Part II: Supply chain and inflation

BY CALLY PETERSON

The world changed five years ago when the coronavirus pandemic entered our lives. It disrupted everything, from the way we learn and work to the price of groceries and gasoline. While many facets of our lives have returned to normal (or a "new normal"), the American pocketbook is still wishing and waiting for the return of pre-pandemic pricing.

So are electric cooperatives.

"From a personal standpoint, all of our cooperative employees are feeling the effects of inflation, just like every other American," says Mick Kossan, CFO of Central Power Electric Cooperative in Minot. "From a cooperative as a business entity standpoint, we are feeling the effects like any other business during this time."

Supply chain issues and inflationary pressures are having a widespread impact on utilities.

Over the past five years, electric cooperatives have seen drastic increases in the cost of materials. They've also adjusted to supply chain challenges and shortages, which have extended lead times for parts, materials and equipment.

SUPPLY CHAIN

In 2019, Central Power Electric, a wholesale power supply and transmission cooperative serving six distribution cooperatives in North Dakota over a 25-county area, ordered its annual supply of conductor, which took six to eight weeks to arrive. By the end of 2021, the lead time for that same conductor was 60 weeks.

COVID-related supply chain challenges coupled with the substantial increase in demand for electric utility products in 2020 and 2021 created a "perfect storm" of excessive demand and insufficient supply in the marketplace, says Matt Brandrup, president and CEO for Rural Electric Supply Cooperative (RESCO), a member-owned, not-for-profit electric material supply distributor whose members include electric cooperatives in North Dakota and nine other states.

"The COVID-19 pandemic exposed and exacerbated (supply chain) areas of risk, highlighting vulnerabilities and inefficiencies at a new level," adds Aaron Jahner, Bismarck branch manager for Border States Electric, another supplier of electric cooperative materials in North Dakota.

Suppliers and purchasers were forced to adjust to the new instability in the market for electric utility materials.

RESCO began increasing inventory levels toward the end of 2021 and built new warehouses or expanded existing ones, including its Moorhead, Minn., facility.

"We have always carried substantial amounts of inventory for our electric cooperative members, but have boosted levels even more," Brandrup says.

Many distribution cooperatives followed suit, increasing their on-hand inventory, thus reducing cash on hand.

Material availability is critically important for cooperatives. It is considered when determining a co-op's capacity to serve growth areas and members' evolving power needs. It is crucial for storm preparedness. And it factors into co-ops' five-year construction workplans, which detail the maintenance and upgrades needed to keep their systems reliable.

"The danger of not building out the grid to meet demand is our (member-cooperatives) won't be able to meet the needs of any potential new loads. Additional kWh (kilowatt-hour) units to spread increased costs over keep rates stable, so in most instances, growth is good," Kossan says. "This isn't an 'if you build it, they will come' scenario. It's more of an 'if you don't build it, nothing is ever going to come' scenario. The longer a transmission provider delays line rebuilds and upgrades, the more risk they are taking on, and could end up in a scenario where they can't realistically ever catch up."

In the current materials supply environment, preplanning for construction projects is essential. Members are encouraged to contact their electric cooperative in the early planning phase of a project, whether that be building a farm shop or adding a grain bin, to ensure the availability of materials. Electric co-ops can review the project's electricity requirements, discuss potential money-saving programs and make recommendations for lighting or energy-efficient heating and cooling systems.

