



FOR IMMEDIATE RELEASE

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**FREQUENTLY ASKED QUESTIONS REGARDING
APPLICATION FEE AND LIABILITY INSURANCE REQUIREMENTS
OF SEVERAL ELECTRIC COOPERATIVES IN ARKANSAS**

Why do certain, but not all, electric cooperatives in Arkansas require application fees and liability insurance from their members who wish to interconnect solar, wind, or other self-generation resources to the grid?

Since the Great Depression, Uncle Sam has been making loans to rural nonprofit electric cooperatives to build out and bring electricity to rural Arkansas and other states across the country. Those loans are what brought electricity to our grandparents and great grandparents who lived their lives by kerosene lanterns.

Many Arkansas electric cooperatives, including this one, still have loans from the federal government today, through the USDA's Rural Utilities Service (RUS). These loans have better or more favorable terms than loans from banks or other traditional lenders and help lower the electricity costs for all cooperative members. Uncle Sam's loan agreements require collateral, and the key collateral consists of the electric cooperative's electric systems (ex. substations, transformers, lines, poles, etc.) commonly called "the grid."

Uncle Sam's loan documents require that electric cooperative borrowers comply with federal laws on maintaining and protecting Uncle Sam's collateral, including the electric cooperative's grid. One of these federal laws requires that electric cooperative borrowers require and obtain insurance and an application fee from anyone who wants to hook up their personal self-generating electrical systems (solar panels, wind turbines, etc.) to the electric cooperative's grid that is Uncle Sam's collateral. So, for instance, if something goes haywire at

an individual's solar farm and it blows up nearby transformers and starts a fire in the neighborhood, the insurance provides a pot of money to pay to rebuild Uncle Sam's collateral, restore service to fellow cooperative members and compensate for other damages.

So, what these electric cooperatives who are borrowers from Uncle Sam are doing (in requiring insurance and an application fee) from solar and wind folks is no more than what Uncle Sam requires them to do under federal law to stay in good standing or compliance with the terms of their loan agreement with the federal government. The cooperatives are not making a dime off the insurance policies that are required—the premiums for the insurance are never even sent to the electric cooperative. The cooperatives are not requiring the insurance policies to discourage members from “going solar.” The cooperatives are simply complying with federal law and their loan documents.

Where can this federal law be found?

It starts at 7 C.F.R. § 1730.60.

Can a member's homeowner's insurance satisfy the federal law's requirement for insurance?

We looked at that and unfortunately, no because a typical homeowners insurance policy does not provide coverage to third parties (such as the electric cooperative) for damage inflicted to their equipment “off the premises” from where the member's home is located. The federal government's collateral that is vulnerable to potential damage or destruction is commonly found down the electric line and off the property from where the homeowner/member's connected solar panels or wind turbines have been set up.

Under its laws and regulations, the federal government intends for the required insurance to pay the electric cooperative (not the homeowner) the insurance proceeds necessary for the electric cooperative (not the homeowner) to re-build the government's collateral that was damaged or destroyed by the homeowner/member's solar or wind turbine system. The typical homeowner's insurance policy will not achieve this purpose and doesn't meet the federal government's requirements.

What kind of insurance does the electric cooperative require from its member?

The specific type of insurance policy required by the electric cooperatives *does* provide coverage for damage that occurs “off the premises” from the member's property where the solar panels or wind turbines are set up. It is called a general liability insurance policy, but it has a “completed operations” endorsement or rider that provides coverage to the electric cooperative for damage that occurs to the government's collateral even if located “off the premises” from where the member's home is located.

Why does the electric cooperative's smallest insurance policy requirement start at one million dollars in coverage?

The electric cooperatives' insurance requirements are calibrated to the size of the solar panel or a wind turbine system that is being interconnected to the grid. The larger the system is the greater insurance coverage that is required.

Like it or not, an array of solar panels or a wind turbine are electricity generating systems that have the potential to be very dangerous. If something goes wrong and they improperly back feed over the grid, they can cause serious damage to Uncle Sam's collateral (things like transformers and substations), they can start fires, and worst of all they can cause death or serious injury to cooperative linemen and contractors. RUS Bulletin 1724E-102 at p. 86.

The federal government's collateral (transformers, substations, electric lines, etc.) is extremely expensive to repair or replace. A transformer alone can cost several hundred thousand dollars to replace and install. The one-million dollar insurance policy coverage amount selected by the electric cooperatives is consistent with what the federal government and the State of Arkansas requires in other property-related laws.

- RUS's comparable federal regulation requirement that, in agreements that are wholly or partially financed with RUS loans or guarantees, contractors operating on or around the RUS borrower's electric systems (RUS' collateral), must "take out and maintain through the period of th[e] [a]greement," liability insurance that shall have limits for bodily injury or death and for property damage "of not less than \$1 million each occurrence" and an increased limit of insurance if desired by the RUS borrower. 7 CFR 1710.121 and 7 CFR 1788.11(a) and (c).
- Arkansas statutory law's requirement that any firm conducting any fire protection system businesses maintain "a public liability insurance policy covering its operations and completed operations with a minimum limit of liability of one million dollars (\$1,000,000) per occurrence for bodily injury and one hundred thousand dollars (\$100,000) per occurrence for property damage" Ark. Code Ann. § 20-22-611.
- Arkansas's comparable state regulation requirement that contractors, under contract with the Arkansas Building Authority, and operating on or around state-owned buildings, must "obtain and maintain and keep during the term of the contract, commercial general liability insurance covering bodily injury and property damage containing minimum limits of one million dollars." AR ADC 234.02.2-3-318. *See also* AR ADC 013.05.1-3240 (Arkansas Department of Parks and Tourism's identical insurance amount requirement for defined groups operating on its properties). *See also* AR ADC 118.01.21.1301 (Arkansas Pollution Control and Ecology Commission's identical insurance amount required for contractors operating on or around properties in the area of asbestos abatement and inspection work).

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