



Rio Grande Electric Cooperative, Inc.

# Update



June 2010



## A Message From The General Manager/CEO

By Dan Laws

### Rate Increase: Frequently Asked Questions

By now, you have received your second bill under the new rates we have implemented. We have had some members call in and question a few things. Below, you will find the most frequently asked questions, and the answers to those questions. Rio Grande Electric Cooperative's rates are cost-based, which simply means they are designed to collect the actual cost of providing service, along with a modest margin. There is no profit, no high dollar financiers, and no fat cat executives lining their pockets. There are just us...the members with a business that needs to continue to meet our needs, now and

in the future. And, that's the reason for the rate increase. Hopefully, my answers below will help you understand the need for the rate increase and give you insight into this business that belongs to all the members.

***I had no idea the rates had been raised; when was this decision made?*** The board and I have been discussing the need for approximately three years. In this column, I have mentioned a number of times the fact that a rate increase is going to have to happen at some point. It was officially announced by me at our Annual Meeting, held in Brackettville, on October 10, 2009. The final decision was made by the board at its January 20, 2010 meeting. It was subsequently announced in all the local (sixteen in all) newspapers throughout our service territory, sixty days before implementation. It was announced in this magazine more than sixty days before the rates were put in place. It was announced on our web site more than sixty days before the new rates were used to calculate bills. I conducted five rate increase town hall meetings throughout our service area. Each member receiving a bill received an invitation to these meetings. Finally, bill stuffers were sent to every account more than thirty days before the new rates were to be applied. There was absolutely nothing clandestine about this rate increase, which is only the third rate increase in 23 years.

***The rate increase is higher than the 10% announced in the paper; why is that?*** The rate increase is based on system average numbers. The average Rio Grande residential consumer used 860 kWh per month in 2009. If you go to our web site and pull up the rate comparison spread sheet we have there and insert 860 kWh, you will see that the increase is 10%. Because there is a fixed cost component (Availability Charge) that is the same for every consumer, the percentage of increase changes with the amount of energy a person uses. The lower a consumer's usage is, the higher the percentage of increase. Conversely, higher consumption results in a lower percentage increase. This is exactly how our rates have always worked. Consumers with higher usage are rewarded for their more efficient use of the cooperative's delivery system.

***Are the rates intended to discourage conservation by charging low consumption consumers more?*** Of course that is not our intention at all. The first thing for you to remember is what I have already said; our rates have always provided an incentive for those who make efficient use of the delivery system (wires, transformers, substations, etc...). The second thing to keep in mind is that those who conserve will reduce their total bill, which is, of course, the goal. For example; a person using 250 kWh will receive a total bill of \$66. A person using 1,200 would receive a total bill of \$188. For the one with higher consumption, their total bill is almost three times what the member with lower consumption would experience.

***Why did the availability increase so much?*** The Availability Charge is intended to defray the fixed costs the Cooperative experiences to make service available to our members. We have known for twenty years that the amount we charge is too low. Since our rates are cost based and all expenses must be recovered, the shortfall was captured through the energy charge. The problem with that practice is it penalizes those who make the most efficient use of the delivery system. Those who buy more energy pay a disproportionate share of the fixed costs. Accordingly, I recommended to the board they set the Availability Charge at the level the Cost of Service Study showed it should be. If you consider the fixed charges you pay for cell phone service, cablevision, satellite television, and land line telephone service, I think you will agree our Availability fee is pretty reasonable. ***Continued on page 4.***