

Technology Advisory

Strategic Sourcing Case Study: North Dakota's Innovative Energy Alliance Cooperative

Cooperative Profile

Innovative Energy Alliance Cooperative (IEAC) is a service cooperative owned by four North Dakota distribution electric cooperatives: KEM Electric Cooperative, Mor-Gran-Sou Electric Cooperative, Roughrider Electric Cooperative, and Slope Electric Cooperative. The distribution cooperatives serve more than 30,000 consumers across 18,400 square miles of adjoining territory in the southwestern corner of the state. The highest consumer density among the four cooperatives is 2.3 meters per mile.



Service Area for IEAC

The Alliance, based in Mandan, N.D. employs 15 full-time staff. It provides managerial, financial, regulatory, engineering, communications, information technology, and human resource services to the four distribution cooperatives.

Each cooperative elects two board members to represent it on the IEAC board. When the board makes a decision, those directors take it back to their respective cooperatives for greater discussion or a vote. The IEAC allows the four cooperatives to share resources while remaining separate businesses, with their own identities, assets, obligations, and authority.

Drivers Behind The Sourcing Solution

The Alliance has evolved in stages over the past 10 years; however, the goals behind its formation have remained constant. These include:

- Providing the skills and expertise required to meet the changing demands of running an electric utility in the 21st century.
- Achieving significant cost-savings through efficiencies and elimination of duplicate services.
- Maintaining the identity and function of the locally controlled distribution cooperatives.
- Retaining as many positions at the local cooperatives as possible, including lineworkers, member services, and other front office staff.

Project History

In 2007, the board of directors of Slope Electric Cooperative was faced with the confluence of three alarming trends – declining population and flat electric demand, with operational costs continuing to rise. When Slope Electric’s respected manager left to take a job at a larger co-op out of state, the Slope board members saw their co-op at a turning point. “We knew it would be hard to bring in somebody to a co-op in a rural area like this,” says Board Member John Lee Njos. “Not many people want to move to a small town way out here, when all the action is back around Bismarck.”

Don Franklund, then the general manager of neighboring Mor-Gran-Sou Electric Cooperative in Flasher, had similar worries: “We saw a changing rural landscape, and we were concerned about the future of our industry,” he says. His feelings were reinforced through the experience of serving on the governing board of NRECA’s Cooperative Research Network¹. “I managed a co-op of five-thousand. Sitting next to me at the table were guys managing co-ops with thirty, forty, and fifty-thousand members. I began to wonder, how can we bring the tools of the modern world to our much smaller co-ops in North Dakota?”

The initial answer was to begin sharing services. In 2007, Franklund and another local co-op manager, Clayton Hoffman, were hired on a pilot basis to co-manage three co-ops: Mor-Gran-Sou, Slope, and Roughrider, a new co-op that was created through the consolidation of Oliver-Mercer Electric Cooperative (which Hoffman managed) and West Plains Electric Cooperative.

The co-general managers were committed to the area and brought complementary strengths to the job – Franklund as an engineer and Hoffman (who retired in 2012) in finance. The trial period was successful and the Innovative Energy Alliance, LLC was formally established on January 1, 2008. The Alliance added a fourth member, KEM Electric Cooperative of Linton, in 2012. In November 2016, the organization was converted to the Innovative Energy Alliance Cooperative and the LLC was formally dissolved early the following year.

Metrics of Success

The IEAC has enabled its four member co-ops to not only survive challenging times, but to thrive as the region has seen its economy boosted by the development of the Bakken oil formation. One obvious benefit of sharing services is financial. By avoiding duplication of services and adding efficiencies, the Alliance saves its members an estimated \$1.5 million annually. “But, there are also benefits from how we are able to share experience and expertise,” says Franklund, who continues as co-general

¹ The Cooperative Research Network is now part of NRECA’s Business & Technology Strategies Department.

manager of the IEAC (and the four distribution cooperatives) with Travis Kupper. "We don't put a dollar value to that, but it is significant."

