

2017 Rate Change Talking Points

Electric cooperatives are democratically controlled organizations: they are governed by cooperative members voted in by their peers. Cooperatives provide economic benefits to their local communities and operate on a cost-plus philosophy by returning excess operating margins back to their members. They do not pay dividends; thus aim to keep costs as low as possible while providing value to their members and the communities they serve.

Why is Mille Lacs Energy Cooperative raising rates?

The main reason for this increase is the need for investment in your cooperative. In the past 10 years, we have experienced very limited sales growth and growth in new members; however, our costs continue to rise and our equipment and electrical infrastructure continue to age. MLEC's sales have increased less than one-half of 1% per year since 2006 (.41% actual compounded annual growth).

There are multiple large projects that are in various stages of design and implementation that will contribute to increased costs. These include a significant increase in our Right-of-Way (ROW) program; the design and implementation of a new metering system; a new GPS-based asset management system, and building modifications to update the heating system, make security upgrades, bring areas up to code and increase efficiency in layout. In the next couple of years, our Right-of-Way (tree trimming) program will have the most significant impact.

Who determines when a rate increase is necessary and how do you establish the amount?

The final decision is made by the Board of Directors who have been voted in by the Cooperative's members. Cooperatives are member organizations, unlike most other businesses. This places a unique responsibility on cooperative directors to be sensitive to the needs of members and balance all members' interests. Therefore, director decisions are not based on profit, but on what the needs of the members are, while keeping the cooperative financially sound. All money received from members goes back into the cooperative, paying for our purchased power and funding improvements and maintenance to our infrastructure.

What is changing with the Right-of-Way program?

As trees and vegetation near our poles and lines grow, reliability is compromised, safety to MLEC workers and the public is jeopardized, and the cost to properly maintain the system increases even more.

In 2016, MLEC contracted with ACRT, an Independent Vegetation Management Company, to conduct an assessment of our system. The result of this assessment produced a multi-year plan using contractors, in addition to MLEC crews, to establish our Right-of-Way program on a five-year trimming cycle. The assessment indicated a cycle greater than 5 years would actually cost more in the long-run. In the past few years, we increased our Right-of-Way budget by using funds from other areas of the cooperative. This was a significant help, but cannot be a permanent solution. The ACRT assessment helped us determine what it will take so that

MLEC can manage our electrical system with only our crews. Last year, overhead outages cost your cooperative \$615,000 and over 65% of those were caused by trees. By investing in our Right-of-Way program, outage costs will be greatly reduced. The primary benefits are a long-term decrease in ROW costs, increased reliability, and employee and public safety.

Why are new metering and asset management systems necessary?

We are currently working with design engineers on the new metering system called an Advanced Metering Infrastructure (AMI) system to replace our older AMR or Automatic Metering Reading system. Like other technologies, there have been significant advances in metering systems that will provide substantial benefits to our members. The existing AMR system was installed approximately 18 years ago and has been fully depreciated. Since an AMR system is a one-way communication system, it only allows MLEC to retrieve data from the meter, but does not allow us to communicate with the meter. This requires a separate load management system to control members load as part of the heat storage, water heating, and air conditioning-cycling programs. The system currently being used is a 155 MHz low frequency radio system controlled by our energy supplier – Great River Energy. With an AMI system, MLEC will be able to not just read the meters real-time, but will also be able to control loads from our offices. This will reduce the need for the separate load management system and will allow us to offer new services and programs that will help members control their energy bills and provide additional value-added programs to members.

The new GSP system will allow us to better track our assets by location, leading to increased inventory efficiencies and preventative and predictive maintenance programs.

When were electric rates last changed?

MLEC has not increased our access charge since 2011 or increased our energy (kWh) charge since 2013. We have worked hard to keep our rates low for as long as possible.

How much will my bill increase?

Member access fees will increase 20% and the energy charge (\$/kWh) will increase 3%. The average monthly residential bill using 1,000 kWh/month will increase \$8.55 /month.

When will the rate change begin?

The rate change is effective March 1, 2017. You will see the increase on your April bill.

How will your April residential bill look compared to last year?

<u>2016</u>	
Access Charge	\$ 25.00
kWh rates average (residential customer usage 9.92 cents x 1,000)	\$ 99.20
Tax	\$ 8.54
Total	<hr/> \$132.74*

2017

Access Charge	\$ 30.00
kWh rates average (residential customer usage 10.22 cents x 1,000)	\$102.20
Tax	\$ 9.09
Total	\$141.29*

(*plus or minus power cost adjustment/local taxes may apply)

Are there copies of the rates available?

