litter-fired furnace systems are not commercially available, but it is expected that some of the commercially available corn-fired furnace systems could be modified to use litter-derived pellets. Wimberly notes that the rate of ash production would be significantly higher with litter-derived pellets than with corn or wood pellets.

Primary conclusions

After extensive examination of capital investment costs and operating costs of these five systems, the analyses indicate that:

- Cordwood systems are economically feasible but labor-intensive.
- Corn-fired systems are only feasible if cull corn or on-farm-produced corn can be obtained well below current market prices.
- Wood pellet-fired systems are feasible, provided that assumed system efficiencies and service life are achieved.
- Raw litter-fired systems would be very feasible if such systems can be designed and fabricated to meet all of the fundamental criteria set forth in the report.
- Pelletized litter-fired systems are not feasible under the assumed conditions.

For more information regarding the review, please contact Winrock International at www.winrock.org. To receive an electronic copy of the review, contact Marsha Burkhalter at mburkhalter@winrock.org. ■



By Phil DiPofi

Executive Vice President, CoBank



It's no secret that the U.S. grain industry has undergone radical changes over the past two years. Prices for corn, wheat and soybeans began climbing steeply in the fourth quarter of 2006 and climbed steadily to near historic highs earlier this year. Strong international demand, a persistently weak dollar, biofuels production and capital from institutional investors all played a key role in that remarkable run-up.

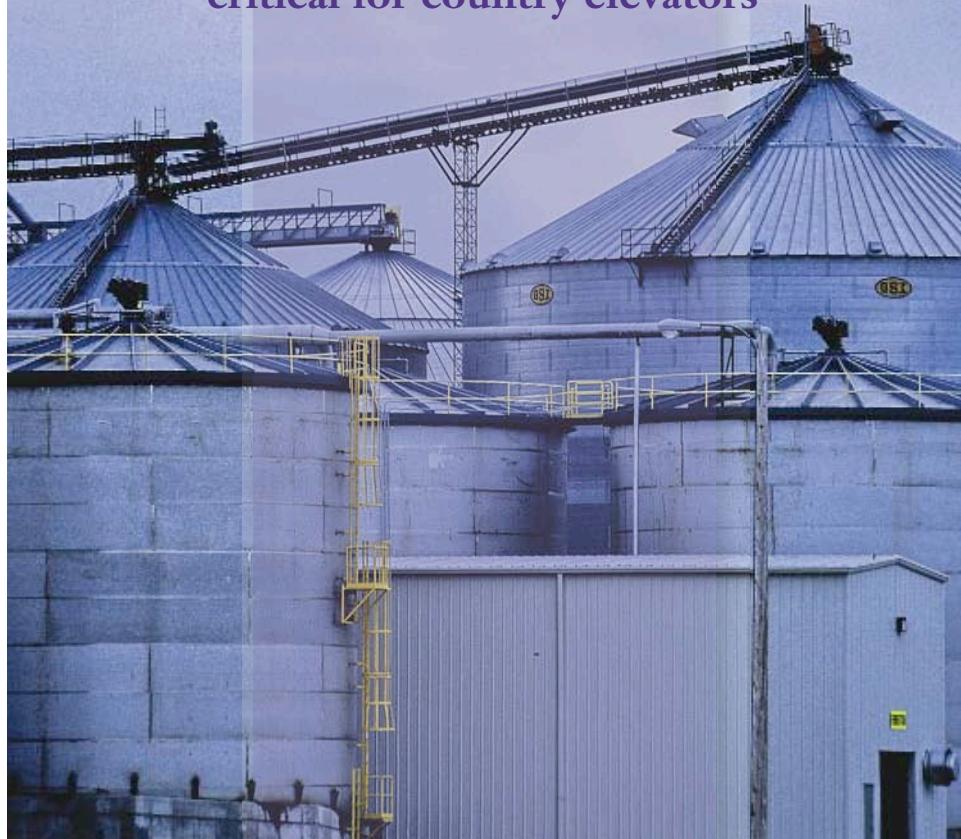
More recently, with the sudden onset of the global credit crisis and a strengthening dollar, grain prices have dropped sharply once again. Though they still remain well above historic norms, the latest downward swing further illustrates the volatile shifts that have come to punctuate the current commodities market. Traditionally, it has been rare to see corn prices move by much more than 50 cents over the course of a growing season. Today, price swings of more than \$1.50 per bushel in a single month have occurred. The same dynamic holds true for wheat and soybeans.

Obviously, no one can predict the future with certainty. But it seems the reality is that we have entered an era in which significant volatility is now the market norm for grains. It's also time for the grain industry — in particular the country grain elevator — to evolve in order to remain appropriate for this new business paradigm.

Many country elevators — a linchpin of the U.S. grain handling and grain marketing system — experienced financial stress during the run-up in grain prices due to the huge new working capital requirements of their businesses. Much of that stress related to hedging positions taken in the futures market to mitigate price risk. In fact hedging, the very tool used to reduce price risk, has in some circumstances become a risk itself due to soaring capital requirements created

GRAIN INDUSTRY MUST EVOLVE, ADJUST TO A NEW MARKET PARADIGM

Maintaining strong capital base critical for country elevators



by large and frequent price swings in the futures market and resulting margin calls.

In today's volatile markets, hedging has become extraordinarily capital intensive and is one of the primary drivers behind the increased demand for debt capital on the part of grain elevators and agricultural businesses in general.

At CoBank, one of the largest financiers of grain in the country, we have seen dramatically increased borrowing needs for virtually all of our grain customers during the climb of grain prices. We and other financial institutions, both inside and outside the Farm Credit System, have worked to accommodate these customers during

workable when prices soar.

No one party in the grain industry should assume the financial burdens associated with protecting prices for another level in the system. Since everybody benefits from hedging, the risks and costs need to be spread across a broader base – one that specifically includes producers. For farmers, that may mean less pricing flexibility from elevators for future crop years. Recognize, however, that farmers will always have the option of using a broker to access the futures market on their own.

Most farmer-members of the nation's grain elevator co-ops will recognize and appreciate the merits of this approach. After all, they have an ownership stake

overhead is balanced and appropriate. In some cases, preserving working capital may require some tough decisions, such as putting off planned plant expansions, selling assets that are not critical to the business, holding off on new property and equipment purchases, or reducing dividend distributions to owners to strengthen liquidity.

Looking at the bigger picture, there are a variety of steps that grain elevators can consider as they look to preserve and build working capital. Deciding on which, if any, of these options is right for a given grain elevator requires careful scrutiny and analysis. A profitable course of action for one operation may not be the right solution for another.

One of the biggest ways a cooperative grain elevator can build capital is by retaining more earnings. Operators should be looking closely at their future liquidity needs as they calculate how much patronage they return to members. More of that capital may need to stay at the elevator to fund inventories of higher priced farm inputs or margin calls. While producers certainly appreciate cash payments, they also will appreciate having a financially sound grain elevator that will be able to buy their crops in the future.

Another option worth exploring is partnering with other grain elevators. Working with another co-op in a joint venture may be a practical and efficient way to spread risks and costs over multiple balance sheets. These kinds of arrangements may allow smaller operations to realize the benefits of the economies of scale that larger organizations enjoy.

All members of the grain industry value chain — farmers, elevators, lenders, shippers, millers, exporters, biofuels producers and consumers — have a vested interest in guiding the sector through this important transition period. By making these changes in behavior and building foundations of financial strength, elevator operators will help the industry fulfill its long-term promise. ■

"Working with another co-op in a joint venture may be a practical and efficient way to spread risks and costs over multiple balance sheets."

this unprecedented time and will continue to do so.

But credit is not an unlimited resource — especially in the current economic environment. And borrowing more, without a commensurate increase in earnings and equity capital, is not a long-term solution to this problem. In our view, the grain industry needs to make two key adjustments going forward:

1. A new approach to price-risk management — Historically, the lion's share of hedging risk in the system has been borne by the country elevator. Elevators, furthermore, have often been willing to contract to purchase crops for multi-year time periods — agreeing to purchase grains at a specific price even before crops were planted. Elevators have used the futures market to hedge against potential price drops in the market. More recently, country elevators have continued to bear the majority of the cost of these price-risk management programs.

But what was an acceptable business practice for elevators in the days of \$2-a-bushel corn is proving far less

to protect in their local elevator — as well as a vested interest in the overall health of the U.S. grain delivery system in which the elevator plays such an important part.

2. Maintaining a strong capital foundation — Even if elevators successfully shift some of the risks associated with hedging to their member producers, the working capital requirements of their businesses will have the potential to spike upward as long as volatility in the grain market persists.

Managing those higher capital requirements, first and foremost, will require solid business practices that create the basis for a strong capital foundation. On the most basic level, that means having a well-designed business plan that is flexible enough to respond to market conditions. It means doing an excellent job of offering farmers pricing options on crops as well as timely service in accommodating high production at harvest.

It means understanding and pricing sales with appropriate margins. And it means making sure that operating

Co-ops ring up additional \$14 billion in sales via other ownership structures

E. Eldon Eversull

Agricultural Economist
USDA Rural Development



arm, ranch and fishery cooperatives had additional sales of at least \$14 billion in 2007 from other, non-cooperative business ventures they have formed or invested in to market products or sell supplies. These other businesses represent more than \$7.5 billion in assets.

The Cooperative Programs staff of USDA Rural Development surveyed cooperatives about their use of other ownership structures for business ventures in 2007. There were 728 respondents, with 204 noting that they used other ownership structures to bolster revenue to the co-op.

Since not all co-ops responded to the survey, the actual sales total from these non-cooperative business ventures is almost certainly higher than \$14 billion — perhaps significantly higher. If these revenues were added to the total co-op business volume reported annually by USDA (\$147 billion in 2007; see page 19 of the Sept.-Oct. issue of *Rural Cooperatives*), co-ops would account for an even bigger share of the nation's food and farm supply market.

