

## **Rural Electric Cooperative**

### **Residential Bill Review**

There are 25 not-for-profit electric distribution cooperatives in Montana that are locally owned and operated by their cooperative members, with about 195,000 meters served. The elected board of each cooperative makes electricity policy and pricing decisions for that cooperative. Electric cooperatives are not regulated by the Montana Public Service Commission.

Electric cooperatives are not-for-profit entities that are democratically controlled (one person/one vote) by the members of the cooperative. Cooperative members elect a board of directors that sets customer protection policies and establishes the rates for electricity distribution and supply.

The two bills provided as an example are from the Missoula Electric Cooperative and Fergus Electric Cooperative.

The framework for organizing and incorporating rural electric cooperatives in Montana is located in Title 35, Chapter 18 of the Montana Code Annotated. Historically, Montana has not exercised its authority to regulate rural electric cooperatives.

Cooperatives and foreign corporations transacting business in this state pursuant to this chapter are exempt in all respects from the jurisdiction and control of the Public Service Commission of this state. 35-18-104, MCA.

In the example bills, only a couple different charges appear on the bills. In both, a base charge is applied. For Missoula Electric the base charge is \$25 for each meter. For Fergus Electric the base charge is \$32.50.

The next charges are the costs per kWh, or the price of energy, plus transmission and a portion of the distribution poles and wires cost not recovered in the base charge. The cost per kWh is quite different on the two bills, but the overall charge for the customers is based on usage.

In the Missoula Electric example the energy charge is \$0.0676 per kWh. The customer used a total of 2,840 kWh between December 19, 2013 and January 19, 2014 at one address and 2,834 kWh at a second address. The amounts used are significantly more than average residential use of 750 kWh per month. The average, however, is based on an average of 12-months. Weather often dictates month-to-month use.

In the Fergus Electric example, the customer used 792 kWh over 31 days between June 30, 2013 and July 31, 2013.

Because cooperatives are nonprofit entities, funds that are collected above the cost of operation are typically assigned to cooperative members annually as "capital credits". Capital credits are refunded to members when the financial condition of the cooperative

permits. In some cases, each year a statement is mailed to a member with information on the potential credits. The example bills don't include information about the credits.

Rural electric cooperatives are also subject to Montana's Universal System Benefits Programs (USB) in accordance with 69-8-402, MCA. USB programs fund energy conservation, renewable resource projects and applications, and low-income energy assistance. Cooperatives, like all utilities, must fund the programs at 2.4 percent of their 1995 retail sales revenue in Montana. The funding can be recovered by assessing each customer at the meter. Utilities also receive credits for internal USB programs, and rural electric cooperatives are allowed to collectively pool their credits statewide. Their annual USB reports are not filed with the PSC. Rural electric cooperatives are allowed to pool their collective USB expenditures to meet the 2.4 percent threshold. They are also allowed to report collectively, through a summary report prepared by the Montana Electric Cooperatives' Association.

Cooperative utilities may collectively pool their statewide credits to satisfy their annual funding requirements for universal system benefits programs and low-income energy assistance. 69-8-402, MCA.

In the example bills provided, those USB charges are not broken out separately as they are on the MDU and NorthWestern example bills.

#### Base charge:

Missoula Electric Base Charge =  $\$25 \times 2 = \$50$

Fergus Electric Base Charge =  $\$32.50$

A base charge is a flat fee applied each month regardless of the amount of kilowatt hours (kWh) used. Fixed charges are usually set at a level that reflects a portion of the cost of delivering electric service, whether that service is used or not. It also provides a stable monthly income for a cooperative that is not weather-dependent. Base charges can largely depend on density, or the number of customers divided by the miles of power lines needed to distribute electricity to cooperative members

In the Missoula Electric example bill provided, there are two separate meters at two separate addresses. The base charge applies to each meter.

In the Fergus Electric example, the base charge is \$32.50. Again, that is a portion of the cost of maintaining meters, poles, and wires. Fergus has a customer density of about 1.3 meters per mile of power line.

#### Energy Charge:

Missoula Electric Energy Charge =  $2,834 \text{ kWh} \times \$0.0676 = \$191.58$  (Meter 1)

Missoula Electric Energy Charge =  $2,840 \text{ kWh} \times \$0.0676 = \$191.98$  (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.

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.

**Summary of two Missoula Electric Cooperative accounts combined into a single bill -- Electricity**

Base charges = \$25 + \$25 = **\$50**

Energy Charges = \$191.58 + \$191.98 = **\$383.56**

**Total Electricity = \$50 + \$383.56 = \$433.56**

**Summary of Fergus Electric Cooperative Bill – Electricity**

Base Charge = **\$32.50**

Energy Charge = **\$98.45**

**Total Electricity = \$32.50 + \$98.45 = \$130.95**