

Cost of Service Study Shows Need for Rate Change

(February 2010 Country Living column)

Your Midwest Electric Board of Trustees and management staff, with the help of a rate consultant, are in the midst of a review of our electric rates, also known as a “cost of service study.”

Rate design is a balancing act between meeting our revenue needs on the one hand, and minimizing member impact on the other. Creatively resolving tension between these two important goals is one of our most important challenges in implementing fair and equitable rates.

Since we are a not-for-profit organization, we do not need large profits to satisfy far-away owners. Rather, we simply need to recover our costs of doing business, as well as provide sufficient margins to reinvest back into our electric distribution system plus cover patronage capital refunds.

Creating new rates is the last of a multistep, rate-making process. In addition to the cost of service study, this process includes a financial forecast, power requirements study, construction work plan and long-range system plan.

The cost of service study identifies the total revenue requirement for the cooperative: How much revenue do we need to cover all costs and provide a margin?

Then we allocate costs to each customer class (such as residential, seasonal, commercial, etc.) based on the energy, capacity, equipment and other costs that are incurred in providing service. Different classes of customers require different levels of service, different equipment, different capacity needs, etc.

We look at the minimum amount of distribution equipment required to serve a single customer in each rate class. This includes the cost of poles, wire, transformers and meters. In addition, we need to properly allocate the cost of the actual energy and generating capacity (demand) to each customer class.

One goal is to reduce subsidies as much as possible. Each customer class should pay its fair share of costs without having one customer class pick up the tab for another customer group.