



CURRENT COMMUNICATOR

MEMBER NEWSLETTER OF CENTRAL VIRGINIA ELECTRIC COOPERATIVE

“Improving the quality of your life in a quietly impressive way.”
Winter 2009

Volume 18, Number 1

MEMBERS WANT TO KNOW ...

... ABOUT THE CVEC RATE INCREASE



As CVEC members, all of us received a notice in the mail about a proposed rate increase. While the increase will be less than 5%, it still raises some reasonable questions.

- *Is the increase necessary?*
- *Is it fair?*
- *What has CVEC done to contain costs?*

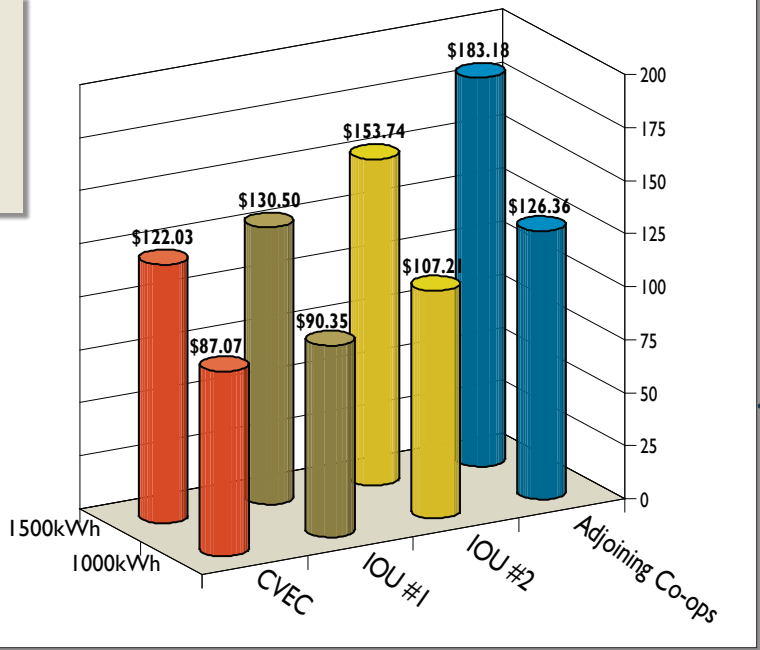
Here is some information that addresses those questions and helps each of us to assess the energy value delivered by our Cooperative.

Let's begin by looking at the big picture.

How does CVEC compare to other Virginia electric utilities? Simply put, it is a very good value with traditionally low energy costs and a reputation for frugality.

CVEC rates are comparable to the lowest Investor Owned Utility and well below the rest.

Compared to other Virginia electric utilities, CVEC remains a great bargain.



So why are rates going up in 2009?

The answer is that it is necessary due to rising distribution costs.

While CVEC members currently enjoy very low energy costs, the non-energy related costs are about average when compared to other utilities. These non-energy costs include all the materials and labor to build and maintain the distribution system as well as administrative and general costs.

CALL
CVEC

ANY
TIME

DAY
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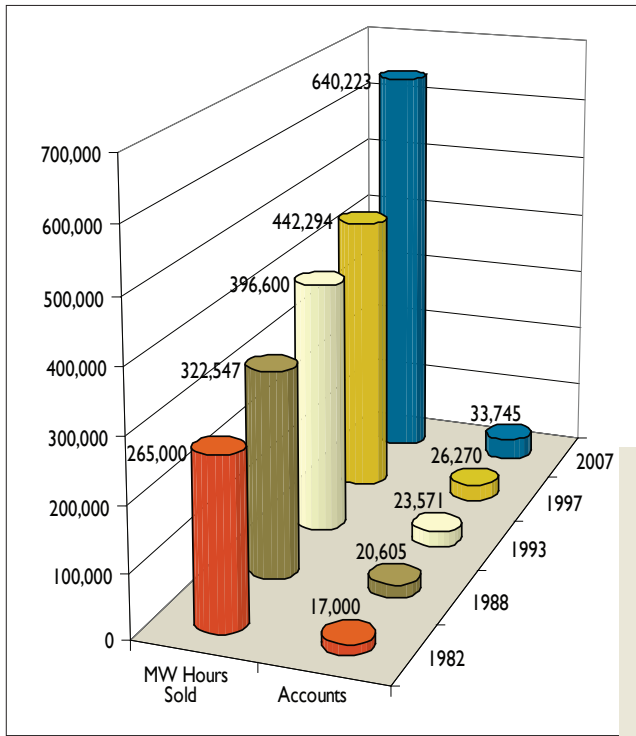
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With the increased world demand for metals, concrete, wood and fuel, the Cooperative is paying more to keep the distribution system well-maintained and with adequate capacity to meet the demands of our members. To illustrate