Other ownership structures used by cooperatives in this study include limited liability companies (LLC), corporations, limited liability partnerships (LLP), partnerships and other types ownership structures ("other")

hereafter). This study was used to determine how many cooperatives used these ownership structures, their percentage of ownership and the sales and assets of these ventures.

Variety of incentives for ventures

There are a wide variety of reasons for a cooperative to use a non-cooperative ownership structure. For example, a cooperative that would like to build an ethanol plant or a food-manufacturing facility may not be able to raise enough

Table 1—Number of ventures, sales and assets, by cooperative type

Cooperative Type	Number	Ventures	Total sales		Total assets
			Number	Billion \$	
Cotton and Cotton Gins	3	5	0.346	0.156	
Dairy	9	43	12.764	5.078	
Fruits and Vegetables	6	9	1.372	0.485	
Grains and Oilseeds	85	159	7.455	3.744	
Livestock & Artificial Insemination	4	5	0.408	0.121	
Nuts, Poultry, Dry Beans & Peas, Sugar	7	7	1.196	0.926	
Other Marketing	5	9	0.235	0.147	
Supply	80	138	28.844	11.040	
Service	5	7	0.015	0.022	
	204	382	52.635	21.720	

Table 2—Structure of the venture, percent ownership, sales, and assets by cooperative type

Cooperative Type	Ownership structure of the venture					Percent ownership by your cooperative					
	LLC	Corporation	LLP	Partnership	Other	1% to 20%	20% to 49%	50+%	Wholly owned	Venture sales	Venture assets
	Number					Number					Billion \$
Cotton and Cotton Gins	4	1	0	0	0	0	0	0	4	0.022	0.025
Dairy	37	5	0	0	1	3	6	16	18	6.633	3.686
Fruits and Vegetables	5	3	1	0	0	1	3	2	1	0.032	0.009
Grains and Oilseeds	141	10	3	1	2	65	40	36	11	1.782	1.341
Livestock & Artificial Insemination	4	1	0	0	0	1	0	2	2	0.020	0.010
Nuts, Poultry, Dry Beans & Peas, Sugar	5	1	0	0	0	2	1	0	3	0.729	0.510
Other Marketing	5	3	0	0	1	2	0	3	4	1.661	0.217
Supply	106	20	6	2	4	21	28	48	36	2.772	1.650
Service	5	0	0	0	2	0	0	4	3	0.240	0.090
	312	44	10	3	10	95	78	111	82	13.892	7.537

funds from its members or through bank loans. An LLC might be formed to obtain funds from outside investors to make this venture possible.

In another case, two cooperatives might form some other type of ownership structure for their agronomy operations, allowing the co-ops to offer more services, personnel and equipment by pooling resources. Several cooperatives might form a business using some other ownership structure as a first step toward a possible merger. If the co-ops prove compatible when working together in the venture, they might opt to eventually form a single cooperative.

While there are many reasons for forming other ownership structures, this study did not ascertain why they were used nor determine whether the ventures were with other cooperatives, investor-oriented firms, or non-member investors. Some of the ventures in this study could be between cooperatives, which would lead to double counting of their sales volume. A more thorough analysis is planned using information from this survey to document the use of alternative ownership structures and their importance.

LLCs most common

The 204 survey respondents who reported using other business structures are involved in 382 such ventures. Of these, 312 (82 percent) were LLCs (figure 1). In 96 of these LLCs, the co-ops owned more than 50 percent of the business (figure 2), while 53 of the businesses were wholly owned by the co-ops. Thus, co-ops held a controlling interest in 48 percent of the 382 businesses.

A wide variety of cooperative sizes (by sales volume) are involved in ownership of these businesses (figure 3). On the high end were 12 co-ops with sales of more than \$500 million that have invested in at least one LLC. On the other end of the scale are 11 co-ops with sales of less than \$5 million that have LLCs. The largest number of cooperatives (47) with an ownership stake in one or more LLC reported annual sales of between \$25 million to \$49 million.

The cooperatives that reported being involved in at least one of these "other ownership structure" businesses account for just over 34 percent of the nation's total co-op business volume. Grain/oilseed and supply cooperatives accounted for most of the survey respondents (as would be expected, since they represent by far the largest number of surveyed co-ops). Responses from cotton and cotton gins, livestock, artificial insemination, nuts, poultry, dry beans/peas and sugar cooperatives were combined in tables 1 and 2.

About half of the sales and assets documented in this study would not be captured in USDA's annual statistical report on cooperatives, since the co-ops do not have a controlling interest in the venture. The sales volume would be reported as a distribution of earnings from the business venture (net income) on the income statement of the respondents, appearing in the "non-operating income" category, or as "income from other ventures." ■

Figure 1—Number of ventures by type

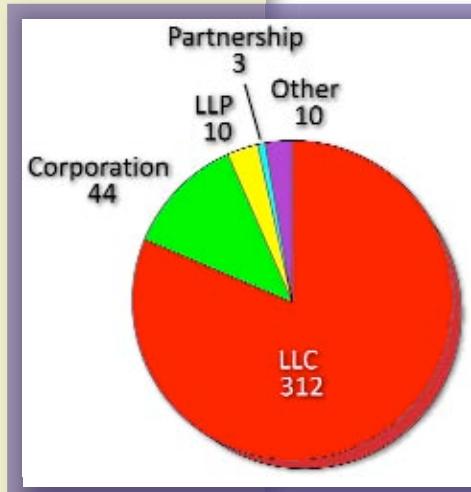


Figure 2—Percent ownership of all different structures

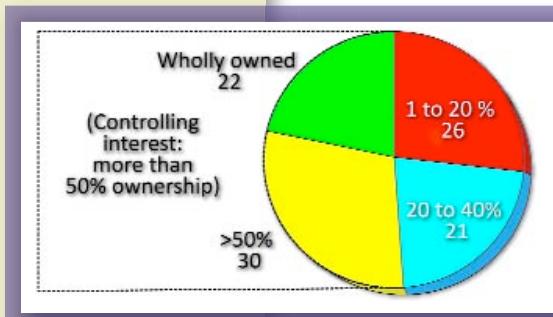


Figure 3—Number of respondents by size of sales (million \$)



Sky's the Limit!



By Dan Campbell, Editor



high percentage of homes occupied by owners is a vital ingredient for healthy neighborhoods. When people have an ownership stake in their homes, they naturally tend to take better care of them and get more involved in civic affairs.

So with the renter-vs.-ownership ratio nearing 50:50 in Bath, Maine, community development director Al Smith began thinking about a housing cooperative as one way to open doors to homeownership for people who would otherwise be renters.

“Maine is a very rural state, and like most rural areas, it tends to have a high percentage of homeownership,” says Smith, talking over a cup of coffee in Bath’s lovely old city hall building. “I was intrigued by the idea of a co-op to provide easier access to homeownership and as a tool to strengthen and maintain our wonderful neighborhoods. The idea of a co-op just seemed to make a lot of sense for a community like Bath.”

Shipbuilding roots

Bath is a city of about 10,000 people on the Kennebec River in the Midcoast region of Maine, but the population swells greatly during the summer tourism season. It has a proud history as one of the nation’s primary shipbuilding centers, having built and launched more than 5,000 ocean-going ships since the 1700s.

Bath was a major builder of clipper ships, beautiful sailing vessels that were the fastest of their day. At one time, it was home to more than 200 shipbuilding firms, and by the mid-1800s it was the nation’s fifth busiest seaport.

This tradition is carried on today by Bath Iron Works



Happy together: members of the Oak Street Cooperative (above and on facing page) say the co-op made it possible for them to become home owners. Community Development Director Al Smith is wearing a cap, at rear. Background photo: cranes loom up at the Bath Iron Works shipyard, one of the state’s largest employers.
USDA photos by Dan Campbell

(BIW), one of the state’s largest employers, with a workforce that ranges from about 5,000 to 6,000 (depending on current contracts). This is down from a peak of about 12,000 in the 1980s, Smith says.

Booms in shipbuilding during the two world wars and again after World War II resulted in construction of a number of public-financed housing developments in Bath.

“Being an older city [Bath incorporated in 1781], the housing stock is older, and renovation is an issue for many homes,” Smith says. “So we have fair amount of affordable housing and multifamily properties, but with a fair amount of absentee landlords.”

His plan was to find an older property that could be converted to co-op ownership.

Co-op model studied

Before a property was selected, city planners first looked at the co-op model and studied how a housing co-op could be developed and promoted in Bath. Funding was then secured for a project that would accommodate low-to-moderate income people.

“We saw this as an opportunity to showcase the idea of a limited-equity co-op as a path to ownership,” says Smith. “The way we did it may not be suitable everywhere, but I believe this model could be replicated to provide access to

Housing co-op opens doors for first-time ownership



ownership and lead to greater stability for neighborhoods."

A Community Development Block Grant was secured from the Maine Department of Economic Development, which was matched by the Federal Home Loan Bank of Boston. The effort was also backed by several other organizations in the community, including the Bath Housing Authority, which acted as the project developer. Coastal Enterprises assisted with home homeownership and budget management classes.

"The city's role was organizing the co-op and training the members — a fairly long process," Smith says.

Attention first focused on a 35-duplex development in the Lambert Park neighborhood. "It was being operated by a nonprofit, but the property needed a lot of improvements and a large balloon payment was near due, so the owner basically wanted out," Smith says.

This effort eventually stalled. Rather than risk losing the funding already secured, the group started looking for another property.

This was in 2005, and the real estate market in Bath was still fairly strong. But reports that the nearby Brunswick Naval Air Base was slated for closure resulted in a number of properties being placed on the market as the owners tried to beat the base closure.

Five-unit building selected

A multifamily property with five units in two adjacent structures caught Smith's eye. Although this would be a smaller project than he originally conceived, it was an attractive property for a number of reasons.

The original building dated to 1858, the other to about 1900 (they form an "L"-shaped structure), but it was in reasonably good repair. "It is a great location — right on edge of downtown, with short walks to the library, city hall, a food market and other stores," Smith says. "And most units have a water view."

