The Reason Behind the Rate

How CVEA Generates Power

CVEA has four power plants; the Solomon Gulch Hydroelectric Plant, CVEA Cogeneration Plant, and the Glennallen and Valdez Diesel Plants. In 2013, the Cooperative will generate about 92 million kWhs.

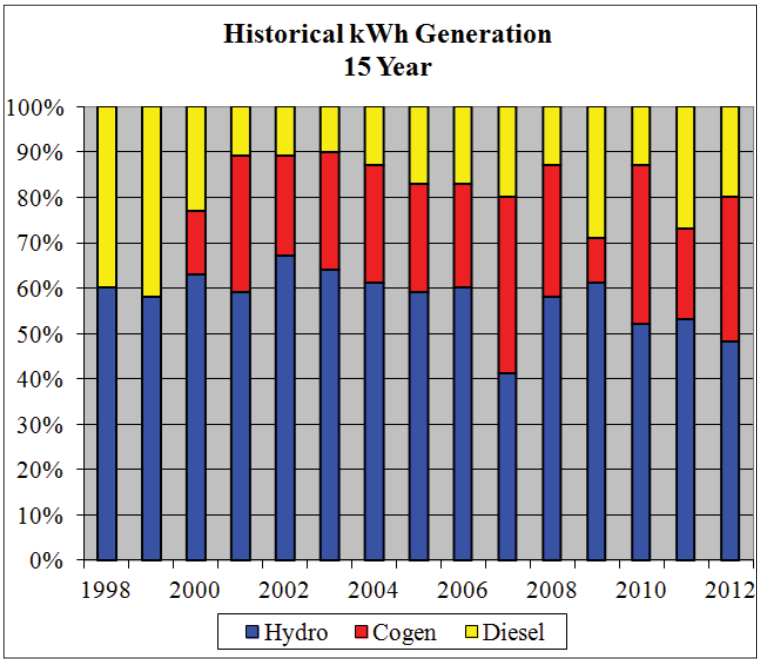
CVEA produces 50 percent of the Cooperative's power with water. Generally hydro produces all of the system requirements from June through September. Solomon Gulch has seasonal limitations based on water inflows and storage capabilities; the Solomon Gulch reservoir will only hold so much water, about 31,500 acre feet. Including the summer inflows and the lake storage this translates to an average annual generation of about 47 million kWhrs per year.

The remaining 50 percent of CVEA's annual generation is produced with fuel; the Cogeneration Plant at the Petro Star Refinery makes 25 percent of the annual power generation and the two diesel plants make the remaining 25 percent.

Heading into winter, usually in October, inflows at Solomon Gulch stop and the lake level begins to fall as we use water, and that is when we enter what we call the winter generating season, typically October through May. During winter we back off Solomon Gulch to manage water use, we bring the Cogen project online and generate the remainder of our requirements with diesel, which is the reason for our high electric rates.

During summer we are close to 100 percent hydro but during winter the percentage of monthly generation may be as low as 25 percent with the remaining 75 percent made from fuel.

How CVEA has generated power historically over the last 15 years is illustrated on the graph below.



Fuel Impacts on the Power Bill

CVEA purchases fuel for the Cogen from Petro Star. The price changes monthly. Fuel for the diesel plants is also purchased from Petro Star through a competitive bidding process. Diesel fuel prices are tied to the Anchorage Oil Producers Index System, or OPIS. Diesel fuel prices change weekly.

Fuel prices fluctuate with the price of crude oil. The line graph on the next page illustrates the fuel roller coaster we have been on since 2008.

CVEA does not mark up the cost of fuel; we charge the customer, on a per kWh basis the same price we pay. Every customer pays the same price per kWh for fuel. The bar graph on the next page attempts to tie together how we make the power, the seasonal issue of summer vs. winter with the cost of power we charge the customer.

As you can see, during summer when we are generating with hydro the price is in the 18-19 cents range but in winter when we are generating with fuel the price increases significantly.

CVEA cannot control the price of oil. Thus, we cannot control the cost of fuel used for generating electric power.

We can work to lessen our reliance on oil for power generation, and it is with this goal in mind that CVEA continues to work toward its vision to reduce or eliminate our dependence on fossil fuel and to stabilize the Cooperative's cost of generation with regional, sustainable resources.

CVEA believes that hydropower is the most viable and cost effective renewable resource and has been aggressively moving the Allison Creek Hydroelectric Project forward. This past year CVEA has advanced the project past 60 percent design and we are in the

process of selecting a Construction Manager. We have construction financing in place, and we continue to work on the long term plan of finance to provide members with the lowest possible cost/kWh. CVEA's goal is to have Allison Creek producing hydropower by 2015.

