

March 3, 2008

Purchased Power Cost Adjustment to Increase for VVEC Members

(COLLINSVILLE) – The amount Verdigris Valley Electric Cooperative pays for the power it purchases is increasing. In March, VVEC members will pay more for wholesale power generated by Associated Electric Cooperative, Inc. (AECI.) The Missouri-based utility generates electricity for 51 electric co-ops, including VVEC, and six transmission facilities in Missouri, Oklahoma and Iowa.

Alice Houston, VVEC general manager, says the increase in wholesale power rates will add around \$4.7 million to the co-op's power costs in 2008 – an increase of 23 percent.

For VVEC members, the AECI increase will appear in the monthly power cost adjustment (PCA.) Beginning in March, the PCA will begin to gradually increase up to 1-cent or more per kiloWatt-hour. While PCA fluctuations and household usage patterns make precise figures impossible, the average co-op member's bill will increase by approximately \$16 per month.

Houston points out this isn't an increase in rates set by VVEC, but an increase in the adjustment charged monthly by AECI for generating expenses that exceed baseline rates. This is the only co-op expense not included in VVEC's rates.

"This isn't news anyone wants to hear," says Houston. "Neither the co-op nor the members want to pay higher utility bills. But we can't say the increase is a surprise, given the current energy situation."

Rising power costs continue to grab front-page headlines across the country. VVEC members have been reading similar reports in the co-op newsletter *VVEC Power Circuit*, annual report, the statewide cooperative newsletter, *Oklahoma Living*, and hearing about it at annual meeting. All sources acknowledge key factors such as rising fuel prices, growing demand, the need for new power plants, and increasingly costly environmental regulations.

According to AECI, the cost for fuels used to generate electricity increased 94 percent in the last 10 years. While a new coal-fired power plant under construction in Missouri will enable AECI to meet its projected system growth of 2.3 percent per year, the price, at \$1.3 billion, is steep.

Meanwhile federally mandated environmental standards require the utility to modify its existing coal-fired plants. Cost of these modifications: \$330 million.

"These are serious issues for VVEC, and all co-ops, in fact," says Houston. "We want our mem-

bers to know the increase is coming, what issues are causing it, how it is going to affect them, and what actions they can take to have some control over their monthly usage, and ultimately, their monthly bills.”

What is the PCA?

The power cost adjustment (PCA) is paid directly to VVEC’s wholesale power supplier for generating expenses that exceed the baseline rate. Because unstable fuel prices make it extremely difficult for power suppliers to predict generating costs, the PCA was established to accurately reflect the difference in projected costs and actual generating costs. When generating costs dip below the baseline rate, the PCA appears as a credit on members’ electric bills. The PCA has appeared as zero, or a credit, on VVEC members’ bills since August 2004.

The method of calculating the PCA has been the same since the early 1970s.

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