

2015 OPALCO Budget and Rate Changes - Questions & Answers

1. Why are rates going up?

We are facing expensive submarine cable replacements beginning in 2015 and continuing into the foreseeable future. In addition, we have to make up for a \$1.4M revenue shortfall in 2014 due to warmer temperatures and we expect the warming trend to continue.

2. What do temperatures have to do with our rates?

Warmer temperatures are a major factor in lower than projected energy usage and therefore revenue. There is a \$1.4M shortfall for 2014 and the warming trend is expected to continue. Temperature is a notable driver of revenue volatility; the new rate structure starts to reduce the risk of this variable over the next seven years.

3. How much do submarine cables cost?

OPALCO must replace a submarine cable in 2015-17 at a projected cost of \$15M (up from \$5M in 1994 when the last cable was replaced). We are facing an additional three submarine cable replacements in the next twenty years. We must build equity and revenue through rates to manage this significant debt service.

4. Why are submarine cable costs so high?

Environmental regulations are the greatest contributor to the increase in costs. The basic costs have risen for the manufacturing and installation of the cable – but two environmental factors in particular are driving costs up: the requirement to remove and dispose of the old, degrading submarine cable and the requirement to bore a 24” tunnel under the sea floor for a distance of 350’ to avoid eel grass and areas of archeological importance on the shoreline.

Note: The Lopez-San Juan crossing replacement scheduled for 2015-17 is the most difficult and the deepest crossing in our system (14,000’ at depths up to 290’).

5. What is different about the new rate structure?

OPALCO’s new rate structure shifts more of the Co-op’s fixed (operational) costs into the facilities (basic) charge in order to stabilize revenue and will be phased in over time. Charges for residential energy usage will stay at about \$0.08/kWh (ranging from \$0.0852 - \$0.078) for the next five years.

6. Why is OPALCO putting more of our fixed costs and revenue into the facilities charge?

OPALCO is in the process of submitting a \$15M RUS/USDA loan for replacing the submarine cable in the Lopez-San Juan crossing. In order for us to obtain these loan funds, we need to meet the required financial loan covenants. Revenue stability is key – regardless of weather and energy usage profiles.

7. How much more will members have to pay?

The typical residential member will see an average 9% increase in their bill beginning with the February billing cycle. The revenue adjustment for the 2015 budget is 12% overall, but actual impacts to average member bills are less due to the redistribution of costs in the new rate structure as determined in the 2014 cost of service study.

8. If the typical member’s rates are only going up 9% - how does revenue go up by 12%?

Those members feeling the greatest impact from the rate changes are outliers: seasonal members, commercial members with the highest energy usage, and those with the lowest energy usage. The new rate structure includes seasonal blocks (winter vs summer) and blocks of higher energy charges (kWh) for greater demand/impact on the system.

9. How will the lowest-income members be supported?

Our most vulnerable members will continue to be supported through programs like Project PAL and low-income weatherization as we partner with community organizations to leverage available resources. We will be monitoring bills and member need, developing new avenues of support as necessary.

10. Will OPALCO still support Energy Efficiency and Conservation?

Energy efficiency, conservation and local distributed energy rates are all good things that OPALCO has encouraged over the past two decades – and also contribute to lower revenues. Incentives and encouragement will continue to be provided but through programs not rates.

Note: OPALCO will be conducting a Resource Analysis in 2015 and will examine efficiency, conservation – and renewables – as resources. Efficiency is the lowest cost resource available.

11. What are the new demand charges in the rate structure?

BPA bills us for “demand” on the system when our load goes above a forecasted ceiling. We have not previously passed through these charges onto our members’ bills, but must now do so to equitably distribute expense. The demand component will be added incrementally over time as meters are replaced beginning with commercial accounts.

Note: see <http://www.opalco.com/members/bill-information/what-is-demand/> for a more detailed explanation of demand.

12. How much of the rate increase is due to broadband?

A small piece of the rate increase will fund the start-up of our new Internet services entity. The start-up cost is \$7.5M over the next three years. The impact of this debt service on our membership will average \$3 per member per month for 24 months, included in the facilities charge (approximately 19% of the total revenue increases for 2015 and 2016).

13. Why invest in Internet services now when other expenses are on the rise?

The wholly-owned Internet subsidiary is expected to break even and start generating a positive cash flow in 2017—paying back their loan to OPALCO just in time to help offset the loan expenses (interest and depreciation) of the first submarine cable replacement.

14. Why are fixed costs (operations) such a big part of our budget?

Serving 20 remote islands is no small task: with 27 submarine cables, 1,328 miles of power lines (95% underground), 11 substations and 3 line crews, we are the most complicated and expensive utility in the nation to operate and maintain.

15. How does this change OPALCO’s core mission?

OPALCO must remain financially solvent in order to meet our mission of providing power to the islands, despite current challenges. We will continue to seek creative solutions to balance our conflicting goals of achieving revenue stability and covering costs, while limiting our carbon impact through distributed generation, energy efficiency and conservation.