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Opening Statement of Rep. Henry A. Waxman Chairman, Committee on Oversight and Government Reform Governance and Financial Accountability of Rural Cooperatives: The Pedernales Experience June 26, 2008

Today's hearing focuses on an important issue that has received little attention: electric cooperatives and the billions of dollars they control.

Electric cooperatives are unique structures that provide electricity to millions of customers in rural and suburban areas. They are nonprofit utilities that are owned by their customers and, at least in theory, are supposed to be democratically controlled. Nationwide, there are 930 co-ops serving over 17 million customers.

What isn't widely known is that these co-ops control over \$30 billion in customer equity. In many cases, even the customers don't realize it's their equity and don't know how the co-ops are spending their money.

I want to thank my colleague and friend, Jim Cooper, for bringing this issue to the Committee's attention. It's exactly the kind of issue the Oversight Committee should be looking at. And from what we've already found, this is an area in strong need of accountability.

In fact, two of the witnesses we wanted for this hearing have refused to attend. They declined to appear voluntarily, and they have evaded federal marshals who tried to serve them with subpoenas. The federal marshals believe one of the witnesses is now hiding in a remote New Mexico ranch.

The two witnesses essentially ran the Pedernales Electric Cooperative in the Texas Hill country. This co-op has a proud history, having been created in 1935 by a young congressman by the name of Lyndon Johnson. It is now the largest co-op in the United States.

But Bennie Fuelberg, the former Pedernales General Manager, and Bud Burnett, the former Pedernales President, aren't reflecting the co-op's proud history by refusing to explain their apparent self-dealings.

There is compelling evidence that the Pedernales co-op used its customers' equity as a private piggy bank.

Mr. Fuelberg, Mr. Burnett, and the Pedernales board paid themselves well. In 2007, Mr. Fuelberg received over \$1 million in salary, benefits, and bonuses. In just five years, Mr. Fuelberg and the board spent \$700,000 to stay at five-star hotels like the Ritz Carlton and the Four Seasons, dine at expensive restaurants, and buy themselves fancy chocolates and Celine Dion concert tickets.

They also spent millions of dollars in an unsuccessful legal battle against their own customers.

We'll learn more about all of this from our witnesses, which include Pedernales co-op members, two members of the Texas legislature, and the newly hired general manager of Pedernales.

But the questions about potential abuses by co-ops aren't limited to the Pedernales co-op. And that brings us back to the \$30 billion in customer equity I mentioned a few moments ago.

The Pedernales experience tells us we need to examine whether co-ops are being run in a truly democratic fashion. And we need to take a close look at whether there are adequate financial protections for the investments customers have in these entities.

The 17 million co-op customers' equity investments are worth an average of almost \$2,000 apiece. But there appears to be little transparency and accountability for how co-ops use these funds.

I know co-ops have done a tremendous amount of good for millions of Americans. And I know it's unfair to suggest that potential wrongdoing at the Pedernales co-op is typical for all co-ops. Congressman Cooper has done a real service by setting the right balance for these issues in a recent article in the Harvard Journal on Legislation, and I ask unanimous consent to include it in the hearing record.

I'm looking forward to the testimony of our witnesses and learning more about this important issue.