

August 25, 2016

In July Chad Madron of the central office made a request for comment on the rate differential between public utilities and the investor owned utilities. Respectfully , and technically Investor Owned Utilities (IOU's) are the public utilities and the the Cooperatives that I am most familiar with are a private corporation owned by its' members so let me speak specifically to them. To clarify this point just ask yourself if the IOU's are not public why are they required to answer to the Public Utility Commission (PUC)? Honestly I know where this misconception comes from but for the purposes of this paper it must be noted.

To set the stage may I reflect on some meaningful history which may be useful in your deliberation. Initially, the more populated areas were served by the IOU's because of the obvious economics. There was not nearly as large of investment required to serve a more dense customer base. However, ultimately the rural citizens wanted to have the conveniences as their city brothers and sisters but the IOU's did not see the justification for such a large capital outlay for such a small return. Thus the push by individuals for forming their own electrical system. Coincidentally the formation of the Rural Electrification Administration (REA) was formed and used as a vehicle to extend lines to the rural less sparsely populated areas of the country through the formation of private corporations Cooperatives (co-ops) .

Admittedly, the IOU's presently serve many rural areas today but their purpose in satisfying the investors with an acceptable rate of return is one of their prime drivers. I acknowledge this and agree with the premise of their existence, however, noting this does not eliminate the fact that the density issue still exists today and the investment per consumer is much greater for the rural areas than the metropolitan or more densely populated areas.

Having said these things I now return to the major topic of rates and the disparity of the two types of organizations. Clearly the investment for the rural areas is greater than the more populated areas. Thus costs for serving

the rural areas continues to remain a component that must be considered in rate making. Considering this issue please don't forget to remember the need to satisfy the rate of return to the IOU's investors. Coincidentally the members of the co-ops are participating in the capital needs of their utility though unpaid patronage capital remaining with the Co-op which has been allocated to the individual members yet retained for this specific purpose by the Co-op. Itself.

Another item that has not been entertained so far is the consumer participation payments through the varying extension policies of both organizations. Simply stated this is the amount required by each the individual Co-ops and the IOU'S prior to construction of any extension. Again the more dense the population the smaller the need for capital infusion when initially constructed.

As this clearly identifies there are more elements of and to rates than the mere cost of generation or wholesale power costs.

Let me shift now to the actual usage issue with the thought that the rural consumers use more energy than the city dwellers. My experience has proven to me that this is true but for good and constructive reason. Again, as to my earlier point the country citizens justifiably want the same things the city neighbors have and must pay for more energy to receive it. Let me point out a few of what I consider obvious elements of life styles. ( I have not forgotten the the IOU's also serve some rural areas) .

One of the main differences is the water requirements of their lives. Most City dwellers receiving service from the IOU's also have city water available while the rural areas must rely on individual wells and pumps. An additional energy requirement. Not only do the country folks drink water like their city brothers and sisters but as a rule have larger and greater needs for yards , trees and in many cases livestock. All of this usage is normally on the same residential meter as their home. Again my personal experience has shown me me that not only the water issue but in many cases there are more out buildings with the rural consumers than the others.

History has also shown us that the family sizes as a rule are larger with the rural families thus requiring more showers and more washing and drying than the city dwellers. Frankly their lifestyles are vastly different. Respectfully the living conditions in the country are much dirtier than in the more metropolitan service areas, this simply just requires more costs for the larger more rural families and is justifiably included on their residential meters.

Frankly the inference that the rural households are less conservative and not as committed to conservation I believe is a misnomer and an unfair accusation.

My conclusion is there are legitimate reasons that the are usage and rate differences that have always and will always be present between these two utilities and as long as rates are more of an art than a science there will always be room for debate but experience has proven both have a desire to make them as fair as possible to their respective constituencies.

I trust you will consider each of these point in your deliberations.

Respectfully submitted,

  
Bud Tracy