

High pay and expensive perks: Has ‘absolute power’ corrupted SC electric co-ops?

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During the early 2000s, part-time board members at Santee Electric Cooperative doubled their pay for each meeting they attended to \$450, held “wasteful” meetings to collect more pay from customers and awarded themselves cash bonuses each year, according to an October 2010 audit.

The Kingstree-based co-op spent nearly \$342,000 in one year — far above the national average — to send its full nine-member board to out-of-town events and conferences, with some trustees taking their spouses along at the co-op’s expense.

The board members — entrusted with keeping costs low for their rural co-op’s power customers, also its owners — had started co-op-funded health insurance plans for themselves and their families. The plans also covered former board members, a practice the 2010 audit said was illegal under state law.

A decade later, a similar scandal has engulfed another S.C. co-op: Tri-County Electric. The tiny Midlands co-op has been smacked with two lawsuits and an effort by customers to fire its board since The State reported in May about its high board pay and benefits.

But St. Matthews-based Tri-County is not alone.

Similar questions about pay, benefits and governance plague other S.C. co-ops, a monthlong investigation by The State newspaper found.

Unwatched by state regulators and ignored by many of their customer-owners, South Carolina’s 20 co-ops, which serve 1.5 million state residents, have:

- Paid their board members nearly twice the national average. In part, that is because all 20 co-ops have offered health insurance to their trustees, 17 have covered former board members and 16 have covered board members’ families. A task force of the co-ops’ national trade association recently advised against paying those benefits in a secret report, and a prominent co-op attorney has warned that paying health insurance benefits to former trustees is not legal in South Carolina.

- Spent about \$120,000 last year, on average, to send their boards to educational conferences across the country. Some co-op directors attended from six to 14 conferences in locales ranging from Nashville to San Diego to Washington, D.C..
- In many cases, given board members co-op-funded retirement plans, spending money that could have been returned to customers. At one co-op, that plan paid out \$81,000 in lump-sum payments to each board member. At another, the plan paid nearly \$135,000 to every board member.
- Seen some co-op board members retain their seats for decades. At 17 co-ops, boards pick the members of the nominating committee that screens candidates for board positions, effectively giving directors control over any potential challengers. Last year, for instance, Tri-County's nine-member nominating committee for the co-op's board included six direct relatives of board members.

The recent Tri-County furor has embarrassed South Carolina's electric co-ops just as the autonomous, customer-owned nonprofits are hoping to convince S.C. lawmakers that they are worthy of taking over parts of Santee Cooper, the multibillion-dollar, state-owned utility that could be sold after its \$4 billion nuclear construction debacle.

But major problems at the state's co-ops largely are isolated to a few bad apples, co-op leaders insist. They say they are proud of their industry's track record. Most leaders defend their co-op's spending on health insurance and conferences, saying the expense helps attract and educate top-notch board members.

But change is coming.

The Tri-County scandal has led many co-op boards to consider capping their own pay, adjusting or axing their health insurance plans and adopting new policies to ensure that board actions are more transparent to co-op customer-owners. Some co-ops have made changes already.

Change also could be forced on the state's co-ops.

State Rep. Russell Ott, D-Calhoun, who represents parts of Tri-County's service area, has filed a bill to write new transparency requirements into state law.

"It doesn't take a rocket scientist to figure out there's a reason why it's the same people who don't ever want to give up the seats," Ott said of co-op boards. "Any rational person that looks at the situation and looks at everything that's come out, they understand that it's been a really good deal for the board members.

"We just need to get back to where customers are actively involved at their co-ops, where they have all the information available to them to know what their board members ... are doing on decisions that ultimately impact their bills."

Out of the public eye

Electric co-ops sprang out of a noble mission.

In the late 1930s, 50 years after for-profit utilities had lit up U.S. cities, those companies still were refusing to expand into rural areas, where costs were high, customers scarce and profits hard to come by.

Rural residents were stuck in the dark, many of them living in squalor. Then, a New Deal-era plan provided low-interest loans to those residents, who worked together to string their own power lines.

Within six years, rural Americans had formed 800 customer-owned electric cooperatives. The co-op's customer-owners elected trusted community leaders to oversee the local operation and keep costs low. Any profits were to be split up and returned to the customers each year.

