

AN IMPORTANT MESSAGE TO CENTRALIA ELECTRIC UTILITY CUSTOMERS

On January 1, 2009, Centralia's electric rates will rise significantly. This increase will show up on the bills mailed approximately the first of February. The City hopes providing advance notice will enable its power customers to anticipate this increase and implement measures that might lower their electric use. The reasons for the increase are described below.

For many decades, Centralia has purchased wholesale power from Ameren/UE. In 1998, the City signed a contract that set the wholesale electric price for a period of ten years. It turned out to be a very good contract, but it will end on December 31, 2008. During those ten years, national use of electric power has grown faster than the capacity of the power industry. The costs for power generation and transmission have risen much faster than the general rate of inflation. In 2004, Centralia tried to "lock in" some of its long range power costs by contracting for a small share of the Prairie State Energy Campus, a large coal-fired power plant to be built in Illinois. However, owing to delays from environmentalists' lawsuits, that plant will not be on line until late 2011 or early 2012. The City had to find an interim source for all of its power until that time. More than a year ago, we started negotiations and bidding among potential suppliers. Compared to our old contract, none of the options were favorable for us. The City was searching for a supplier in a national market, and we were competing against many other municipal and industrial customers throughout North America.

The City's last electric rate hike was in 1987. We charge our customers 6.37 cents per kilowatt hour, and we presently pay about 3.6 to 3.8 cents per kilowatt hour to Ameren/UE and MISO—a power transmission organization. The difference finances the balance of the expenses of the electric department and generates a small surplus. These retained earnings (or "profit") enabled the City to build its own substation, replace many older lines, and add lines for new subdivisions. We also built up a prudent reserve for the electric fund. Our new contract with Ameren Energy Marketing (a separate company from Ameren/UE) will become effective January 1, 2009. As a result, the City's cost of energy will grow to about 7.5 cents per kilowatt hour.

Centralia staff has put together projected budgets for the next five years, based on our informed estimates of inflation and future growth in the local demand for power. To provide our best service for current and new customers, these draft budgets do allow for community growth and capital improvements. Last year, the City engaged an engineering consultant to review the electric distribution system. The final report is expected soon, but staff has been able to use the recommendations in a preliminary draft to anticipate capital needs.

The future budgets incorporate an allowance for installation of a second substation and one or more new trunk lines. The new lines will strengthen capacity to customers to the north side of town, where any new industry will likely be located. The new substation would provide added capacity, back-up redundancy for emergencies, and make regular equipment maintenance much easier. The costs of large capital improvements should logically be financed over a long term—either through bonds or lease-purchase agreements. Debt service payments for projects set out in the engineering study are estimated at about \$160,000 per year. Projected operating costs also include a modest allowance for building lines in new subdivisions,

The new wholesale power costs will take up about 80% of the annual expenses of the electric department. The projected budgets draw down the undesignated reserves (now about \$1,100,000) to zero by the end of fiscal year 2012 to buffer the impact of the new supply contract. (We will retain a smaller reserve to cover emergency repairs and contingencies.) Despite this, rates will need to be raised from 6.37 cents to about 8.98 cents per kilowatt hour, or about 41%. We hope this price will be stable for at least three years. After 2012, a large part of our power costs should be lowered, but we will still have to buy peak-usage power at market rates. Since Federal and State goals and regulations are constantly changing, no one can predict where those rates may be in three years.

Staff has not previously recommended rate increases because future power costs and capital needs were vague and the department was accumulating reserves. If the City starts right now to increase rates in steps, citizens would have less time to prepare and would be paying before the costs actually increased. Alternatively, starting step increases in January will require that the end rate would be higher than holding to a one-time increase. Ultimately, the City has to collect the same amount of revenue to operate the system until 2012. For fairness to customers, staff recommends that rates rise when costs rise, and by no more than is reasonably necessary.

This lead time should give customers a chance to examine the “mix” of their energy use and make adjustments. Customers who use electric heat may want to consider gas heat or ground-source heat pumps. Customers with high air conditioning bills may wish to install a more efficient air conditioning system, buy ceiling fans, plant trees, and use other passive means to control costs. All customers may want to monitor their thermostats to control the need for heating or cooling. Commercial customers may discover that now is a good time to reexamine the efficiency of their lighting systems.

Centralia is not large enough to create special conservation programs. However, the City of Columbia, has full-time staff to help customers manage electric demand. The Columbia website offers many tips for using less electrical power. Go to: gocolumbiamo.org/WaterandLight/ and click on “Conservation” in the left-hand column.

The City offers a “levelized billing” option for customers who have a good payment record and twelve months’ history. The new rates will be factored into billing calculations for new or renewing customers. Please be aware that this option average bills and makes them more predictable, but it does not reduce the total power charge over the course of a full year.

Several aldermen have requested staff to research renewable power sources. The City could have sought out suppliers with wind and solar, but the market cost would have been more expensive than what we have now. Wind power is not considered reliable and would only be practical as a part of an integrated system that smoothes out the irregularities. These are not cheap short term solutions. It is more likely that access to alternatives will come through joint action with other municipal utilities. We will be looking at these in anticipation of 2012.