

2018 Rate Increase Q & A

Beltrami Electric will be implementing a rate increase that will go into effect for billing statements received in April. Rate design entails a balancing act between meeting our revenue needs while minimizing the overall financial impact to our members. As a not-for-profit organization, we must recover our costs of doing business as well as maintain sufficient margins to reinvest in our electric distribution system. For years, cooperatives have recovered fixed costs through a combination of a fixed access charge and the energy (kWh) rate. As a result of a pattern of declining retail sales, cooperatives have begun to reevaluate the rate structure and the way fixed costs are recovered.

Please remember that fairness is a driving principle in rate design. Rates attempt to collect revenue that is related to the cost contribution that each group imposes on the overall electrical system. Average electrical rates are driven by the ratio between how the group collectively uses energy (kWh) and the demand each contribute to the system peak (kW), these, along with the infrastructure cost required to deliver this energy and demand to our location. These factors can produce varying retail rates for different groups of members based on each group's cost contribution and demand on the overall system. Because of this, to be fair, the calculation used to sell electricity to one group may need to be very different from another. A Cost of Service Study is used to review these cost factors and design the rates.

Q. Why has my electric bill gone up?

A. Electricity remains a great value. Our challenge locally is to keep rates affordable, electric service reliable, and the co-op in a solid financial position so we can continue to provide you with the electricity to turn on your lights, heat your home, keep your coffee hot, and charge your batteries while still meeting financial requirements set by lenders. While in past years wholesale power rates have been a key factor in the cost increases, now we see changes in the ratio between overall energy usage and demand; at the same time that cost of distribution system infrastructure is rising. This is because of increased reliability expectation and aging utility plant. Many of these changes move more expense to become a fixed annual cost, which traditionally has been recovered thru the variable energy usage, which appears to be declining.

Q. You raised rates last year, why is another increase necessary?

A. As a not-for-profit electric cooperative, we don't raise rates to generate profits. We raise rates to cover the cost of doing business and only when absolutely necessary. This past year we saw the ratio between the fixed and variable cost change, partly driven by milder weather, but also by changes in technology. This had impacted the local distribution cost and the basic rate structure. This is why the general service rate is experiencing an energy and access charge increase, while the off-peak energy is not.

Even after the rate increase last year, margins were very thin. We used the last \$250,000 from our revenue deferral in 2017. Because the revenue deferral was available in the past your board of directors purposely chose to operate on very thin operating margins, but now that this fund has been fully utilized, we must increase operating margins to meet our loan covenants and financial ratios.

Q. What are revenue deferral funds?

A. This is revenue that was deferred in past years from the sale of Rural Vision (Direct TV), which Beltrami Electric owned jointly with neighboring co-ops. We have been utilizing these dollars as needed to help ensure the cooperative meets its financial obligations and lending requirements in addition to minimizing past rate increases.

Q. What is the Access Charge on my bill?

A. Like any business, BEC has both fixed and variable costs. The access charge is designed to recover Beltrami Electric's local distribution costs related to making a basic electric service available to all its members. Our last cost of service

study (using 2015 data) indicated that the cost of having a minimum service available is in the -mid \$40s range and should increase about \$1.50 each year. However, recognizing that increasing the access charge is difficult for many BEC members, the board decided to increase the monthly access charge in steps rather than do it all at once.

Some of the items among the fixed expenses covered by the access charge are:

- Line trucks, wire, transformers, power poles, meters 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 the outage management system and advanced metering infrastructure
- Liability insurance, interest, taxes, and emergency storm restoration

According to the cost of service study done in 2015-2016, BEC has been under-collecting on the monthly access charge for many years. The study has indicated that the cost of having a minimum service available is in the -mid \$40s range. However, recognizing that increasing the access charge all at once would be difficult for many BEC members, the board decided to increase the monthly access charge in steps rather than do it all at once.

Beltrami Electric serves an average of 6 members per mile of line, whereas utilities that serve cities and towns serve an average of 40+ customers per mile. Therefore, we as rural electric cooperative members have fewer neighbors which to share these fixed costs with; each of us must contribute a greater portion of the investment and maintenance cost of the system required to provide service to our homes and businesses. A mile of single-phase line requires an investment of approximately \$75,000 to build, this plus annual maintenance expenses create a significant cost related to providing the grid access required to make electric services available to rural locations. The difference in access fees between rural and urban or an area with significant commercial customers often comes down to the number of customers or members sharing the fixed cost of each mile of electrical line.

Q. I have been a member of the cooperative for a long time. Shouldn't these fixed costs of the distribution system have been recovered by now?

A. Fixed costs could be compared to a car. For the lifetime of a car, you will always have costs associated with having the car, such as a loan to purchase it, insurance and maintenance costs. Even if the maintenance on the car is kept up, eventually you will need to replace the motor, tires or even get a new car. This is also true for the distribution system in the utility industry.

Although you may have been a cooperative member for a long time, there is a good chance that very little of the original equipment that was initially installed to provide you with electric service is still in place. Poles and wires break and transformers burn out and must be replaced. BEC is constantly at work maintaining the distribution system to provide members with reliable service. The fixed costs that were initially incurred to provide a member with service have been replaced with new fixed costs as the cooperative performs the necessary maintenance to keep the system operating reliably.