The two examples below further demonstrate how the IEAC has contributed significant value to its members:

- **Capably managing the impact of North Dakota's oil boom**

The resurgence of the oil industry in North Dakota over the past several years, thanks to the application of horizontal drilling, has been a boon to the member co-ops of the Alliance. Roughrider and Slope have experienced sales growth from the provision of electric power to the motors that inject air into the wells. Mor-Gran-Sou has seen growth in ancillary services to the oil industry in the Mandan area, while KEM serves new recreation spots at the lakes in its area on the east side of the Missouri River.

The growth, however, has put pressure on the co-ops to build the capacity needed to serve these new specialized customers. "We recently renewed our contracts with the oil companies, and this time around, we had a much better understanding of how to handle the negotiations, because of the talent and experience we can tap on our staff and through the knowledge from the key accounts folks at our co-ops," says Franklund.

- **Recovering from 'The Storm of the Century'**

In January of 2010, the biggest ice storm in the history of Mor-Gran-Sou toppled 1,200 utility poles. "But that was just practice for the real storm that was coming," says Rob Kelly, the Alliance's manager of engineering. On April 3, a second storm took down 12,000 poles. Cooperative members were without power for as long as 28 days.

KEM was not affected, and Slope and Roughrider recovered quickly from their damage, so the Alliance partners pitched in to help – along with almost 500 contract linemen. With hotel rooms in the region already locked up by the oil companies, the other co-ops also helped by housing line crews and delivering



Toppled Towers From 2010 Storm

meals and materials to the work sites at Mor-Gran-Sou.

The help made a dramatic difference. In the estimation of Mor-Gran-Sou board member Mark Doll, "Without the Alliance, we probably would not be Mor-Gran-Sou anymore. The two snow and ice storms in 2010 nearly wiped us out."



**Alliance Co-op Linemen Repairing
Damage From 2010 Storm**

Challenges and Surprises: Preserving the Integrity of the Local Cooperative

Early on, some member-consumers were not happy with the shared manager arrangement, fearing it would lead to consolidation. "As time went by, they came to realize that we are still Slope Electric," says Lauren Klewin, current president of the Slope board of directors. "We are the same company with 3,200 miles of power lines in four counties. What has changed is that by dreaming of ways to share services with our neighbors, we are seeing huge amounts of savings."

IEAC is based in a metropolitan area (Bismarck-Mandan) of 125,000, one that has grown by more than 15 percent since 2010. Such growth stands in sharp contrast to the dwindling populations of many co-op headquarters towns in North Dakota and throughout the Great Plains. While many of the "higher-end" professional services that the Alliance member co-ops rely on are housed in Mandan at the IEAC offices, great care is taken to keep the focus on the local cooperatives.

Continual emphasis is placed on maintaining a strong Alliance staff presence, delivering tangible value at the offices of each member cooperative. Member services and lineworkers – employees with direct interface with member-consumers – are based out of the local cooperatives, along with a designated chief of staff with management decision-making authority. To the degree that members are aware of IEAC, they see it as an asset says Franklund: "I love what one member from Bowman [Slope Electric] said when she stood up at a co-op meeting. She pointed to the co-op linemen and said 'As long as these guys get what they need, I'm ok. If we can save money and invest in them, then I'm all for it.'

Rob Kelly, who moved from Mor-Gran-Sou in 2011 to become manager of engineering at IEAC, says that care has been taken to honor the line of responsibility between the distribution co-ops and the Alliance: "There was some resistance at first, but I think we've earned their trust. I take care to not overstep our bounds or step on toes."

Dean Dewald, a director on the KEM Electric board, echoes the sentiments: "In rural areas where population is declining, it's hard to find people who have the knowledge and experience we need," he says. "Yes, we'd like to hire local. But, it greatly limits the talent pool. The alliance has allowed us to hire the highest caliber of employees. Their positions are critical to KEM Electric, and it's something we couldn't even consider doing on our own."

Why is this Alliance Important?

The Alliance structure today provides a resource base that delivers value well beyond the initial shared services and co-general manager arrangement. Franklund identifies the growth of regulation and advances in technology as two of the biggest challenges facing the four members, challenges that IEAC is uniquely suited to meet.

