

## **Why do we need a rate Increase?**

The cost of power and the costs of building and maintaining electric infrastructure have increased. We need to make these investments so we can continue to provide reliable and safe electric service. The cost of power from East River has gone up because of the cost of generation at Basin Electric. Basin has felt pressures from the lack of sales due to abnormal weather, costly new emission controls from the EPA and excess energy in the energy markets. The excess energy is caused by the amount of wind and low cost natural gas. When there is excess energy in the market, Basin has to shut down its higher cost coals plants. The fixed cost associated with the coal plants still has to be recovered in their rates.

## **The 2016 Financials show margins of \$755,709. How much margin do we need?**

The margin that affects us the most is the operating margin. The operating margin is the income from operating our electrical system. In 2016, we used \$115,000 from the margin stabilization fund to produce a negative margin of (\$10,223). In other words our electrical operations lost (\$125,000) in 2016.

It is true that our total margins were \$755,709. Most of that was an allocation from East River. The allocated amount of \$506,063 from East River is not cash but a "paper margin". Clay-Union will not receive any of that until East River retires capital credits or passes through any retirements from Basin. Basin is not retiring capital credits at this time.

## **How much does it affect my bill?**

The average residential member uses 1,300 KWH's per month. Their bill will go up about \$14.50 per month or about 9%. Depending on usage, the increase could be higher or lower and the same with the percentage of increase.

For Large Power the increase is a 6.8% overall rate increase. The changes to individual accounts will be different for each member. A member with high demand may be affected by a higher amount.

For an Irrigator the demand charge went up \$1.00 to \$19.00. The irrigators that bypass the load control signal are the ones that will notice this increase.

## **How did you determine which rates to change?**

Management used a Cost of Service Study, Financial Forecasts, historical rate information and different rate design spreadsheets to give the Board the data they needed to make their decisions. The cost of service showed that the Residential and Large Power rates were the rates that needed the biggest increases. Other rates showed that no increase or a very little increase was needed. The Board tried to balance the increase between the facility charge and the demand and energy rates. The facility charge is collected to recover some revenue even when the member uses no KWH's. If you put all the increase in the demand and energy rates, the cooperative doesn't collect enough revenue in adverse weather patterns and can cause additional or larger future rate increases.

## **What is the facility charge?**

The Facility Charge ensures that the member's expectations for continuous power and outstanding customer service are met. It provides funds that must be invested now to maintain the quality, reliability and integrity of services that our members have traditionally counted on and come to expect.

Among the expense items covered by the facility charge are:

- Trucks, wire, transformers, power poles and labor needed to build and maintain the electric distribution system
- Keeping pace with increased system investments to improve both capacity and reliability
- Implementing new technologies to provide increased reliability and operational efficiencies such as advanced metering
- Liability insurance, interest and taxes

Because all cooperative members benefit from having reliable electric service available when they want it, the facility charge ensures that everyone pays their fair share of the basic costs – costs that exist whether or not a single kWh is used.

## **Why are my rates more than the City of Vermillion?**

The comparison is hard to make almost like comparing apples to oranges. Traditionally, electric cooperatives serve the more rural areas compared to cities. The number of members per mile of line built to serve those members is very low compared to a city. The cost to deliver the electricity is collected by fewer individuals. When we build a mile of line those costs are collected by 3 meters instead of a much higher number per mile for service within a city.

Clay-Union is a not for profit cooperative and basis its rates on cost of service. Rates from Cooperatives are intended to make a small enough margin to meet our mortgage requirements with our lenders. Cooperatives will allocate the end of the year margins to members so they can be returned to members over a period of time. The city transfers revenues to help cover expenses for other parts of the cities operations.

## **When will the increase happen?**

May 1<sup>st</sup>, 2017 will be the date of the increase. It will be the June bill for May Energy. There may be a change to the security light rate in the future. Members will be receiving a message with their bill in April for March energy.

## **What can I do to reduce my bill?**

We have many programs that promote energy efficiency and energy conservation. We also have a load management program that helps reduce the demand some rates pay and can offer incentives to others. Please contact Mike Kjose to learn more about the programs that are available. We offer budget billing options to help prevent large spikes in member's bills. In the winter months, energy assistance can be applied for through the State of South Dakota. We offer budget billing to help members level their payments to help manage months with higher bills.

## How do my rates compare to other Cooperatives?

Comparing Clay-Unions rate to Union and BY.

Union            \$45 facility charge    1<sup>st</sup> 1200 = .13/kWh    above 1200 = .085/kWh  
 BY                \$40 facility charge    1<sup>st</sup> 400 = .13/kWh    2<sup>nd</sup> 400 = .11/kWh    Over 800 = .075/Kwh  
 Clay-Union    \$35 facility charge    1<sup>st</sup> 1200 = .11/kWh    above 1200 = .0775/kWh

KWH	CU	BY	UC
1000	\$ 145.00	\$ 151.00	\$ 175.00
1100	\$ 156.00	\$ 158.50	\$ 188.00
1200	\$ 167.00	\$ 166.00	\$ 201.00
1300	\$ 174.75	\$ 173.50	\$ 209.50
1400	\$ 182.50	\$ 181.00	\$ 218.00
1500	\$ 190.25	\$ 188.50	\$ 226.50
1600	\$ 198.00	\$ 196.00	\$ 235.00
1700	\$ 205.75	\$ 203.50	\$ 243.50

## When was the last rate increase?

The last increase was January 1<sup>st</sup> of 2015. It was a \$5 per month increase to the facility charge

## How long will this increase last?

It is dependent on future power costs. Power costs are 57% of the Total Cost of Electric Service. The Board of Directors wanted to limit the rate increase to get us through 2017 and possibly 2018. We would like to see some rate relief from our Power Generator, Basin Electric, in the future. If that were to happen it may last 2018 to 2019.