It needed electrical renovation (which turned out to be a bigger job than originally thought) and painting. Drains had to be installed around the foundation to dry out a damp basement.

Members did much of this work themselves under a sweat-equity program, which allowed them to cut in half the \$2,000 co-op membership fee. Members had to show that their income was no higher than 50 to 80 percent (depending on the unit desired) of Bath's \$38,000 median income.

Smith says buying and renovating the property ran roughly \$450,000, of which about \$240,000 was financed through the Cooperative Fund of New England, which is charging no interest for the first three years. "That gave us a nice jump start."

The Oak Street Cooperative of Bath Inc. has nine members living in five units: one three-bedroom unit, two two-bedroom units and two one-bedroom units. The co-op has been fully occupied since November of 2007.

Part of a members' monthly payment goes against principal, creating equity. "Our lease-sale formula provides that people can earn up to five years of the principal. We wanted them to gain equity, but to keep the overall property affordable."

Like a family

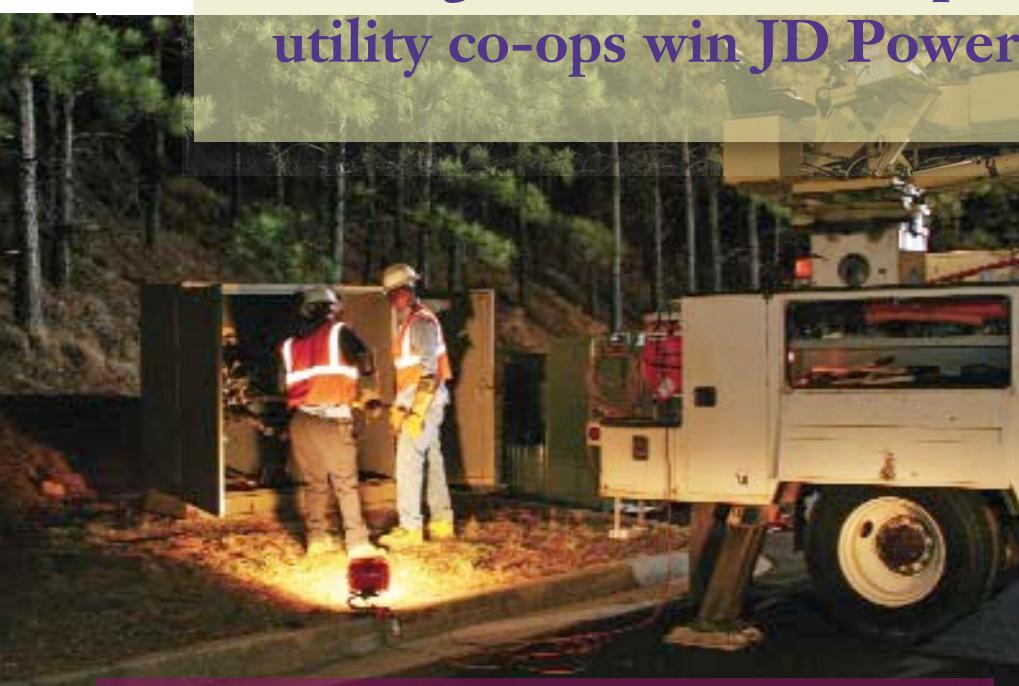
The camaraderie among the members, and pride of ownership, was evident when Smith led a visitor on a tour of the property. All households are co-op board members, which Smith says has helped develop "a sense of family" and mutual support among the members.

Some structural work still needs to be done, including a stone wall along the street frontage that will likely have to be replaced at some point. The co-op has limited cash reserves at this point, so the board has had to come to grips with budgeting for repairs as funds allow.

continued on page 23

Utility Co-op Connection

Putting service ahead of profit helps utility co-ops win JD Power Award



The commitment to service of Jackson EMC employees, such as these, helped the co-op win the highest consumer rating for a utility of any size in the nation in J.D. Power and Associates' annual survey. Photo courtesy Jackson EMC

By Anne Mayberry
Utility Programs,
USDA Rural Development



Maintaining reliable electric service at affordable rates is the cornerstone of the nation's 900-plus rural electric cooperative utilities. With increasing energy costs, that goal is becoming more challenging.

Yet rural electric cooperative utilities are meeting that challenge. Jackson EMC and Southern Maryland Electric Cooperative (SMECO) recently scored the highest customer satisfaction marks among midsized utilities in their regions, according to J.D. Power and Associates. Jackson EMC also was noted for achieving the highest customer satisfaction score among utilities of any

size nationwide. Jackson EMC, based in Jefferson, Ga., and SMECO, based in Hughesville, Md., received recognition in J. D. Power and Associates' 2008 Electric Utility Residential Customer Satisfaction Award for midsized utilities (those serving between 125,000 and 499,000 residential customers) in the South and East, respectively. Two more rural electric cooperative utilities — Santee Cooper in South Carolina and Clay Electric Cooperative in Florida — won the second and third place scores (respectively) in the South. The award is based on the results of an annual consumer survey conducted by J. D. Power and Associates.

The award to SMECO came as a complete, but very welcome, surprise.

"Our first notice that we'd received any kind of award was receiving the box

with the trophy," recalls SMECO President and CEO Joe Slater. "My assistant opened it and brought it to my office. A few days later, J.D. Power and Associates called us."

Key to customer satisfaction

How do Jackson EMC and SMECO run efficient utilities and simultaneously keep customers satisfied?

"All of our employees understand that we work for our owners — our customers," Slater explains. "The cooperative business model allows us to stay focused; we're not distracted by earnings per share. We are not driven by a profit motive. We put our customers first."

Randall Pugh, Jackson EMC president and CEO, says: "Jackson EMC's focus has never shifted from the day we first powered our lines in 1939; the focus is providing our members with high quality service and reliable, affordable power. Every decision we make is with our members' best interests in mind, and we truly appreciate this response from our members."

Pugh says that 2008 marked the first year the co-op was included in the study. "When I look at this award, I'm reminded of 461 reasons why we received this honor — our employees," he adds.

Slater says SMECO's award is

especially gratifying because it is the result of the co-op earning high customer satisfaction ratings. For many electric customers, the real test of service from their utility is how the company responds during emergencies.

"We tend to have a lot of storms in southern Maryland, but we're able to provide good information to our customers because of our outage-management system," Slater says. Installed two years ago, the system connects mobile laptops with SMECO's computer systems, allowing crews to use technology to pinpoint and quickly respond to outages. "People like certainty. They want to know what caused the outage and when their power is coming back on."

SMECO's involvement with the community "helps touch a lot of lives through our scholarships and various other projects," Slater says.

The most basic cooperative advantage may be the unique financial structure of rural electric co-ops. The cooperative business model emphasizes reliable service at affordable costs. Member equity is often listed as one of the benefits of being a rural electric cooperative customer. This same business model produces positive credit ratings for rural electric cooperatives, which reduces the cost of borrowing money.

"Our business model not only increases customer satisfaction, but also takes the form of high credit ratings — higher than many investor-owned utilities," Slater notes. "This in turn translates into lower funding costs."

Co-op advantages

Martin Lowery, executive vice president of external affairs for the National Rural Electric Cooperative Association (NRECA), echoes Slater's assessment, adding that a key advantage of the cooperative business model is that "members have equity in cooperatives."

Lowery says the reputation of cooperatives for service is well deserved. "Businesses that care about serving their members tend to have

great reputations," he notes. "I hear all the time about how great co-ops are and how much their customers love the service they receive from rural electric cooperatives."

Rural electric co-ops serve 41 million consumers in 47 states, according to NRECA. Co-ops are the fastest growing segment of the electric utility industry, and are concerned about how to address growing demand for electricity.

Like most electric utilities, SMECO and Jackson EMC work hard to ensure that long-term power supply is reliable and affordable. The fact that SMECO and Jackson EMC are locally owned and operated increases their responsiveness, Slater says. "We're part of the community we serve."

Most cooperatives, by their nature, tend to be good corporate citizens, he adds. "We have plans for conservation and efficiency. We have plans to build new transmission lines. We keep our customers informed of our issues and activities and were ranked very highly for that effort."

Pugh credits employees with the recognition from J. D. Power and Associates. "Jackson EMC's employees have a long-standing dedication to provide service that exceeds our members' expectations, whether that means quickly restoring power after a storm, making sure our bills are correct, promptly handling members' requests, or planning infrastructure additions to ensure adequate power supplies."

Slater says the detailed survey results that came with the award are being studied by the co-op. "We're really interested in any places where our scores could have been higher. We're going to see what we can do to earn a higher rating."

One example Slater cites is to expand the ability of SMECO customers to set their own billing due dates. "This is one area we want to continue to focus on. Our customers want options, flexibility and control. We're seeing how we can accommodate those interests." ■

Sky's the Limit!

continued from page 21

"It would have been very hard for me to buy a place without this co-op," says Steven Cummings, the co-op president and a first-time homeowner. "It feels awesome — I love it here. It's got a view, and the heating cost is reasonable."

Cummings, like all the other members, has never served on any type of board of directors before, so the co-op classes and sessions on budgeting were very helpful, he says. "I highly recommend co-op living for anyone with lower income or poor credit."

Solo Martin, who works at a preschool, couldn't agree more. "It's beautiful here and we [she shares a unit with her sister] are very happy. I've never been a homeowner before, and being on a co-op board and working so closely with the other members is an entirely new experience for me. We all sort of look after each other!"

Since the Bath co-op was formed, another small housing co-op, Faire Brande, has been developed in the city of Lewiston, about 26 miles away.

