

NOTICE OF RATE INCREASE and **QUESTIONS AND ANSWERS**

The staff and Board of SIEC have been working on adjusting our rates for the last several months and at the March 2018 board meeting, the Board adopted a rate increase, effective April 1, 2018 (which will begin with electric bills due in May 2018), that will raise our overall revenue from members approximately 6%.

At our annual meeting in August 2017, we told members that the current rates, which have been in effect since February 2012, would be increasing during the spring of 2018, and additional notices have since been in the JAMUP during 2018. The main reasons for the increase include:

- A 5% increase to SIEC in wholesale power costs that was effective January 1, 2018 (wholesale power cost is about 60% of our total operating cost).
- The cost of materials and supplies affecting our operations, and maintenance expenses, administrative expenses such as insurance, various taxes, postage and technology costs all increasing.
- Declining kWh sales and revenue since our February 2012 rate adjustment. Our 2017 Operating Margins were a loss of just over \$(219,000), which obviously is inadequate to comply with loan requirements. To maintain certain required financial ratios, our current rates have to be adjusted.

SIEC's goal every day is to provide safe, adequate and reliable electric service to our members as economically as we can. The following Q & A provides more detailed answers to questions you may have regarding this increase:

How did you come up with this rate, and how much is it going to cost me?

Overall, the net increase in SIEC's revenue will be just 6%. Nobody likes or wants an increase in expenses – we understand that, but when you compare that to the 6-years it has been since our last rate change, that's the equivalent of just 1% per year. Rates should be designed to generate revenue that is equally related to the cost each group or rate class imposes on the overall electrical system by determining and making equitable the ratio between how the group or rate class uses energy (kWh) and the demand (kW) each group contributes to the overall system peak, as related to the total expenses required to provide electrical service, resulting in the calculations used to price electricity to a given group or rate class. For SIEC to achieve an accurate and impartial review, we engaged an outside consultant to develop a Cost of Service Study to compile these cost factors and design the rates. The rate design incorporates physical distribution costs, operational member and regulatory costs, generation and transmission costs and environmental costs. The results of this study showed the amount we have been collecting from the facilities charge is not adequate. For the residential class, it indicated that the facility charge should be \$46 per month.

Why has the facility charge gone up so much?

The single biggest change in our rates will be in the facility charge, which is presently \$33 per month for residential members. It will raise to \$46 as determined by the Cost of

Service Study, and here's the best example we can give for why this change is so big. An electric distribution system is built to meet the maximum demand on the hottest day of the summer or the coldest day of the winter. If a member uses only one kWh and another member uses 1,000 kWh, the cost to build the line, to deliver the electricity and to maintain the distribution system remains the same. It takes just as much infrastructure, the same amount of tree trimming, spraying, pole inspection, accounting, billing, bucket and digger trucks as none of these costs are based on the amount of kWh used. A good analogy of this might be illustrated by thinking of our interstate highway system. An interstate may have multiple lanes in higher traffic areas to handle rush hour traffic, but during other times of the day and night, only a minimal amount of those lanes might be needed. However, the infrastructure cost for the road doesn't change with the amount of traffic as the flow of traffic is a variable just like the kWh charge in electricity. The infrastructure costs are in the land, concrete, construction, signage, and debt as those items don't change with the amount of traffic flow. We have 2,102 miles of distribution line in just 6 counties. If you laid that 2,102 miles out end to end, it would reach from Dongola to Washington DC, back to Dongola, back again to DC then half way back to Dongola again before you would run out of poles, conductor and line devices. Historically, electric utilities recovered most of their fixed costs through the kilowatt-hour charge with only a small facility charge. For rural electric cooperatives, the situation is worse due to the miles of line we have to serve fewer people. We average just 5 electric meters for every mile of line we have. If you would drive one mile in a city or town, you would see approximately 34 to 48 electric meters, depending upon the investor owned or municipal system, and the terrain would not be as challenging. In Southernmost Illinois, we are seeing some loss in people locating to our areas so our annual kWh sales have been declining the past few years. Our kWh sales in 2010 were approximately 213.7 million and have declined annually to just 177.6 million in 2017, an approximate 17% decline. When our rates were last changed in 2012, we had an annual revenue of \$28 million but our revenue in 2017 was \$26.6 million. Unquestionably, some of that decline has been weather related due to milder summers and winters. Today, it is no longer considered equitable to recover so much of the fixed charges through kWh sales as members using more kWhs are covering more than their fair share of the fixed costs. By raising the facilities charge, we equalize the cost of access to our system regardless of the number of kWh used.

Why has SIEC's cost of doing business increased so much and are you doing all you can to control them?

We have made a real effort to hold the line on our expenses, but like any business, and even in our homes, SIEC has expenses considered to be "controllable" and those that are "non-controllable". We don't have any control over what it cost us for materials, poles, conductor etc. from our various vendors. We shop around and take bids for large purchases but ultimately, we must pay what the vendor charges. Our largest expense is the cost of power we purchase to distribute to our members. For 2017, right at 60¢ of every \$1 we received from our members was paid directly to our power supplier, and as mentioned previously, that cost went up 5% as of January 1st, 2018. Additionally, our interest expense on long-term debt is a big expense as the capital investment in maintaining and improving our electric plant is so high. With 2,102 miles of distribution line, various line devices and 14 substations, we invest annually approximately \$3 million in our plant. We have well over 44,000 poles in the ground and their undepreciated value on our books is right at \$16 million. The remaining 40¢ of that

same \$1 is used to pay the cost of all other materials, labor, insurance, maintenance of equipment, which includes some specialized industry vehicles, and office expenses, such as postage, billing material costs and much more. Unfortunately, the aftermath of a single tornado, ice storm or a severe lightning storm can instantly reverse any savings we might have generated up to that point.

So, what is SIEC doing to control their costs?

At SIEC, we are always evaluating areas where we can control costs and be more efficient. As noted above, we purchase most of our supplies on a bid basis – we shop around. Additionally, the staff and employees of SIEC are very conscientious in trying to lower our costs wherever we can. In some cases, it seems like we're only saving pennies, but if we can save enough of them, it turns into dollars. Our upgrade to AMR (automatic meter reading) in 2008-2009 has saved us not only in lost revenue due to the accuracy of the meters, but also in not having to send an employee out to read a meter as was always needed when someone disconnects from a location and someone else wants to reconnect it. We are driving our vehicles as long as we feel we can before maintenance might catch us. We spend as a part of system maintenance over \$2 million annually just in trimming trees and keeping our right-of-way clear, which translates not only into more reliable service for our members, but also helps to cut back on overtime due to outages. We hope our members can see that our efforts to hold down our expenses have not diminished the quality of our service. Over the last few years, we have lowered our total number of employees, including staff members. We have some of the best employees in the electric cooperative field and they are doing more as they too understand the need. Finally, one of the things that truly separates us from the investor owned utility companies is our board of directors, which are nine member-owners that pay the same rates as everyone else.

I don't like the WPCA and ERCC – do we have to have them?

The purpose of the WPCA is to monthly deal with fluctuations in our own cost of purchased power, which was mentioned previously as our highest uncontrollable cost. We will no longer be showing the ERCC (Energy Regulatory Compliance Charge) on the bill, but we will continue the WPCA due to the constantly changing power costs. Occasionally, the cost of power will go down, even if for a short period of time. The WPCA allows us to pass that along as well.