Eighty years later, that model still works, S.C. co-op leaders say. Co-op executives can talk until dusk about their commitment to reliable electricity service, their greatest economic development successes and their charitable programs.

Most co-ops never experience the scandals of Santee and Tri-County. But skeptics say the co-ops are ripe for abuse.

The nonprofits operate with little to no scrutiny. South Carolina is one of 37 states that do not regulate co-ops, which write their own rulebooks, including policies that govern nepotism and pay.

Electric rates are set by co-op boards with no oversight by state regulators.

Co-ops also receive little attention from their customer-owners or media outlets. Fewer than 10 percent of customers show up to vote at the annual meeting at three-fifths of the state's co-ops.

All but four co-ops hold their monthly board meetings during working hours on weekdays — when working-class customers can't attend. The chief executives of several co-ops told The State newspaper they never have had a customer attend a monthly meeting.

No co-ops live-stream their board meetings or post their meeting minutes online for customers to review easily.

Customers unhappy with a co-op board's decisions also can face high barriers to challenging for a board seat.

At most co-ops, would-be board candidates either must gather a set number of signatures — from 15 at Aiken Electric to 680 at Tri-County — to join the ballot or seek the approval of a nominating committee. However, at 17 S.C. co-ops, the members of that nominating committee are picked by the sitting board, effectively allowing board members to control the process.

Co-op executives told The State their boards never have exercised undue influence over a nominating committee to weed out potential challengers. But, some acknowledged, the nominating process has the potential for abuse. A handful of co-ops, including Lexington-based Mid-Carolina Electric, have made changes to restrict board members' influence over nominating committees or eliminated the committees entirely.

"The candidate that goes on the ballot ... should not be influenced at all by the current sitting board, in our opinion," Mid-Carolina CEO Bob Paulling said.

But not everyone has made changes.

Last year at Tri-County, for example, board members placed six of their direct relatives on the co-op's nine-member nominating committee, including chairman Heath Hill's son, Billy Shannon's wife, Doug Shuler's cousin, Kenneth Davis' son, Maurice Etheredge's brother and Mary Brown's son.

Absent much scrutiny of their actions or competition for their positions, many co-op board members keep their seats for decades. When they do leave, board members have been replaced by direct relatives in at least four cases since the mid-2000s.

Half of South Carolina's 20 co-ops have gone at least the past 10 years without an incumbent being defeated in an election. Five — Black River, Edisto, Fairfield, Laurens and Tri-County — haven't even had a challenger run for their board in that period. Five — Black River, Fairfield, Laurens, Marlboro and Mid-Carolina — have no records of an incumbent board member ever being defeated in an election.

'Absolute power'

The mission of co-ops has soured in some cases across the country.

In 2007, the largest U.S. co-op, [Pedernales Electric](#) in Texas, was rocked by news reports that it hadn't paid refunds owed to customers in 70 years, secretly had given a \$2 million pay package to its chief executive, and had awarded lifetime pay and benefits to its 17-member board. That same year, Georgia's Cobb Electric, another massive co-op, was rocked by similar allegations.

In recent years, more than a dozen other co-ops have been sued by customers who have accused them of mismanagement, withholding customer refunds, unauthorized spending, paying staff and directors excessively, or rigging board elections.

"Power corrupts, and absolute power corrupts absolutely. The same is true for electric power," said U.S. Rep. Jim Cooper, a Tennessee Democrat who studied electric co-ops for more than a decade and, in 2008, wrote a searing critique of them for the Harvard Journal on Legislation. "These people don't think they're going to be caught. It's like opening the cash drawer and stealing money. And who are they stealing it from? The electric customers who have no choice but to sign up for the local co-op."

S.C. co-ops have not proved immune.

In [April 2010](#), Kingstree's Santee Electric was sued by customers who alleged the co-op's board members had abused their positions to milk the co-op for money and perks.

Most of those accusations were confirmed in an October 2010 audit that found Santee board members had, among other things:

- Claimed \$450 a day in pay for attending nonessential events, including retiree luncheons, appreciation dinners and equipment shows
- Repeatedly overruled Santee Electric's staff to grant no-bid contracts to a contractor whose shoddy work contributed to an inordinate number of power line outages and complaints.