the point, the cost of an electric transformer (*which steps down the power at the home or business of each member*) doubled in price in less than two years. **CVEC has been adding at least 1000 transformers to its inventory each year.**

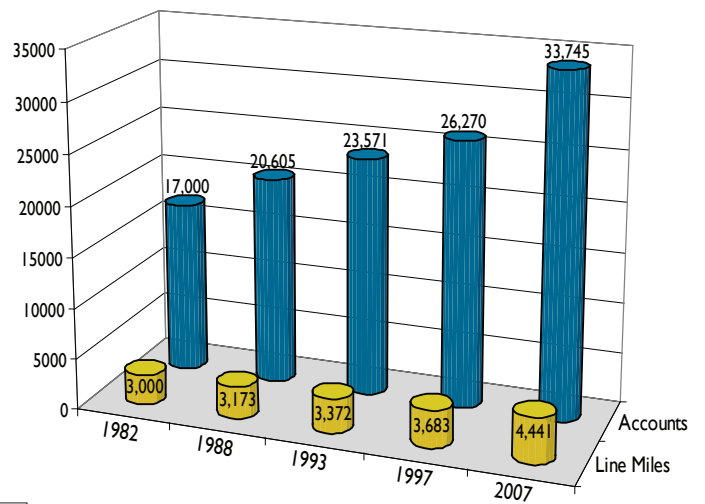
In addition to the cost related to new members, existing CVEC members have increased energy consumption. Most of us are heating and lighting larger homes, with more appliances than we were 25 years ago. We also have more gadgets, ranging from cell phone chargers to plasma TV's. The Co-op has had to increase the capacity at the substation and along distribution lines to keep the power flowing when our members throw a switch.

Looking at increased consumption over time, we see that CVEC accounts have doubled in twenty-five years. In that same period, energy consumption has more than doubled, with a sharper increase in the last decade. That trend of higher individual demand may not subside and requires an investment in larger transformers and new overhead and underground lines.



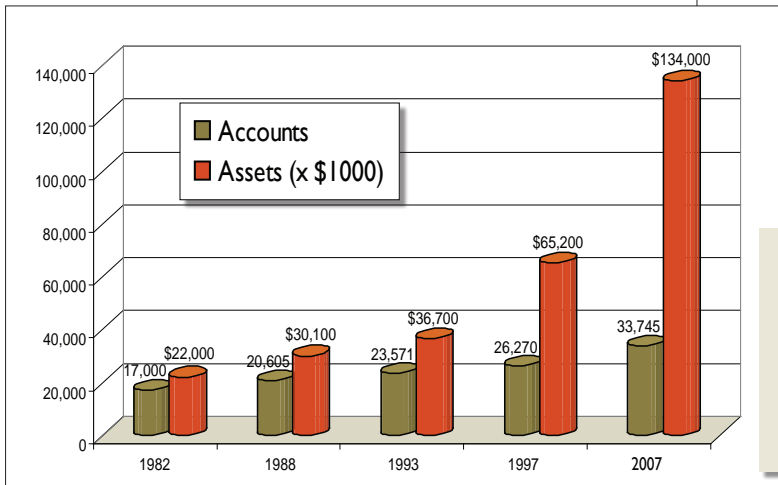
In addition to higher individual energy consumption, our Co-op has seen a steady growth in membership, requiring capacity increases for the existing system and some construction to connect to the new services.

In the past 25 years, member accounts have increased by 98%. The number of line miles increased by 48%.