In addition to Allison Creek, in 2012 CVEA received a $500,000 Legislative Appropriation for a reconnaissance level study of the Tiekel River drainage area to determine if it shows enough potential to be studied further and possibly developed into an additional hydropower resource.

How CVEA Collects Rates

CVEA completed a rate study in 2012 that we started in 2008; the new rates went into effect in June 2012. The goal of the multi-year study was aimed at designing a rate that covers CVEA's costs and allows the Cooperative to use a majority of heat revenue collected from Petro Star as a credit to offset the fuel cost component on member bills.

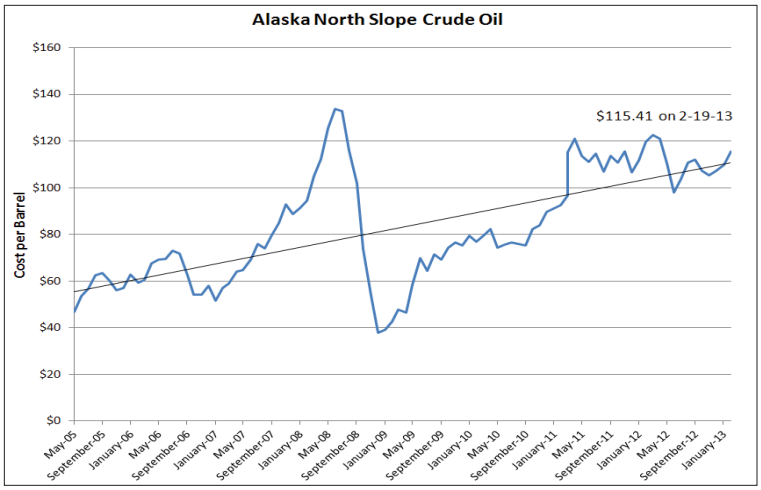
While there were no 'new' charges on members monthly bills, items were broken into several new components in an attempt to be even more transparent for the members.

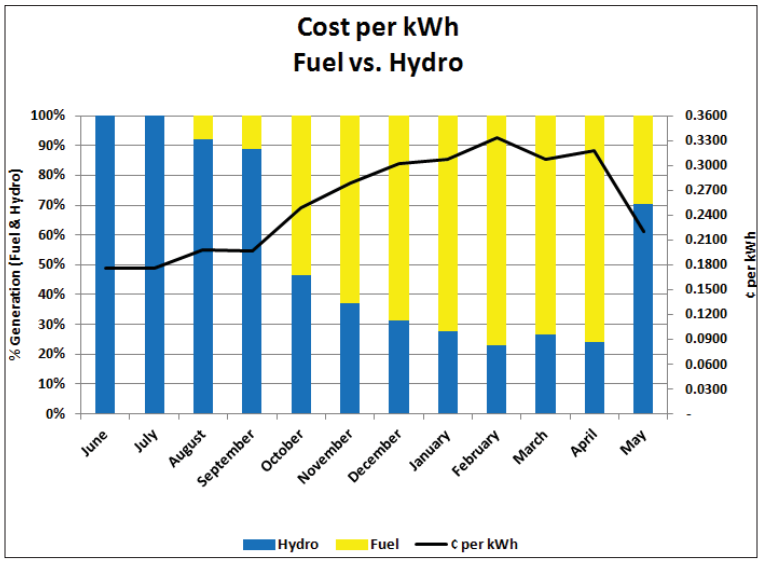
Members can now see their portion of generation, distribution, and fuel costs as well as a heat credit on their bills.

There are four primary changes with the new rate structure:

- The cost of generation and transmission expense formerly included in the cost of power charge and the kWh charge are now collected in a new charge called G&T Charge
- The fuel cost formerly included in the cost of power charge is now collected in a separate Fuel Charge
- The cost of power charge was eliminated
- A new heat credit to distribute heat revenues collected from Petro Star was created to offset Cogen fuel costs

If you'd like additional information on historic rates or to learn what makes up each component of your CVEA power bill visit www.cvea.org. Current rates can be found by clicking the 'Current Rates' quick link on the home page. If you have questions or would like to review your bill with a CVEA representative contact Sharon Crisp at 822-5506, 835-7005, or email crisp@cvea.org. ■





Rate Study

New Rate Design

SAMPLE RESIDENTIAL - $110/barrel oil

Description of Charge	Past	Proposed	% Increase
Customer Charge	$12.00	$12.00	
kWh Charge	$ .0678	$ .0558	
Cost of Power Average	$ .1892		
G&T Charge		$ .1057	
Fuel Charge Average		$ .1467	
Heat Credit Average		$(.0608)	
Total per kWh	$.2570	$.2474	-3.77%