One former board member, Buddy Gamble, carried a co-op-provided cellphone and once had a Santee Electric contractor install a "dummy (electric) line" on his property for dove hunting. The job would have cost any other customer \$2,700. But Gamble — [who was removed from the board in 2011](#) — wasn't made to pay, the audit found.

Most recently, South Carolina's co-ops have been rocked by revelations that Tri-County's board members have paid themselves about \$52,000 a year, including lifetime health insurance and high per-diem pay for attending an excessive number of meetings.

At both Santee Electric and Tri-County, customers mobilized, filed lawsuits and pushed their co-op to make changes.

Santee Electric axed its health insurance benefits for board members, got rid of a board committee that had interfered with the contractor bidding process, and made it easier to run for the co-op's board and to vote at annual meetings.

Over the past two months, Tri-County customers have packed town hall meetings to demand change. More than 1,600 co-op customers also have signed a petition to kick the remaining board members out of office at a special Aug. 18 meeting.

"It angers you when you've got to pay out that much money, and they're sitting on the board getting full-time pay for a part-time job," said Gracie Josey, a 72-year-old Tri-County customer who leads a seniors group in Lower Richland. "They're taking my money and going on vacation."

The customer rebellions at Santee and Tri-County show the co-op system works, co-op leaders say, noting customers of traditional investor-owned utilities have no similar power to purge executives for wrongdoing.

"Ninety-nine percent of us do exactly what we're supposed to," said [Horry Electric CEO Pat Howle](#). "When you do something that you shouldn't do, the system works itself out."

Perks of the job

Still, the Tri-County scandal has S.C. co-ops scratching their heads.

Most recently have re-evaluated or changed their policies on health care benefits, retirement packages, board elections and transparency.

Many of those policies were adopted decades ago on the advice of co-ops' attorneys and their national trade group, the National Rural Electric Cooperative Association, according to Mike Couick, chief executive of the Electric Cooperatives of South Carolina.

But the Tri-County scandal has given co-ops a chance to reassess their rules and step out of ethical gray areas, Couick said.

One area of concern for co-op customers is board pay.

Co-op critics say too many trustees have lost sight of their mission — to keep costs low for customers. Instead, co-op directors too often view the part-time gig as a way to collect per-diem pay, health insurance, trips and other perks, those critics say.

Part-time board members at S.C. co-ops earn about \$29,500 a year on average — almost double the national average of \$15,000 — according to tax forms reviewed by The State. That's not counting the co-op trustees who can earn another \$15,000 a year for being on related boards, including the Central Electric Power Cooperative, which supplies electricity from Santee Cooper to the 20 co-ops.

S.C. co-op executives say that pay figure appears high because they traditionally have offered paid health insurance to board members and their families, and because S.C. co-ops have spent more on educational conferences and training for board members.

Co-ops leaders defend paying health insurance, saying it helps attract quality board candidates.

But angry Santee and Tri-County customers have decried such benefits as excessive when many customers are struggling to pay their power bills.

Also, an ethics task force, formed last year by the National Rural Electric Cooperative Association, advised against paying their directors' medical insurance benefits, saying those policies can increase costs, cause incompetent trustees to remain on a board for years and attract negative attention from customers and the media.

The task force's secret report — obtained by The State newspaper after the national co-op board refused to release it — also opposed using board pay and benefits to recruit potential board candidates, saying that “could result in nominees motivated solely by the compensation.”

Hearing the criticisms, some co-ops have worked to phase out insurance for directors.

Little River Electric, for example, axed those benefits for current and former board members in 2005. The Berkeley, Black River, Coastal and Santee Electric co-ops cut them off for new trustees between 2010 and 2013.

“We don’t think it’s necessarily illegal,” said Santee Electric CEO Rob Ardis. “It’s just a good idea to suspend it because of the cost.”

Even more controversial is the practice, at many co-ops, of paying health insurance for former trustees.

