

Rates Changed April 1

Residential Bills Up 7% On-Average

Member owners of Duck River Electric Membership Corporation (DREMC) are experiencing an increase in their electric bills following rate changes by the Tennessee Valley Authority (TVA) and DREMC which took effect April 1, 2008. The net effect of the wholesale and retail increase, on average, for all classes of consumers is 7 percent. For average residential consumers the increase will mean an increase in their monthly electric bill of \$9 to \$11, depending on the amount of energy used.

TVA announced in February that their cost of *wholesale* energy sold to distributors and large directly served customers would increase by 7 percent on April 1. Approximately 80 cents of each dollar received from DREMC members is paid to TVA for the cost of wholesale power.

Citing the need for additional revenue to fund new power generation and energy efficiency initiatives to meet the growing demand for power, TVA indicated the wholesale increase will generate an estimated \$300 million in additional revenue during fiscal year 2008. In addition, "TVA is taking steps to reduce its non-fuel operating and maintenance costs by more than \$400 million over the next three years," according to TVA President and CEO Tom Kilgore. "However, additional revenue is needed for long-term investments to keep the power system reliable and lessen our dependence on volatile energy markets. That will help us keep electricity reliable and affordable in the years to come," Kilgore added.

With only about 20 cents of each revenue dollar collected remaining with DREMC to operate, maintain and expand the cooperative's distribution system, General Manager Jim Allison explained, "Because our margin is so low, any time TVA increases our wholesale rates we have no choice but to pass that increase along to our members."

"In addition, we must continually study and evaluate our own financial position since our costs of fuel to operate our vehicles, insurance, labor, materials, wire, transformers, supplies and all operating expenses continue to increase" the General Manager explained, adding, "We continue to invest significant dollars in capital improvements each year to maintain and improve the reliability of the electric

distribution system. This year alone we will bring two new substations on-line at a cost of more than \$4 million. These improvements, as well as others being made throughout our service area, are essential if we are to meet the growing demand for electricity and maintain the reliability that our members expect and deserve. And we are seeing the same types of increases in diesel fuel, copper and steel products, etc. that all of our members see. The increases in operating expenses all add up.”

Following a thorough analysis of DREMC’s existing revenues and rates by an independent consulting firm, a recommendation was made to the DREMC Board of Directors at their March 25 meeting to increase retail rates by an average of 1.57 percent, which they approved. Coupled with the TVA wholesale increase, consumers will see a retail increase of 7 percent, on average.

Prior to enacting any rate increase DREMC must request a rate change review to be performed by TVA, the cooperative’s regulatory body. Based on TVA’s review, the 1.57 percent increase approved by the DREMC Board is less than half of the “guideline increase amount” sanctioned and approved by TVA. “We are very pleased that we were able to hold our portion of the increase to well under half of that which TVA told us could be justified based on their review of the increased costs of our doing business, which is also considerably less than the increases being imposed by several of our neighboring municipal and cooperative power systems,” Allison stated.

DREMC’s last local increase was a small one almost three years ago in October, 2005. And prior to that, it was 1997. “So it stands to reason that sooner or later DREMC must also consider an increase in its portion of the consumer’s monthly electric bill to cover rising operating expenses in addition to the increases imposed by TVA,” Allison explained.

Neither the TVA wholesale increase nor the local DREMC increase include the change in TVA’s quarterly Fuel Cost Adjustment (FCA), which will also change effective April 1. (See the related Fuel Cost Adjustment article in this issue of *The Tennessee Magazine*.)

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**Impact of DREMC/TVA Rate Change
Effective April 1, 2008**

<u>Energy Use (kWh)</u>	<u>Rate Prior To 1-Apr-08</u>	<u>Rate Effective 1-Apr-08</u>	<u>Percent (%) Increase w/o FCA*</u>
500	\$ 50.19	\$ 55.00	6.6
750	\$ 69.82	\$ 76.79	6.7
1,000	\$ 89.45	\$ 98.57	6.8
1,250	\$ 106.44	\$ 117.67	7
1,500	\$ 123.42	\$ 136.76	7.1
2,000	\$ 157.39	\$ 174.95	7.3
2,500	\$ 191.36	\$ 213.14	7.4
3,000	\$ 225.33	\$ 251.33	7.5
4,000	\$ 293.27	\$ 327.71	7.6
5,000	\$ 361.21	\$ 404.09	7.7

*See Related Article Regarding
TVA Fuel Cost Adjustment
Effective April 1, 2008