

WEC CO-OP CURRENTS

Co-op Prepares To File For A Rate Increase

New Rates to Take Effect in 2011

Washington Electric Cooperative needs to file for a rate increase with the Vermont Public Service Board, and is preparing to do so before the end of the year. The increase will take effect as a temporary surcharge on members' bills sometime in early 2011, pending final approval by the PSB at a later date. Despite the approaching time-frame for submitting the application, exactly how much of an increase the Co-op will ask for is not known as of this writing, but the Co-op's leadership agrees it will be significant.

"The formula the Public Service Board requires for rate-increase applications means we need to compare financial information from the latest, complete fiscal year – for us it will be 2009 – and forecasts for the year when the new rates would take effect, 2011. Calculations can fluctuate right up to the time you make your submission," said WEC General Manager Avram Patt. "But we know that the economic realities are going to require that we generate an additional twenty-to-twenty-five percent in revenue to meet our expenses and keep the Co-op's services at the level our members

expect them to be. However we go about doing that, this is certain to be a noticeable rate increase for our members."

The last time WEC sought a rate increase was in 1999, an 11-year gap that's almost unheard-of in the industry. "We're the only electric utility in Vermont that I'm aware of that has not had an increase during that period," said Patt.

In fact, some Vermont utilities have raised their rates more than once. As the table on page 8 demonstrates, the average Vermont electric bill has gone up by 27 percent during the decade in which WEC's rate increase was zero. The average U.S. electric bill has gone up by 41 percent, and the costs of other fuels have more than doubled (heating fuel up by 152 percent) during that period.

"We point that out because we think it's important to put this issue in context," said Patt. "And we have made it a point over the last couple of years to tell our members at the Annual Meeting and our community meetings and through *Co-op Currents* that an increase would be coming. We are certainly aware of the impact that higher rates

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"Over the years all of our costs have gone up, but because of small but steady growth and because of our revenues from the renewable energy certificates, these costs stayed within our spending capacity until recently."



Russ Pzdoro of Corinth studies the informational materials provided at each dinner place at the East Corinth Congregational Church. The handouts explained the financial circumstances leading to the Board's decision to seek a rate increase in 2011.

October Is Co-op Month A Summit Of Vermont Co-ops

By Avram Patt, General Manager

October is National Co-op Month. It's a time when we at Washington Electric Co-op, together with co-ops of all kinds in Vermont and across the country, remind members (and non-members too) about "the cooperative difference."

What makes a cooperative different from other businesses? It all boils down to ownership. Co-ops are businesses that are owned by those they serve, and while they need to be financially healthy, maximizing profit is not their reason for being.

As we do every October, we are publishing the seven Cooperative Principles. You'll find them on page

two of this issue. This internationally adopted statement guides co-ops throughout the world, and I can tell you that here at WEC, we take the principles seriously. When we are faced with issues large and small, I will often look at the copy of them I have in my office for direction and a bit of inspiration.

Vermont Co-op Summit

Although we do not have a formal organization, the cooperatives in Vermont do get together from time to time. On October 14th, I attended the Vermont Cooperative Summit 2010 in Burlington. People attending this summit represented the range

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Washington Electric Cooperative

East Montpelier, VT 05651

Inside

New rate design approved and enacted. That's different from the rate increase WEC will soon propose. For more on what the rate design is all about, see page 6.

Well attended and interesting. The Co-op's annual community meetings were held this year in Calais and East Corinth, and there was no shortage of good food and conversation. Page 4.

Two takers for an early-retirement option. Early retirements provide benefits for both the Co-op and the retirees, but it's hard to see old friends leave. Page 3.

Living by the Co-op Principles. They are the seven components of the cooperative philosophy, and they bear repeating. Page 2.



Ron Garvin (above) was one of many engaged participants at the community meeting in East Corinth. For more on those discussions go to page 4.

A Summit of Vermont Co-ops

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of cooperative businesses in Vermont: credit unions, food markets, farmer co-ops, utilities and fuel dealers, housing developments, an insurance company, employee-owned firms, and more. There are more than 100 co-ops in Vermont in total.

One of the speakers, noted Vermont economist Art Woolf, spoke about the impact of co-ops on Vermont's economy, which is significant. He started his talk by noting that he and his wife have five co-op memberships between them: energy (Vermont Electric Co-op), groceries, outdoor gear, and two credit union accounts. That's actually very common in Vermont, with credit unions being by far the most common type of co-op membership in the state.

