

Rural Electric Cooperative Residential Bill Review

Energy Charge:

Missoula Electric Energy Charge = 2,834 kWh x \$0.0676 = **\$191.58** (Meter 1)

Missoula Electric Energy Charge = 2,840 kWh x \$0.0676 = **\$191.98** (Meter 2)

Fergus Electric Energy Charge = 792 kWh x \$0.1243 = **\$98.45**

The elected board of the cooperative sets the rates for electricity supply. For Montana electric cooperative members, this also includes distribution costs.

Distribution cooperatives, like Missoula Electric Cooperative, own and operate the distribution system and customer meters and are directly responsible for serving and billing members. They generally buy the energy and capacity that they need under contracts with generation and transmission cooperatives or federal power marketing administrations such as BPA.

Generation and transmission cooperatives are typically owned by distribution cooperatives and aggregate rural customer loads to take advantage of economies of scale. They can own and operate transmission lines and generation or enter into wholesale power purchase contracts with other generators. Generation and transmission cooperatives are governed by a board that contains the managers or trustees from the member distribution cooperatives. The four generation and transmission cooperatives that serve Montana distribution cooperatives are Upper Missouri, Central Montana, Southern Montana, and Western Montana.

Missoula Electric, for example, is part of the Western Montana Generation and Transmission Cooperative. Western Montana G&T's members serve over 100,000 electric consumers.

Fergus Electric has a declining step rate for residential electric use. The first 1,000 kWh used are billed at \$0.1243 per kWh and any usage about 1,000 kWh is billed at \$0.1043 kWh. Fergus Electric is part of Southern Montana Electric Generation and Transmission Cooperative.

Read More:

Why is there such a significant difference between the 6 cents charged by Missoula Electric and the 12 cents charged by Fergus Electric?

Fergus Electric has higher distribution costs due to lower density, being more rural, but also has significantly higher electric supply costs.

In October 2011 Southern Montana Electric Generation and Transmission filed for reorganization under Chapter 11 bankruptcy. Five rural electric cooperatives -- Beartooth, Fergus, Mid-Yellowstone, Tongue River, and Yellowstone Valley -- and the city of Great Falls were included in Southern Montana Electric Generation and Transmission Cooperative's membership.

Southern had contracts with Bonneville Power Administration and Western Area Power Administration to meet the needs of the five member cooperatives and Electric City Power. In 2004 and 2005 Southern began purchasing blocks of power from PPL Energy to meet Electric City Power needs. Southern's contracts with Bonneville Power expired in 2011. The contract with Western Area Power is for 20 megawatts and expires in 2020.

As Bonneville Power purchase agreements were phased out, Southern began to pursue financing to build the Highwood Generating Station near Great Falls. The plant was to provide a wholesale power supply resource for the cooperative. Originally a 250-megawatt coal-fired plant was proposed. Due to environmental and financial pressures, Southern changed Highwood to a two-phase project, with the first phase being a 40-megawatt natural gas project. The first phase was complete in September of 2011. The second phase of the project, to expand to a 120-megawatt operation by 2014 is on hold. The change from coal to natural gas required Highwood to write off about \$9 million, according to published reports.

In 2009, Southern also began purchasing more PPL power, to account for the expiring Bonneville Power contract. The PPL contract entered into by Southern expires in 2019 and requires Southern to purchase up to 245 megawatts by 2017. That contract has since been terminated.

Struggling with losses caused by a depressed wholesale power market, paying more for power from PPL Montana than it was earning from sales, and faced with a contract to purchase power considerably greater than load forecasts, led to growing financial problems for the cooperative in 2011. Southern also was unable to sell its excess power, as electricity prices across the country plummeted and unusually high runoff depressed energy markets in the Pacific Northwest.

Southern lost \$7.2 million in the first six months of 2011 and imposed a growing number of rate increases on its members. Those increases totaled about 13.2 percent and required member distribution cooperatives to increase their rates. In October of 2011 a 20 percent increase that had been proposed was rescinded. In that same month, Southern filed for bankruptcy. The rates paid per kWh by Fergus Electric customers show how customers are impacted by those actions.

With support from the electric cooperatives and in response to the problems faced by Southern Montana, the 2011-2012 Energy and Telecommunications Interim Committee spent much of its time examining the regulatory structure surrounding rural electric cooperatives in Montana.

The result was the passage and approval of Senate Bill No. 90 (Chapter 55, Laws of 2013) by the 2013 Legislature. The legislation, which was developed in part by the electric cooperatives, established new transparency and voting requirements for rural electric cooperatives. The law also now includes voting requirements for distribution cooperatives and generation and transmission cooperatives that are entering into agreements for the construction of certain electrical generation facilities or entering into certain energy contracts. Disclosure requirements related to load forecasts and additional transparency requirements for generation and transmission cooperatives are also now part of Montana law.

Before a cooperative creates or enters into an agreement that results in any direct or indirect obligation for the repayment of long-term bonded indebtedness for financing directly or indirectly the construction, maintenance, or operation of nuclear power generating facilities that may result in a rate increase to the cooperative's members for repayment of the obligation, the cooperative must receive approval from a majority of those members present and voting at the meeting. The approval must be obtained at a special meeting held for that purpose. 35-18-318, MCA.