Dollars and Cents, The True Cost of Electricity

By William L. Caynor Sr., Price Electric CEO

How to surmise the actual expense of energy to set a rate is sometimes philosophical, rather than absolute. There are training courses, seminars and books written on the subject and thus I'll attempt to condense and articulate the best that I can some of the factors affecting your rates and the progression to set a rate.

The process starts with a Rate and Cost of Service Study being performed that calculates a rate design to achieve revenue requirements that assist in reimbursing operating expenses and plant investments needed to maintain your distribution system. Now, that's a mouthful. This study also addresses revenue recovery requirements for new line extensions and your load management program. We are currently in the beginning process of this undertaking with a scheduled completion date of the beginning of next year. Rest assured that any rate adjustment requirements noted will be fully communicated to you beforehand with an understanding of why.

Outside of the Study, I would like to draw your attention to some obvious challenges that have affected your energy rates for some time. A membership base of 96% residential, farms and seasonal, and 45% of this being seasonal, automatically places rate pressure on the membership. Seasonal members account for 25% of the operating revenue, whereas the residential members are credited with 58%. Overall monthly usage for PEC residential members is last in comparison to other state cooperatives and second to last for seasonal member consumption. This is attributed to members utilizing alternative energies such as propane and natural gas. If PEC rates are higher than these alternatives, one might purchase a heating system, water heater or dryer that operates with these fuels as opposed to electricity. Farms are the largest consumer in the residential classification, but they have dwindled over the years to just 163 accounts. The big consumers on any distribution system are your commercial and industrial loads, but because PEC was incorporated in 1940, your Cooperative built its powerlines after the investor owned utility carved out the urban and concentrated industrial locations, and thus PEC's territory encompasses more of the rural regions. Given this, PEC's 292 commercial customers are associated with dairy, and wood products, which are smaller loads than the manufacturing you might see in the City of Phillips.

PEC has also experienced minimal or flat growth in sales for numerous years with a net increase of only 152 accounts over the last six, and 134 of these are seasonal accounts. Last year, most of utilities in the state, along with PEC, saw a decrease in sales and the most recent report approved by the WI Public Service Commission states Wisconsin's average electric rates are the highest among eight Midwest states for the first time since 2006. This is somewhat attributed to the increased cost to meet the emission regulatory requirements. Of the 50 states, WI is ranked 17th among the highest average energy rates. This could potentially affect future manufacturing possibilities in the state with a little difference in the rate amounts to a significant difference in annual energy costs for a large consumer.

Another consideration is PEC's load factor is low, typically between 60% to 70%. This is a measurement of how steady the load is on our system. Increasing this factor could reduce our overall demand charge. Without more industrial loads increasing is difficult. We are presently reviewing options to potentially shift energy consumption periods.

Your monthly fixed charge is actually one of the lowest among cooperatives in WI and used to pay the expense of the infrastructure (lines, poles, transformers, substations) as well as maintaining that infrastructure. This is spread across all the members, but with only five members per mile, this expense is higher than an investor owned utility, who could have seven to ten times the number of customers per mile.

What are we doing? First, we are performing a Rate and Cost of Service Study that will take all the affecting elements into consideration. The outcome of this study will dictate a direction going forward. We have been successful in sustaining your energy rate over the last three years and slowed the increase on long-term debt. We created a new five-year work-plan and decreased capitalization by $1M, yet increased reliability and safety. New bidding procedures, guidelines, agreements and metrics have decreased expenses for line construction and right-of-way clearing, which keeps us on course in ensuring that we are maintaining the 1,805 miles of your rural distribution system. We have also been fortunate enough to be able to retire approximately $360k to you, our members, every year.

One thing's clear, if we can't work through our obvious challenges, we must recognize them and find ways to work around or augment them or enhance other parts of the operation to serve you, our members, to the best of our abilities.