Paul Hazen, executive director of the National Cooperative Business Association (NCBA), reminded us about the values that make us different. Over the past decade, as we have witnessed corporate scandals, the collapse of major financial institutions and the subprime mortgage crisis, he reminded us that, as democratically governed businesses mindful of those seven Cooperative Principles, there has been almost none of that among co-ops. He provided some recent information and national statistics:



WEC Manager Avram Patt got this year's community meetings started by pointing out two things: October is National Co-op Month; and WEC will hold an Open House at its Coventry generating plant on November 4. Interested in attending the Open House? Call Washington Electric for more information.

- NCBA lists 29,284 co-ops operating in the United States (electric co-ops account for more than 900 of those), and those co-ops have \$652 billion in revenue;
- There are two million co-op employees;
- There are 120 million co-op members.

Did you know that the owners of local franchise businesses like Dunkin' Donuts and Taco Bell are members of supply co-ops for their businesses? So are True Value and Ace Hardware, and Best Western hotels. Also, some of our largest, most well-known national food brands are farmer co-ops.

In WEC's communities

At our community member meetings earlier this month, we reminded those attending that it was National Co-op Month. The church basement where we met in East Corinth is also home to the Sugar Maple Preschool, and the signs of that small co-op's daily activities were all around us.

I know that in our communities,

Over the past decade we have witnessed corporate scandals, the collapse of major financial institutions, and the subprime mortgage crisis. As democratically governed businesses mindful of the seven Cooperative Principles, there has been almost none of that among co-ops.

a great many WEC members also belong to other co-ops. Many of us save, write checks, and borrow at credit unions. We may buy homeowner and auto insurance, or groceries, from a cooperative. We may even ski at the nation's only co-op ski area (Mad River Glen). When I attended the Co-op Summit, I was again struck by how different these businesses are from an electric utility such as WEC, but also struck by how strong our common values and principles are. We are all owned by those we serve.

Interested in learning more about co-ops (including how to form one)? Here's a link with lots of information: <http://www.ncba.coop/>



Co-op Currents

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WEC is part of the alliance working to advance and support the principles of cooperatives in Vermont.

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The Board of Directors' regularly scheduled meetings are on the last Wednesday of each month, in the evening. Members are welcome to attend. Members who wish to discuss a matter with the Board should contact the president through WEC's office. Meeting dates and times are subject to change. For information about times and/or agenda, or to receive a copy of the minutes of past meetings, contact Administrative Assistant Deborah Brown, 802-223-5245.

Co-op Principles



1. Voluntary and Open Membership —

Cooperatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

2. Democratic Member Control — Cooperatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary cooperatives, members have equal voting rights (one member, one vote) and cooperatives at other levels are organized in a democratic manner.

3. Member Economic Participation — Members contribute equitably to, and democratically control, the capital of their cooperative. At least part of that capital is usually the common property of the cooperative. They usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing the cooperative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the cooperative; and supporting other activities approved by the membership.

4. Autonomy and Independence — Cooperatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy.

5. Education, Training and Information — Cooperatives provide education and training for their members, elected representatives, managers and employees so they can contribute effectively to the development of their cooperatives. They inform the general public — particularly young people and opinion leaders — about the nature and benefits of cooperation.

6. Cooperation among Cooperatives — Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures.

7. Concern for Community — While focusing on member needs, cooperatives work for the sustainable development of their communities through policies accepted by their members.

Jacques And Anderson Take Early Retirement

Co-op Bids Adieu to Two Valued Employees

Two longtime employees who held key positions with Washington Electric Cooperative have accepted an early-retirement option and left their jobs after decades of service to the Co-op. Administrative Services Director Denise Jacques and Environmental and Safety Coordinator Steve Anderson, both of Barre Town, retired in mid-October.

Denise was one of Washington Electric's most senior employees. She began her employment with WEC in the 1970s, but took time off when her children were small and also worked part-time during some of that period. She was a versatile employee, who over the years acquired new skills and took on ever-increasing responsibilities at Washington Electric.

"The first time I met Denise was when I came onto the Board of Trustees in 1989 and she was editing *Co-op Currents* on a part-time basis," said General Manager Avram Patt, who left the Board to become the Co-op's manager in 1997. "In a small company you can't have too many specialists. Denise was a generalist in the best sense of the word. Because of her knowledge in so many areas of the Co-op's operations her job changed as other people came and left and we took on new responsibilities as an electric co-op. Her position evolved over time. She was involved in the personnel area, and also took on some tasks in the financial-planning area."

For a number of years Denise performed the Co-op's long-range financial forecasts, projecting such issues as power-supply costs and the likely effects of inflation as far as 20 years into the future. "It's a planning function that's very important for the Co-op or any business, and very tricky," Patt said.

Because of her tenure, Denise developed working relationships with people at regulatory agencies at the national and federal levels (the Rural Utilities Service, the Cooperative Finance Corporation) and at the state level (the Vermont Public Service Board and the Department of Public Service). Her familiarity with the processes and the people performing them at those agencies helped WEC stay informed about important projects in the pipeline, ranging from construction-loan applications to approvals for substation reconstruction, to the development of WEC's electric-generating plant at the Coventry landfill.