Co-op housing opportunities

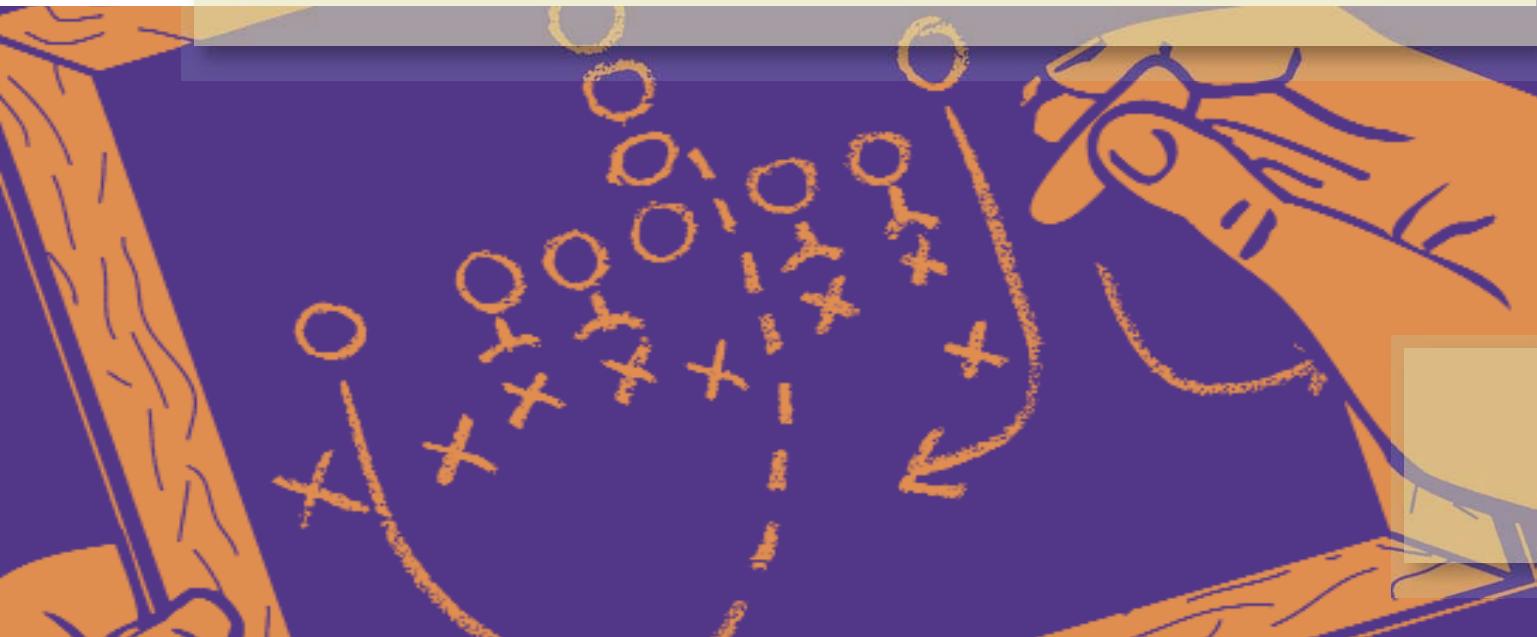
"I see tons more opportunities for similar co-ops in this region," says Smith. "Rockland, Belfast — and Brunswick with its large student population — would all be good places for housing co-ops."

The concept of small housing co-ops like the Bath model might even have applicability for meeting the need for group homes for handicapped people around the nation, many more of which are needed as more large residential-type institutions are phased out.

"I would love to see some other housing co-ops formed around here so we could explore going in together on purchasing heating fuel and on maintenance work," Cummings adds. "The sky's the limit for this co-op!" ■

Management Tip

Co-op boards demonstrate leadership through strategic planning process



By Jean Freeman, President
Jean Freeman & Associates

Editor's note: The author is a Fairfax, Va.-based consultant who specializes in governance and communication issues for cooperatives, nonprofits and for-profit companies.

here is no question that all governing boards are under the spotlight today. Due to some highly publicized scandals in both publicly traded companies and nonprofits, in which board members did not properly fulfill their duties, many cooperative boards are taking a closer look at their governance practices, including their long-range planning and monitoring systems.

Some boards, however, are so enmeshed in short-term compliance issues that they risk dropping the ball

when it comes to long-term leadership. One of the best tools available to cooperative boards in fulfilling their important fiduciary duties is the dynamic process of strategic planning.

Few people will disagree that planning is important. However, many may be unclear about what strategic planning is and why it is so critical to the future success of the organization.

What is strategic planning? Simply put, it is the process of determining where the co-op is going over coming years, how it will get there and how the co-op will know when it has succeeded. There is no one correct method of planning strategically. However, there are some key tools which should be considered when a board takes on this process.

Reach consensus on need

The board must thoughtfully explore the need for strategic planning. It is almost as wrong to jump into the

process without first reaching consensus on the need to do so, as it is to fail to go through the planning process at all.

Once consensus is reached, the strategic planning team can begin the important work ahead. For small boards, it is common for the team to include all sitting board members, along with the manager or CEO and key staff members. Some co-ops may include other stakeholders in the process.

Review the mission

Before beginning to plan for the future, the board should review the co-op's statement of purpose, or mission statement. This statement should concisely describe why the organization exists, what services it provides and, in some cases, what core values will be maintained in the process.

The mission statement is the umbrella under which all plans should then fit. The board should look carefully at the co-op's mission and

agree that it is still completely relevant and accurate. If not, this is the appropriate time to tweak the mission to reflect the current culture and membership expectations.

Review former plan

This may not be the first time the co-op has worked on the strategic planning process. If there is a strategy in place, this is a good place to get started.

Board and management participants ("the team") can look with fresh eyes at what is in place and begin thinking

If you have established that mission, and if the board feels passion for that mission, then you're ready to move forward.

The board should at least revisit that mission to make certain it is indeed why your organization exists. Some like to establish additional statements, such as a vision or a values statement. It isn't necessary for all organizations to adopt the same set of statements. However, the mission is a necessary statement of purpose. Goals and objectives will naturally flow from a targeted mission statement.

the board at scheduled intervals.

The board of directors is responsible for establishing the mission, hiring the manager or CEO, providing financial oversight and monitoring the progress of the organization. Once the hard work of developing a strategic plan is done, it now becomes much easier to make sure that goals are accomplished.

The board now has a plan to hand over to the manager, and the manager now has a clear guidebook for putting together an action plan and working toward attaining the desired goals. It is clear what types of monitoring must

Any board member at any time should be able to answer the question: "Are we still heading toward the place we want to be?"

about how clearly the existing plan reflects the purpose of the organization.

Create the strategy

Any board member at any time should be able to answer the question: "Are we still heading toward the place we want to be?" The board should do a thorough analysis of current conditions, future projections and potential competition for its cooperative's goods and services.

Based on this thorough analysis, board members can then develop a strategy. At this point, it is important to take a good look at membership needs and the co-op's ability to create value for its membership.

Remember, once the strategic planning process has been completed, leadership must continue to think strategically to keep on track.

Good set of tools needed

Mission, vision, values, goals — As stated before, it would be a waste of time for a co-op's leadership to begin a strategic planning process without reaching consensus for a clear mission.

Environmental analysis — A part of the planning process should include a hard look at the current and the likely future environment. This analysis might include legislation, consumer survey results, economic development, technology, competition and other areas with the potential to impact the co-op's ability to stay on mission.

SWOT — Some find the exercise of identifying strengths, weaknesses, opportunities and threats (SWOT) a very helpful tool. The co-op leadership can benefit by including key staff and stakeholders in this exercise. Of course, the team must head into the planning process open-minded and ready to hear from different players with different perspectives.

Executing the plan

No matter how beautiful a completed plan may look, it is only a beautiful symbol of a waste of valuable time unless the board builds in monitoring requirements to hold others accountable for keeping the plan in play. These monitoring tools typically involve reports from management to

take place in order to keep track of progress. The board, with a solid plan, is positioned to demonstrate transparency to its membership.

Keep the plan alive

Although a lot of planning takes place in any well-run company, strategic planning is not done every month. It may not even be necessary to conduct full-blown strategic planning every year. But it is important to review the plan and monitor its progress on a regular basis.

Many organizations "visit" their plan on a monthly basis, simply by reviewing monitoring reports from management. In most cases, plans should be reviewed at least annually.

Although no board wants to re-strategize frequently, it is important to remember the plan is not static. We live in rapidly changing times. Regulations, technology, climate and member expectations, to name a few, are not static areas. Therefore, it makes sense for a responsible board to be prepared to revisit the plan formally, as necessary.

CCA salutes top co-op



or his three decades of commitment to cooperatives and communications excellence, Paul Wesslund, vice president of communications for the Kentucky Association of Electric Cooperatives, has been awarded the H. E. Klinefelter award.

The award is the Cooperative Communicators Association's (CCA) top honor, recognizing individuals whose work has helped to further the cooperative business system and raise the standards of cooperative communications.

The award was presented in June during CCA's annual communications institute in Portland, Maine.

Jim Duncan, CEO of Sumter Electric Cooperative (SECO) in Florida, won the CEO Outstanding Communicator award. Marian Douglas, manager of publications for Flint Energies in Warner Robins, Ga., took home the Michael Graznak Award, which honors excellence in co-op communications by a person under age 36.

Susie Bullock, who is stepping down after serving as CCA's executive director for 18 years, was honored with a special award and tribute, recognizing her efforts to advance the organization and the state of co-op communications.

Wesslund strengthens REC system

Following four years working for daily newspapers in North Dakota, Wesslund began his cooperative career with the National Rural Electric Cooperative Association (NRECA) in 1979. During a 16-year tenure with the Washington, D.C.-based organization, he rose steadily through the ranks to become associate department director of communications services.

In 1995, Wesslund moved on to the Kentucky statewide REC, where he also serves as editor of the association's member magazine, *Kentucky Living*, which has a circulation of 400,000.

"Paul has spent much of his career bringing meaning to cooperatives in ways that clearly speak to their advantages and strengths," said nominator Jeff Almen, a coworker of Wesslund's during his years at NRECA.

