

Frequently Asked Questions.....from our member survey

Why is the monthly fixed charge so high? Delivering electricity from nine substations over 1405 miles of line requires more than just a transformer and meter at your location. The Cost of Service Study shows our fixed costs, to provide ongoing service, average about \$46 per month per account, regardless if the member uses 1 kWh or 1000.

In 2006, we changed our rate structure to raise the fixed charge by \$11, but at the same time we eliminated the higher price for the first 700 kWhs, bringing the cost for those 700 kWhs down by 3 cents each. A member using at least 700 kWhs per month is saving \$21 in energy charges, partially offset by the \$11 increase in the fixed charge, for a net savings of \$10 per month. A member using 370 kWhs is at the breakeven point. A member using almost nothing IS paying more than they did under the old rate structure.

How do we calculate our average rate? When we report the average retail rate per kWh sold, we are including ALL components of a residential bill: the kWh's, the fixed charge, security lights, etc. When we compare this average residential rate to the state and the national averages, we are about average for Minnesota, and we are below the national average retail rate.

Why is my bill higher than my friend's in International Falls? Minnesota Power, an IOU (investor owned utility), enjoys having 24 customers connected to each mile of line. North Star averages only 4 ½ members per mile of line. There are a lot more investment and maintenance costs per member to bring reliable electric service to our less densely populated areas. Another difference between an IOU and a co-op is 'who owns it'. Co-op's are owned by those it serves, and co-ops pay capital credits to their members. Capital credits are the revenue in excess of expenses, and although they are retained for a period of time to help fund system improvements, they are returned to the members, so don't forget to figure in the refunds you receive from North Star Electric Co-op.

Isn't buying from a co-op supposed to be cheaper? A cooperative is a group of people working together in a non-profit manner. Any money left over after the bills are paid is shared by the members of the co-op, so yes, it should be cheaper if the variables are all the same. So why isn't your electric bill cheaper than if you purchased electricity from an IOU (investor owned utility)? Prior to 1935, most rural areas did not have the luxury of power lines coming in to their homes/farms because it was not profitable for IOU's. Rural people formed co-ops to make rural electrification possible. The biggest hurdle was, and continues to be, the low density of members per mile of line in the rural area. It's hard to compete with a utility that brings in over \$80,000 of income per mile of line compared to our \$7,000 per mile of line. We WANT to bring electricity to you, and we want you to receive a good value for your energy dollar.

Why is my electric bill getting so high? Over the last nine years, almost 72% of the retail increases have been to recover the increased cost of wholesale power. Local costs to deliver the electricity from the substation to your meter have increased at a significantly slower pace, accounting for just 28% of the retail increases. Read on for more info about rate increases.

Wholesale power costs are on the rise for a few reasons:

We have outgrown the power plants which Minnkota Power Cooperative owns, and building new generation is much more expensive than the plants that were built in the early 1980's. In 1997 improvements were made to the coal-fired power plants, but because the efficiency of the plant was improved, the EPA (Environmental Protection Agency) argued it should now meet their requirements for a brand-new power plant. A lawsuit ensued,

and Minnkota eventually agreed to add new scrubber equipment, totaling \$400 million. The chemicals alone needed to operate the new environmental add-ons will cost \$20 million per year (.4 cents/kWh), based on today's commodity pricing. In comparison, these two power plants originally cost \$250 million to construct and about \$50 million of that was for pollution control equipment. This EPA mandated emission control construction project is underway, and it is the main reason for the current wholesale, and thus retail, rate increases (excluding the Temporary Wind Energy Surcharge). In fact, it will impact our wholesale rates by another 9% in 2011, followed by a final 9% addition in 2012.

