

# PLEASE READ - IMPORTANT RATE INFORMATION

## Dear Customer,

Please take a couple of minutes to read why electrical rates are increasing and what we might expect in the future. I'd like to start with a brief explanation of where your power comes from, how it gets to your home and the costs associated with it.

FROM THE DESK  
OF THE MANAGER

DAN LEISE



## Our energy sources

Our wholesale power is generated and supplied to us by the Nebraska Public Power District (NPPD). We (Cedar-Knox Public Power District) purchase this power under a 20-year firm contract that runs through the year 2022. Long term power contracts are necessary for planning purposes for new plants and resources to provide our energy. Power is generated into the grid at various locations throughout the state. Most of this energy is generated by burning coal at several different generation stations across Nebraska. The burning coal creates steam to turn turbines and create electricity. NPPD also has a large nuclear generation plant near Brownville, Nebraska. These two resources are capable of operating around the clock and provide the bulk of our base-load energy. Other resources include more expensive fuel burning units that can be brought on-line quickly with peaking loads and also variable resources such as wind generation and hydro.

## Cedar-Knox PPD's role

Cedar-Knox is your distribution utility, governed by a nine-member Board of Directors made up of rate-paying customers from throughout the District. We purchase this power from NPPD at three different 115,000 volt delivery point locations in our service territory near Hartington, Belden and Bloomfield. From there we distribute the power over 69,000 volt lines to 16 different substations in Cedar and Knox counties. These 16 substations serve another roughly 2000 miles of 12,470 and 4,160 volt lines to our customers service locations (your meter). About 8% of the power that we purchase for our customers is lost through the transmission process.

## Where does your rate-paying dollar go?

For each dollar that you pay Cedar-Knox, about 62 cents goes directly to NPPD for power supply (2008 figures). The remaining 38 cents goes towards upgrading and maintaining the 16 substations, 2000 miles of lines and nearly 15,000 meters and transformers within our system which require trucks, tools and equipment, labor and materials for the construction work and also for the billing and collection procedures. A small portion also goes toward line extension to new customers – though most of this cost is funded by the new customer. NEBRASKA IS AN ALL PUBLIC POWER STATE – THIS MEANS THAT YOUR POWER SYSTEM IS LOCALLY CONTROLLED AND YOUR ELECTRICITY IS SERVED TO YOU AT COST.

## Why have the rates gone up each of these past few years?

Though our operating costs have gone up some - just as your cost to live has, the recent increases have been mostly due to the increase in the cost of power that we purchase to distribute to our customers. According to our supplier, power production cost increases have been due mainly to the increased cost of generation fuel, the massive ice storms of 2005 and 2006, and new high-voltage infrastructure needed to provide enough energy for new large industrial loads such as ethanol plants and oil pipeline pump stations. While these industries are beneficial in the long run, the initial facilities upgrades needed to serve these loads are expensive.

## What about 2010?

To help offset power production costs, NPPD budgets for a certain amount of revenue by selling some of their excess energy on the market - outside of the state. Because of the milder weather in 2009, these sales were way down. Not only was the amount of energy lower, the market price was about 40% less than expected because of the decreased demand for it. NPPD will also be taking on new debt service for over \$400 million in new transmission and generation additions to support increasing native load demand and to enhance reliability. Because of this NPPD will be raising rates to their wholesale customers (including Cedar-Knox) by an average of 5.9% for 2010. Since each of the wholesale customers will be affected differently based on usage patterns, our power cost increase is projected at 6.2%.

## **CEDAR-KNOX RATES TO INCREASE IN 2010**

Since the cost of the power that we provide to you is increasing by 6.2%, we have little choice but to build an increase into our retail rates. **The Cedar-Knox Board is expected to increase retail rates by 4.95% effective January 1st 2010.** We take rate increases very seriously and try to do what we can to mitigate them. Over the last 2 years we have reduced staff by 2 positions through attrition, refinanced the small amount of debt that we carry and also successfully applied for government funds for several reliability projects of our own. There is only so much we can do while still maintaining safety and reliability but **MOST ALL OF THE RECENT YEARS RATE INCREASES HAVE BEEN TO COVER THE INCREASED COST OF THE POWER THAT WE PURCHASE TO DISTRIBUTE TO YOU.**

### **Rate Structures**

You may have noticed that recent increases have been partly in the form of higher monthly fixed base customer charges. These charges are being gradually adjusted to better reflect the actual cost of service based on rate studies done for the District. In theory, this base charge is primarily to cover Cedar-Knox's fixed expenses to maintain the facilities necessary to distribute the electricity to you. If you think about it from our perspective, the cost to provide our services does not generally change whether you use your service one day or 365 days per year – or even if you were to generate part of your energy needs yourself. We still need to maintain your meter, transformer, lines and substations whether you use them every day or not. The variable portion that you pay based on electric energy consumption (kilowatt-hours) goes towards paying the costs of the generation company (NPPD) for producing the electricity. Each part of the rate needs to reflect costs as closely as possible in fairness to all customers. As an example, think of a customer that inter-connects a generator with our system – such as a small wind turbine or a solar unit. Let's say that the unit variably generates enough total electricity to supply their needs for a month. From a distribution utility (Cedar-Knox) standpoint, nothing has changed. The customer still needs the substation, lines, transformer and meter when they are consuming our station power. The amount of electricity provided by our wholesale power provider (NPPD) is really the only thing that is affected – assuming that the service size did not need to be altered to accommodate the turbine/generator output.

We seem destined for change in the electric utility industry. If you have been reading our newsletter or any newspapers for that matter, you know that “Cap and Trade” legislation could dramatically increase our electricity costs by 2012. This proposed legislation in its current form, would make it much more expensive to generate electricity with some carbon-emitting resources - such as coal. Most of our power (and the other Midwestern states) is generated this way. Not only will the cost to initially comply be very expensive, the cost to curb emissions and ultimately supply the increasing demand with carbon-free generation will be a challenge. If you want to read/learn more about this, go to our website at [www.cedarknoxppd.com](http://www.cedarknoxppd.com) and click on the “Our Energy, Our Future” link to read more and find out how you can contact your congressional representatives and let them know that you want to keep electricity reliable and affordable. This can be done very simply on-line through this site.

In conclusion – I'd like to point out that we are fortunate to have the all non-profit public power system in place here in Nebraska. Though costs have recently gone up, NPPD has done a good job of planning and managing our power supply system. Our rates are still among the lowest in the nation – and specifically, Cedar-Knox has some of the very lowest rates among the rural distribution utilities in Nebraska. The Cedar-Knox Board and employees want you to know that we will continue to work hard to provide safe, reliable and affordable electricity to our consumers. My door is always open, feel free to call, email or stop by to discuss any of these issues, or others that you might have.

Thank you for your time and please have a safe and happy holiday season.

**Dan Leise**  
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