At least 17 S.C. co-ops have paid for former board members’ health insurance. However, some have moved to abolish those benefits since [Charlotte attorney Aaron Christensen](#) — who specializes in co-op law — concluded in his 2010 audit of Santee Electric that the practice is illegal under state law.

Horry and Newberry Electric cut off benefits for former board members in 2012, and Broad River Electric did the same in May. Others continue to cover former board members, saying their own attorneys have interpreted state law differently than Christensen.

“As long as I’ve been in the business, South Carolina has always allowed (co-op) directors to take insurance benefits,” said Paulling, Mid-Carolina’s CEO.

S.C. co-ops also defend the \$120,000, on average, they spend to send their board members to eight to 10 educational conferences each year — in locales ranging from Charleston to San Diego.

Last year, most S.C. co-ops sent their boards to legislative receptions in Columbia and Washington, D.C.; a state trustee association meeting in Myrtle Beach; a national trustees’ conference in Tampa, Fla.; two summer training conferences in Charleston; winter training sessions in Nashville and Greenville; and the National Rural Electric Cooperative Association’s annual regional meeting in Chattanooga and its national meeting in San Diego.

Customers have complained some co-op directors turn the conferences into vacations for their families. Spouses and families are allowed to attend the conferences — most often at their own expense.

But co-op CEOs swear by the conference training, saying it transforms well-meaning-but-naive new board members into educated professionals who can think critically about a co-op’s business decisions.

“You wind up getting folks who, their heart might be in the right place and they might have the respect of their constituents, but they don’t know everything there is to know about running a \$200 million business,” said Santee’s Ardis.

Several co-op CEOs said the conferences are grueling, all-day affairs where directors learn about debt service, rate structures and environmental regulations.

“I probably can’t tell you any of the sights or any of the things to do in any of these places,” said Horry Electric’s Howle. “Ninety percent of the time, I’m in a meeting.”

‘The smell test’

But such trips also have been abused.

Trustees at Santee Electric, for instance, sometimes drove to far-flung conferences, instead of flying. Driving added thousands of dollars more of mileage costs to the co-op’s bill. In many instances, they also took their spouses, who, until 2008, attended group meals at the co-op’s expense.

“From our review, we have developed a general impression that wasteful spending is the ‘rule’ rather than the ‘exception’ when it comes to board travel,” Christensen concluded in the 2010 audit.

At Tri-County, two board members and their wives left days early for a 2005 conference in Dallas, stopping and touring Civil War battlefields and monuments along the way. They were in a serious car wreck during the trip, and director Doug Shuler sued the co-op after it refused to pay him workers’ compensation.

Ultimately, the S.C. Supreme Court ruled against Shuler, saying he was ineligible for workers’ comp because he is not an employee.

S.C. co-ops also stepped into an ethical minefield years ago when — at the recommendation of the national trade association — they installed co-op funded retirement plans for directors.

The plans were not disclosed on tax forms until they paid out, contributing to a “general unease with the lack of transparency” that led many co-ops to discontinue them, Christensen wrote.

Still, seven Santee Electric board members were paid nearly \$135,000 each from their co-op’s retirement plan in 2008, while seven Tri-County trustees got nearly \$81,000 each the same year.

In his 2010 audit of Santee Electric, Christensen wrote that money “could have been invested for the cooperative’s benefit” or returned to the co-op’s customer-owners in the form of refunds.

Another co-op, Fairfield Electric, abolished its retirement plan in April 1993, about four years after it was created, and returned more than \$169,000 to the co-op without paying any trustees.

“It was obvious, early on, that it probably wouldn’t pass the smell test,” said Fairfield Electric board chairman Mitchell Rabon.

South Carolina’s co-ops now either have ended the retirement plans for directors or are in the process of winding them down, Couick said.

But retirement plans continue to cause problems for some of the state’s co-ops.

Last fall, several Fairfield Electric board members complained they were caught off guard when one of co-op CEO Bill Hart's four board-approved retirement plans triggered a \$1.8 million lump-sum payout — which, ultimately, will be paid by the National Rural Electric Cooperative Association — and more than \$200,000 in taxes.

Some members of Fairfield's board also were miffed to learn Hart had earned \$22,000 in 2016 as a member of the Central Electric board and \$33,150 as South Carolina's representative on the national co-op association's board, in addition to \$511,400 as Fairfield Electric's chief executive.