Denise Jacques

"All of the work around Coventry, including the original project in 2005 and the two subsequent expansions of the plant, Denise administered much of our regulatory and financial responsibilities," said Patt. "She also administered a lot of the work with our contractors in building and running Coventry. I'm painting a picture of someone who was really a versatile and key person for the Co-op."

WEC Operations Director Dan Weston said much the same about Steve Anderson, the genial fellow whose desk occupied the front office at the garage and warehouse on Route 14. Steve came to work for the Co-op in 1994. His background was in the nuclear power industry, but at WEC his primary responsibilities involved safety and environmental regulations. He took on many other projects besides.

"I put him in charge of special projects like rebuilding the substations, because he was excellent with drawings and attention to detail," said Weston. "From my perspective that was one of the most important qualities he brought to the Co-op. He also oversaw our hydroelectric generating station at the Wrightsville dam. He loved that stuff, and he was good at it."

Steve's talents and personality made him effective in other areas, as well. He handled bids for purchasing steel for the substations and other equipment – including the Co-op's fleet of pickups and utility trucks.

"He spec'ed out our vehicles and stayed on top of them [with dealers and service providers]," Weston said, and added with a laugh, "He was tighter than the bark on a tree. I guarantee you he got the best price out of them. And he had a way of doing it that didn't get people mad. He had that great smile

and friendly face. He did a fine job with that. I'm going to miss him."

His coworkers sent Steve off with a small party in the warehouse. "The crew wished him well," said Weston. "We all do."

Early retirement

Early retirement is more than a way for businesses to pare their employment costs.

"It's something that employers may do from time to time when they're trying to achieve flexibility and looking for ways to reorganize," Patt explained. "It's a way of planning for the future and making structural changes in an employee-friendly way. You don't want to do drastic things that will hurt people, and with early-retirement offers you can create a situation that's a win-win for everyone."

Early-retirement offers are not, and cannot be, targeted at individual workers. They must be offered to a "class" of employees, defined by age and length of service.

Employees who are offered the option decide for themselves whether to accept it or continue working. WEC has offered early retirement on occasion over the years.

Patt said that losing employees of Denise Jacques' and Steve Anderson's skills and history presents special circumstances.

"You don't just re-hire for positions like theirs and put new people in those same responsibilities," he said. "It would take a long time for them to get up to speed. And the things that these two people did can't just be absorbed by other employees. What you need to do is to take a deep breath, step back, and evaluate what those positions should be in the future, to best serve the Co-op."

It's a time of passage, in other words, and a time of change and adjustment – much like retirement is itself. Here's wishing the best to Denise and Steve as they find new directions for their own futures.



Steve Anderson

Survey Will Ask: What Do You Think?

Washington Electric Co-op wants to know. So the Co-op has hired a polling company that specializes in working for cooperatives to conduct a **Membership Satisfaction Survey**. The company will begin calling WEC members on a random basis on Wednesday, November 3, and will keep calling until it has obtained full responses from a sampling size of 250 people. The process is expected to take five days.

Membership surveys are a way for WEC to identify areas for improvement, and to know how well the Co-op is serving and responding to its members' needs. WEC has conducted surveys in the past, but now the Membership Satisfaction Survey is also required by the Vermont Department of Public Service as a component of WEC's "Service Quality and Reliability Monitoring Plan" (known as SQRP).

If you should happen to receive a call, we hope you'll participate in the survey. Because we really want to know what you think, and how to make Washington Electric a better co-op.

AN OFFER FROM EFFICIENCY VERMONT



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YOUR OLD SECOND REFRIGERATOR USES UP TO FOUR TIMES THE ELECTRICITY OF A NEW ONE. So, why not let us recycle it? By recycling an old, second fridge, you could save up to \$150 a year on your electric bill. We'll pick up your old appliance for free and give you a \$50 incentive. Plus, recycling that fridge will keep about 10 tons of greenhouse gases from entering the atmosphere, which means a lot of leftover clean air for our future.

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**\$50
BACK**
**\$50
BACK**



Special thru November 30 – Schedule a FREE pickup. Get \$50 back!

Food For Thought At WEC Community Meetings



The menus were outstanding again this year when Washington Electric “took its show on the road,” holding community meetings in two towns in its service territory as it does every October. But WEC doesn’t get credit for the dinners; they are put on by local organizations, partly as a neighborly function and also to raise a little money to continue their good works.