"Paul has been a mentor, confidant and friend throughout my career," added Darryl Gates of the Alabama Rural Electric Association of Cooperatives. "I find myself studying

the successful programs he has created, and trying to find ways to duplicate those efforts in my state."

Wesslund is the 50th winner of the Klinefelter award, named for a CCA founder and longtime editor at MFA Inc., who died in 1957.

Duncan communicates 'co-op difference'

Duncan was saluted for championing the cooperative difference at SECO, which he has led since 1990. Evidence of this is manifested in every communications vehicle SECO uses to interact with its various constituencies, both internal and external, said award presenter Janet Schoniger of CoBank.

SECO is one of the nation's largest electric co-ops, serving 165,000 member/customers in a Central Florida service territory the size of Delaware.

"What has evolved, by design, is a total communications program that constantly reinforces the seven cooperative principles, philosophy and way of doing business," said Schoniger. "More than that, it encourages two-way communications and generates a sense of empowerment where employees, customers and other constituencies are concerned."

His leadership skills in the electric industry communications arena has led to the co-op receiving some of the highest American Consumer Satisfaction Index scores in the country for a co-op of its size.

Douglas: innovative communicator

Nominators said Douglas is an energetic and innovative communicator whose impact has included "more focused connections with members, more effective methods with employees and more engaging avenues with the community."

Douglas has more than 14 years' experience in public



Jim Duncan, CEO of Sumter Electric Co-op, won the CEO Communicator award.



Graznak Award winner Marian Douglas and Klinefelter Award winner Paul Wesslund.

relations, including 10 years serving the electric cooperative industry. While working for an advertising agency in South Carolina, she managed advertising and public relations for 21 electric cooperatives in South Carolina and Georgia.

Her resume also includes a stint as community relations manager at Santee Electric Cooperative. While there, Douglas successfully managed the cooperative's crisis communications efforts during Hurricane Floyd in 1999. She also previously served as executive director of a chamber of commerce.

"Marian came to Flint, and to Georgia, in late 2004 with respect for cooperative tradition, as well as a fresh perspective and innovative mind that would consolidate and exploit our communication tools and opportunities," recalled nominator Robert Ray Jr., CEO of Flint Energies.

The award is named for a young Missouri cooperative communicator who died while on assignment.

Bullock takes final bow

Bullock announced last year that she is retiring from her CCA post to devote more time to assisting her husband, Jim, who was recently named vice president for academic affairs at Ohio Valley University in Vienna, W. Va.

Bullock, also a past Klinefelter award winner, joined CCA (then the Cooperative Editorial Association) in 1975, just after graduating from college. Ten years later, during the organization's business meeting in Chicago, Bullock recalled lobbying for the name change to CCA.

"The word 'communicators' rather than 'communication' not only humanized the organization, but it was more descriptive of CCA's multifaceted role in telling the cooperative story," Bullock said. "The name still accurately reflects the involvement of not only writers and editors, but of photographers, broadcasters, marketing specialists, public

communicators

relations directors, graphics designers, advertising managers and Webmasters."

Changes made at CCA during her years as executive director included: establishing CCA's six-region membership structure; developing its first website; establishing the board liaison system of managing committees; computerizing bookkeeping; moving the newsletter and membership directory online; creating a number of new awards and fellowships; developing a policy and procedures manual and creating the Master Cooperative Communicator program, among many others.

"I encourage all of you to dive headlong into CCA activities," said Bullock. "Get involved and make your own mark on CCA's history."

Contest winners

Best of Class award winners in CCA's annual communications contest were:

- Writer of the Year — Richard Biever of Indiana Statewide REC Inc., (for a portfolio of articles);
- Photographer of the Year — David Lundquist of CHS-Land O'Lakes (for a portfolio of photos);
- Programs and Projects — Shane Read of Tennessee Farmers Cooperative (for a print advertisement he designed, "Grab the Great White").
- Publication of the Year — Brett Faber of Aurora Cooperative (for Aurora's 1908-2008 Centennial publication).

USDA's *Rural Cooperatives* magazine won four awards in the contest, including: First place for serious or investigative feature writing, won by contributor Catherine Merlo (for "When a Co-op Dies" about the closing of a California cotton cooperative); First place photo illustration, won by Assistant Editor Stephen Thompson for a piece of art in which he transformed a milk bottle into an ethanol fuel pump; Second place for serious or investigative feature writing, won by Editor Dan Campbell (for "Thinking Outside the Carton," about Fruit Growers Supply co-op in California); Honorable mention for Writer of the Year, also won by Campbell (for a portfolio of articles).

For more information on CCA and how it helps co-ops improve their communications efforts, visit: www.communicators.coop.

CDF's multi-pronged efforts support co-op mission in America and abroad



The Race for Cooperative Development raises money and awareness of co-ops every October. This year, a record 15 teams, including the ACDI/VOCA team (seen here), participated. Below: The ICA Group, a recipient organization of the CDF's United Co-op Appeal, builds worker co-ops, such as this sewing co-op. Photos courtesy Cooperative Development Fund

By Steven Thomas, Executive Director
Cooperative Development Foundation



The Cooperative Development Foundation — the nation's oldest cooperative charity — may not be a household name, but it has made a major impact on economic development through cooperatives for almost 65 years. This work was initially done under the umbrella of the Freedom Fund (beginning in 1944), then the Fund for International Cooperative Development (1947), the Cooperative League Fund (1969), and, ultimately, the Cooperative Development Foundation (1988).

Starting with the founding of CARE after World War II, CDF began by helping European farmers recover from the destruction of the war by providing "seed" funds to help them form cooperatives — giving them the scale to reach markets across Europe's war-devastated infrastructure. CDF retained an international focus until the 1980s, when it began fundraising and forming programs to assist domestic cooperatives, particularly in rural areas.

Family of funds

Through a combination of bequests, donations and fund additions, CDF now has 11 funds that seek to resolve different problems through the development of different types of cooperatives. These include the following:

- The Bowers Fund, which assists cooperative grocers, is one

of CDF's most active funds. Its mission — to promote consumer-owned food cooperatives in the United States — is served through grants for education and training of grocery cooperative staff and board members.

- The MSC Fund, CDF's largest fund, was established in 2004. Formerly the Mutual Service Fund of the MSI Insurance Foundation, it has been in operation for more than 30 years and has awarded more than \$1 million in grants to the cooperative community. In 2005, the fund's trustees decided that it would focus on projects and organizations that find and/or replicate cooperative solutions for issues facing seniors in rural areas.
- The NCBA Fund supports the National Cooperative Business Association's cooperative development projects and programs in the United States and overseas.
- The Dollars Fund strengthens the cooperative form of business through interaction between U.S. and overseas cooperatives. The fund provides grants to cover overseas travel expenses of U.S. cooperative leaders, enabling them to visit counterparts to exchange information, strengthen



trade and provide technical assistance.

- The Shirley K. Sullivan Education Fund was established in 1998 by the Cooperative Communicators Association (CCA) to give its members scholarships for training. The fund offers educational grants to cooperative communications professionals, enabling them to attend professional development seminars or classes, including National Cooperative Business Association (NCBA) and Graduate Institute of Cooperative Leadership (GICL) programs and CCA's annual co-op communications institute.
- CDF also has three revolving loan funds for cooperative housing: one for senior cooperative housing, a second for limited equity cooperatives and a third for student housing cooperatives. These funds make pre-development and bridge loans, leveraging substantial additional capital for the creation, renovation and expansion of housing co-ops.
- The CDF Fund is a "special opportunity fund," used to make grants or loans to potentially significant cooperative projects that don't fall within the scope of CDF's other funds.

What is the impact of these funds? Together, they create opportunities for seniors and working families to own quality homes; for students to obtain affordable housing and take responsibility for running it; for people to obtain healthy food; for farmers and others in developing countries to obtain good prices for their goods at market; and for cooperative leaders to learn to better serve their co-op and its members.

Programs for cooperative awareness and fundraising

In addition to its family of funds, CDF also operates several programs designed to promote cooperatives and raise funds for cooperative development.

Foremost of these efforts is the Cooperative Hall of Fame, which honors individuals whose contributions to cooperative business have been genuinely heroic. Inductees are limited to

a group carefully selected to preserve the nature of this special recognition.

Each year a select few men and women are honored because of their heroic contributions to the enhancement of cooperative enterprise and to the advancement of the principles of cooperation.



The National Rural Electric Cooperative Association's International Foundation, a recipient organization of CDF's United Co-op Appeal, works on developing electrical co-ops in Africa and other developing regions.

Nominations are received annually and reviewed by two committees, each composed of current leaders from the various sectors of the U.S. cooperative movement. More information on the Cooperative Hall of Fame can be found at www.heroes.coop.

The 5k Race for Cooperative Development is a certified run/walk for all ages. The race calls attention each October to Cooperative Month, an annual celebration of the impact of cooperatives on the United States and its communities. It is also a fundraiser for CDF. The race normally attracts several hundred runners, including teams from more than a dozen cooperative organizations. More information can be found at: www.cdf.coop/5kRace.

The online Co-op Art and Crafts Auction is a fun way to profile the art and craft co-op community as an example of a cooperative business and to help art and craft co-ops gain visibility and new markets for their work. Visitors to the auction website and catalog learn about the basics of a cooperative business, as well as specifics about the artists and the art and craft co-ops that participate in the auction.

The funds CDF raises from this auction will build more programs in support of art and craft co-ops as the auction progresses. More information can be found at: <http://www.cdf.coop/node/7>.

The United Co-op Appeal (UCA) is an annual workplace-giving program that is managed by the CDF. UCA supports 16 nonprofit organizations that use the cooperative enterprise model to bring self-sufficiency and economic development to individuals and communities through the United States and around the world. Since it began 15 years ago, UCA has raised more than \$1 million to support cooperative development projects.

Cooperative future

Part of CDF's history has been a tradition of rapid response to help cooperatives in need in disaster zones, from postwar Europe in 1944, to New York City after the 9-11 terrorist attacks, Hurricane Katrina in Louisiana and Mississippi in 2005, to the present day. Most recently, CDF distributed \$25,000 from its Katrina Recovery Fund to the Federation of Southern Cooperatives to help establish fishing cooperatives in areas damaged by Katrina.