Minnesota Legislative Mandate---25% of electricity must come from new renewable sources by 2025. Wind energy is twice the price of our coal-fired electricity. Minnkota's contract with the wind producer requires Minnkota to purchase all energy that the wind turbines generate, regardless if we need it. The excess power is sold on the open market. With the economy in a slump and the overall demand for electricity reduced across the nation, the market price for wind when the turbines are really spinning (not during peak time) has been half the purchase price that Minnkota is obligated to pay for the wind power. The half-cent Temporary Wind Energy Surcharge is a result of these losses over the last year. We are convinced this surcharge will go away as the economy recovers. Although the increased cost hurts now, we are also confident that getting into the wind power early has allowed Minnkota to secure long-term contracts that will eventually become enviable as the price of new contracts rises for utilities not already onboard.

Carbon tax, cap-and-trade, and/or EPA regulation of greenhouse gas (carbon dioxide) has not yet begun to impact your rates. We continue to represent our members and fight hard at the State Capitol, and in Washington DC, to keep common sense and fairness in the legislation and regulations that are being discussed. We thank those of you who have contacted your elected officials. Without your help, the voice of rural America would not have been heard, and these new taxes would likely have passed by now.

Why is the cost of power going up when there is a surplus of electricity on the market? Electricity travels at the speed of light, so when you flip your switch in Minnesota, the energy to light that bulb was produced in North Dakota less than a second before. This emphasizes the point that electricity must be created at the same time as when the members demand it. It is common that members' demand for electricity does not match the output of the generating sources. Likewise, the less expensive surplus power on the market often does not coincide with when it is wanted. Our electricity comes mainly from coal, wind, and hydro. Minnkota can also purchase market power when their other three resources are maxed out. Even then, there are times when market prices are too expensive, and off peak loads are controlled to get through the peaks.

Is the wholesale power cost from Minnkota Power Cooperative higher than other sources? Minnkota's rates have been some of the lowest priced in the nation. All electric utilities will see erratic spikes as environmental policies and regulations are imposed and implemented. In the end we feel Minnkota's rates will once again settle in as one of the lower-cost G&T (generation and transmission) utilities.

I've never seen my bill go up so fast...why is it? Over the last nine years, our wholesale power cost has risen almost 90%--up 2.6 cents per kWh. At the same time, our retail rate has gone up 54%, averaging from 6.67 cents in 2001 to 9.2 cents in 2010. Of this 2.53 cent increase over nine years on your electric bill, only 1 cent of that was to cover increased local costs at North Star to deliver the electricity from the substation to your meter. That's an average increase of less than 2% per year over those nine years for our local delivery costs (1 cent divided by 6.67 cents divided by 9 years). I think you can agree that our local increases have been minimal, but the cost of the product, wholesale power, has been, and continues to, increase significantly.

How can I reduce the energy I use? Check out www.TogetherWeSave.com for many ideas. Seal drafts, turn off lights when you leave the room, lower the temperature on your water heater, replace incandescent bulbs with compact fluorescents (CFL's), unplug phantom loads when not in use, use power save settings on your computer.

The wind blows more in the middle of the night??? We've had a few members suggest we think they are 'stupid' to believe this statement. Here's the response from David Loer, former CEO of Minnkota Power Cooperative: "As a kid on our farm I remember that we sprayed our crops in the morning and evening, not during the day because that was when the wind blew the most. Admittedly I was surprised to see that the highest wind speeds at both of our major wind farms were strongest between midnight and 4 AM. That fact indicates that during our morning peaks (6 AM to 10 AM and evening peaks 5 PM to 11 PM) the wind turbines are not often and certainly not always producing electricity. It is a on again/off again supply of electricity that we need to deal with. What we have reconciled regarding this issue is that the wind at 200 feet --the height of the turbine hub has different time of day characteristics than wind at ground level."

Why do we need a board of directors? One of the "Cooperative Principles" is Democratic Member Control. North Star has eight director districts. Members from each district elect their representative to the board of directors. The board sets policies and makes governance decisions. The average cost per board member on a member's monthly bill is \$0.18.

Are you going to charge the regular rate for off peak in the summer? No. We charge the low, off-peak rate year round.