#1. What are the objectives of the rate design project?

- Revenue stability and predictability – reduce risk of weather-related revenue impacts for BEC and monthly bill impacts for members – What is the timeframe for something close to energy rates being just energy?

  In addition to reducing uncertainty due to weather, for members and BEC, reducing the energy charge will reduce BEC's exposure to reductions in energy usage due to member-initiated conservation and distributed generation. BEC wants to be fully supportive of these activities while limiting the impact on BEC's rates and margins.

  No decision has been made to reduce the energy rate over a particular time period to just include wholesale power and transmission costs. We are doing this one step at a time and will consider any future changes carefully.

- Payment stability for members – do we know that this is a benefit that members are concerned about?

  Extreme cold weather in winter or extreme hot weather in summer can lead to high monthly bills for members. A new rate design with a lower energy charge will reduce these high bills during extreme weather conditions. Members that value bill stability can also sign up for budget billing.

- Payment fairness -- Reducing the energy rate reduces bills for high use members. When will we know how that transfer reduces, increases, or is neutral regarding revenue from various other members?

  The starting point for “fairness” is that, to the extent practical, members should pay for the costs the utility incurs to serve them. The COSA is the tool we use to identify and allocate these costs. A rate design that is better aligned with the COSA will more fairly allocate costs among members.

  Reducing the Base Charge will benefit all members, but the benefits will be proportionately larger for small users. The size of the Base Charge has historically been the number one concern expressed by members about BEC’s
Reducing the energy charge will reduce that portion of all members’ bills. But
whether or not a particular member will pay more or less with 3-part rates
depends on how they use electricity (energy and demand). Those with low
demand (relative to their energy consumption) will pay less and those with
high demand (relative to their energy consumption) will pay more. This is
consistent with cost causation and the COSA. The billing impacts analysis (see
response to #2 below) indicates that the results are mixed for all levels of
consumption and do not favor one group (low, medium or high energy
consumers) over another.

#2. What do you think the maximum increase would be for a member paying the
new System Charge?

We have completed a billing impacts analysis for 29 residential accounts selected to
represent a variety of users – low, medium and high usage, seasonal, weekenders, low
income, net metered and stock wells. The results are shown in the table below.

**Billing Impacts, Monthly Average Bills for 29 Selected Residential Accounts**

<table>
<thead>
<tr>
<th>System Charge</th>
<th>Maximum Increase</th>
<th>Maximum Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
<td>$/month</td>
</tr>
<tr>
<td>$1/kw System Charge</td>
<td>5.7%</td>
<td>$4.42</td>
</tr>
<tr>
<td>$2/kw System Charge</td>
<td>11.4%</td>
<td>$8.83</td>
</tr>
</tbody>
</table>

#3. Have you looked at programs to help members whose bills increase
substantially with the new System Charge? Have you considered a maximum
increase/impact number that would trigger assistance or a delay of
implementation?

The billing impacts of an initial 3-Part rate with a small demand charge ($1/kw or
$2/kw) are modest. BEC and government agencies have low income programs for
qualifying members.

#4. What is the actual impact of the System Charge on revenue? How can it be
revenue neutral when The System Charge portion of the bill will vary month to
month much as energy charges do with weather? Will BEC each month reduce the
other two charges depending on what is generated by demand?

A $1/kw System Charge for Residential and Small Commercial accounts would
generate about $400,000 in annual revenues which is about 4.4% of BEC’s annual
revenues. A $2/kw System Charge for Residential and Small Commercial accounts
would generate about $800,000 in annual revenues which is about 8.8% of BEC’s
annual revenues. These revenues would be used to reduce the Base Charge and Energy
Charge. Any rate changes would be revenue neutral for BEC and for each customer
class on a forecast basis with normal weather. Other co-ops’ experiences and our consultant, EES Consulting, indicate that demand is less weather sensitive than energy so demand revenues should be more predictable and stable than energy revenues.

#5. What is the hurry? Why not introduce this slowly so people have time to figure it out and adjust?

Rate Design was identified as one of the Board’s priorities in the 2017 and 2019 Strategic Plans. The COSA and rate design topics have been a principle focus at the monthly Risk Management Committee meetings for more than a year.

Approval and implementation of any new rate designs will be staged so that there will be adequate time for a robust member communications program.

#6. Have you fully examined the impacts on various groups of members within the residential class?

We have completed a billing impacts analysis for 29 residential accounts selected to represent a variety of users – low, medium and high usage, seasonal, weekenders, low income, net metered and stock wells. The results are shown in the response to #2. An analysis with more accounts is not feasible at this time due to the difficulty of extracting demand data from the old Turtle metering system.

#7. If we reduce peak load how much does that reduce the need for major investment and maintenance in BEC’s electric distribution system? Are we at capacity across the system? Are capacity increases needed and will they be better paid for with demand charges?

The BEC distribution system has adequate capacity for the foreseeable future. A System Charge might result in changes in usage patterns that would further delay the need for future investments in the BEC distribution system, but that has not been a significant factor in the consideration of moving to 3-part rates.

#8. Why reduce peak load when we do not pay peak rates to our wholesale suppliers?

BEC is not necessarily trying to reduce peak load, although this could be one result of going to 3-part rates. In the long term, reducing peak loads could result in lower prices for future wholesale power contracts, but that has not been considered in this rate design process. BEC does pay a demand charge to NWC for transmission service. BEC is trying to fairly allocate costs between members, reduce the Base Charge to be responsive to member feedback, and reduce the co-op’s dependence on variable revenues from the Energy Charge.

