



Empire Electric Association, Inc.

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General Manager's Letter - Rate Increase Effective January 1, 2012

On January 1, 2012, Empire's retail electric rates will increase about 6.3 percent for the purpose of recovering a 4.8 percent increase in purchased power expense from Empire's wholesale power supplier, Tri-State Generation and Transmission Association, Inc (Tri-State) plus a small 2.7 percent general rate increase. The following table shows Tri-State's and Empire's recent rate increase history:

	<u>Average Tri-State Increase to Empire (%)</u>	<u>Average Empire Increase to Customers (%)</u>
March 1, 2002	10.1	14.9
January 1, 2003	7.0	3.5
January 1, 2005	14.0	7.2
January 1, 2006	4.0	7.1
January 1, 2007	11.8	4.5
January 1, 2008	11.4	8.9
January 1, 2009	4.1	5.0
January 1, 2012	4.8	6.1

Table Notes:

- Prior to March 1, 2002, Empire had not raised rates for ten years.
- Rate increases in 2002, 2006, 2008, & 2009 include a general rate increase in addition to a pass-through of the Tri-State rate increase.
- Rate increases in 2003, 2005, and 2007 are pass-through rate increases of the Tri-State rate increases to Empire

Tri-State's 4.8 percent rate increase has a material impact on Empire's bottom line as it constitutes almost 76 percent of Empire's costs of doing business. This means that for every dollar (\$1.00) Empire collects from its customers, Empire pays Tri-State about 76 cents (\$0.76) to generate the electricity you use. The balance of 24 cents (\$0.24) is used to run the cooperative.

It is important to note that this is Empire's (and Tri-State's) first rate increase in three years. Empire's rates to its customers (and Tri-State's rates to Empire) remained the same in 2009, 2010, and 2011. Empire's projected 6.3 percent increase in 2012 amounts to a little more than 1.6 percent average annual increase when spread over the 4-year period from 2009 through 2012.

Tri-State is projecting increased expenses over last year's budget of about \$59.2 million consisting of increases in Power Production (up \$43.4 million), Purchased Power (up \$15.4 million), Interest Expense (up \$4.6 million), Wheeling Expense (up 4.6 million), and Transmission Expense (up \$3.1 million) offset by decreases in other expenses of \$11.2 million.

Empire is projecting increased expenses over 2011 expenses of \$3,034,083 (about 6.4%) consisting of increases in Purchased Power from Tri-State (up \$2,577,843 or 6.6%), Distribution Operations (up \$105 thousand or 4.2%), Distribution Maintenance (up \$234 thousand or 16.2%), and A&G (up \$214 thousand or 9.6%).

In setting rates, the board set the operating margin at the lowest level I can recall at less than 1 percent of the operating level. This still allowed the board to achieve all mortgage requirements of Empire's lenders. The staff has done a commendable job in managing expense over the last three years but just like you, expenses outside our control, like the cost of fuel, metals, and medical care, are all increasing.

Note that the basic charge for single-phase residential/commercial classes will increase from \$17.50 to \$19.50, a change of \$2.00/month. The concept is to recover all of Empire's fixed costs in the basic charge and Empire's variable costs in the energy (kWh) charge. That way, if a customer does not use any energy in a given month, Empire would be guaranteed to

recover its fixed costs to have facilities available to serve the customer. Otherwise, subsidies flow from other customers who are not paying their fair share of the fixed costs. The board is committed to increasing this to the appropriate charge over time. Empire's last cost of service study indicated that the basic charge for single phase residential/commercial customers should be in the \$30/month range.

The following table provides you with a comparison for average users:

Comparison of Average kWh Monthly Charges

Rate Class (average kWh monthly usage)	Current Charge	Proposed Charge	Dollar Change	Percent Change
<u>Residential</u> (678 kWh)	\$90.28	\$95.92	\$5.64	6.25%
<u>Residential Time-of-Use</u> single phase (1,613 kWh)	\$136.56	\$144.86	\$8.30	6.08%
<u>Commercial</u> - single phase (1,189 kWh)	\$145.13	\$153.51	\$8.38	5.78%
<u>Commercial</u> - three phase (4,142 kWh)	\$478.10	\$504.19	\$26.09	5.46%
<u>Large Power</u> 118 kW @ 51% L.F. (43,312 kWh)	\$5,635.11	\$5,963.38	\$328.27	5.83%
<u>Security Lights</u>				
175 Watt MV	\$16.27	\$16.89	\$0.62	3.81%
100 Watt HPS	\$11.77	\$12.30	\$0.53	4.50%
250 Watt HPS	\$23.23	\$24.11	\$0.88	3.79%
<u>Street Lights</u>				
175 Watt MV	\$14.54	\$15.09	\$0.55	3.78%
400 Watt MV	\$29.61	\$30.74	\$1.13	3.82%
100 W HPS	\$11.08	\$11.50	\$0.42	3.79%
250 W HPS	\$22.01	\$22.85	\$0.84	3.82%

What can you do about this rate increase? The cheapest source of electricity you have as members of Empire or users of any other source of energy is the power of **conservation**. It is the right thing to do and we all need to take it seriously. For example, turn off the lights when you are not in the room. Heat and cool your home/business less. Run electrical equipment less and use less water since pumping and heating water takes a lot of electricity. Another pro-active conservation measure you can take is to replace incandescent bulbs with compact fluorescents. This can save you a bundle on energy charges. Take advantage of Empire's offer to pay up to \$500 for ½ of a bona-fide comprehensive energy audit. The audit will identify other areas where you could conserve or use electricity more efficiently. You can also take advantage of Empire's time of use rates which will save you a bundle of money if you install appropriate off-peak heating appliances and timers to shift your electricity use from on-peak to off-peak hours.

I cannot emphasize enough that we can all do a better job conserving energy and using it more efficiently. Empire offers many programs to help members understand where they are using power. A free web-based product is now available on Empire's website that helps members to understand where they can save in their energy needs. And please, feel free to contact our Member Services Manager Doug Sparks for current ideas on how to conserve energy and to use it more efficiently

The OFFICIAL NOTICE of the rate increase was placed in the legal section of local newspapers.

Respectfully,

EMPIRE ELECTRIC ASSOCIATION, INC.

Neal E. Stephens
General Manager