

Rate Restructuring

Three main reasons why a rate restructuring is necessary:

- 1) **Legacy and SMEC rates need to merge together for fairness and consistency.** *The Alliant acquisition increased membership by 50%, but that didn't translate directly into adequate revenue recovery due to rate stipulations imposed by the Minnesota Public Utilities Commission for the first five years after the acquisition. The process of merging SMEC and Legacy rates will ensure all members are contributing equitably to cover the costs associated with system improvements and maintenance, vegetation management, and customer service needed since the acquisition.*
- 2) **A recent class cost of service study indicated that rates need to be adjusted to align with cost drivers.** *This ensures that rates reflect the cost of serving consumers. In order to ensure enough revenue is recovered in a fair and equitable way, the rates are being adjusted to collect fixed costs in the fixed charge.*
- 3) **To appropriately align retail rates** *with how the wholesale power provider bills for them.*

Rate Determination

Who decides when a rate change happens and what it will be?

PEC's member-elected **Board of Directors** and **executive staff** continuously monitor the financial stability of the organization to determine if a rate change is necessary based on a cost of service study.

The Board of Directors then decides what the rates will be based on the following rate making principles:

- ▶ *Rates should generate the revenue required to operate the Cooperative, including appropriate operating margins.*
- ▶ *Operating costs and margin requirements should be spread across all member classes equitably.*
- ▶ *Rates should reflect the cost of serving each member class.*



the 2020 RATE CHANGE

For more information visit:
peoplesenergy.coop/rate-restructure

For any questions specific to your account, please email memberservices@peoplesrec.com or call 507.367.7000 or toll-free at 800.214.2694 during business hours (M-F, 7:30 am – 4:00 pm).



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the 2020 RATE CHANGE



People's Energy Cooperative

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THE 2020 RATE CHANGE

will be effective with usage beginning September 1, 2020, which is billed in October.

What Is Rate Design?

Rate design is a balancing act between meeting revenue needs while minimizing the overall financial impact to members.

As a not-for-profit organization, it is necessary to recover the costs of doing business, as well as maintain enough cash reserves (*margins*) to reinvest in the system.

Therefore, it is important to: **1)** evaluate the cost of providing service to members, **2)** determine the revenue required to cover the costs, and **3)** charge rates that ensure the required revenue is collected. The process involves completing a cost of service study which is typically done every three to five years.

The study, completed by an independent and experienced firm, evaluates costs and identifies the total revenue requirement for the Cooperative. The costs are allocated appropriately based on classifications such as residential, commercial, and industrial which are based on the type of service, equipment, infrastructure, and the capacity required to provide service. The results of the cost of service study are then used as a tool to design rates.

The most recent cost of service study was used to prepare a five-year rate restructuring plan and rate changes that will go into effect with usage beginning September 1, 2020. People’s is committed to minimizing the impacts to our members by controlling costs while maintaining the reliability, quality, and integrity of the electric system we all rely upon.

We hope you find this material helpful in understanding the 2020 rate change.

The following rates are the most common rates and encompass about 90% of PEC members. A full listing of rates is available on our website. To determine if your account is Legacy or SMEC, look at your bill. Information headers are green on Legacy bills and blue on SMEC bills.

Legacy Rates are charged for locations within the PEC service territory served by the Cooperative prior to the Alliant acquisition. SMEC Rates are charged for locations acquired in 2015. Note that SMEC rates increase more because they’ve not had an increase since 2011 other than a 1.06% increase in 2018.

2020 RESIDENTIAL RATES	RATE	BSC* – NOW	BSC* – NEW	CURRENT ENERGY RATE	NEW ENERGY RATE
	Rate A <i>Residential Rural</i>	\$37/mo	\$45/mo ▲ \$8	\$0.12627 / kWh (Summer) \$0.11127 / kWh (Winter) \$0.006697 / kWh PCA	\$0.1250 / kWh (Summer) ▼ \$0.00127 \$0.1050 / kWh (Winter) ▼ \$0.00627 \$0.004700 / kWh PCA ▼ \$0.001997
	Rate AU <i>Residential Urban</i>	\$29/mo	\$30/mo ▲ \$1	\$0.12627 / kWh (Summer) \$0.11127 / kWh (Winter) \$0.006697 / kWh PCA	\$0.1250 / kWh (Summer) ▼ \$0.00127 \$0.1050 / kWh (Winter) ▼ \$0.00627 \$0.004700 / kWh PCA ▼ \$0.001997
	Rate 160 <i>Residential</i>	\$8.59/mo	\$20/mo ▲ \$11.41	\$0.11442 / kWh (Summer) (Winter) \$0.09538 / kWh (<1,000) \$0.06618 / kWh (>1,000) \$0.0100 / kWh PCA	\$0.1250 / kWh (Summer) ▲ \$0.01058 \$0.1050 / kWh (Winter) ▲ \$0.00962 (<1,000) ▲ \$0.03882 (>1,000) \$0.0018 / kWh PCA ▼ \$0.0082 PCA

