

Rate Changes Approved at Conclusion of Rate Study

A rate study is a multi-step process used to determine what rates should be charged for energy sales and services. When conducting a rate study, the results of three important questions are determined.

1. How much do we need to operate?
2. Which customers pay?
3. How does CVEA collect it?

How much do we need to operate?

Rates must produce sufficient revenue to recover 100 percent of the costs to provide electric service, meet lender requirements, and achieve financial targets. CVEA will identify the current and projected revenues and expenses for our electric system.

Which customers pay?

To design any type of electric rate, a cost of service analysis must be completed. This analysis is used by the electric utility

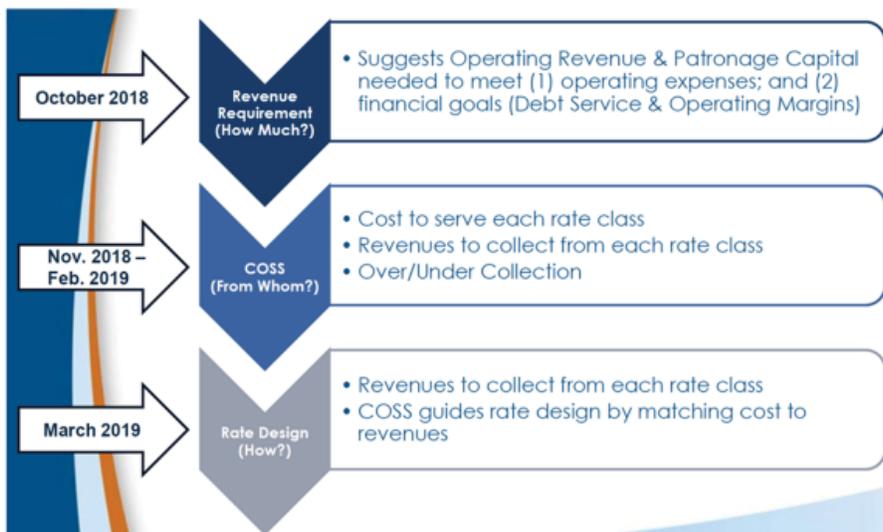
industry as a way of allocating actual costs associated with providing electric service to the various rate classes, such as residential, commercial, and industrial. CVEA will determine an equitable allocation of the annual revenue requirement for the various customer classes.

Costs will be classified to find out whether each individual plant investment or cost was incurred to meet a customer's demand, energy or customer related requirements. Finally, these costs are divided into customer classes: residential, commercial, and industrial. The goal is to have the costs of electricity paid by those customers who create that cost.

How does CVEA collect it?

Options are developed by using a variety of approaches ranging from the current rate design to alternative rate designs including blocks of usage and seasonal rates.

Rate Study Steps



Rate Study Goals

In 2018, the Board of Directors gave staff specific direction on policy issues and goals for the rate study. The goals were to meet long term financial and operational needs (cash), understand rate class equitability (moving customer charges closer to cost of service), and to ensure necessary changes were simple and easy to explain to the membership.

The rate study was developed to be forward-looking, roughly five years, taking into consideration all projects required to maintain CVEA's assets, as well as increases for heating fuel, insurance, and other costs that go up with inflation.

Rate Study Results

The study concluded an estimated annual revenue shortfall in the amount of \$765,000. Cutting the bud-

get to recover shortfalls is always a consideration. CVEA has made significant budget cuts the last five years. Recent examples are the elimination of two upper level management positions, and a revamped, more efficient fleet program. However, CVEA is not able to recover the shortfall with budget cuts alone and still maintain a reliable system.

After conclusion of the study, several meetings to discuss the findings, and a detailed review of options, the Board of Directors presented a plan to the membership to recover the shortfall.

- \$359,000 – An increase in the customer charge, which covers a portion of the cost to produce a monthly bill. The residential member monthly customer charge will increase from \$12 to \$20, and the small commercial monthly customer charge will increase from \$20 to \$30. It is important to note that the customer charge has not been updated since the 1990s.
- \$283,000 – A reduction in heat credits. When the Cogen produces heat revenue, members see a heat credit on their bill. This component changes monthly and is only available in months when CVEA receives heat revenue, typically November thru May. The percentage of heat revenue given back to the members as a credit on the bill will be reduced from 90 to 80 percent.
- \$123,000 – Budget reductions for 2020. CVEA staff will continue to closely scrutinize annual expenditures.

The Public Process

The proposed changes noted above were communicated to the Membership through various media and a public meeting was held in both districts on Tuesday, July 23. All of this information, including the presentation given and a video recording of the public meeting, can be found at cvea.org, under press releases.

Members were given over five weeks to provide comment, and all comments were forwarded to the Board of Directors. The Board appreciates the feedback received by members and would like to address a few common questions that came up during the process.

Staff first addressed the breakdown of CVEA charges. Basically, 27 percent is the cost to distribute power to the members, 45 percent is the cost to generate and transmit power to the distribution system, and 28 percent is a direct pass through of the cost the Cooperative pays for fuel needed to generate power for the members. A more detailed description of each component can be found on cvea.org under 'understanding my power bill'.

Several people had questions surrounding past rate increases. Looking at all base rate revenue, rates have been stable. In 2009, base rate revenue was \$5.3 million, and in 2019, it is projected to be \$5.8 million. In 2009 CVEA had 65 million in kWh sales

whereas 2019 is projected to be 85 million.

The Generation & Transmission (G&T) rate was implemented in 2009 at a rate of 10.57¢ per kWh. The 2019 G&T rate is 11.88¢ per kWh. This 1.31¢ increase is a direct result of the Allison Creek project which cost \$55 million.

Another common question asked was why there would not be a customer charge increase for large commercial members. This is due to cost of service (see 'Which customers pay?' section on opposite page). The large commercial rate class already pays close to their cost of service. Increasing the residential and small commercial customer charge will move those rate classes closer to paying their cost of service as well.



Impact to the Members

It is important to remember that each customer is different based on their usage. An effort to determine member impact was based on the average residential member, defined as a member who uses approximately 500 kWh/month.

The increase in the customer charge, combined with the heat credit reduction noted on the left, is estimated to impact the average residential member by approximately \$114 per year, and the average increase to small commercial members is estimated at \$163 per year. Members interested in their specific impact may request an individual account analysis by contacting CVEA.

The rate changes, as presented, were approved by the Board of Directors at the regular meeting on Thursday, August 15, 2019. These changes will be effective September 1, and members will see the changes on the September billing.

For additional information please contact Jaime Matthews, CVEA Chief Financial Officer, at (907) 822-3211 or email matthews@cvea.org. ■