This year’s meetings were held in Calais, at the town hall in Gospel Hollow, on Wednesday, October 13, and the following night at the East Corinth Congregational Church. In Calais, where dinner was provided by the East Montpelier Fire Department, the menu consisted of lasagna (choice of meatless and meatful), with garlic bread and salad, coffee, tea, and cider, and an assortment of pies. Folks lined up for seconds. In East Corinth, trustees of the Blake Memorial Library put on a spread consisting of braised rabbit on a bed of chewy pumpkin spaetzle, with rich, dark collard greens on the side. And spiced apple pie for dessert. Credit in large measure went to professional chef Adam Bartkoski, a library trustee.

Supper and socializing was followed by an informational meeting and discussion with the dozens of WEC members who attended. In Calais, the meeting drew 46 people – a number that included WEC directors Barry Bernstein, Roy Folsom, David Magida, Anne Reed, Roger Fox, Marion Milne, and Don Douglas, and staff members Dan Weston (Operations), Bill Powell (Products & Services), Finance Director Cheryl Willette, and Member Services Supervisor Susan Golden. The crowd at East Corinth reached 50, with many of the same WEC directors and staff members present.

With the discussion led by Board President Bernstein and General Manager Avram Patt, the meetings this year departed from the usual agenda. *Normally*, Patt talks about power sources and policies, Powell explains energy-savings and efficiency opportunities provided by the Co-op, and Weston describes field operations and plans to improve service in the local area. *Normally*, however, the Co-op isn’t preparing to file for a rate increase with the Public Service Board as it is this year (see story on page 1). Patt explained that that would be the primary focus of the meetings, which would give members an opportunity to hear explanations and ask questions about the impending increase.

Still, other topics did come up. At both meetings Patt started off with a push for “e-billing,” encouraging people to sign up for an electronic program that enables them to both pay and

receive (this component has recently been added) their bills by Internet. Douglas, the Co-op’s treasurer, noted that e-billing can be combined with “budget billing” for people who want predictable, consistent electric bills.

“Handling your bill this way saves everybody money,” Patt explained, linking that concern to the Co-op’s efforts to control costs. “We’re trying to get your attention. You’re going to keep hearing about e-billing from us.”

Before getting to the rate increase, Patt mentioned the Co-op’s new rate design, which was approved by the PSB in September and went into effect this month. At both meetings the rate design attracted interest (see “WEC Adopts A New Rate Design,” page 6). In East Corinth, Co-op member Ron Garvin had questions about the lower-cost block of power that

With the moon rising behind Calais’ Town Hall at Gospel Hollow, Co-op members sat down inside for dinner and energy-related conversation. Above, Ted Allen of East Montpelier listens to the general manager’s explanations of WEC’s finances.

constitutes a first “tier” in WEC’s rate structure, which is set at 200 kWh per month (an increase from 150 kWh/month in the previous design).

“The inclined rate structure is not unique to the Co-op,” Bernstein explained, noting that other publicly owned utilities in Vermont use it. “But it’s just starting to gain interest in other parts of the country as an incentive toward conservation.”

Joyce McKeeman said it worked for her. “I look at my bill every month and try to stay as close as I can to that first block,” she said. A college-level economics teacher, McKeeman said, “It’s a fact that people respond to incentives.”

Lively discussion

Most of the discussion, of course, was on the rate increase WEC is about to propose, and the factors behind it, which are steadily increasing costs in all areas of operations, the declining market value of WEC’s renewable energy certificates, and a stagnant level of electricity sales. The discussion touched on the many ways WEC’s board, management, and staff have sought to control and reduce costs. “This isn’t something we just started looking at in the last year,” Patt said. “There’s been a culture of cost-savings at the Co-op for a long time, and our staff plays a big role in it.”

In fact, there was some good news



Pat Giavara of East Montpelier, attending the meeting in East Corinth, takes part in the lively conversation.

in a generally disappointing financial picture.

“We expected a huge increase in our retirement-benefit costs, but they came in \$100,000 less than we expected,” said Patt. “Also our property taxes in Coventry [where the Co-op owns and operates an electric-generating station fueled by landfill methane] have gone down at least for now.

“These are examples not of something we did,” Patt confessed, “but we’ll take it.”

The comparatively low cost of the power WEC generates at Coventry prompted a member in East Corinth to ask how long it would be available. Bernstein replied that Washington Electric had a 33-year contract with Casella Waste Management, the owner of the landfill, for the methane produced there, ensuring this supply until 2038 with possible extensions beyond then. It’s a large landfill that services an extensive geographic area, and it’s growing; that means it will continue producing methane gas for years, even after it closes, and that’s sure to be a long time from now.

There was also discussion of power choices and their impact. For example, did Washington Electric’s longtime policy of helping members reduce their power consumption make sense, when the Co-op’s decreased revenues contributed to an imbalance between income and expenses? And when people are encouraged to use less electricity, don’t they simply switch to other fuels such as propane, negating the conservation WEC is trying to stimulate?