Board member John Bloodworth said the board overreacted.

“Some of our board members just never came to terms with how that was computed,” Bloodworth said. “It takes a little doing. It's more than eighth-grade math. We thought we had it all explained. Some of the people preferred to think there was something surreptitious about this. There never was.”

Hart retired in June.

On July 30, the Fairfield Electric board passed a resolution promising to fully disclose pay to directors, limit the extra income the co-op's CEO can earn from related groups and post board meeting records to its website.

“We're all in agreement that we need to be more transparent,” said board member Timothy Hopkins.

Making changes

Two weeks after the public outcry began over Tri-County's director pay, the state's [other 19 co-ops voted to condemn the Midlands co-op's directors and urge them to resigns](#).

S.C. co-op leaders formed a 60-member task force to discuss how to make their co-ops more transparent and accessible to their customer-owners. Subsequently, the group has met six times.

The co-ops also have met with Rep. Ott about his proposed state law to require all boards to post online their board meeting agendas and minutes; publish online all board pay, including mileage, travel and per diem; and make it easier for co-op customers to vote at annual meetings.

Some co-ops already are making changes.

Newberry Electric, for instance, will begin posting online the agendas and minutes of its board meetings later this month.

“We don't need the (Ott) bill in order to make improvements,” Newberry CEO Keith Avery said. “We're doing that on our own.”

Other co-ops are re-examining how board members are elected.

Lynches River, for instance, is mulling a policy — already in place at the Horry and Santee Electric co-ops — to bar directors who are up for re-election from picking the members of the committees that nominate potential directors.

Co-ops also are looking at director benefits, either adjusting health insurance plans for current and former trustees or seeking confirmation from their attorneys that their current plans are legal, according to Couick, the CEO of the co-ops' statewide trade association.

Broad River, for instance, will eliminate health insurance benefits for former trustees in December — with no one grandfathered in — CEO Terry Mallard says. Newberry Electric made the same change in June.

“That’s pretty remarkable,” Couick said of how quickly co-ops have reacted to the problems at Tri-County. “It proves that we work at the local level, and that’s how we work best.”

Still, Ott said change must be required in state law to ensure the co-ops don’t backslide.

It’s happened before.

A decade after controversy flared at Santee Electric, Tr-County was consumed by many of the same issues.

Ott said he will prefile his co-op reform bill before lawmakers return to Columbia for the next session in January.

“For the sake of public interest, we need to pass this legislation and mandate that the co-ops institute these types of reforms so people can trust that it’s going to be there long-term.”

Reach Wilks at 803-771-8362. Follow him on Twitter @AveryGWilks.

The State spent weeks looking into SC’s electric co-ops. Here’s what we learned

Over the past month, The State newspaper has looked into South Carolina’s little-known electric cooperatives, a largely unregulated segment of the Palmetto State’s power industry that provides power to 1.5 million South Carolinians. Here are a few of our major findings:

- **Tri-County Electric** has been the subject of recent controversy. However, the Midlands co-op is not the first S.C. co-op to be engulfed in a scandal over high board pay and benefits. A decade ago, many of the same issues arose at another S.C. co-op, **Santee Electric**.
- S.C.’s 20 co-ops have paid their board members nearly **twice the national average**, in part because virtually all of them have paid health insurance benefits for current and former directors and their families. That practice has been questioned by a prominent co-op attorney and an ethics task force.

- Each co-op also spent about **\$120,000, on average, to send their directors to educational conferences** across the country last year. Co-op directors attended from six to 14 conferences in locales ranging from **Nashville to San Diego to Washington, D.C.**
- In many cases, co-op boards have given themselves **co-op funded retirement plans**. Some have paid out lump sums worth more than **\$81,000** to sitting board members.
- Co-op directors are able to remain in power for decades in part because they largely are shielded from public scrutiny. **At 17 co-ops, directors pick the members of nominating committees** that screen candidates for board positions, effectively giving directors control over any potential challengers. Last year, one co-op's nine-member nominating committee included **six direct relatives of sitting board members**.

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