



Rio Grande Electric Cooperative, Inc.

UP DATE



March, 2007



A Message From The General Manager/CEO

By Daniel G. Laws

RGEC's Cost-Based Rates

Last month I mentioned the results of our recent member satisfaction survey. I also mentioned that, while the results were very favorable, there were some comments that troubled me, and so I wanted, over the next few issues, to address those comments. These articles can be found on our website in the CEO Archive, if you wish to read them again, or read one you may have missed.

The comment I want to address this month is, *"I just think the rates are too high and want to know when they are going to be reduced"*. I guess it is normal to assume that something is too high when you don't really know what makes up the price you pay for a product or service. And, I suppose the headlines about corporate fraud, over-earning, and extraordinary executive compensation plans, serve to fuel suspicion one is paying more than one should.

Let me assure you that none of those things occur here at Rio Grande. Ironically, the auditors are here auditing the books for 2006, as I write this article. In addition to our audit firm, Eide Baily, we have an auditor from the United States Department of Agriculture to audit loan funds Rio Grande has obtained over the years. I have been General Manager/CEO here for the last seventeen years, and during that time, we have not once failed to receive an "unqualified opinion" from our auditors, which is the best audit rating you can get. And, the Department of Agriculture has never found any evidence of mismanagement of funds.

Having eliminated wrongdoing as a causative factor in high rates, then, what is the cause? Rio Grande's rates are "cost-based", which simply means that actual expenses born year-in and year-out by the Cooperative are used to form the basis for the rates you pay. To arrive at cost-based rates, we use a typical year and allocated expenses to each rate class, i.e., residential, seasonal, irrigation, and so on. We divide total dollars in expenses by total kWh sold to each class to develop the price per unit, or cost per kWh for each class of service. Although this description is simplified, it does encompass the basic process. As a practical matter, what you pay for electric energy is what it costs!

So, what makes electric energy cost so much? It's the same thing, no doubt, that attracts you to live in this part of the state; rough, rugged country, remote wide open spaces, and sparse population. Any electric utility operating in this service territory would be exposed to the same kinds of expenses to which Rio Grande is exposed. The typical electric cooperative in Texas has a little more than 5 meters for every mile of line in service, while Rio Grande has 1.3. And, investor-owned and municipal systems have more than 35 meters for every mile of line in service.

I challenge you to compare us with others. You can do so via the internet at www.powertochoose.org. This is a website maintained by the Public Utility Commission of Texas. Here, you will find all of the retail energy providers and their prices per kWh. Compare their numbers to the price per kWh shown on the lower left side of your electric bill, near the bar graph.

When you consider the statistics provided in this article, you will be surprised that we are able to beat the price offered by many, and we're very competitive with the rest. We are competitive because we are careful to hold down costs, and that's a fact you can be proud of.