

RATES & BUILDING PROJECT APPROVED

Dear Member:

For many months, I have been using this space to discuss the state of the economy and the cooperative, preparing us all for the future of MLEC's expenses and what that means to you, our member.

It is important to know that setting rates for our not-for-profit, member-owned cooperative is a balanced science. First, we must consider the needs of the cooperative. *What do we have to spend money on in the next five to ten years?* Second, we need to ensure we meet our financial covenants. *What are the legal obligations we have to our lending institutions?* Third, we need to balance the year-end margins. *Did we overcollect or undercollect from our members?* If we have undercollected, we must increase unnecessary debt which will impact our financial covenants. If we have overcollected, we must budget to pay those margins back to you in the form of capital credits. Ultimately, when we change one piece of the puzzle, it will impact the whole financial plan.

At the December board meeting, the MLEC board voted to increase the monthly access charge for all rate classes. The change has been spread equitably among rate classes to ensure that no one rate class is subsidizing another rate class. Beginning on your May billing, for April's usage, residential members will notice their access charge of \$49 per month. In the December Outlet, I indicated that some of our members are large electricity consumers, and some of our members use very little electricity. Some of our members have permanent homes, and some have seasonal homes or hunting shacks. Regardless of the fact if your property is using electricity or not, we still need to maintain all the distribution equipment that ensures the power is there when you want it. That is what the access charge is for. This varied need was evident in our last storm, right before Christmas. And as I have been discussing, all those costs are going up dramatically.

An important note to consider in the access charge increase is that our residential members will not feel the full impact of the increase. A full one-third of this charge you have already been paying for several years, we are just now formally rolling it into your rate. You may have noticed that most months you have had a power cost adjustment (PCA) charge on your monthly bill. Those are rate adjustments from our wholesale power provider, Great River Energy (GRE) that we have had to pass on to you. Our financial team did a rate analysis of the 2022 PCA and has built this into the new access charge, aligning better with MLEC's last cost of service study. Doing this means that you should see minimal monthly PCA from GRE moving forward. The goal of our rate adjustment methodology is that when needed, we will use the PCA for extreme market fluctuations that GRE passes on to us, or in the case of an overcollection where we pass a credit back to you. Remember, we do not want to overcollect from you, because we will then need to budget to pay you back that money in the future through the cooperative capital credit process.

Approximately one-third of the access charge increase is necessary to accommodate the rising cost of doing business. In the November Outlet, I listed actual prices of the equipment we need to maintain our cooperative and how much those prices

have increased. In 2019, a 25 KVA pad mount transformer cost \$1,407. Today that cost is over \$4,000. Just like at home, the cost of EVERYTHING we purchase has gone up dramatically in the last 3 years, and we must recover those costs.

Lastly, at the December board meeting, your board did vote to move forward with the new building project. After several years of discussion, investigation, and expert analysis on renovation versus new construction, we firmly believe that new construction is a better option than renovating our 1960s facility. Three years ago, when we started this discussion, we estimated the project would be approximately \$11 million. As you can expect, the construction costs have gone up to approximately \$16 million, and interest rates have also gone up. With that said, those factors would remain the same with the millions of dollars in repairs necessary for our existing 1960s facility. We have chosen dedicated and responsible partners with Architectural Resources Inc. and McGough Construction, ensuring that any monies not spent on the project are returned to MLEC. As we move through the design and development phase of this project, we will look at every possible avenue to reduce costs even more and keep the impact of this facility as minimal as we can on our membership. We do anticipate that approximately one-third of the access charge increase is necessary to accommodate the cost to build a new facility.

Another important thing about the rate adjustment methodology we have chosen, is that we believe the market is going to level out. In the December Outlet, I indicated that the now two-year-old cost of service study we completed indicated that the MLEC residential access fee should be \$50. That is a real cost that should be borne by all residential member-owners. If you research rural electric cooperatives across the state of Minnesota, that cost is in line with what others are experiencing, because it is simply more expensive to distribute power to rural Minnesota. We have fewer members per mile of line paying for the cost to distribute power. That \$50 is a hard cost; however, when the market does start to level out, we may be able to reduce our per kilowatt-hour charge once again to ensure that we are not overcollecting from you, our member.

That is our plan moving forward. As always, your MLEC team has a lot of projects to tackle in 2023, and we plan to do them responsibly, respectfully, and with your best interest at heart. We know you will have questions, so please give us a call at 218-927-2191. We will do our best to put your mind at ease. Happy New Year. Until next time, stay safe and warm.



Sarah Cron
CEO