With emergency cooperative relief sure to be a part of CDF's role in the future, CDF is working to create a systematic approach to emergency relief, with a dedicated fund that will allow for more rapid response to disasters.

CDF's longstanding role as a supporter of cooperative housing will also play a clear role in the future; plans are in place for a streamlining of process that will increase the effectiveness of CDF's efforts there.

Ultimately, however, CDF's model can be adapted to meet any future cooperative needs just as it has in the past. This flexibility of execution and timeliness of mission will drive the changes CDF makes to prepare cooperatives for the 21st century. ■

Send items to: dan.campbell@wdc.USDA.gov



Workers and guests assemble for the grand opening of the new, \$85 million Prairie Pride co-op biodiesel plant in central Missouri. Photo courtesy Prairie Pride. Below: Worldwide demand is soaring for dried sweetened cranberries, being produced by Ocean Spray at its plant in Wisconsin Rapids. Photo courtesy Ocean Spray

Prairie Pride biodiesel plant fully operational

Prairie Pride Inc., a new-generation cooperative, held a grand opening ceremony in August at its \$80 million, 210-acre soybean-crushing and biodiesel plant near Deerfield, in west-central Missouri. The plant, the first phase of which began operating last fall, will eventually convert 21 million bushels of soybeans annually into soy oil, which will then be processed into 30 million gallons of biodiesel fuel.

With the opening of the soybean-crushing portion of the facility (which had been using purchased soy oil), the plant is now fully operational. In addition to biodiesel, it will produce about 486,000 tons of soybean meal for livestock feed.

Missouri Congressman Ike Skelton and representatives for Kansas Senator Sam Brownback and Missouri Senator Kit Bond joined local officials for the celebration. "Renewable fuels like

biodiesel and ethanol are good for rural economic development, and renewable fuels help ease our dependence on foreign oil — which is a must for our country," Skelton said.

More than 1,000 producers from Missouri and several nearby states share in the ownership and profits of the operation. The co-op's equity drive in 2005 raised more than \$36 million in less than four months. The average per-producer investment was about \$36,000.

USDA Rural Development provided a Value Added Producers Grant of \$100,000 in 2005 to help advance the project.

The plant employs about 40 people and is expected to generate more than \$250 million in sales annually.

Co-op General Manager John Nelson says the co-op has three primary goals:

- To provide soybean producers with a value-added solution to marketing

their soybeans;

- To reduce the United States' dependency on foreign oil;
- To reduce pollution by producing clean, biodegradable fuel.

Ocean Spray opens world's largest cranberry-processing facility

Ocean Spray has completed the expansion of its facility at Wisconsin



Rapids, Wis., doubling the plant's size to 440,000 square feet, making it the largest cranberry processing plant in the world.

"Ocean Spray is exactly the kind of company we are excited to have here in Wisconsin," Governor Jim Doyle said at an event celebrating the completion. "I am pleased the state is able to partner with Ocean Spray to expand their facility in Wisconsin Rapids, and create 100 jobs for hardworking Wisconsin families."

"The Ocean Spray brand is stronger than ever," added Randy Papadellis, president and CEO of Ocean Spray. "As we commemorate the expansion of the Wisconsin Rapids sweetened dried cranberry production plant, we reinforce Ocean Spray's partnership with the state of Wisconsin and our dedication to growing more cranberries and creating additional jobs in the Badger State. If we can build on this partnership and add more cranberries, there could be even more added expansion and jobs at this facility in the future...but we need the fruit."

Ocean Spray invested \$75 million, the largest capital investment the company has made in a manufacturing facility, to add two sweetened dried cranberry production lines to the Wisconsin Rapids plant. The facility incorporates some of the latest technologies in energy and environmental efficiency, bringing the total incremental investment in the facility to over \$90 million during the past three years.

These additions include a wastewater treatment facility, energy-efficient lighting and an expansion of the system that converts methane from the Veolia Cranberry Creek Landfill into clean energy to power the plant. A fully-racked warehouse for both ingredients and finished goods allows increased storage on a smaller footprint.

Global demand for Ocean Spray sweetened dried cranberries has doubled during the past three years and is expected to double again over the next three years. Currently, Ocean Spray sweetened dried cranberries are

featured as ingredients in more than 1,000 different grocery, bakery and dairy products internationally.

AMPI names new CEO

Associated Milk Producers Inc. (AMPI) has named Ed Welch as the cooperative's president and chief executive officer (CEO). He succeeded Mark Furth, who is retiring after 38 years with AMPI, the last 19 as president and CEO, on Oct. 1.

Welch, the current AMPI chief operating officer (COO), has held various leadership positions during his 25 years with the Midwest milk marketing cooperative. He managed AMPI cheese manufacturing plants and member services in western Wisconsin before being named the cooperative's COO. In that role, he has led AMPI dairy manufacturing and marketing efforts.

"The AMPI board of directors searched for an effective leader to take the helm of AMPI. We found that leader in longtime AMPI employee Ed Welch," says AMPI Chairman Paul Toft, a dairy producer from Rice Lake, Wis. "AMPI's dedication to dairy farmers and our reputation in the dairy industry will continue to grow under Ed's leadership. He understands the AMPI vision and the cooperative foundation on which we are built."

Welch, a graduate of the University of Minnesota, is currently a member of the American Dairy Products Institute board and a past president of the Wisconsin Dairy Products Association.

Oglethorpe Power to build biomass power plants

Oglethorpe Power Corporation (OPC), the nation's largest power supply cooperative, has announced plans to build as many as three 100-megawatt (MW) biomass electric generating facilities in Georgia. Designed as carbon-neutral, the plants will use woody biomass — one of the

state's most abundant renewable resources — and provide power to OPC's 38 member co-ops, which supply electricity to nearly half of Georgia's population.

"With our abundant biomass resources, Georgia has the unique opportunity to expand our use of alternative energy, grow our economy and transform the way we provide energy to our citizens," says Georgia Governor Sonny Perdue. "Oglethorpe Power's pioneering investment in alternative energy is consistent with our goal to grow, convert, and use biomass energy to power our homes and businesses."

OPC has secured options for five potential sites in Appling, Echols, Warren and Washington counties. The first two biomass power plants are scheduled to be built and placed into operation in 2014 and 2015. A third unit could also be completed and placed into service in 2015.

Capital investment in the biomass plants will range from \$400 million to \$500 million per facility, with each providing about 40 full-time jobs. In addition, each plant will require an annual investment of more than \$30 million for fuel stock alone and will create a need for potentially hundreds of new jobs in the state's forestry industry.

The power plants will be steam-electric generation stations using conventional fluidized bed boiler/steam turbine technology. Fuel for the plants will consist of a woody biomass mixture, including processed roundwood (chipped pulpwood), primary manufacturing residue (wood waste from sawmills) and harvest residue (wood remaining in forests after clearing). The plants will be designed to allow for the co-firing of other types of biomass, such as pecan hulls and peanut shells. There are no plans to use any fossil fuels.

"With 12 million people expected to



Ed Welch

call Georgia home by the year 2030, we will need more energy to meet the demand of our growing population," said Chris Clark, executive director of the Georgia Environmental Facilities Authority.

USDA funds co-op centers

Agriculture Secretary Ed Schafer has announced that more than \$4.5 million in grants will go to 23 Rural Cooperative Development Centers to improve rural economic conditions in 22 states. Schafer announced the funding investment during remarks at the 41st annual meeting of the Federation of Southern Cooperatives/Land Assistance Fund (Federation) in Epes, Ala.

"Rural Cooperative Development



Ag Secretary Ed Schafer (far left) presents a USDA Co-op Development Grant to Federation of Southern Co-ops officers (from left): President Woodrow Keown; Pam Madzima, co-op development specialist; John Zippert, director of program operations; Executive Director Ralph Paige. Photo by Heather Gray

Centers work closely to mentor entrepreneurs and grow local business with technical advice and research," said Schafer. "This hometown support, close at hand, strengthens jobs and opportunities throughout rural communities."

The 23 nonprofit groups and institutions of higher education selected may receive grants to finance up to 75 percent of the cost to establish and operate centers for cooperative development. For example, with a \$200,000 grant, the Federation will

fund the Cooperative Development, Training and Research Center in Sumter County, Ala. This grant is expected to create and save more than 400 jobs, including those for 250 family farmers and 100 fishermen.

In addition, two new rural cooperative development centers will be established with the funds announced by Schafer: the Resource Center for Value Added and Alternative Agriculture at North Carolina State University, and the Appalachian Forest Resource Center in Clarke County, Ohio.

USDA Rural Development helps rural residents form cooperative businesses and improve the operations of existing cooperatives. It provides technical assistance, conducts cooperative-related research and produces informational materials (including this magazine) to promote public understanding of cooperatives.

Funding for individual recipients is contingent upon their meeting the conditions of the grant agreement. For a full list of the grants awarded, visit the "News/Information room" at: www.rurdev.usda.gov.

Minnesota dairy farmer to chair Foremost Farms

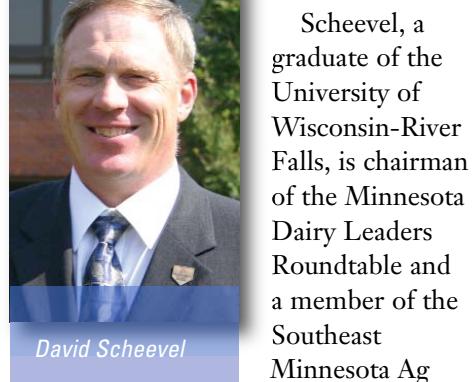
David Scheevel, a dairy producer from Preston, Minn., has been elected chairman of Foremost Farms USA. Scheevel has been on the board for more than 10 years, holding a variety of leadership positions, including second vice chair and secretary/treasurer. He has also been a member of the board's personnel committee.

