



Harrison Rural Electrification Association, Inc.

RR 6, Box 502

Clarksburg, WV 26301-0502

304-624-6365

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www.harrisonrea.com

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-

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-than-needed 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!

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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, 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*, www.safeelectricity.org; *National Ag Safety Database*

*Harrison Electric
will be closed
on Monday, Sept. 1
to celebrate the
men and women
who have made
our country
what it is today.
Happy Labor Day!*

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