

AVAILABILITY CHARGE

Rate issues and cost increases will be doing battle with affordability in 2011. Costs are going up for a number of reasons that will be explained over the months to come. A key component to your monthly bill is the availability charge which is \$13 for residential members today. With a state mandate to conserve energy and thus reduce the dollar sales that accompany the energy not sold, Cherryland Electric Cooperative (CEC) is looking at the availability charge to provide some revenue stability and predictability.

So, what is the availability charge? All electric utilities have certain fixed expenses associated with providing electric service. These expenses are incurred whether the member uses the electric service every day or just a few weekends per year.

For Cherryland, these expenses include: 1) on-going operation and maintenance of the electrical distribution system required to bring you electricity at the flip of a switch (*hence the name, availability charge*); 2) annual depreciation of these facilities; 3) principal and interest payments on the long-term debt to build the facilities originally; and 4) expenses related to customer accounting, meter reading, and billing.

The availability charge lets you, the member, know up-front part of what it costs to have electricity available at your meter each month. This fixed amount also prevents an undue financial burden from being placed on active members using regular amounts of electricity by those members who want electricity available, but may not use very much. To me, this is the fairness part of the charge because everyone is sharing the fixed costs on an equal basis.

If the availability charge were lowered, it would be necessary to increase the energy charge in order to maintain the same revenue amount. This would then shift much of the burden to those who use more kilowatt-hours. With our present system, we have tried to create a balance between different levels of electricity users. We are not asking that everyone necessarily agree with our chosen balancing methods, but we do hope that people will understand the reason it is in place.

One misconception we often get is that the availability charge is an additional charge. Please remember that it is NOT an additional charge. It is simply “A” charge that covers *a portion* of the cooperative’s fixed costs. Regrettably and probably obviously, the availability charge will not be lowered anytime soon.

Is the current \$13 monthly residential charge too high? For a rural electric cooperative, I don’t believe it is. CEC completed a cost of service study in the fall of 2010. This study simply answers the question, “What does it cost to have electricity available at the average residential account even if the member chooses to NOT use any electricity?” Our study determined that this cost is \$25. CEC has no intention of moving from \$13 to \$25. However, when rates go up in 2011, your management and board will have a good discussion about how much the availability charge should be increased. Today, my recommendation to the board will be \$15. This will allow us to keep the increase in the kilowatt hour (energy) charge to a minimum while stabilizing our monthly revenues.

Why is the CEC \$13 charge higher than neighboring utilities? The simple answer here is density. Cherryland has 11 meters per mile while our neighbors enjoy densities much higher allowing them to spread the fixed costs through more meters per mile of line. When you look at our cooperative neighbors of similar size, many cooperatives in

other states but in our region of the country have an availability charge near \$20 per residential meter.

All costs will be going up in 2011. We don't take any cost increase lightly but believe this one will be fair while our employees do their best to make electricity available to you when you need it.