"With the supply chain volatility we have been

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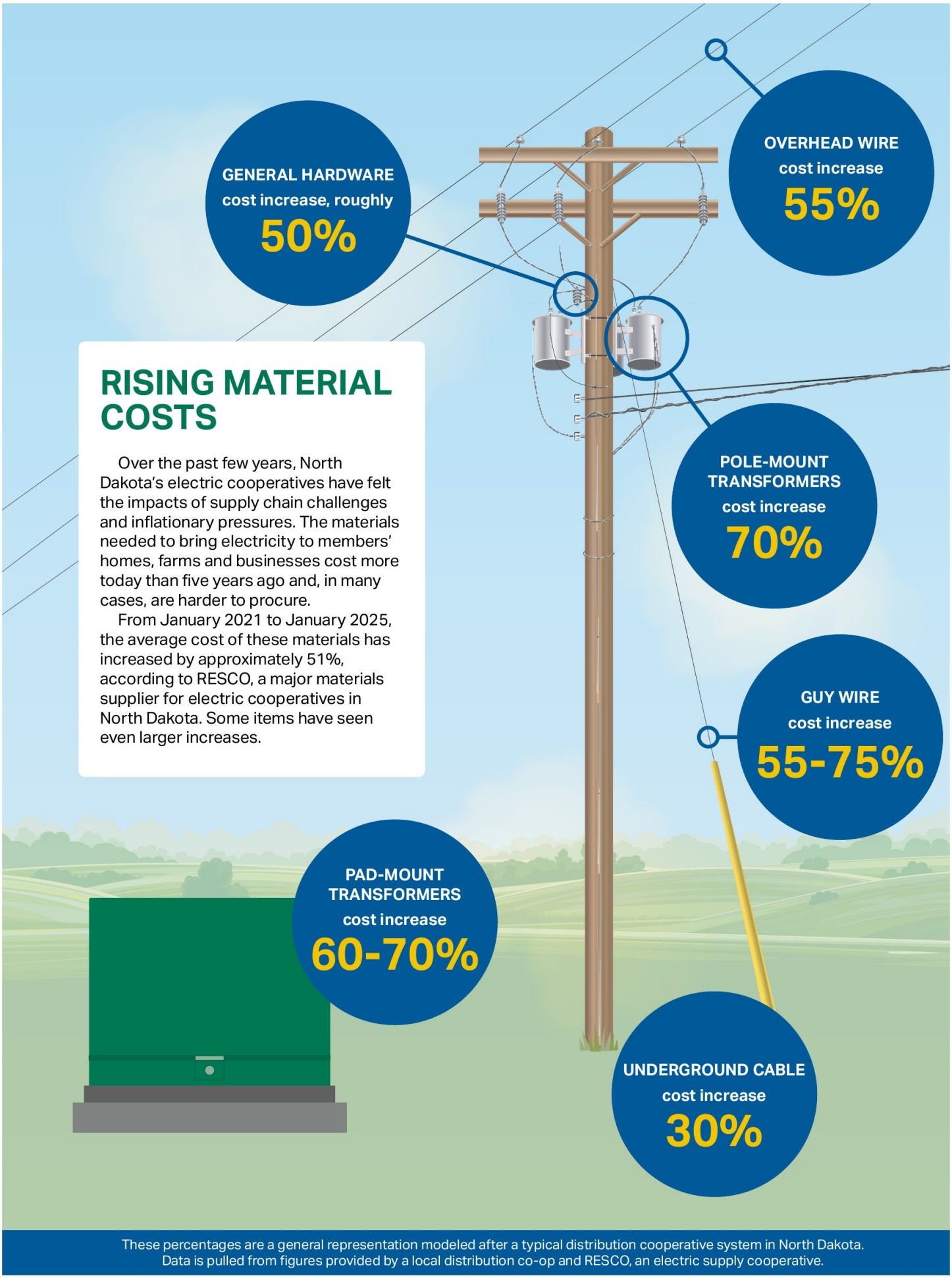

RISING MATERIAL COSTS

Over the past few years, North Dakota's electric cooperatives have felt the impacts of supply chain challenges and inflationary pressures. The materials needed to bring electricity to members' homes, farms and businesses cost more today than five years ago and, in many cases, are harder to procure.

From January 2021 to January 2025, the average cost of these materials has increased by approximately 51%, according to RESCO, a major materials supplier for electric cooperatives in North Dakota. Some items have seen even larger increases.

These percentages are a general representation modeled after a typical distribution cooperative system in North Dakota. Data is pulled from figures provided by a local distribution co-op and RESCO, an electric supply cooperative.