

POWER SUPPLY COST RECOVERY (P.S.C.R.)

In the past several months, I have written about wholesale power costs going up. When you open your bill in the month of May, you will see costs begin to go up on the PSCR line of the bill to the tune of \$2.50 to the average Cherryland member per month. So, I would like to once again explain the PSCR charge.

The PSCR adjustment has been a separate charge on Cherryland Electric Cooperative (CEC) bills since being legislated into existence in 1982. Almost 30 years later, it is still one of the least understood charges passed on to members each month. It resides below the availability charge on your monthly bill under the title of "PSCR adjustment". It is commonly used by all utilities in Michigan.

Wholesale power is the bulk electricity CEC must purchase in order to have electricity at each of the 33,000 plus meters we serve. More than 70 cents of every dollar spent at CEC is spent on wholesale power which can be an unpredictable commodity at times. Prior to 1982, these costs were escalating quickly across the industry (much like they are today) causing all utilities to have repeated rate increase filings at the Michigan Public Service Commission (MPSC).

In 1982, the legislature responded with the creation of the PSCR adjustment. This mechanism allows a utility to adjust the cost of wholesale power each year on a "pass through" basis after a more streamlined MPSC approval process. The term "pass through" is a key point of this discussion. It simply means that if wholesale power goes up 50 cents per member more than what was budgeted for the year then the same 50 cents is passed on the next year as a PSCR adjustment. It also works if the costs are less as CEC members saw a PSCR adjustment credit in 2005 that reduced monthly bills.

Today, we are no longer regulated by the MPSC and have the ability to respond quicker to changes in wholesale costs. This allows us to maintain a better financial position by avoiding delays in recovering wholesale power supply costs that otherwise would eat away at the 30 cents left in each dollar that is needed for normal operations.

The PSCR is a rate mechanism that allows a utility to pass through to members the actual cost it pays for wholesale power and fuel. Cherryland does not make a profit on the cost of wholesale power and fuel, but it does protect the 30 cents needed to pay for all the other distribution expenses incurred each month. While the PSCR adjustment has gone up and down over the last 29 years at Cherryland, our members have seen only a few general rate increases on the distribution expenses during the last decade partly because of the stabilization protection provided by the PSCR.

Some may wonder why the PSCR adjustment must fluctuate and correctly surmise that an accurate prediction each year would avoid peaks and valleys. Those thoughts would be correct if we owned a crystal ball. While Cherryland's wholesale power supplier, Wolverine Power Cooperative (Wolverine), does have long term contracts, a portion of its supply is at the mercy of the open market. Volatility in all fuels such as oil, natural gas, propane and coal make the open energy market simply unreadable and unpredictable in any crystal ball. So, we simply skip the "ball gazing", do the math, make the best estimates possible and change the PSCR as necessary. Again, this provides stability to our every day distribution expenses and keeps your rates level.

So, why do you need to understand this? The simple fact is that the PSCR is going up in May of 2011 and may go up even more later this year. Open market costs and purchases of hard generation assets like the Sumpter gas plant and a share of the OVEC coal plants on top of continued growth in energy demand have caused Wolverine to require an increase in the costs charged to Cherryland each month.

Each member's pocketbook will be affected differently as the PSCR is based on the electricity used in each home. The average residential user on our system uses 700 kwh per month. The next increase in the PSCR will likely raise the average monthly bill \$2.50 per month.

Going forward, I hope this provides some understanding of the PSCR adjustment. It is a line on your bill that provides very important stability in our revenue stream. Before the end of the year, you will hear more about this and also more about further increases. Please stay tuned.