



## Message From The GM/CEO By Dan Laws

*"We have put off a rate increase as long as we can."*

Rio Grande has had three rate increases in the last 28 years. The last one went into effect on May 5, 2010. As a board and management, we have worked hard to hold the line on rates, while paying competitive salaries and performing needed upgrades to the system. Reliable electricity, at an affordable price, when serving some of the most rural sparsely populated country in the U.S., is a challenge.

Costs continually increase that are beyond our control. In an effort to keep the country safe from cyber-attacks on the Nation's electric grid, new regulations are being implemented. While they are important, they come with a cost. The Federal Energy Regulatory Commission (FERC), the National Electric Reliability Council (NERC), the Electric Reliability Council of Texas (ERCOT) and the Public Utility Commission of Texas (PUCT), are all engaged and have requirements that RGEC must meet. We are happy to do our part, but it forces us to make improvements to cyber security, as well as our monitoring and reporting requirements.

The cost of the service trucks RGEC purchases for the linemen to do their job has increased. Eight years ago, they cost about \$45,000 fully rigged out, now they are pushing \$60,000. Risk insurance we are required to have is increasing in cost. Insurance for things we never needed before must now be purchased. I could go on and on, but the bottom line is things are more expensive. If RGEC is to remain solvent, we must raise rates to meet these financial pressures. What is especially bad about this particular rate increase is the fact that residential rates are going to be impacted the most.

So, why is the residential class increase so much higher than the system average? It's because over that last eight years, the residential class has fallen behind in covering the cost of bringing electric energy to residences. RGEC's rates are cost-based, not market-based. They are designed to recover actual costs, not what the market will bear.

Why then did the residential class fall behind? There are a number of factors. Increases in operation and maintenance costs that are allocated to the various classes of service (rates) can, of necessity, impact one class more than another. Growth in certain classes of service versus others can impact this amount. System improvements that increase rate base can impact one class of service over another. In the case of residential rates, maintenance, operations and plant growth had the greatest impact. During the last five years, RGEC has performed a significant amount of system improvements. Those improvements increased the value of distribution lines, which in turn drives up the cost to serve a particular class. It ends up being a good news/bad news thing. The good news is we have made roughly \$45 million in system improvements over the last five years; the bad news is it is one of the cost components that necessitates a rate increase.

We have put off a rate increase as long as we can. Accordingly, we will be implementing this rate increase on or after May 5, 2018. I know you do not want to hear this, and frankly, I do not want to have to say it, but it is necessary. In the days and weeks ahead, you will hear lots of people speculate on what the "real truth" is behind this rate increase. What I have written here is the real truth, but if you have questions please call and ask. Don't propagate rumors that have no foundation in truth. We will be conducting meetings across the service territory to explain the rate increase. Please watch for the announcements in our magazine pages, on billing statements, and on the Rio Grande website ([www.riogrande.coop](http://www.riogrande.coop)) and Facebook ([www.facebook.com/rgec.coop](http://www.facebook.com/rgec.coop)) pages.