Q. I have a service for a hunting shack that I do not use year-round. Rather than pay the new access fee of \$42.50 per month, can I disconnect my service and just pay for the months I use the power?

A. Yes, you can. However, doing so is more expensive than keeping the account active. Here's why: When an account is disconnected, there is still a cost associated with maintaining the infrastructure needed to provide power to the meter when service is reconnected. A minimum access charge of \$42.50 per month covers this. An account that is disconnected and reconnected within a one-year period is assessed a "back minimum charge." This requires payment of all monthly access fees from the time the service was disconnected and reconnected, in addition to a reconnection fee of \$150.00.

Q. What is the Purchased Power Adjustment (PPA) on my bill?

A. The PPA is a direct pass through of changes in cost (either increases or decreases) of purchased wholesale power from Minnkota that appears on your bill as a separate line item. The cost of wholesale electricity is composed of numerous fixed and several variable costs.

The monthly PPA is a charge or credit based on the ratio between the fixed and variable components. Fixed expenses include the cost for transmission lines and generators or capacity expense required to meet members' peak electrical demands. Variable charges are related to the cost of fuel and actual operation of the power supply system. The effective kWh cost can vary each month as the ratio between these costs change. The PPA allows the monthly billing statement to accurately reflect the changes in the cost of wholesale power as consumers' electrical usage changes.

Q. Why do you promote energy conservation, if reduced energy sales contribute to increased rates?

A. Beltrami Electric has always encouraged the wise use of electricity. As part of the Next Generation Act of 2007, the Minnesota Legislature established an energy-saving goal of 1.5 percent of gross annual retail energy sales that electric utilities must meet annually. In an effort to effectively achieve this goal, Beltrami Electric maintains a Conservation Improvement Program (CIP) and continues to promote energy conservation, offering rebates towards the installation of energy saving appliances, lighting, heating and more. Today, we are seeing the success of these efforts, as members' reduce their energy consumption and ultimately, overall energy sales. This is challenging as we are not seeing as many new consumers, which created the load growth we had 10 years ago that helped to offset reduced energy usage through conservation efforts. Choosing to use the available electrical service to meet your energy need does help hold down the cost of electricity, wise use of electricity is the key.

Q. Why are your rates higher than other neighboring utilities?

A. Beltrami Electric's rates are very competitive with other rural electric cooperatives in northern Minnesota. One significant difference between Beltrami Electric and investor-owned utilities, or other city-owned utilities, is that the other utilities average between 35 and 55 customers per mile of line. These utilities often have a significantly number of industrial and commercial customers that use more kWh over which to spread their fixed cost. Beltrami Electric averages six members per mile; mostly rural residential home that use energy primarily during morning and evening peak hours creating a low utilization factor. The costs for line construction and system maintenance are the same, but we have fewer consumers to help cover the costs for more miles of line, materials and equipment.

Q. WHY are cooperative's rates higher than other utilities?

A. Electric co-ops were formed years ago because there wasn't enough "profit" for investor-owned utilities to serve rural areas with electricity. That's why co-ops were formed 78 years ago... and that's why we're still here today. Our job is to provide safe, reliable and affordable service on an at-cost basis in areas that don't provide the return that other utilities, like investor-owned energy providers, prefer.

Co-ops, like Beltrami Electric, are cost-based electric utilities and our charges to you are only for the costs of providing the electric service to your home, cabin or business. After expenses for providing your electricity are paid, the money left over (the margin) is set aside for all members who purchased electricity during the year in a Capital Credit account.

Q. What can I do to reduce my electric costs and can BEC provide any assistance in this area?

A. The most important thing you can do is practice the wise use of electricity. When one uses electricity is a significant part of the overall cost; does your energy use increasing the demand expense and create the need for new power plants and transmission lines. The cooperative's long standing Off-Peak or demand Response programs are the answer to lower energy cost. This rate has remained very stable. By converting to a high efficient off-peak electric heat pump system along with a off-peak storage water heater, you can enjoy lower energy cost while holding down electrical rates. Also remember conservation; by simply turning electrical equipment off or down, you can reduce your electric bill. Set your thermostat to 68 degrees or below in the winter and 78 degrees or higher in the summer; unplug electronic devices

when not in use. BEC offers a number of options to help members manage their electric usage, including the web-based **MyMeter** program.

Rebates are available for installing Energy Star® appliances, new electric water heaters, LED lightbulbs, or new off-peak electric heating equipment. In addition, BEC's Demand Response (Off-peak) system offers a significant savings to participating members compared to the standard electrical rate. See the many energy efficiency tools and brochures that are available on our website at www.beltramelectric.com. Encourage members to call or stop in to visit with us anytime – we strive to be their source for information!

ENERGY CONSERVATION MEASURES:

- Set your thermostat to the lowest comfortable temperature setting in the winter (Dept. of Energy recommends 68 degrees)
- Caulk around doors and windows
- Repair leaking hot water faucets
- Turn off lights when you leave a room
- Wash and dry full loads of laundry (or air-dry loads, but don't overload the dryer)
- Lower the thermostat on your water heater to 120 degrees F
- Replace or clean your air filters once a month
- Invest in energy-efficient equipment. When upgrading look for the ENERGY STAR® symbol
- Residential in-home energy assessments by BEC technicians
- Install off-peak heating equipment to take advantage of lower rates