

Power of the People

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Rate Questions Answered

Questions are being asked about our current rates and the last rate increase. I will use this opportunity to remind everyone of the Board's rate decision in 2010 and how it impacts the rates today.

The WOEC Board of Directors at a board meeting held September 28, 2010, approved a rate increase of 4% on October 1, 2010, and a 5% increase on October 1, 2011. The increase was based upon the completion of a 10 year Load Forecast, a 10 year Financial Forecast, and a Cost of Service Analysis (COSA), and determination of management staff of West Oregon Electric Cooperative that an increase of 9% spread over two years would be necessary to maintain the level of services and cover operational costs of the cooperative. The increase is based on the following facts:

- BPA increased our wholesale power costs by 3% in 2010-2011, and by 9.52% in 2011-2012.
- The new building will add \$3 per month to the facility charge, which equates to a 2% increase in the rates.
- We've reduced our tree trimming by three months in order to make budget and this has put us behind in maintaining our system and meeting PUC requirements. This should be fully funded going forward.
- Our overall costs of goods, services, and materials have continued to increase, especially metal prices.
 - Cost of living adjustments in labor, and benefits costs.
 - Increased legal fees.
- We are still trying to recover financially from the three FEMA events that took over \$1 million of cash out of our Co-op. Our reserves must be sufficient to deal with the next event or events.

Reasons for the 4% increase in October, 2010:

- a) Labor costs will increase.
- b) Benefit costs will increase.
- c) Tree trimming costs.
- d) Cost of power will increase.
- e) Principal & interest for building loan.

Reasons for the 5% increase in October, 2011:

- a) Cost of Power (BPA) set to increase 9.52%
- b) Normal cost of living increases will cover the balance – about 1%.

As you can see from this list, we have little or no control over most of these items. Of the things we do have control of, we have been, and continue to keep costs down as much as possible. All of our Staff has taken a voluntary wage freeze for one year and the Management Staff took an additional one year freeze in wages which has helped, and will continue to benefit us in the future. Our revenue is down and costs up, but we are managing against it as much as possible.

Most of the increase is due to increases in our wholesale power costs from BPA. As I stated above, we were hit with a 3% increase in 2010 and a 9.52% increase in 2011.

It is interesting how even WOEC is subject to the global market. As demand for metal has increased in China, they are buying all they can from the U.S., which has shrunk the supply here,

thus driving up the price to us. All of the wire, tools, transformers, and other necessary metal items to operate our business have gone up in price dramatically.

We have spread the costs evenly among the rate classes as recommended by the COSA and are not recommending any other changes to the rate structure at this time. We will be reviewing our rate structure and how it fits into the new Tier 1 rate structure from BPA that will change us to a load following and demand focus.

The other area we will continue to address is the facility charge. The COSA indicates that our cost to maintain the system on a per meter per month basis is about \$80 to \$88. We are the only industry that does not charge all of its fixed costs up front, then charge for usage. Gas, water, sewer, phone, etc... all operate this way, which allows them to be able to know that the base rate covers all of their fixed costs each budget year. We cannot do this as the majority of our revenue comes from kilowatt usage. If usage is up we can cover our costs. If they are down we will be caught short. It makes operating and budgeting very difficult. The other issue is that those who use very little power, especially those with seasonal homes who use no power for months, are not paying their fair share of the operating costs for maintaining the system. That means that the rest of the membership is subsidizing the system costs for everyone else. The fair and equitable way to make sure everyone shares in the costs equally is to increase the facility charge, which would then allow us to reduce the costs per kilowatt. Currently, we are not covering even half of the fixed costs of operating and maintaining our system. The facility charge needs to continue to be increased until we reach the point where are adequately covering our fixed costs. We will be looking into ways to accomplish this in a fair and equitable manner going forward as we look at our rate design for the future.

We continue striving to do our best to increase reliability and provide good service to our members while keeping costs down as much as possible. Where we can control costs, we do. Where we can't, we try our best to minimize the impact on our membership and make sure that the costs we do put in our rates are fair to all classes of our members.



*Wishing you a Merry
Christmas and a
Happy New Year*



**West Oregon
Electric Cooperative, Inc.**