Former chairman Edward Brooks indicated he would not seek another term as chairman after winning the Republican primary race for Wisconsin's 50th Assembly District. Brooks has been chairman of Foremost Farms and its predecessor, Wisconsin Dairies Cooperative, for 18 years. Brooks has been involved in the leadership of cooperatives for more than 30 years and has advocated cooperative and farm issues at the state and federal levels. He continues to serve on the

Foremost board and its executive committee.

"Ed has been instrumental in the formation and success of Foremost Farms USA," says Dave Fuhrmann, Foremost Farms president. "His contribution to this cooperative is

nothing short of remarkable."



Scheevel, a graduate of the University of Wisconsin-River Falls, is chairman of the Minnesota Dairy Leaders Roundtable and a member of the Southeast Minnesota Ag Alliance, the

Minnesota Council of the Wisconsin Federation of Cooperatives and Minnesota Association of Cooperatives (WFC-MAC).

"These are challenging times in the dairy industry with escalating costs and uncertainty," says Scheevel. "At the same time, they are exciting times with the emergence of international markets, milk supply growth in the Midwest and Mideast, and growth in demand for finished products from this part of the U.S. I believe Foremost Farms USA is in an excellent position to both meet and be a major player in these changing markets."

DFA adds Farm Services Division; expanding plant capacity in Colorado

Dairy Farmers of America (DFA) has formed a new Farm Services Division, consolidating oversight of several member service programs, including risk management, health insurance, financial services and bulk buying programs. Greg Wickham will serve as president of the division. He currently serves as CEO of DFA-member cooperative Dairylea and oversees Dairylea's extensive agricultural services businesses, including several that are currently in partnership with DFA.

"Under Greg's leadership of the

Washington farmers grow their own fuel

With the high energy demands of operating their vehicles and equipment, farmers suffer from high fuel prices even more than most Americans. But a few producers in the Yakima Valley of Washington may have found a way to beat the system by growing their own fuel.

The Heritage Farm Cooperative is a small group of ethnic-minority farmers — mostly fruit, dairy and hops producers — who run their diesel engines on sunflower oil pressed from a crop grown on their own farms. The co-op, in association with Flower Power USA, an engineering firm, provides technical assistance, business planning, conversion technology and crop-pressing services.

Ion Manea, a sunflower farmer, founded the cooperative and Flower Power. He's originally from Romania, where sunflowers have long been an important crop. Manea points out that using sunflower oil for diesel engines is an accepted practice in Germany, where the majority of U.S.-made tractors now run on it.

A farm with 12 percent of its cropland planted with sunflowers can produce all its own fuel and save substantial amounts of money, Manea adds. The sunflower meal left over from crushing makes good cattle feed, and sunflowers fit well into crop rotation with the wheat and corn grown for feed in the valley.

The sunflower oil is not catalyzed into biodiesel, but is burned directly in engines using an inexpensive conversion kit. It can be burned straight or blended with regular petroleum diesel. The oil obtained from special sunflower varieties (with an oleic acid content of 80 percent) provided by the co-op is ideal for this purpose, says Manea. The high oleic content means it burns cleanly and doesn't gum up in diesel engines, unlike other kinds of straight vegetable oil.

The cooperative brings crushing services to each member using a mobile plant mounted on a 40-foot semitrailer. The oil is treated with ultrasound to remove partially-dissolved gases that can cause problems in engines. Filters made with a special paper medium are necessary on engines burning the fuel.

Flower Power USA has won a USDA Rural Development Value-Added grant to develop this technology. The firm has partnered with Heritage University, an institution in Toppenish on the Yakima Indian reservation, to bring technical assistance to local small farmers.

Manea says they are also considering using sunflower oil in the smudge pots used to protect orchard crops from early freezes. "These tip over sometimes, and farmers don't like having petroleum spilled around their trees," he says. "Our oil is harmless and biodegradable, as well as cheap."

— By Stephen Thompson, Assistant Editor



Farm Services Division, we expect further collaborations between Dairylea and DFA in the farm services area that will benefit members of both cooperatives," says Rick Smith, president and CEO of DFA.

Wickham will also continue in his current role as CEO of Dairylea and chief operating officer of DFA's Northeast Area. Wickham has managed the Northeast Area's farm services team for the past 10 years and was key to the formation of partnerships between DFA and Agri-Max Financial Services and Agri-Services health insurance.

Agri-Max Financial Services, of which DFA is half owner, allows members to access complete dairy loan packages for cattle, equipment and operating expenses. Members also may buy farm supplies in bulk through DFA, saving them money and time.

DFA has also announced plans for a \$21 million expansion of a plant in Fort Morgan, Colo. Eastern Colorado's milk production is growing rapidly, with 120 DFA member dairy farmers there producing 144 million pounds of milk per month. The expansion will create seven new jobs and increase capacity by 2 million pounds per day.

The Fort Morgan plant makes sweet cream, condensed milk and nonfat dry milk, all ingredients used to make cheese, yogurt and ice cream.

Farm Credit System banks purchase \$60 million of Farmer Mac stock

The Farm Credit System in October announced it was making a \$60 million investment in the Federal Agricultural Mortgage Corporation (Farmer Mac), which provides a secondary market for agricultural real estate loans, rural home mortgages and rural utility loans. Buying the senior cumulative perpetual preferred stock of Farmer Mac are: AgFirst FCB, AgriBank FCB, CoBank ACB, Farm Credit Bank of Texas and U.S. AgBank.

An additional \$5 million of Farmer Mac senior cumulative perpetual preferred stock has been purchased by Zions Bancorporation of Salt Lake City.

The \$65 million in total financing will enable Farmer Mac to strengthen its capital position and comply with its minimum regulatory capital requirements.

“Farmer Mac enhances the availability of agricultural mortgages and, more recently, rural utility loans, thereby assisting in the steady and dependable flow of capital to American farmers and ranchers and rural America,” says Robert B. Engel, president and CEO of CoBank, speaking on behalf of his fellow System Bank presidents. “In that regard, Farmer Mac has been a valued partner to the Farm Credit System, insurance companies, commercial banks and the National Rural Utilities Cooperative Finance Corporation.

“Given the unprecedented turmoil in the broader financial services industry, at a time when so many institutions are struggling to maintain adequate levels of capital and liquidity, we’re extremely pleased that the Farm Credit System is favorably positioned to support Farmer Mac through this new investment,” Engel adds. “Agriculture is a key economic driver in our economy, providing food, thousands of jobs and biofuels that help make our nation more energy-independent.”

Jamie B. Stewart Jr., president and CEO of the Federal Farm Credit Banks Funding Corporation, noted that the FCS continues to experience strong overall financial performance. The System reported combined net income of over \$1.5 billion in the first six months of 2008. As of June 30, 2008, credit quality in its \$162 billion loan portfolio remained generally favorable, and liquidity and capital levels were in excess of all regulatory minimums, with the System’s combined assets totaled \$208 billion.

Midwest local co-ops buy fuel business

Effingham-Clay Service Co., Illini FS and Lanman Oil Co. have announced an agreement under which the two agricultural cooperatives will purchase Lanman Oil’s farm fuel



CountryMark cooperative is expanding its oil drilling efforts in the Illinois Basin. Photo courtesy CountryMark

delivery, lube oil and non-branded transport fuel businesses. Details of the transaction were not disclosed.

Randy Handel, Effingham-Clay general manager, says the deal allows Effingham-Clay and Illini FS an opportunity to continue a long tradition of service to rural east-central Illinois residents. “We have a strong tradition of reliably supplying quality fuel and lube oil products that today’s customers demand,” Handel says.

Effingham-Clay, founded in 1944, provides farm-related inputs, including feed, seed, plant food, crop protection, fuel, lubricants and grain marketing services to farmers and rural residents in seven counties in east-central Illinois. Illini FS provides ag-related products and services to farmers and rural residents in east-central Illinois. Illini FS, a division of GROWMARK Inc., has offices in five counties.

Lanman Oil, founded in 1948, provides service to east-central

Illinois and western Indiana.

CountryMark drilling for oil across Illinois Basin region

The Indiana-based CountryMark cooperative has announced plans to drill for oil in the Illinois Basin. The Illinois Basin is a 53,000-square-mile depression under southern Illinois, western Indiana and western Kentucky. According to CountryMark President and CEO Charlie Smith, it is one of the most plentiful sources of domestic crude oil in the Midwest.

“Approximately 40,000 barrels of crude oil are produced daily from this region,” says Smith.

“This is an extremely dependable, secure supply of energy for Indiana and surrounding states.” CountryMark is the largest buyer of Illinois Basin crude and refines the sweet crude at its Mt. Vernon Indiana refinery.

“As the productivity of old wells declines, it’s important that CountryMark do its part to invest the necessary capital for newer, high tech recovery methods to maintain, or even increase, the production of vital energy right here in our own backyard,” Smith says.

To meet the needs of Indiana businesses and growing world demand for energy, Smith says the co-op has elected to move from strictly purchasing and refining American crude oil to becoming actively involved in drilling. “We will also continue to purchase Illinois Basin crude, all of which will be refined at our plant in southwest Indiana.”

The company will invest in both vertical and horizontal oil wells.

Wisconsin co-ops approve merger

Members of Country Horizons Cooperative and Valders Cooperative in eastern Wisconsin have approved a merger, which was effective Oct. 1. The new cooperative will have eight locations and 200 employees, with

projected sales of more than \$85 million annually. The combined operations will be 40 percent ag services, 30 percent retail-based and 30 percent energy.

About 75 percent of Valders Cooperative members approved the merger, while 68 percent of Country Horizons Cooperative members approved it. Voting was done both by mail and at a membership meeting.

The co-op, which is working with a third-party advisor to determine its new name and some related issues, will be governed by a nine-person board, with five directors from Country Horizons and four from Valders Cooperative. Robert Lowe, general manager of Country Horizons, has been named CEO/general manager of the combined company. He has more than 30 years of experience as a cooperative general manager.