In response, Bernstein pointed out that power costs for all sources are ephemeral, and in the long run they go only in one direction: up. “As new sources of electric power come on line they’re going to get more expensive,” he said, “and the same trend applies to fossil fuels.”

Washington Electric is a co-op, Bernstein pointed out, and as a co-op it enacts policies that the elected leadership believes are in the best interest of its members. One of those strongly held beliefs is that it’s in the best interest of members and the cooperative itself to see electricity used efficiently.



These kids in East Corinth (left) couldn’t care less about a rate increase, but Rick Barstow of Adamant (above) was considerably more interested at the Calais community meeting.

Construction plans in Calais

WEC brought some local news for the folks at the Gospel Hollow town hall: the East Montpelier substation will be rebuilt and upgraded at the start of the next construction season, continuing WEC’s slow and steady campaign to modernize all of its substation facilities. Located just up the hill from the Co-op’s headquarters in East Montpelier village, the substation is part of the distribution and transmission infrastructure that serves well over a thousand members in Calais, Middlesex, and Worcester as well as East Montpelier.

The Public Service Board’s approval for the reconstruction came through a new, expedited procedure for “non-controversial” projects, said Patt, and that’s why there had not been a membership vote on the East Montpelier project, as there had been on previous substation reconstructions. The Co-op had successfully lobbied the Legislature for this change, Patt said, not to deprive members of a voice in their cooperative’s affairs but to move more efficiently on matters of service and save the money a membership vote would cost.

“Things of major significance will still need a membership vote,” he said, adding that the PSB, not Washington

Electric, makes that determination.

In all, some 85 Co-op members came out to participate in this year’s community meetings. The discussions were a two-way street, with members revealing what was on their minds and the management and directors

providing information on the Co-op’s direction. As Bernstein pointed out, Washington Electric Cooperative is not just an electric utility – it’s a form of representative democracy. That’s no small thing in a time of rising prices and decreasing local control.



Getting under way at the East Corinth Congregational Church. People listened politely to the introductions, but what they really wanted to do was eat.



From the outside looking in, at the Gospel Hollow town hall in Calais (above). At left, East Corinth’s lovely Congregational Church.



Point of information: There are 15 electric co-ops in Florida (note the gentleman’s “Sanibel Island” cap).

WEC Adopts A New Rate Design

Important Work, But Little Change For Most Co-op Members

Washington Electric Co-op has instituted a new “rate design,” having received approval from the Vermont Public Service Board (PSB) for its proposed design change on September 13. The rate design went into effect on October 4, meaning that members’ November electric bills will be calculated with these changes in place.

For most Co-op members, WEC General Manager Avram Patt explained, changes will be minimal, and almost unnoticeable. However, residential Co-op members who use more than 900 kilowatt-hours (kWh) of electricity per month (the average residential WEC member uses 550 kWh/month, so 900 kWh is on the high end of the usage spectrum) will see an increase of 3 percent to 6 percent. The percentage can vary because individuals within the same membership class can be affected differently, depending on certain factors: for example, what it costs the Co-op to provide power to them, and the percentage of their total power usage that falls into the first “block,” or tier, of 200 kWh, which is less expensive than power above that amount.

Vermont’s electric utilities are required to perform Cost of Service studies periodically, and adjust their rate structures in response to their findings. WEC’s new rate design is its first in 20 years. It took the Co-op’s board and management two years to prepare and refine it, but in the end WEC’s proposal was accepted unanimously by the Public Service Board.

The rate *design* comes at the same time that WEC is moving toward filing an application with the PSB for a rate *increase*. They are not the same thing. The increase, if approved, will provide the Co-op with more revenue by raising the cost of power for everyone. The rate design, by contrast, is revenue-neutral: it will not provide WEC with more income, but will strive instead for fairness – having people’s bills reflect the cost of their service. It was based on information gathered from a Cost-of-Service Study that identified variations in the expense of providing power to residential, commercial, and large-power users throughout WEC’s 41-town service territory.

The rate design drew questions from members at WEC’s October community meetings in Calais and East Corinth. Patt expressed the same theme at both meetings:

“For the vast majority of our members,” he said, “you probably wouldn’t notice any change due to the new rate design if we weren’t announcing it, especially because people’s bills fluctuate from month to month anyway. If you’re an average residential user – which, for Washington Electric means people who use about 550 kilowatt-hours of electricity per

month – you won’t see any noticeable change in your bill.”

People who use less than that average may see their bills go down a little, while members who use more electricity will probably see a small increase.

