

Basin Electric Rates Increase

Impact to CME Members to be Determined



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Nobody likes to be the bearer of unwelcome news. So, when I got word that Basin Electric's Board of Directors had authorized a rate increase starting August 1st, I knew it was only a matter of time before I'd be writing this article to let our members know what, when and why they, too, would be seeing an electricity price change.

Based in Bismarck, ND, Basin Electric is a cooperative owned by cooperatives, including Charles Mix Electric. Basin is our main supplier of electricity, mostly generated from coal, but also from natural gas, heat recovery, wind, and even a small amount of nuclear power. They are darn good at what they do, and have always demonstrated they have the best interests of the member cooperatives in mind.

In early June, the Basin Electric Board decided that an immediate increase of .7¢ per kWh was needed to make up the financial shortfall which began back in October, 2015. As a member cooperative of Basin, the woes of this financial quagmire will impact Charles Mix Electric, and ultimately, its end-use consumers.

Paul Sukut, Basin Electric CEO and general manager, summed it up like this: "Basin Electric has essentially encountered the perfect storm, and it happened suddenly and rapidly in early October. The cooperative is taking several steps to mitigate the impact, but ultimately, we need the membership's help."

Here are the main reasons given for Basin's request for help:

- **Lower than anticipated member sales.** The wet summer and mild winter of 2015-16 significantly decreased electricity sales that Basin would normally make to its members. Less sales means less revenue.
- **Reduced revenue from non-member sales (surplus sales).** Again, the mild weather resulted in decreased sales to customers outside of the Basin Electric family.
- **Added costs to operate generation facilities.** Expenses from wind power cost Basin Electric more to produce electricity.
- **Generation and transmission investments.** Installation of new gas-fired generators and the construction of new lines in North Dakota have added expenses to Basin's bottom line.

- **Reduced revenue support from non-electric or subsidiary businesses, specifically Dakota Gasification Company (DGC).** This is the biggie. Due to the drop in all the commodity prices, including natural gas and oil prices, the DGC plant, owned by Basin Electric, is presently losing money, especially since it is heavily dependent on sale of natural gas.

Since the reduced revenue from DGS is the biggest issue, I'll cover that a bit more. Revenue from DGC has typically contributed financial support to Basin Electric. In fact, it is estimated that DGC typically has a benefit of \$78 million per year to Basin Electric and its membership. This includes fuel supply, power supply, shared facilities and other miscellaneous benefits. That means that DGC profits have benefited every member of Charles Mix Electric in the past. However, with depressed commodity prices, DGC was unable to provide this same level of support in 2016. This is where Basin needs help from its members. As markets rebound over the next year or so, those benefits will return to the members to help keep future rate increases at bay.

On the bright side, there is expected to be a slight decrease in the cost of power received from Western Area Power Administration (WAPA) starting in 2017. This will provide some relief, but since the amount of power received from the dams is only 27% of our total power supply, it cannot eclipse the overall increase from Basin.

The increase from Basin resulted in a 13% power cost increase to East River Electric starting August 1st. Fortunately, the frugal efforts of East River Electric's and CME's directors have delayed the impact of the increase until January of 2017.

How this rate change will affect you, the end consumers of Charles Mix Electric, is yet to be determined. CME's employees and Board of Directors are studying costs to the co-op to determine the magnitude of the price change to our members. It should be expected that a rate adjustment will be in place starting January 1st 2017.

As always, we like to keep our members informed of issues that will affect them, and will continue to do so over the next few months.

How this will affect you has yet to be determined. A rate adjustment is expected for CME members beginning Jan 1st, 2017.