

## CVEA Jump Starts Rate Study

The last rate study CVEA conducted was in 1997 and resulted in an average system decrease of 7.3 percent. Those numbers no longer work today. In the last 14 years many system changes have occurred and CVEA has experienced a very flat growth pattern, making it necessary to take another look at rates.

CVEA started the rate study in 2007, but it was put on hold due to two major events that would impact the results; the acquisition of the Solomon Gulch Hydroelectric Project, and a projected load increase due to the Petro Star Refinery clean fuels expansion project.

In July, 2011 with these events behind us, the CVEA Board gave staff specific direction on policy issues and goals for continuing with the rate study. There are several components of a rate study, but the primary goal is to get rates where they need to be to recover costs.

The specific goal of this rate study is to design a rate that covers our costs and allows us to use a majority of the heat revenue as a credit to offset the fuel cost component on member bills.

Results were reviewed at the CVEA Board Meeting in October. When we combine all the factors, the overall impact is minor at current fuel prices; however, there are two significant changes we would like to make sure you understand:

- The use of heat revenue
- The components on your bill changing

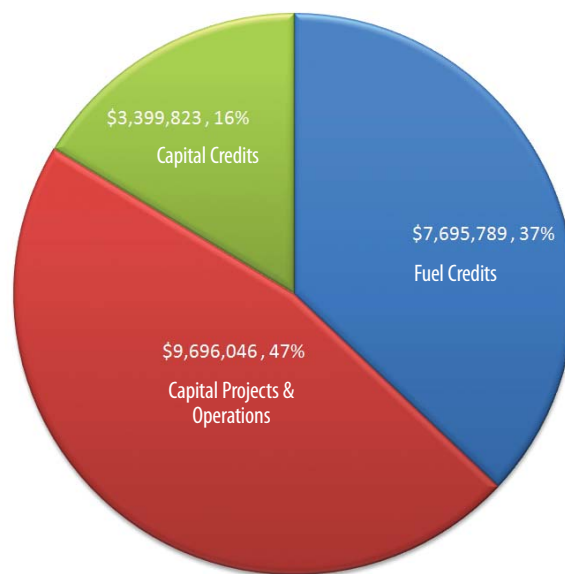
### Use of Heat Revenue

When the Cogeneration Project was commissioned in 2000, CVEA began to collect a new source of revenue in the form of exhaust gas (heat) sold to Petro Star. The price Petro Star pays for heat, like fuel, changes with the price of oil. When heat revenues have been high, CVEA has been able to use this increased revenue to pay for needed projects and help offset high fuel costs for the members through various fuel credit programs.

Since 2000, CVEA has collected nearly \$21 million from Petro Star in heat revenue. The pie chart to the right illustrates how these dollars have been used: funding operations and capital projects, fuel credits, and capital credits paid to members.

As you can see, heat revenue is a critical part of CVEA's finances and the Co-op relies on these dollars to pay operating expenses. To illustrate the importance of these revenues to CVEA's financial well being, we only have to look as far back as December 2008 when a fire shut down the refinery and shut off heat revenues for ten months. Overnight, CVEA margins went from a budgeted plus \$950,000 to a minus \$820,000. Addressing this reliance on a single revenue source is a priority

### Heat Revenue Through 8/31/11 \$20,791,658



for CVEA.

### Understanding Your Electric Bill

At current fuel prices of \$110/barrel, CVEA's system average revenue per kWh is 30.69¢. This is broken down as follows:

- 22% → What it costs to distribute power to you
- 30% → What it costs to generate and transmit power into the distribution system
- 48% → Fuel

There are several components of a member's bill. A brief discussion of these components and how they will change after the rate study is complete is described below.

#### Customer Charge

This covers a portion of the cost to produce the monthly bill. This will remain unchanged for all rate classes.

#### Energy Charge

The charge per kWh/KW charge, also known as the distribution charge, is the cost to deliver power to you, and includes system operation and maintenance, customer service, member services, administration, depreciation, taxes and interest.

All customers pay this charge for all kWh used. In addition, large commercial customers are charged a KW (or demand) charge which collects additional costs for large customer capac-

# CVEA Power Bill

## Customer Charge + Energy/Distribution Charge + G&T Charge + Fuel Charge - Heat Credit

ity demands on the system.

### Cost of Power

This charge is a blended cost of power from the Solomon Gulch hydroelectric facility and the cost of fuel for the cogeneration and diesel plants.

On your new bill, this charge goes away and will be separated into two new components; a G&T Charge and a Fuel Charge.

### G&T Charge

G&T stands for Generation and Transmission. This new component will cover the cost to generate and transmit power into the distribution system. Costs associated with Solomon Gulch are included in this charge.

### Fuel Charge

As described earlier, approximately 48 percent of the member's electric bill is fuel. The new fuel component will consist of fuel costs only and will no longer include any hydro costs. This component changes monthly as it will reflect actual fuel costs.

When CVEA is not burning fuel to generate electricity, there will be no fuel charge. In the summer months, like July, when we are running mostly hydro, the Fuel Charge will be close to zero. In the winter months it will be higher.

### Heat Credit

When the Cogen is producing heat revenue, members will see a heat credit on their bill. This component changes monthly and will only be available in months when we are receiving heat revenue.

Under normal generation cycles, a Heat Credit will be provided during the winter generating season; typically November thru May.

CVEA is excited to move forward with the conclusion of the rate study. Public meetings will be held in spring 2012 to discuss the changes and give members an opportunity to comment and ask questions.

CVEA welcomes any comments and questions you may have. Please contact Jaime Matthews, CVEA Manager of Administration and Finance, at (907) 822-8311 or [Matthews@cvea.org](mailto:Matthews@cvea.org). ■

## What is a 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?

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.

### 2. 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, industrial, etc. The goal is to have the costs of electricity paid by those customers who create that cost.

### 3. How does CVEA collect it?

Options will be developed by using a variety of approaches ranging from the current rate design to alternative rate designs including blocks of usage and seasonal rates. Customer bill comparisons will be developed to determine the rate impacts on different customer classes for different rate alternatives.