In part, that’s due to the two-tiered structure of Washington Electric’s rates. WEC has provided an initial, low-cost block of power to all members for many years; the intent is to help make people’s basic power needs for things like lights, refrigeration, and water pumps affordable to everyone. Previously, that block was 150 kWh/month; under the new rate design it is 200 kWh (clearly shown on people’s electric bills). Power above 200 kWh costs more. The differential is 10 cents/kWh (7 cents for the first block, 17 cents for the second). As Patt explained, when people are able to use less electricity it increases the percentage of their bill calculated at the lower rate – in effect providing them a lower “blended” rate for their power.

How it affects people

WEC has calculated the effect of the new rate design for residential members this way:

- Members using less than the average (550 kWh/month) will see a zero-percent to 11.7-percent decrease in their bills (only a small change in dollar amount, though, because of how little power they use);
- Members using from 550 kWh/month to 900 kWh/month will see an increase of zero percent (for those close to 550 kWh) to 3 percent, if their usage remains consistent;
- Members who use more than 900 kWh/month will see an increase of 3 percent to 6 percent for the same usage.

Washington Electric has three classes of members: residential, commercial, and “large power” users. Before the recent rate design took effect, seasonal residential members paid a lower rate than full-time residential members. As of October 4, their rates per kWh are the same. “We’ve essentially eliminated the difference between the two,” said Patt. “That will mean slightly higher costs for seasonal members, but because they are seasonal their usage oftentimes is very low.”

One of the effects of the new rate structure is to shift slightly more of the cost of running the Co-op to the residential class, who comprise 98 percent of WEC’s membership. Commercial and large-power members will pay a little less – not out of any principle that they should, but because the Cost-of-Service Study documented that they were being charged slightly too much based on what it costs to serve them.

A WEC member at the Calais community meeting – Richard Payne of Cabot – forcefully expressed a concern for how farmers will fare under the new design. Farmers typically use significantly more power than other residential members.

“Historically, Washington Electric existed to service people at the margins, outside of the towns, who wouldn’t have been served by the [for-profit] power companies. They were largely farmers. Now,” Payne charged, “we’re coming back and biting the farmers right in the rear.”

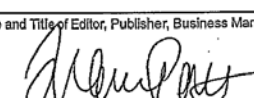
However, Patt explained that farmers today frequently establish commercial

accounts for their operations, detaching their residences by separate meters from their farm buildings and fences. And, as noted, commercial accounts got a small break in the new design.

Which means that farmers who have not looked into this arrangement might want to consider it – and can start by calling the Co-op for information. The entire purpose of a utility rate design is to be fair, and as Payne noted, fair treatment for the agricultural community and other rural Vermonters is how and why the Co-op got started. Seventy-one years later, that’s still the main idea.

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PS Form 3526, September 2007 (Page 2 of 3)

Rate Increase

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more of their budgets on power. WEC has a 33-year contract for the methane fuel produced at Casella's Coventry landfill, a secure, local, affordable, environmentally friendly source of power, taking us at least through 2038.

There are costs WEC cannot control – even to the limited extent the staff and board can temper the expenses listed above. These include materials costs (poles, wires, other equipment), and debt service on past construction and maintenance loans from the federal Rural Utilities Service (RUS) and the Cooperative Finance Corp., which are the chief financing sources for the country's rural electric

co-ops. As a rural co-op, right-of-way maintenance is a constant challenge because WEC's 1,250 miles of line are vulnerable to outages caused by overgrowth. Nor can WEC control the weather and the number of storms that demand repairs, reconstruction, and overtime for employees.


The approval process

In Vermont, utilities that file for rate increases with the PSB are permitted to begin charging their customers (or members, for the state's two co-ops) the new rates 45 days after their filing is complete. This is known as a temporary surcharge. The PSB then opens a docket and begins collecting exhaustive information from the utility; ratepayers can submit questions

and input of their own in writing, and there is a public hearing that provides further opportunities for citizen participation. If the Public Service Board eventually approves the new rates they become permanent. If the PSB rules that a smaller increase is appropriate customers receive an adjustment on their next bill. The timeframe for PSB deliberations and rulings varies, but frequently takes about three or four months.

Washington Electric used an innovative way to forestall the need for higher rates – a system for which it asked and was granted special permission from state regulators. WEC was allowed to bank its proceeds from the sale of RECs against such time as those funds would be needed for

operational costs. It was an effective method, but WEC had to begin drawing on those funds this year.

Which means its time for a rate increase. As noted, the rate request amount has not been determined. *Co-op Currents* will continue providing news and information about the process, and members can check for updates online at the Co-op's website. Further information will likely be provided through bill inserts – and as always, members are invited to call Manager Avram Patt, President Barry Bernstein, or any of the other eight Washington Electric directors to discuss the issue. Their contact information can be found on page two of this and every issue of *Co-op Currents*. 

