

2024

BROADBAND

Special Insert



EAST CENTRAL ENERGY

MAKING A MOVE WHEN THE NUMBERS MAKE SENSE

COOPERATIVE PROFILE

Not far outside of Minneapolis, the terrain changes quickly to fields and farms until just minutes away, the population is too sparse for national providers to deliver broadband connectivity. Residents are left to rely on coaxial or DSL cable or even satellite service. East Central Energy recognized several years ago that its members were suffering from the lack of connectivity but didn't see a way to step in and help.

"We saw the need in our territory with so many unserved and underserved members and explored getting into broadband a couple of times, but we couldn't see how it would work financially," Ty Hougum, vice president and chief information officer with ECE says.

PROJECT OVERVIEW

ECE's fiber-to-the-home broadband project will pass by every member in its service area within five years. Following its electric distribution lines, just

under 7,000 miles of fiber will be strung or buried in preparation for individual connections. Having initiated the build in 2023, the cooperative expects to have installed fiber internet to over 5,000 homes by the end of 2024 and continue each year until all members are served.

The cooperative's primary objective is simple in concept, though complex to deliver. The aim is to make high-speed connectivity a possibility for every single one of its more than 67,000 home, farm and business members in east central Minnesota and northwestern Wisconsin. Secondarily, once current members are served, ECE will consider providing broadband service to the small municipalities in its territory that are already expressing interest.

BUSINESS DRIVERS

When the federal Broadband Equity, Access and Deployment Program was announced in 2021, ECE saw renewed hope for delivering broadband to its

members. Knowing these grant funds were available, along with favorable results from a recent feasibility study, gave the board the confidence to approve a broadband project. The co-op set an initial goal of funding one-third of the \$350 million project through grants and has so far secured almost \$32 million in state-level grants. It also sought funding from CoBank, a long-term financial partner with experience in working with electric cooperatives pursuing broadband.

"CoBank offered us the most flexibility with financing," Lisa Prachar, ECE's vice president and chief financial officer, says. "This included the best rate and good terms as well as matching payments to revenue streams and no penalty for early payback. We're hopeful we'll be able to achieve accelerated payback given how well the project is progressing."

Indeed, ECE anticipates seeing positive revenue from the broadband expansion within five years, with simple investment payback expected within 14 years. This forecast considers initial take rates, which already exceed industry projections by reaching 29-32% and are expected to grow as word spreads. Higher uptake will lead to faster loan payback, as well as capital credit distributions to subscribing members.

"We're seeing a second surge of interest in communities where we've installed fiber as neighbors realize what they now have access to," Dennis Rice, ECE's broadband manager says.

CHALLENGES AND SURPRISES

One pleasant surprise ECE has faced is the higher take rates than anticipated, though this benefit has led to another problem to be managed. "We've been careful to control how we communicate in areas where we'll be building so members don't get frustrated waiting too long for service to arrive once they've ordered it," Rice says.

Other challenges have caused hiccups along the way, like critical materials backlogs and the immense amount of permitting across multiple rural counties and agencies, which was overcome by a better application process.

"Our permits were taking up all of the permitting agencies' bandwidth and pushing other utilities' requests aside," Hougum says. "We didn't want that, so we're figuring out how to keep a slower, consistent rate of permit applications flowing so we don't overwhelm the infrastructure."

WHY THIS CASE STUDY IS IMPORTANT

The ECE team has learned many lessons from its broadband undertaking, but key among them is the value of strong partners and relationships, including those the cooperative enjoys with CoBank and the National Rural Telecommunication Cooperative (NRTC) and through Cooperative Principle #6: Cooperation Among Cooperatives.

"Without NRTC, CoBank and other cooperatives who shared their insights and experiences so willingly, we would have fallen into pitfalls, and our project wouldn't be the success it's been so far," Hougum says.

The project is also a demonstration of how electric distribution cooperatives can find ways to make their members' lives better by delivering broadband connectivity and that the idea is worth revisiting even if it hasn't worked out previously.

"Like many rural electric cooperatives, we knew for a while that our communities were lacking broadband, but we had to wait until it made sense financially," Hougum says. "The response from our members has been outstanding, and it's gratifying to hear how the high-quality internet we're delivering is impacting their lives so positively."

COMPANY DESCRIPTION

Today, over 75% of electric distribution, transmission and generation cooperatives work with CoBank for their banking and financial needs.



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