

Rate adjustment considered at HREC

Many changes are underway regarding the energy and electric utility industries. To accommodate some of those changes the Board of Directors of Heartland is considering changes to the structure of tariffs and electric rates for our members. Some of the issues under consideration by the Board are a result of the changes already made in the industry while others are being considered to position the Cooperative for future changes in the works.

One of our major items under consideration pertains to the Energy Cost Adjustment (ECA). The ECA is a mechanism widely used in the industry to tie electric rates to the cost of fuel for power plants. If fuel goes up, the ECA goes up on the bills of electric ratepayers. If fuel goes down, the ECA goes down. None of the ECA is retained by the Cooperative, it is passed up the chain all the way to the generator of the electricity. Unfortunately, the cost of fuel has risen the past few years and shows no sign of going down. Our ECA has increased along with the cost of fuel. Many of our members have complained about the cost of the ECA on their electric bills and have requested that it be included in the base rate for electricity. That is just what the Board will consider doing. The historical and projected ECA will be rolled into the base rate for electricity and the result should be an ECA that is minimal, until future energy costs start to affect it again.

Any time rates are under consideration, a major decision must be made regarding the total revenue to be collected from the rates. We are fortunate that any revenue increase most likely will be minimal, possibly around 1%. Our wholesale power costs have increased the past year due to a rate increase by our power supplier, Kansas

Electric Power Cooperative. That rate increase should be the only factor that might cause rates to increase. The last time rates increased at the Cooperative was in 2002 when we increased our rates 6% after we received a rate increase from our power supplier. Back in 1998 we actually decreased our electric rates by 4% after our power supplier decreased their rates. And in 2004 we implemented the ECA. We are proud of the fact that rates have only increased around 2% over the last 12+ years to support the revenue requirements of the Cooperative.

The Board is also looking at the structure of rates. It is important to protect the Cooperative and its mem-

bers from the effects of net metering, and to allow for energy efficiency measures and reduced use of electricity. The Cooperative must remain whole and financially secure if and when distributed generation and net metering along with energy efficiency impact our revenues. We must make sure that the retail cost of electricity closely tracks the cost to produce and deliver that electricity. This is done by including the fixed costs of operating the Cooperative in the Service Availability charge on your electric bill. By doing this, we accurately recover the costs to make service available for each meter. This has not been the case in the past however. Traditionally, part of the fixed costs have been included in the energy charge. This creates surplus revenue when sales are higher than what was projected to cover the fixed costs, but it can create a deficit in revenue if sales are lower than projected. The Board is considering a significant increase to the Service Availability charge for each meter along with a corresponding decrease in the rate charged for electricity. This will help ensure revenue is adequate to provide operating margins for the Cooperative.

A movement of the collection

of revenue from electric rates to the Service Availability charge allows us to consolidate some of the tariffs of the Cooperative. It is no longer necessary to distinguish between some of the rate classes due to their usage characteristics. This makes it easier for members to understand the rates and it is easier to administer them. The Board is considering a single tariff that will encompass the former General Service, Electric Heat, Seasonal, and Seasonal Electric Heat tariffs.

A major change is being considered for the Large Commercial class. This class would move into the existing General Commercial class. In the General Commercial class, the customers are billed on their contribution to the coincident peak demand of the Cooperative. Metering technology now allows us to measure this contribution and we can accurately track the cost of wholesale electricity for each of these customers. By making each customer responsible for their costs, we take a major step forward in sending the proper price signal to the customers that allows them to alter their usage characteristics to save money if possible.

The main drivers behind these considerations are the recent increase in wholesale power for the Cooperative and the changes in the industry that will affect how electricity is used and paid for. The Board of Directors is committed to our mission of providing reliable electricity, superior customer service and innovative energy solutions at reasonable prices. This edition of Heartbeat contains further information on rates and methodologies for determining them. Please take the time to read the information. A direct mailing will be made to all members informing them of the changes that will be considered by the Board. The Board of Directors has set July 27 at 11:00 a.m. as the date and time for a meeting open to the members for the purpose of considering changes to the electric rates of the Cooperative. This meeting will be held at the Cooperative's office in Girard.

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