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Rate Increase

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will have for some people, and we encourage everyone to remember that they can have some control over their bills by reducing their use of electricity. Our Products & Services Director, Bill Powell, specializes in helping our members to do that."

How come?

The factors making an increase inevitable have long been clear to WEC's management and Board of Directors, but WEC President Barry Bernstein said that they had hoped to defer this action until closer to 2014. Recent, unforeseen developments brought it about sooner.

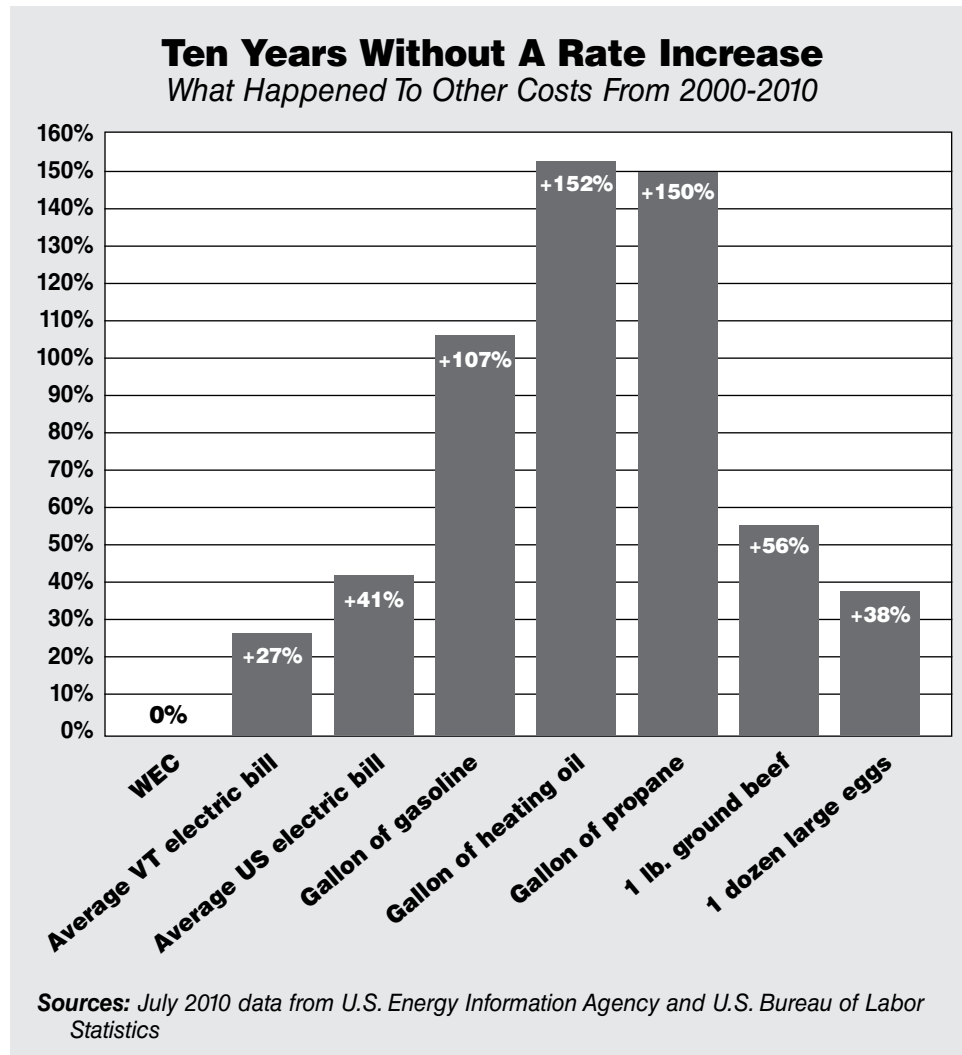
"We didn't expect to see a major recession in the U.S. and the effect that would have on the overall economy," he said. "And we didn't expect the value of our renewable energy certificates to decline as quickly, steeply, and suddenly as they have, which undercut our revenues."

Renewable energy certificates (RECs) have been good for the Co-op. WEC earns them by generating power from landfill methane at its station in Coventry, and sells the certificates to an electric company in Massachusetts that is required by Massachusetts law to support renewable energy. Until recently, the Co-op – a \$13.5-million company – was making \$2 million a year selling the RECs at \$52 each. In the past year that income has plummeted; currently WEC is getting \$27 for the certificates – still a benefit, but much less so. One reason is that more renewable energy options have come on line in New England, such as biomass and wind facilities in Maine and New Hampshire, and they are eligible to sell RECs; therefore, there's more competition in the market.