When we put it all together, we will see that over the past 25 years, CVEC has been replacing older and undersized equipment and lines, while adding new lines and equipment to keep up with growth.

Comparing member growth to infrastructure investment: CVEC accounts have risen by 98% over the past 25 years while the Cooperative assets have increased by 600%.

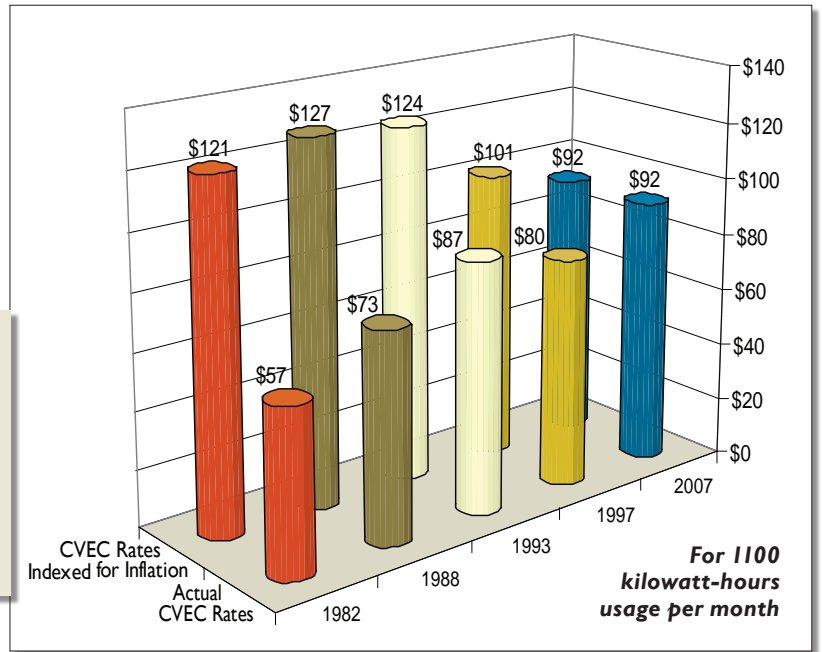


That last chart may cause you to go back and check your old electric bills to see if rates have increased at the same rate as the investment in the physical plant. They haven't. While CVEC had low rates in the early 1980's, the costs look much different than they do today. In the 1980's our energy costs were high and our distribution expenses were low. Over the past two and a half decades, your Cooperative worked very hard to lower the cost of wholesale energy and then used those savings to invest in the physical plant.

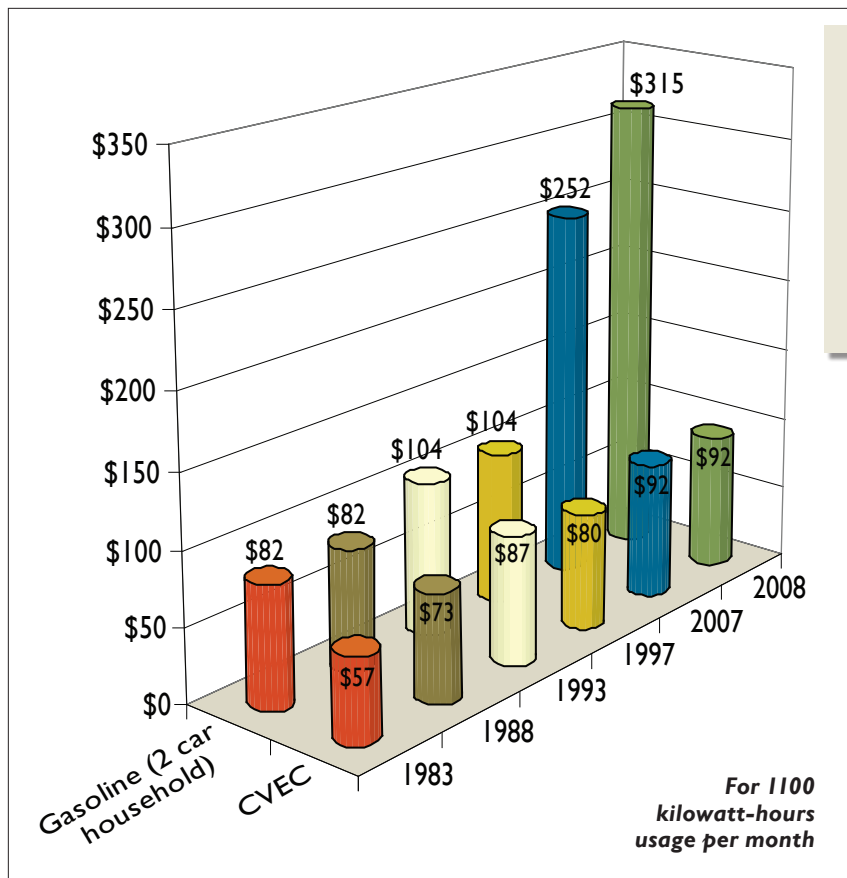
In doing so, CVEC made sure that electric service was a good bargain for all of the members while it was improving capacity and service reliability.