In 2015, Basin Electric Power Cooperative joined the Southwest Power Pool, a regional transmission organization. The Alliance's member cooperatives own transmission assets and one, Roughrider, is subject to regulation by the Federal Energy Regulatory Commission (FERC) and North American Electricity Reliability Council (NERC), adding additional compliance to the Alliance's expanding list of responsibilities. In addition, Franklund says, "We can expect more regulation related to cybersecurity and human resources. The latter is another area that is becoming very important to us. We're facing a tremendous retirement phase among our members, and we're recruiting and retraining." Finding and retaining good cybersecurity professionals in urban areas can be difficult enough, in rural even more so. Add on to that the size and needs of many rural cooperatives around cybersecurity to see a great example of where and how shared services and thinking outside of the box can go along way for cooperatives. Another case study in this series will look at innovative ways cooperatives have tackled this issue.

What Other Cooperatives Can Learn from Innovative Energy Alliance

- An alliance structure can produce greater cost savings and provides a deeper breadth of services than shared manager arrangements alone, a solution adopted by some other small, neighboring cooperatives in rural areas with stagnant or declining populations.
- To realize these additional benefits, an alliance requires a more complex business structure (in this case it was first an LLC, and later converted to a cooperative).
- When professional services are centralized, alliance employees must commit to significantly increased "windshield time" to conduct business (for example, senior managers must attend not one, but four cooperative board meetings each month).
- The IEAC does not replace the use of contracted services, but it allows those services to be more efficiently targeted at specialized tasks.

- The IEAC supports the viability and success of the local cooperatives, but defining the roles and responsibilities of the respective staffs requires regular attention and open communications.
- In the view of Slope board member Njos, success in a venture like the IEAC comes down to one key element – teamwork: “Teamwork among the staffs and teamwork among the boards,” he says. “When you have good people who are committed to working together, to sharing ideas for the good of the group, we can run a tighter ship and get a lot more done than we ever could on our own.”

A View of The Alliance Through One Employee’s Experience

On a recent Monday morning, Rob Kelly rose early at his home in Mandan, North Dakota, to head off to work at his office. That part of his routine has not changed in more than 30 years. But, seven years ago he left employment as the only engineer with Mor-Gran-Sou Electric Cooperative to go to work for Innovative Energy Alliance as its manager of engineering. Kelly previously worked out of Mor-Gran-Sou’s service center in Mandan, and the Alliance offices are just a few blocks down the road in space rented from the National Information Solutions Cooperative.

Instead of “putting on my tool belt and joining in the work” as he might have done when he worked at Mor-Gran-Sou, on this recent Monday, Kelly spent the day at his desk, composing emails and working on regulatory homework related to compliance with Southwest Power Pool (SPP) procedures.

The next day, he got out in the field, but unlike his previous job where his focus would have been local, he was up at 6 a.m. for a three-hour drive west for a meeting in Bowman at the offices of Slope Electric. For the next two days, Kelly, employees from Slope, an Alliance consultant from Dallas, and representatives from two oil companies extracting oil and natural gas from the Cedar Hills oil formation met to try to puzzle out a mystery – the cause of ferroresonance issues that had led to the failure of protective reclosers on the Slope system. Those failures led to overvoltage damage to oil field equipment. He ended his week back in Mandan attending to NERC and SPP regulatory questions, and assorted engineering issues to resolve for the electric co-op members of the Alliance.

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At Mor-Gran-Sou, Kelly was a one-man shop in charge of engineering and operations issues. At the Alliance, he has three engineers working under him and less opportunity to pitch in on field projects.

"I enjoy the hands-on work and I miss that," he says. "People ask me why I haven't already retired. I'm having a lot of fun and I don't want to quit yet, because there is always something new to do."

Contacts for Additional Information:

Carmen Devney

Communications Coordinator
Innovative Energy Alliance Cooperative
Mandan, ND
Ph: 701.667.6993
cdevney@iea.coop

Paul Breakman

Sr. Director, Cooperative Systems
NRECA
Business and Technology Strategies
paul.breakman@nreca.coop
Ph: 703.907.5844

Lauren Khair

Regional Economic Analyst, Cooperative
Systems
NRECA
Business and Technology Strategies
lauren.khair@nreca.coop
Ph: 703.907.6845

About the Author

This case was researched and written by Bob Gibson, Gibson Energy Insights.