WEC's electricity sales to its members, meanwhile, have flattened out. It's a nationwide phenomenon attributable to a poor economy, to improved efficiencies in electric products, to housing construction and renovation standards that decrease consumption, and many other causes – a positive trend, but one that has implications for per-kWh costs. The generally warmer weather in recent years also has reduced Washington Electric's power sales during the winter. For years WEC had been experiencing predictable annual sales increases of about 1 percent, mostly due to membership growth, but growth has slowed and along with the other factors has led to a leveling-off of power consumption.

"We've always done a lot of planning and work to reduce our costs," said Bernstein, "the biggest thing being to build our Coventry generating plant, which now provides two-thirds of the power our members use. Power supply accounts for 50 percent of our budget; it's always the largest cost factor for retail electric utilities, so the fact that we obtain it at a good price from Coventry is a significant plus for us.

"As it turns out, though, this rate increase is less about costs than it is about revenue, the decline of the



market value of our RECs and slow electricity sales. That's not to say that costs aren't a factor. With their steady increase across the board in our operations we were headed for a rate increase anyway. But probably not as soon as this."

The 'cost' side of the ledger

"Over the years all of our costs have gone up," WEC Manager Patt confirmed, "but I've found that in any particular year it would be different things. One year it might be property taxes in some of our towns [WEC operates, and therefore owns infrastructure, in 41 central Vermont towns]; another year a rise in employee-benefit costs; one year the price of steel went up sharply. Cumulatively, because of small but steady growth and because of our revenues from the renewable energy certificates, these costs stayed within our spending capacity until recently. We have always had our eye on cost control; this isn't anything new and in fact it's a culture that extends

throughout our staff."

Vehicles: Washington Electric's fleet includes trucks of various sizes, many of which are specialized for utility work, plus four-wheelers and snowmobiles to access off-road sections of the power system in all seasons. Several years ago Operations Director Dan Weston began shifting purchases to trucks with aluminum bodies, which are lighter-weight (reducing fuel costs), less expensive to purchase, and more durable. Weston has also reduced the number of vehicles, consistent with the Co-op's needs.

Employee benefits: The Co-op employs a staff of around 41 employees (it varies slightly at times). Their jobs sometimes demand long hours in bad weather and road conditions, but the low staff turnover is evidence that WEC is a good workplace and that employees are valued and treated fairly. Nonetheless, benefits are a significant cost for all employers, and WEC conscientiously tries to control these costs.

"Every time a benefit cost becomes

unacceptable we go out into the insurance market and do what we can to find comparable benefits at lower cost," said Patt. "That results in inconvenience for our employees when we switch carriers, which we've done several times, but we have to do it. Also, we have slightly increased employee contributions to their benefit plans."

Staff: Electric utilities operate under significant regulatory demands, which increased in the wake of the financial scandals two years ago. In addition to regulatory responsibilities, WEC became a power-generating company with its Coventry plant in 2005. The plant adds to the Operations Department's responsibilities. Also, the Co-op grows each year as people build houses in WEC's territory and become new members; adding these members frequently means extending WEC's power lines. Patt says that since he became general manager in 1997 the membership has grown by about 1,500 new connections, and added about 150 miles of power line.

Despite these added responsibilities, staff size has remained basically the same during this period. Like many employers, WEC has asked its employees to do a little more. An early-retirement option was offered this fall, and two employees chose to take it (see "Early Retirement," page 3). Through staffing changes and attrition WEC plans a small reduction in its workforce, but members at the Co-op's community meeting and the Annual Meeting frequently express an appreciation of the fact that WEC's service has improved over the years; the Co-op does not intend to compromise those gains and will continue improving its ability to provide superior, reliable electric services in a rural, difficult area to serve.

Automation and E-Billing:

Automation takes many forms, and has increased the productivity and efficiency of many businesses, including the Co-op. One form of automation WEC is urging members to adopt is "e-billing" – paying AND receiving their bills electronically (using a secure website and password). This saves postage and processing costs, but WEC cannot achieve these savings without its members' participation. There are savings and conveniences in e-billing for members, too. People can learn more about e-billing and sign up for it at Washington Electric's website, and of course they can call a member services representative at the Co-op to learn more about it.

"Profits": There are none at Washington Electric. As a cooperatively owned utility it has no investors who receive stock dividends. In years when the Co-op earns more money than it spends the difference is allocated to WEC members through capital credits, which are distributed (for previous years) each November.

Power: As noted above, WEC's power-supply costs account for 50 percent of its budget. This is a comparatively small percentage because of the affordable power from Coventry; it's not unusual for cooperatives and other electric utilities to spend two-thirds or

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From left, Co-op Treasurer Don Douglas, Products & Services Director Bill Powell, and WEC President Barry Bernstein at an October community meeting. The subject was a rate hike for the Co-op; when WEC makes its application it will be for the first time in 11 years.