

# Central Virginia Electric Cooperative

## BROADBAND SUBSIDIARY



### Overview

Central Virginia Electric Cooperative is a 32,033 member cooperative serving central Virginia from the Blue Ridge Mountains across the Piedmont. As of November 2020, the cooperative is currently in phase 2 of a planned four phase fiber to the home project to provide internet and voice services. Upon project completion, the cooperative aims to pass 37,000 member accounts and 9,000 individuals just outside the cooperative's territory.

The cooperative is seeing a 54% take rate, with approximately 5,400 current subscribers – exceeding projections from their feasibility study.

#### ELECTRIC COOPERATIVE INFORMATION

States	VA
Total Members	32,033
Total Meters	37,732
Total Miles of Line	4,734
Density (Meters/Mile)	8.3
# of Employees	111
Total Assets (12/31/19)	\$257 million

### Subsidiary Structure

Virginia cooperative rates are regulated by the state public utility commission. State law also requires cooperatives to establish their broadband businesses as for-profit subsidiaries to prevent cross-subsidization of the broadband business.

This structure provides a lot of benefits to the cooperative and its members. In many ways, the structure may make it easier to serve non-members adjacent to the territory without risking existing member equity or adjusting capital credits policy. Importantly, this approach may allow for a clearer allocation of costs between businesses, and a clearer picture of the health of the broadband business and the core electric business.

“The biggest advice we have for other cooperatives is be ready to pivot. The project moves rapidly, and it is critical to be flexible with your strategy. While unknown challenges will arise from your feasibility study, there will also be unforeseen opportunities (grants, partnerships, etc.) to facilitate the completion of the project.”

— *Ryan Dickerson, Finance & Accounting Manager, Central Virginia Electric Cooperative*



## About the Project

<b>Business Structure</b>	Subsidiary
<b>Technology Used</b>	Fiber to the Home
<b>Overall Broadband Project Investment (\$)</b>	\$130 million (on system), \$24.5 million (off)
<b>Total Homes/Bus. Passed (upon completion)</b>	37,000 (on system), 9,000 (off)
<b>Overall Broadband Project Size (miles of fiber)</b>	3,500
<b>Business Start Date</b>	07/2018
<b>Projected Completion Date</b>	07/2022
<b>Total # Phases</b>	4
<b>Products/Services Offered</b>	Internet, Voice

## Current Business Status: Project to Date

<b>Current Phase of Buildout</b>	Phase 2
<b>Distribution Miles of Fiber Completed (to date)</b>	1,194
<b>Total Members Passed (to date)</b>	10,000 (5,400 accounts)
<b>Current # of Subscribers</b>	4,428

As Central Virginia Electric Cooperative established its subsidiary, Firefly Broadband, it had to work to familiarize staff and the board with GAAP and tax accounting considerations for a for-profit business including capital lease considerations, accelerated depreciation, and deferred taxes. Other significant considerations for the cooperative and subsidiary include cash flow management and tax planning strategies.

The subsidiary needed to invest in staff and accounting considerations, with the parent cooperative eager to ensure a robust controls environment similar to the core electric business for efficient inventory and cash management.

Due to regulations, the parent company and the subsidiary cannot share customer lists. All direct marketing for fiber services must be performed by the subsidiary. As a matter of practice, all back-office functions performed by the parent cooperative's staff are directly billed to subsidiary. As the subsidiary grows, functions performed by parent cooperative will transition to subsidiary.

Central Virginia was required by its Commission to have both a Management Services Agreement and a Fiber Lease Agreement. It was very important for the cooperative to ensure it captured all the costs to build the fiber infrastructure. Putting together the operating agreement gave the cooperative an advantage thinking through critical accounting considerations, particularly with respect to cost allocation.

CVEC projects positive cash flows from operating activities and to break even by December 31, 2021.

CFC provided a bridge line of credit to enable Central Virginia to get their project started. Eventually, RUS will finance the project with smart grid project funds. CFC also provided a letter of credit for their application for the FCC CAF II grant, which placed the cooperative financially ahead of its feasibility study projections.