

CEC announces revenue neutral rate shift

As Capital Electric Cooperative (CEC) moves into the future, we are making important changes to our rate structure. Your CEC Board of Directors and staff, through strategic planning and analysis, as well as independent rate consultations, understand how important it is to provide an equitable rate structure for its members.

The process will start in May 2021, when CEC launches a seven-year plan to move toward fair and balanced rate structures. The co-op's main objective is to ensure all members pay the appropriate share for the benefits of being connected to CEC's system regardless of their individual energy choices and usage patterns. While these rate changes will not provide more revenue to the cooperative, they will allow the co-op to recover more of its fixed costs through a monthly base charge. At the same time, the kilowatt hour (kWh) rate (referred to as "Usage Charge" on your bill), will be more in line with the co-op's energy costs

from its power supplier.

When complete, the new rate design will give members a clearer idea of what it costs to run the co-op and how changes in the cost of energy affect them. It is a revenue-neutral rate shift to the co-op, meaning the total amount of money paid by the membership remains unchanged. Most members will not see a substantial change to their bill's bottom line when each annual rate structure shift occurs. However, due to differences in how members use their electric service, some members may see slightly lower bills, while others may see slight increases.

What does this mean for you?

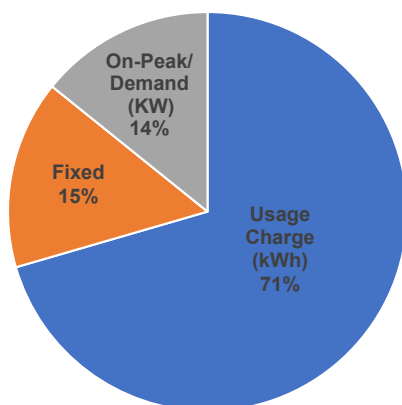
The first change you will notice on your electric bill will start in May 2021 (the bill will arrive in your mailbox mid-June). Residential members will see a \$3.00 increase in the monthly base charge and a corresponding reduction in the energy rate, which will offset the \$3.00 increase for the average member (those who use 870 kWh

per month). Many members will see lower monthly bills, while others might see a small increase, but in no case will it be more than \$3.00 per month.

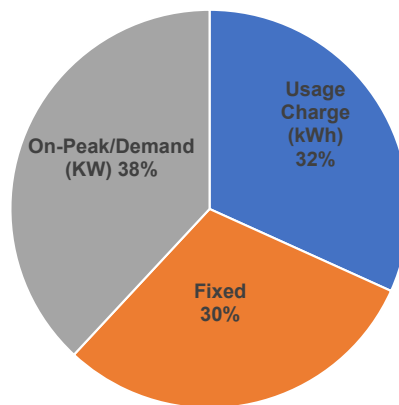
The redesign will be undertaken in seven annual stages, beginning in 2021 and ending in 2027. Each stage will occur in May and be reflected on members' June billing statements. When fully implemented, all co-op members will pay an equitable portion of the costs to run the utility, and any fluctuations in their bill will reflect electricity usage.

As the rate structure is shifted, CEC will also roll out new optional rates and programs that provide members additional opportunities to affect their bill. By shifting their usage away from traditional peak times, participating members will see their monthly bill lowered in proportion to the peak power cost savings. We look forward to discussing these future options with you when they are finalized in the coming months. **CEC**

Revenue



Costs



**It should be noted that from time to time, an actual increase in overall revenue (versus a revenue neutral rate shift) is required to cover the cost of operating the co-op. It would be realistic to expect an actual rate increase over this seven-year rate structure shift at some point in time. CEC's most recent rate increase was in 2016.*

These graphs reflect CEC's costs by source and revenue by source. As you can see, they are not currently in proportion to each other. In other words, a good amount of the co-op's fixed and demand costs are covered by member energy, or kilowatt hour (kWh), charges. The new rate restructure will better connect member charges to the expenses the co-op incurs in providing power to its members' homes and businesses.

Revenue neutral rate shift: Frequently asked questions (FAQs)

Q: Why does the rate structure need to change?

A: It became necessary to separate fixed costs from electricity use, because the co-op's fixed costs are increasingly exceeding corresponding fixed revenues. Various factors contribute to this imbalance. Historically, CEC has attempted to correct this imbalance over time when a rate increase was necessary. However, only two general rate increases have occurred in the last decade — in 2012 and 2016 — while the pressure on fixed costs relating to system peaks has grown exponentially. Furthermore, the chief driver of electricity demand is the weather. It has become more unpredictable and extreme, creating strong revenue fluctuations, which the current structure could not effectively address. Moreover, the electric industry is rapidly evolving, with emerging technologies affording customers multiple ways to alter the way they use their electric service through efficiency, load balancing and member-owned generation. CEC desires to serve all members equitably regardless of how

they decide to utilize their electric service. It became clear that changes to the rate structure are essential to achieve that primary goal.

Q: What was the process for reaching the approach taken to redesigning rates?

A: In 2020, Guernsey, an independent consultant, conducted a cost-of-service analysis for CEC. This study analyzed all costs of building, operating and maintaining the electric system and serving members. The analysis showed the monthly base charge fell well below the needed level to ensure consistent recovery of the fixed costs. Based on analysis and discussion with the consultant, followed by thorough review and discussion by CEC's Board of Directors and staff, it was decided a phased-in approach to more accurately separate fixed costs from energy use was the best and least disruptive method of right-sizing CEC's rate structure.

Q: What are the residential rate design changes for each year

| Seven-Year Cost Shift | | | | | | | |
|---------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Year | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
| Resulting Monthly Base Charge (Urban) | \$ 22.50 | \$ 25.50 | \$ 28.50 | \$ 31.50 | \$ 34.50 | \$ 37.50 | \$ 40.50 |
| Resulting Urban Usage Rate | \$0.08056 | \$0.07711 | \$0.07367 | \$0.07023 | \$0.06679 | \$0.06334 | \$0.05990 |
| Resulting Monthly Base Charge (Rural) | \$ 28.00 | \$ 31.00 | \$ 34.00 | \$ 37.00 | \$ 40.00 | \$ 43.00 | \$ 46.00 |
| Resulting Rural kWh Rate Tier 1 | \$0.08956 | \$0.08611 | \$0.08267 | \$0.07923 | \$0.07579 | \$0.07234 | \$0.06890 |
| Resulting Rural kWh Rate Tier 2 | \$0.08056 | \$0.07711 | \$0.07367 | \$0.07023 | \$0.06679 | \$0.06334 | \$0.05990 |

Q: What about commercial and other non-residential rates?

A: Individual communications will be provided to members on commercial, irrigation and other non-residential rates. They, too, will see movement toward greater alignment of fixed charges.

Q: Will this affect the electric and dual fuel heating rates?

A: The electric and dual fuel heating programs are based on a separate rate schedule from CEC's wholesale power provider, which did not change in 2021. Future modifications may occur as costs to the cooperative change. **CEC**