

December 28, 2011

Dear Member,

This letter is to provide notification of a proposed rate increase to be effective February 1, 2012.

The main reason for the rate increase is that our wholesale power supplier, Deseret Power, will be instituting an increase in our wholesale power cost. Deseret's demand and energy rate to us will both be increasing by 8 percent. This is the first rate increase we have seen from Deseret since 1997. While we do not like rate increases any more than you do, we realize that Deseret's costs have certainly increased significantly since that time, and that an increase in rates is inevitable in light of the inflationary increases over the past fifteen years.

In anticipation of this wholesale increase we have conducted a rate analysis and a cost of service study to determine the proper allocation of all of our costs to the various rate classes. The results of this study show the need for an overall increase of no more than 6.4 percent. The cost of service study allocates all costs to one of three components:

1. Customer component - Costs associated with being a customer regardless of the amount of power or energy used such as lines, transformer, meter, and billing costs.
2. Demand component – Costs associated with the maximum capacity that a customer and the system requires such as the demand portion of the wholesale power bill.
3. Energy component – Costs associated with the amount of energy a customer uses in a month such as the energy portion of the wholesale power bill.

Once these cost components are known, rates are then designed to recover the required revenue through the appropriate component of the rate. For instance, the cost of service study shows that the customer costs for our residential consumers is about \$38 per month. We have no intention of increasing the customer charge to that amount. Our current monthly customer charge for residential consumers is \$13.65. The study also indicates that the combined demand and energy cost for a residential customer is less than our current residential energy rate of 7.31 cents per kWh. The obvious conclusion is that the residential consumers who use the average amount of about 750 kWh or more per month are subsidizing those with minimal monthly usage. For every rate class, the new rates listed on the reverse side of this letter were designed to move toward eliminating such cross subsidies. The proposed rates are an attempt to more closely match the rate each consumer pays to the cost of providing the service. The rates proposed herein are preliminary estimates, pending final board approval. Final rates will be no more than these proposed rate and may be slightly less.

This is only the second rate increase we have had in the last twenty years. We raised rates by 5 percent in August of 2009. Prior to that the last significant rate increase was in 1989. We believe that record of holding the line on rates and costs is a remarkable accomplishment.

For our Utah members, we are required to hold a public meeting. The meeting will be held in the Daggett County Courthouse in Manila, Utah on Thur. January 12 at 6:30 p.m. where we will receive comments and answer questions.

We also welcome comments and questions from Wyoming or Utah members at any time.