Lowe says members grasp the need for competitive buying and financing that only comes with combined resources. "Cooperatives are unique in that decisions like these are made as part of a collective group, the members and its board of directors," Lowe says. "Management and employees are here to help member-owned organizations remain competitive and profitable so the cooperative can continue to return earnings to members."

"Our combined boards believed it was the right time to merge, and I'm glad our members supported that vision," says Joe Holschbach, board chair at Country Horizons and a producer in the Manitowoc area.

"Part of our past success has been around partnering with others," says Paul Sorenson, board chair of Valders Cooperative. "Our two cooperatives have worked together on numerous ventures, including the successful CP Feeds."

The stock or equity held by members in each cooperative was transferred Oct. 1 for equal value for equity in the new cooperative.

Illinois co-op to build wind farm

Plans have been announced by Prairie Power Cooperative to build a 20-turbine wind farm in Pike County in western Illinois. The wind farm, representing an investment of more than \$65 million, will generate enough power to supply 16,000 homes.

This will be the first wind-power project for Prairie Power, which currently operates electrical plants powered by natural gas and coal. The co-op says it will sell clean-energy bonds to finance the project.

The member-owned generation and transmission co-op produces, purchases and delivers more than 1.5 million megawatt-hours of electricity annually to its 11 member-owned electric distribution cooperatives. These co-ops provide retail electric service to more than 83,000 consumer-members throughout central Illinois.

USDA's James Baarda retires

Dr. James Baarda, an agricultural economist with the Cooperative Programs of USDA Rural Development in Washington D.C., retired Oct. 31.

Baarda worked on a wide variety of cooperative legal and economic issues during the past 30 years and is considered by many to be one of the finest cooperative minds and speakers in the nation.

His work in recent years has focused on the legal, economic, financial and business characteristics of cooperatives that distinguish them from other forms of business in a dynamic, global economy. Baarda is the recipient of USDA's Superior Service Award and the American Agricultural Law Association's Distinguished Service

Award for his contributions to cooperatives.

Baarda made numerous trips overseas to promote cooperatives and advise governments on cooperative laws, and has regularly taught a course on cooperative law at the University of Arkansas' Master of Laws program in Fayetteville, Ark.

Baarda, who grew up on a small farm in Iowa, earned a BS degree (chemistry, physics and zoology) from Iowa State University, a law degree from the University of Denver School of Law, and a PhD in economics from the University of Florida.

He worked with what was then called USDA's Farmer Cooperative Service in Washington, D.C., for more than 16 years, and then spent four years as vice president of education for the National Council of Farmer Cooperatives. After domestic and international consulting in Eastern Europe and Former Soviet Union republics, he joined a law firm in Washington engaged in complex nationwide class action as well as other litigation.

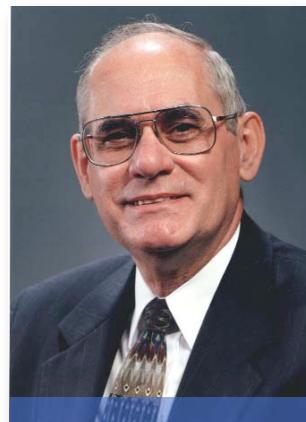
In 2001, Baarda returned to USDA, where he conducted research, writing, training and speaking activities.

USDA awards \$1.8 billion in electric loans

Agriculture Secretary Ed Schafer has announced the selection of 33 rural utilities and cooperatives in 26 states to receive \$1.8 billion in loans to build and repair 7,600 miles of distribution and transmission lines serving more than 90,000 rural customers.

"USDA partners with utilities across the country to ensure the delivery of affordable, reliable electrical power to rural communities," Schafer says. "These loans are investments that will spur or expand development opportunities and enhance the economic competitiveness for rural areas as good places to live and work."

The funding is being provided through USDA Rural Development's Utilities Programs. ■



James Baarda

Vermont Dairy

continued from page 13

order to be sustainable and continue to be viable in future years, needs sound financial management,” says Tony Kitsos, a farm management educator with UVM Extension’s Farm Viability Enhancement Program. The Rowells talk daily and consult with their financial advisors on a monthly basis to fine tune their ongoing financial management strategy.

The higher producing animals are milked three times a day. Their rolling herd average is 22,000 pounds of milk

of Agriculture, Food and Markets.

The projected payback period “pencils out at 4.3 years, but in reality is closer to six years,” says Bill Rowell. “Right now, it’s not feasible for farms with a small herd size to use this technology,” Rogers points out. “For a 100-cow operation, even a 300- or 400-cow operation, this isn’t an economically sound option. But for farms with high cow numbers, like this one, capturing waste production and recycling that waste into a usable commodity makes smart economic sense.”

The Rowells’ herd produces 10 million gallons of manure yearly, which

Kitsos. They follow Accepted

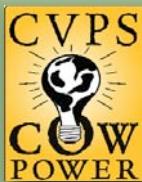
Agricultural Practices, established by the Vermont Agency of Agriculture, which were designed to help farmers conserve and protect natural resources through regulated spreading of manure, crop rotation and installation of buffers along drainage ditches to control sediment, nutrients and pollutants in runoff.

“We are all just stewards of the land, only here on earth for the time we are granted,” Bill Rowell believes. “It is our responsibility to care for the land and resources until the next generation takes over.” Both of Brian’s children, Matthew, 13, and Megan, 11, help out on the farm.

Kitsos notes, “This dairy also is working towards providing a scientific database for the state of Vermont and UVM for nutrient management in conjunction with its anaerobic digester and proposed settling pond, an enhancement to the digester process.”

Off the farm, Brian has been a town selectman in Highgate for 15 years. Bill was appointed by Governor Jim Douglas to the CVPS Rural Development Executive Committee, which is charged with implementing clean energy projects in the state, and was a member of the Dairy Task Force that worked with the U.S. Secretary of Agriculture on the Farm Bill. He recently was asked to serve on the search committee for the new dean of the UVM College of Agriculture and Life Sciences and was instrumental in establishing the Farmers Wetlands Assistance Committee, which acts as a liaison between Vermont’s dairy producers and USDA/NRCS.

“Green Mountain Dairy will continue to succeed into the future because they have a sound vision of their business; are committed to solid dairy, economic, and environmental practices; and work with their families and employees to further the success of the farm,” Rogers concludes. “In addition, they are willing to try new ideas that make sense, fit the farm, improve the environment and help the community.” ■



**“We are all just stewards of the land...
It is our responsibility to care for the land and
resources until the next generation takes over.”**

per cow with 3.8 percent butterfat and 3.1 percent protein. To ensure that the herd gets proper nutrition, the Rowells consult with two nutritionists every week. These recommendations enable them to feed their cows a total mixed ration of corn silage, haylage, and grains, balanced according to the energy, protein, and fiber needs for each group of cows according to their stage of lactation.

Managing manure for energy

As with any sizeable dairy operation, efficient management of manure is important. While many farmers invest in larger storage lagoons to handle the volume, the Rowells decided that an anaerobic methane digester system to turn manure into energy was a viable economic option for them. They were the third farm in Vermont to sign up with Central Vermont Public Service (CVPS) for its Cow Power Program.

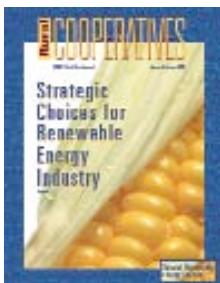
The installation of the digester cost \$2.37 million, which was offset partly through \$755,000 in grants from USDA Rural Development, the Vermont Department of Public Service’s Clean Energy Development Fund, CVPS and the Vermont Agency

is converted into enough methane to produce 1.8 million kilowatt-hours of electricity annually. The energy is purchased by CVPS and sold to its customers interested in “green energy.” The additional four cents per kilowatt-hour paid by the consumer goes to the participating farmers and effectively covers the carbon offset, Brian Rowell explains.

In addition to the projected revenue, the process has resulted in other benefits. “It’s lowered our somatic cell count,” Bill Rowell says, “and we are able to provide all our bedding needs for the milking cows.” He estimates the farm is saving \$100,000 annually by using the dry bio-solids from the treated manure instead of sawdust for bedding in their state-of-the-art free-stall barns. They also supply dry bedding for two local farms and several nurseries and greenhouses.

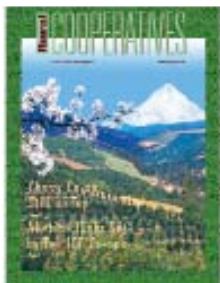
Stewards of the land

The dairy farmers have developed a comprehensive nutrient management plan in accordance with USDA’s Natural Resources Conservation Service (NRCS) Nutrient Management Conservation Standards, according to



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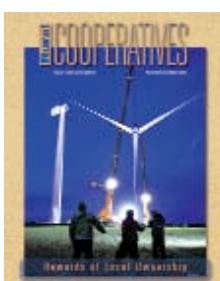
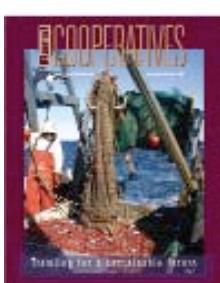
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Communications
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Roger Maher, American Veterinary Medical Association (former)
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- Food Safety & Food Security
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- Energy
- Risk Management
- Biotechnology
- Food Prices
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- Agricultural and Rural Policy in the United States and European Union
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- Measuring the Economic Impact of Federal Dollars on Rural Economies
- Sustainable Agriculture Research and Education (SARE): 20 Years of Partnerships & Progress
- Transportation Issues: Now and Tomorrow
- The Count That Counts: The New Census of Agriculture
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- Implementing the Renewable Fuels Standards
- Imported Food Safety & Defense
- Multi-lateral Trading
- Issues at the Intersection of Animal & Human Health

USDA's National Agricultural Statistics Service will host a session on the results of the newly released farm census.

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- Farm Income Outlook
- Commodity Outlooks
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