#9. Will members see an annual calculation of revenue from the three rate buckets?
BEC is committed to transparency and will provide data in whatever form is reasonably requested by members.

#10. If your members are not complaining about rate structure, fairness is not their issue. Do not create an issue that can be negative or one that can pit members against each other such as a group is not paying its way or anyone objecting to an increased bill is just pushing their costs onto others.

This process has not been driven by concerns that any particular group or individual member has not been paying their fair share historically, but 3-part rates will more equitably allocate costs among members by bringing the rate design into better alignment with the COSA.

#11. Inform honestly and completely.

The rate design process has been and will continue to be open and transparent.

#12. Be honest and tell members that your objective is to get other charges out of the energy part of the bill and explain why – Predictability? Consistency? Reduced exposure to weather?

BEC is considering a new rate design to more fairly allocate costs between members within each rate class, reduce the Base Charge to be responsive to member feedback, and reduce the co-op’s dependence on variable revenues from the Energy Charge.

#13. Why now? BEC financials have looked good and you have said the forecast looks good.

The objective of this rate design process is not to increase revenues. Implementing a new rate design during a period of financial stability for the co-op allows the implementation to be revenue neutral for the co-op and each rate class and to proceed deliberately without needing to rush. BEC does not want to be implementing new rate designs during a period when overall rates are being increased.

#14. Can we have a period of several months not paying but seeing what a member would pay both ways – current billing and with 3-part rate?

There will be a period of several months between the time when the System Charge line item is added to the bill at no charge and when the System Charge will be implemented (at $1/kw or $2/kw). During this period there will be a bill comparison tool available on BEC’s website at _________________ and BEC staff will be available to answer questions.

#15. If you implement a System Charge start small and explain a lot over time. It is hard to understand benefits of a System Charge when the co-op has no wholesale
demand charges.

*BEC does plan to start with a small System Charge and to have a robust member communications effort to explain the new rate design. Also see response to #8.*

#16. What is the relationship between the COSA calculations of what members in a class cost (and therefore should pay) and proposed demand charges that we think you say are based on COSA cost calculations but are not the same for all members of the class?

*The COSA developed “unit costs” for base ($/month), demand ($/kw) and energy ($/kwh) that represent the costs to serve members in each class. Rates would be the same for all members in a class. The System Charge being considered would collect only a portion of BEC’s System Costs with the balance continuing to be collected in the Base and Energy Charges.*

#17. Can you explain the COSA used to get the numbers for demand?

*COSA is the Cost of Service Analysis performed by BEC’s consultant, EES Consulting, to allocate costs between member classes. This is a complex process that does not lend itself to a short answer. The COSA and supporting materials are available on BEC’s website at ______________.*

#18. What is the monthly secure revenue from the system (demand?) charge – What are the monthly expenses carried in that bucket?

*At $1/kw, the System Charge would collect about $400,000 from Residential and Small Commercial accounts. This is about 12% of the System Costs allocated to these classes in the COSA. At $2/kw, the System Charge would collect about $800,000 from Residential and Small Commercial accounts. This is about 23% of the System Costs allocated to these classes in the COSA.*

*Revenues from the System Charge would be used to reduce the Base Charge and the Energy Charge so that BEC would receive the same total revenues assuming normal weather.*

#19. Annual calculation needed — will members see it with explanation?

*Any rate changes would be revenue neutral on a forecast basis with normal weather. There is no plan for an annual cost true-up. Any differences between forecasted and actual revenues on an annual basis impact (either increase or decrease) margins. Margins are allocated to members’ patronage accounts at the end of each year. Also see response to #9.*

#20. If BEC had only energy costs in the energy bucket and only A&G costs in the base bucket what would the demand revenue need to be and how many dollars per
kW would that require?

*If only Base Costs were collected in the Base Charge and only Power Costs (wholesale power and NWE transmission) were collected in the Energy Charge, the resulting System Charge for the Residential Class would need to be about $8.50/kw to cover all of the System Costs.*

#21. At what level of demand charge would we anticipate member reduction in annual kWh use through serious conservation or generation on site?

*Although there is no way to be certain, there is expected to be little impact on the amount of demand (kw) or energy (kwh) consumed by members as result of the new rate design with a modest System Charge ($1/kw of $2/kw). We can try to monitor this for use in future rate design cycles.*

#22. How should revenues from the System Charge be split between reducing the Base Charge and reducing the Energy Charge?

*The alternative rate designs considered by the committee, split the System Charge revenues roughly 1/3 to the reduce the Base Charge and 2/3 to reduce the Energy Charge. This is proportional to the amount of System Costs currently collected in the Base and Energy Charges, respectively.*

#23. Should the demand measurement for the System Charge be based on all hours in the month or should some hours be excluded?

*Some utilities limit the hours when demand-based charges are applied. This may make sense if a member has a high demand for power at a time when the system facilities used to serve that particular member are not being heavily utilized by other members. For example, we know that BEC’s substations serve much less load between midnight and 6 am. So, it might make sense to encourage members to shift load by not applying demand-based charges during these hours.*

*While limiting hours for the System Charge may be worthy of future consideration, implementation of this feature at this time would cause additional complexity and confusion at a time when BEC should be focusing its member communications efforts on explaining the basic 3-part rate. With a modest initial System Charge, the member costs that might be avoided by shifting loads to hours not covered by the System Charge are small. We will be in a better position to look at this issue in the next rate design cycle when we have a full year of TWACS meter data for all accounts.*