Yes. They can be found on our website or we can mail them to you.

What does the energy charge pay for?

The Energy Charge is designed to cover the cost of wholesale power and delivery to get the kilowatt-hours to your meter.

Seasonal Impact – MLEC has a three season rate structure (winter, summer and spring/fall) to match our wholesale power billing and when you use the energy. Power is the most expensive during the summer months of June –August. Winter power costs are lower than the summer months but higher than spring and fall. The seasonal rates send the clearest price signal by reflecting these differences.

What does the access charge pay for?

The access charge is designed to cover each member’s share of the cost of maintenance for wires, transformers, meters, right-of-way clearing, and other expenses on the distribution system associated with access to the electrical grid and providing service. Members have the benefit of reliable electric service being available when they want it, and the access charge ensures everyone pays their fair share of the fixed costs.

In 1987, the access charge was \$13.23. In April of 2003, it increased to \$20.00, and March 2008 to \$24.00. In January 2011, it changed to \$25.00, where it remained until now.

So, if the ROW program is the largest short-term contributor to the rate increase, will my bill go down after the five-year cycle?

We do not foresee a decrease after the ROW program expenses. This is the beginning of a long-term plan to invest in MLEC. We are working hard to phase the projects mentioned above in at the most economically feasible time - spacing out the big projects over the course of the next few years to minimize the impact on rates. Technological changes are required to keep your cooperative strong financially and they do not come without a cost.

Why is my electric bill higher than if I lived in a larger city?

MLEC has only seven members per mile of line, where in a metro area there may be up to one hundred. All costs to maintain lines are divided to the number of members. Fewer members per mile of line means costs per member is higher. MLEC’s electric rates are very comparable to cooperatives with similar line miles and density.

What if I disconnect my service in the months I am not using my residence?

It will cost even more if you disconnect for less than one year, then reconnect. There is still a cost to maintain the infrastructure to all accounts connected or not. If disconnecting an account, you will be charged a \$150 reconnection fee, plus \$30 a month for each month disconnected to cover that cost. In short, the access fee is insurance that your power will always be available when you need it.

Will MLEC's recent announcement on pursuing broadband installation in its service territory impact my electric rates?

The project to install fiber optic cable to a portion of our service territory is independent from our electric service and will not impact your electric rates. Only members who choose to subscribe will pay for the broadband service. We are excited about our collaboration with CTC and the resulting \$1.7 million matching grant we received from the MN DEED (Department of Employment and Economic Development) and the benefits it will provide our members. This is another example of how we, as a cooperative, try to bring value to our members and minimize costs through economic development efforts.

What does MLEC do with profits and how does the co-op keep costs down?

As a non-profit, MLEC does not aim to make a profit beyond the slight margin we need to reinvest in the system. MLEC is cost-based and any earnings over costs are used to help fund the cooperative.

Your MLEC team works diligently to keep our costs down. Comparing MLEC to other coops our size nationally and within the state of Minnesota, we have fewer employees per member and average costs per member are lower. Let's look at how we compare:

<u>Expense per member</u>	<u>2014</u>	<u>2015</u>
MLEC	\$373.86	\$366.40
Cooperatives our size (national)	\$486.51	\$494.46
Statewide	\$471.58	\$478.59
<u>Average members per employees</u>	<u>2014</u>	<u>2015</u>
MLEC	324	318
Cooperatives our size (national)	301	313
Statewide	291	291

What can I do to reduce my electric costs? Can MLEC provide any assistance?

Load Management Rate programs - such as off peak and dual fuel, designed to reflect the savings that result from the ability to control these loads during periods of high energy demand. Even with increased rates for these programs to cover wholesale power cost increases, they remain very competitive with other energy costs.

Electric Energy Use Assessment - equipment available to monitor usage on 120-volt appliances and equipment. Energy Advisors are available to answer questions and will visit your home or business to help you identify ways to reduce your energy costs, and perform a *Heat Loss Analysis*. They will use an infrared camera to highlight trouble spots to help you identify where home improvements could save you energy – thus money.

Why did you switch from Quarterly Billing to Monthly?

This was done to streamline our billing process. The access fee and energy rates are the same for monthly and quarterly billed accounts so the amount you pay will not change. We have many convenient payment methods available. Visit our website at www.mlecmn.net to sign up for auto-pay and make online payments or download the SmartHub App to make payments on your phone or tablet. The pay by phone option is available 24/7 at 855-385-9813.