Administration of the U.S. Department of Agriculture, originally established in 1935 by Executive order of President Roosevelt. The REA program has been extremely successful. Today, as a result of the REA program and the expansion of the investor-owned companies' rural electrification programs, 98 percent of the Nation's farms are electrified. There are now almost 1,000 cooperatives participating in the REA program, serving 50 percent of the consumers in the Nation's rural areas. Although REA may make loans to investor-owned and public systems, it appears that the cooperatives have come to be the preferred vehicle for the extension of rural electrification with Federal funds.

The vast majority of cooperatives are merely distributors and purchase all of their power at wholesale from the Federal power marketing agencies or investor-owned utilities. However, some groups of distribution cooperatives have formed generating and transmission cooperatives to generate a part or all of their electric power requirements. These "G and T" type cooperatives now supply about 15 percent of the requirements of the cooperative segment. They are also financed largely by REA.

The Rural Electrification Administration initially limited its loans to cooperatives to serve communities of not more than 1,500 persons which were without central station service. With the population shifts of the last three decades, some cooperatives now serve sizable communities. However, the cooperative systems typically serve areas of low customer density which, of course, increases the cost of distribution. Cooperatives average about 3 customers per mile of line compared with 20 customers per mile for the industry as a whole.

Except in a few States, the cooperative systems are not granted exclusive franchises for their service areas, and there is much competition between them and other systems for service to new loads. The annexation by municipalities of suburban areas initially served by cooperatives is a major cause of territorial competition. In some areas competition has led to the construction of duplicate facilities. In other areas, there are formal or informal arrangements which permit both systems to minimize the cost of service to their respective customers.

Only a small portion of the capital requirements of cooperative systems is obtained from their membership. The remainder is provided largely by long-term mortgage loans from the Rural Electrification Administration. Interest on such loans is authorized by law at 2 percent per annum.

Rates for service of cooperative systems are designed to cover costs and amortization requirements of REA loans and to provide for contingencies. Payments by consumers in excess of the cost of supplying electric energy are deemed to be capital. This capital is commonly credited to each consumer on a patronage basis and is retired on a revolving basis when the financial condition of the cooperative permits. Most cooperative systems do not return all such capital, at least until a desired reserve level has been accumulated.

Under present law the courts have held the cooperatives not to be liable for Federal and State income taxes. Most cooperatives do, however, pay State and local taxes other than income taxes.