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# Methodologies for determining revenue requirements for electric cooperatives

Setting electric rates requires much planning in order to maintain equity ratio and/or provide for equity management that meets the future financial goals of your electric cooperative.

In setting electric rates for utilities, state regulatory commissions have sought to create a balance between the utility's financial interests and the consumer's right to reliable service at reasonable rates.

While no individual desires to see their rates adjusted higher, a fact of running any business is that income is needed to preserve the integrity of the business enterprise, and that includes **not-for-profit** electric cooperatives like **HREA**.

Investor-owned utilities are owned by stockholders who usually are not customers of the util-

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ity. Electric cooperatives serve the owners of their electric utility.

Consequently, in the absence of formal rate regulation by the state, the cooperative board of directors becomes the "de facto" elected regulator. As such, the board must contend with the same fundamental issues that a state regulator would face. The board must determine the adequate revenues required to meet the electric cooperative's financial plan and still be able to return patronage capital to the membership in the event of higher-thanneeded capital requirements. Those excess funds have been allocated to members in the amounts of \$288,025; \$329,303; \$300,155; \$133,352 and \$186,063, respectively, during the last eight years. Plus, we continue to budget \$20,000 a year for "Estate Retirements," funds that are returned to family members when both parties of the joint membership are deceased. We've paid out as much as \$2,000 to some estates.

The Rural Utilities Service (RUS), and its predecessor, the Rural Electrification Administration, have used a method referred to by the acronym TIER (which is times interest earned ratio) to evaluate and regulate cooperatives since the industry was established. In the early years, cooperatives were largely debt financed with little or no equity. That particular aspect of financ-

Manager's
Corner
By
Gary Jackson,
CEO/General
Manager



ing is still correct for HREA, and we continue to carry a high debt largely due to a rugged landscape here in West Virginia and a deteriorated infrastructure originally built in 1937.

While tree growth continues to be a major factor in our expenditures, the cost of purchasing energy for resale has been the primary driver of rates for HREA members. We recently signed a three-year-and-10-month agreement to purchase power for our members that was the most economically available price based on current market conditions. While this new rate is not particularly low by any means, it was the lowest rate available from the approximately 14 solicited generating facilities located in the eastern and southern United States.

Moreover, be assured that all avenues have been checked and rechecked in determining the minimum required financial needs of providing the lowest-cost electricity to our members. While costs continue to climb for every aspect of our very existence, electricity still remains a valuable agent in providing those primary needs to our members during these most extreme times in our lives!

#### Eli is a big hit in Alabama

Elijah Bailey (Eli), son of lineman Sean Bailey and Beth Dawkins, really impressed the staff of the University of Alabama at Birmingham (UAB) when he went there this past July for therapy.

Eli underwent three weeks of intensive constraintinduced movement therapy with the goal being to

strengthen his right side so that he can have functional use of all his limbs and extremities.

When Eli was just three months old, he received a left functional hemispherectomy, the disconnection of the left half of the brain. He was having intractable seizures caused by cortical dysplasia, a malformation of cell growth. When this procedure and various kinds of medication did not stop the seizures, Eli underwent a second surgery called an anatomical hemispherectomy, which completely removed the left half of his brain. This surgery was performed right before Eli's third birthday at the Cleveland Clinic Foundation.

At the time of this second surgery, Eli had never walked, didn't know his colors, his ABCs or numbers, and was delayed in many other areas of his life. He headed into surgery having a seizure nearly every three hours. Since this surgery was performed on Aug. 11, 2004, Eli has not suffered a single seizure. He has been weaned from all medica-

tions and has since

been developing at a rapid rate, catching up with his peers. He has finished kindergarten and is doing great; however, the use of his right side is very limited. He also has no right peripheral vision in either eye.

Always searching for ways to help their son, Beth discovered a therapy developed by Dr. Edward Taub, a

professor at the University of Alabama at Birmingham. The therapy is primarily used to treat stroke and cerebral palsy victims, but when Beth did some research, she called UAB and said, "You have to try this on my son." They agreed, so Beth took time off from her job, and she and Eli went south.





Eli is determined as he drops disks into slots.

They actually cast his good side (his left arm and leg), and concentrated on strengthening and teaching him to use his right side. Beth even wore a cast on her arm to show Eli that she was willing to do what he was doing and also to show that she understood what he was going through.

The therapy was mentally and phys-

ically exhausting and lasted at least five hours a day. Beth would then continue to work with Eli in the evenings. When they first went to Alabama, he could awkwardly wave with this right arm, but now he can open the refrigerator, put pegs in a peg board and stack blocks, among other things. His attitude and determination always has been excellent. He smiles a lot and is just a happy little boy. When Sean called to talk to him, the voicemail came on with Eli's proud message, "Hi. This is Eli.

I'm in Alabama and doing good."

Eli still has a lot of challenges ahead, but he has made a lot of progress, and we know he will continue to do so. Eli is very special to our co-op family, and we want him to know that we love him and we all are so proud of him.