2020 COMMERCIAL RATES	RATE	BSC* – NOW	BSC* – NEW	CURRENT ENERGY RATE	NEW ENERGY RATE
	B1 (1 phase) <i>Sm Gen Serv</i>	\$37/mo	\$45/mo ▲ \$8	\$0.11900 / kWh (Summer) \$0.10400 / kWh (Winter) \$0.006697 / kWh PCA	\$0.11500 / kWh (Summer) ▼ \$0.00400 \$0.09500 / kWh (Winter) ▼ \$0.00900 \$0.004700 / kWh PCA ▼ \$0.001997
	B (3 phase) <i>Sm Gen Serv</i>	\$76/mo	\$96/mo ▲ \$20		
	C1 (1 phase) <i>Md Srv - Dmd</i>	\$37/mo	\$45/mo ▲ \$8	\$0.06450 / kWh (all-year) \$13.90 / kW (Summer) \$10.40 / kW (Winter) \$0.006697 / kWh PCA	\$0.06250 / kWh (all-year) ▼ \$0.00200 \$15.25 / kW (Summer) ▲ \$1.35 \$11.75 / kW (Winter) ▲ \$1.35 \$0.004700 / kWh PCA ▼ \$0.001997
	C (3 phase) <i>Md Srv - Dmd</i>	\$92/mo	\$115/mo ▲ \$23		
	260 (1 phase) <i>Gen Met Srv</i>	\$21.56/mo	\$30/mo ▲ \$8.44	\$0.08688 / kWh (Summer) \$0.069370 / kWh (Winter) \$0.0100 / kWh PCA	\$0.11500 / kWh (Summer) ▲ \$0.02812 \$0.09500 / kWh (Winter) ▲ \$0.02563 \$0.0018 / kWh PCA ▼ \$0.0082 PCA
	263 (3 phase) <i>Gen Srv</i>	\$21.56/mo	\$45.00/mo ▲ \$23.44		
	290 (1 phase) <i>Gen Dmd Met</i>	\$32.34/mo	\$45/mo ▲ \$12.66	\$0.05945 / kWh (Summer) \$10.34 / kW (Summer) \$0.05250 / kWh (Winter) \$6.46 / kW (Winter) \$0.0100 / kWh PCA	\$0.06250 / kWh (all-year) ▲ \$0.00305 \$12.80 / kW (Summer) ▲ \$2.46 \$0.06250 / kWh (all-year) ▲ \$0.01000 \$9.11 / kW (Winter) ▲ \$2.65 \$0.0018 / kWh PCA ▼ \$0.0082 PCA
	293 (3 phase) <i>Gen Dmd Srv</i>	\$32.34/mo	\$76/mo ▲ \$43.66		

How It Affects Bills

How will the rate change affect my bill? On average, legacy members will experience a 1.3% decrease and SMEC members will experience a 14.3% increase which translates into the following dollar amounts.

- For members on Legacy Rate A, the average energy use per month is ~900 kWh which equates to an average monthly increase of \$1.68.
- For members on Legacy Rate AU, the average energy use per month is ~750 kWh which equates to an average monthly decrease of \$4.26.
- For members on SMEC Rate 160, the average energy use per month is ~700 kWh which equates to an average monthly increase of \$9.71.

Is another rate change anticipated?

Yes. The Board and executive leadership staff carefully and thoughtfully created a five-year plan to minimize a sudden impact of rate changes. The purpose of the plan is to ultimately merge the Legacy and SMEC rates so the rates are the same between members that have the same service and to adjust rates so fixed costs are collected in the basic service charge (*a fixed charge*) and energy-related costs are collected in the energy charge.

Some rates will experience changes in two or three steps spaced a year apart until rates align and all fixed costs are in the basic service charge (fixed charge). Analysis will be done before each rate change to ensure the planned changes align with revenue requirements and the rates paid to our power providers.