Let's see how our CVEC energy expenses compare to our entire household expenses.

Let's look at actual CVEC electric costs vs. CVEC electric rates indexed for inflation. This graph demonstrates that the relative cost to the average CVEC member has been decreasing compared to total monthly household expenditures.



The average member has enjoyed a better bargain each year when we compare to the consumer price index.



If we want to compare to another energy cost, here is a comparison of actual CVEC energy costs to the average cost of gasoline for a two-car household.

Now that we examined the "big picture" and the long-term trends at your Cooperative, let's take a look at your bill and where we stand today.

If you examine your electric bill you will see that most charges can be broken down into three basic categories:

1. The first is a fixed charge called **distribution basic service** that includes many of the non-energy related charges that do not vary from month to month. These include metering, billing and administrative costs.
2. The second category includes the **cost of energy and transmission**. Currently, you pay less than 4½¢ per kilowatt hour for energy to be delivered to the CVEC substation nearest to you. That price is exceptionally low compared to utilities in our region and is due to a long-term energy contract that will expire in 2012.
3. The third and last category pertains to **distribution charges**, or the cost of distributing the energy from the transformer at the substation to your home or business. Those costs are also a little less than 4½¢ per kilowatt hour and are driving this rate increase as well.

Having looked at the big picture and a snapshot of present day costs, let's return to the questions that we posed at the outset.

Is the rate increase necessary?

The answer is yes, with the rising cost of materials and other factors. In fact, CVEC has delayed requesting a rate increase when one was justified several years ago.

Is it fair?

Again, the answer is yes. CVEC has a reputation for frugality and works hard to keep costs low while ensuring that service reliability is strong. Over the past twenty-five years, the value of CVEC membership has been increasing relative to other expenditures. You may have noticed that many other electric utilities have had

to increase rates in the past year. Now CVEC has to ask our members to pay more as well.

And to the last question: What has CVEC done to contain costs?

Here are a few examples

- CVEC implemented a comprehensive plan that reduced wholesale energy costs by \$ 68 million dollars during previous wholesale energy contract.
- CVEC worked for an amendment to the Virginia Restructuring Law that permitted the Co-op to discount electric rates from a 7-year rate schedule that was mandated in restructuring legislation.
 - CVEC strives for internal efficiencies in order to keep costs low
 - Reducing employees through attrition whenever possible
 - Questioning whether each and any expense is warranted
 - Recycling any and all materials whenever possible
 - Investing in technology only where a cost-benefit analysis demonstrates that it will provide benefits to the members
 - Creating a new Strategic Plan every three years in order to develop and implement the best ideas and most efficient practices
- CVEC has a policy of not making gifts or donations (even to worthy causes) unless that expenditure supports a group that provides a necessary business service to CVEC, such as fire and rescue services. Please see the CVEC Owners' manual for more information on Gifts and Donations.

We hope you have found this information to be helpful and reassuring that CVEC is implementing a modest rate increase out of necessity.

CVEC published a notice of the specific terms of the increase at the end of January 2009.

We will continue to keep you up to date with developments along the distribution lines and in the wholesale energy markets.

It would also be good if you would share your thoughts and opinions.

If you have a moment, please visit www.forcvec.com to let us know if you found this article helpful and share any comments that you may have.