### The Energy Saver

This month, our members will be receiving their first bill with the new rate adjustment included. This adjustment was necessary, and is a direct result of increased costs from our power supplier. The upside of this adjustment, however, is that it is on kWhs only, so we have the power to control our bill to a degree by conserving energy. For the last several months, we've included a few energy-

saving tips in the newsletter, but now we are going to personalize it somewhat with things the employees and/or board are doing to save energy and cut costs. These are a few things I do:

I have replaced light bulbs (as they burn out) with compact fluorescent bulbs. The initial investment is much more than a regular light bulb, but

when one considers that they last about five years and use a lot less electricity, they're worth it. I also set my thermostat at 68° in the winter and 76° in the summer. I did see a significant decrease in my heating bill (the verdict is still out on the air conditioning cost). I keep my drapes closed in the summer and open in the winter, closing them at night. Even on a cloudy day, the sun still can do a lot toward helping heat the house. I wash full loads of clothes, and I wash everything but whites in cold

water. I try to do all my laundry at one time. It takes a lot less electricity to keep a warm dryer running than it does to heat it up in the beginning. That goes for hot water, also. I use the energy-preferred setting on my dryer, too. I don't let the water run while I brush my teeth, and in the summer I turn the shower off while I soap up, then turn it back on to rinse. (I don't do this in the winter,

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because it's too cold, especially at 68°). I turn lights off when I leave the room, and I never leave the television on when nobody is watching it.

What difference all this makes, I'm not sure. My 86-year-old mother, who lives with me, and my 10-year-old granddaughter, who stays with me at least three days a week, sort of cancel

out what I do, but I figure my bills would be higher if I didn't do these things.

Next month, see what one of your directors does to cut his energy bill — and if any of you have a good energy-saving tip, please call the co-op office and share it with all your fellow co-op members.

— Nada McNemar

## **Electrical safety on the farm**

Crisp, fall weather means harvest time on the farm. Don't let this harvest turn dangerous when electrical hazards are overlooked. Farm workers are killed each year by electrocution when large farm machinery makes contact with overhead power lines. The following tips will help keep everyone on the farm safe:

Look over work areas carefully for overhead power lines and utility poles.

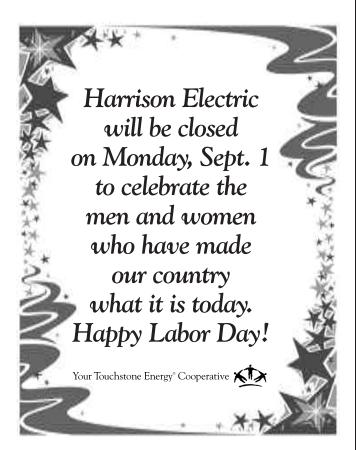
Make sure there are ample clearances of power lines when moving large machinery such as combines, grain augers, pickers, bailers and front end loaders.

When planning new construction, consider existing power lines.

Be extra careful when working around trees and brush that often obstruct power lines.

Train all farm workers on how to properly operate machinery near overhead power lines.

Source: Safe Electricity, <u>www.safeelectricity.org;</u> National Ag Safety Database



#### Why public policy matters

More than 70 years ago, a fledgling network of locally controlled, member-owned, not-for-profit utilities tackled the massive task of bringing safe, reliable and affordable electric service to America's vast rural heartland. After meeting that initial challenge, electric co-ops have continued to expand operations, and now serve more than 40 million consumers in 47 states.

But a new challenge, as daunting as any faced since those early days, is putting electric co-ops to the test. Between now and 2030, consumer demand for electricity is expected to increase by 30 percent. To meet that, our nation must add about 264,000 MW in power plant capacity. However, road blocks — some out of our control, some not — are delaying this required boom in generation construction.

Economic growth around the world has produced record orders for basic construction materials such as steel, cement and crushed stone. As a result, the average cost of building coal and nuclear power plants here at home has increased by 27 percent during the last year, and is up a full 130 percent from 2000.

Now a second factor, the need to develop climate change policy, has slowed desperately needed power plant construction even further. With uncertainty about potential costs of climate change policy, many lenders see the needed plants as too risky. Of 151 new coal plants announced since 2002, only 15 have been built — generation and transmission co-ops (G&Ts) have full or partial ownership in six of them.

Issues preventing development of coal and nuclear power facilities are forcing power suppliers to use fuels

such as natural gas, which is subject to wide swings in price, to generate electricity. Coal itself, a once-inexpensive fuel, has recently shot up in cost as well. The impact of these mounting fuel issues is being compounded across the country as dramatic electric rate hikes are announced, driven by steady cost increases.

But the economic effect of climate change policy has yet to be seen. Electric cooperatives are fighting to protect our members; fighting to minimize the cost impact of legislation currently being discussed by lawmakers — legislation that otherwise could go wrong for consumers, and go wrong for the country.

What has been described as a perfect storm — the clash of growing demand, skyrocketing power plant construction and fuel costs, and climate change policy constraints — has hit home. It no longer is a far-away problem reserved for backroom discussions in Washington, D.C., or state capitals.

As you may know, electric cooperatives across the country have launched a grassroots campaign called "Our Energy, Our Future: A Dialogue With America" to ensure that your voice is heard. This campaign seeks to engage elected officials on critical energy questions, such as how to balance growing electricity needs and environmental goals, and how much of all this will affect electric bills.

Please visit <u>www.ourenergy.coop</u> to join this important conversation. Let lawmakers know that what actions they take regarding our energy challenges will carry enormous consequences for the folks back home. It is time to make our voices heard.

