

# It's time for cost based rates

For the last several months, we have been sharing with you how fuel costs, material increases and electric demand impact South Alabama Electric financially.

With the recent completion of our Cost of Service Study, it is necessary for us to implement a more cost based rate system at the cooperative. Cost based rates reflect the cost of providing service to member homes and businesses, regardless of how many kilowatt hours (kWh) you use. This moves the majority of needed operating revenue away from electric sales, and puts it in a fixed cost. It is a more equitable way to distribute the costs associated with serving each group of members.

There are also benefits to you, as a member, for the cooperative moving to cost based rates. For example, you'll have more control over your power bill because the energy portion (kWh charge) can be reduced through energy conservation efforts resulting in savings to you.

It's important that your cooperative maintain its financial stability. Under our current rate structure that was becoming increasingly hard to do. As new legislation is passed impacting the use of fuels, electric generation and climate change, your cooperative has seen the cost of doing business continue to rise at a rapid pace and in areas that the present rate structure will not recover. During this Congressional year, even more of these changes will occur.

The decision to move to cost based rates will make your cooperative more financially sound as a great portion of fixed costs will be recouped through the customer charge, rather than

in the energy sales which vary month to month and which can be impacted by things like the weather.

It's easy to forget that there are necessary costs involved with connecting your home or farm to the electric grid. You must have poles, wire, transformers, conductors, meters and the manpower to set the service up. After that, you have meter reading, billing and system maintenance. All of these costs have continued to climb over the past several years.

As a result of the changes occurring in purchased power costs, including the fluctuating fuel charges, air quality investments at existing power plants and new generation requirements, our current rate structure will no longer recover the power cost.

You may be surprised to learn, that South Alabama Electric Cooperative has not had a base rate increase since 1992. That's over 17 years. Your Board of Trustees and management have worked very hard to maintain our operating costs over those years but with the rising costs associated with electric service, we are no longer able to absorb the costs. In the coming pages, you'll see where the cooperative will be making changes to cover the ever increasing costs associated with providing electric service.



**Max Davis** is General Manager of South Alabama Electric Cooperative

## South Alabama Electric Monthly Operating Report

KWH Sold . . . . .	19,896,578
Avg. Utility Bill . . . . .	\$152.47
Average Use . . . . .	1,220
Total Accounts Billed . . . . .	16,305
Total Miles of Line . . . . .	2,592
Consumers per mile of line . . . . .	6.29

Information from April 2009



## South Alabama Electric Cooperative

A Touchstone Energy® Cooperative

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# Customer charge to increase

*Rising cost of doing business impacts member owners*



The cost of doing business is rising, no matter what type of business you are in. The current economic conditions have forced all of us to take a closer look at our spending habits and your cooperative is no different.

Unfortunately, due to increases in the cost of materials and rising wholesale power costs, we are left with the tough choice of adjusting our rates to cover these expenses. All of the electric rates will reflect these cost increases in the monthly customer charge.

The monthly customer charge covers South Alabama Electric's fixed costs associated with maintenance of your accounts and electric service. It includes items

like: billing, metering, meter reading, payment processing, and operation and maintenance on the electric system itself. These are expenses the cooperative incurs regardless of the amount of kilowatt-hours you - the members- use in a particular month.

We work very hard to keep these costs as low as possible, but as the costs of doing business have continued to rise, we have completed a cost of service study. As a result of this study, it was determined that the residential customer charge be increased. Beginning with the August 8, 2009, billing, the residential customer charge will be \$16.00 per month.

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## Outdoor lighting costs increase

As part of your cooperative's cost of service study, South Alabama Electric looked at every area associated with doing business.

The cost of service study determined the fee for outdoor lighting needed to be adjusted to better recover the costs associated with their operation.

The fee currently charged for outdoor lighting was set in 1992.

The materials associated with the installation of outdoor lights - poles, light fixtures, bulbs, connections - have increased over the last several years, along with the rising cost of wholesale power to the lights. South Alabama Electric can no longer absorb that cost.

SAEC must increase the cost of our 100/175 watt outdoor lights from \$5.20 to \$7.00. The 250 and 400 watt outdoor lights will also be adjusted. This will more accurately reflect the true costs associated with the operation of these lights.

The new fee will go into effect Aug. 2009.



# New Rates Effective August 1, 2009

Over the past few months, you have probably seen the fuel adjustment on your bill increase. That's because the cost of wholesale power - the power we purchase to resell to you - has continued to increase. As your local cooperative, our primary goal has always been to provide you with reliable and affordable electric energy. And that's not going to change.

With that said, virtually all aspects of your cooperative's costs are continuing to rise.

We have faced increases due to the price of purchased power and in the increase in the electric demand we have seen on our system. In last month's Alabama Living, we talked about energy and demand. We have to build our system to cover the demand that you - our members - place on it. Should you all decide to turn on your appliances and air conditioners at the same time, our system has to be able to meet that need. The costs associated with the construction of the system is continuing to rise and we are now having to pass along more of those fixed costs to you.

Over the past several years, we have implemented long range planning to make sure we meet your growing needs. In addition, the cooperative recently completed a cost of service study which detailed areas that needed to be addressed with these rate changes. We work hard to anticipate any potential issues that will effect the cost of electricity. Whenever possible, we work to minimize the impact these issues have on your energy bills.

For example, through planning and budgeting processes, your cooperative has reduced our controllable expense, like operations and maintenance, and our fixed expenses, like taxes and depreciation, by 7.79 percent since December 2007. At the same time, we have seen our wholesale power cost expenses increase by 10.7 percent. Right now, wholesale power costs make up over 76 percent of South Alabama Electric's operating expenses. That means 76 cents of every dollar SAEC collects goes to cover wholesale power costs. However, the increases in these areas continue to outpace the cooperative's ability to meet our financial requirements.

There are times when these changes can not be

avoided. This is one of those times. Although we must raise our price to cover the cost of doing business, we are committed to making sure this process has the smallest possible impact on you. In fact, the average increase all consumers will see is 4.39 percent.

We have successfully avoided making changes to

our base rates since 1992. That's 17 years we've held the line through stable employment, wholesale power contracts, and

For example, if you use **1,200 kWh** at your home,

**Residential (Old Rate)**

**Residential (New Rate)**

**TOTAL Electric Charge**

**\$158.16**

**TOTAL Electric Charge**

**\$165.98**

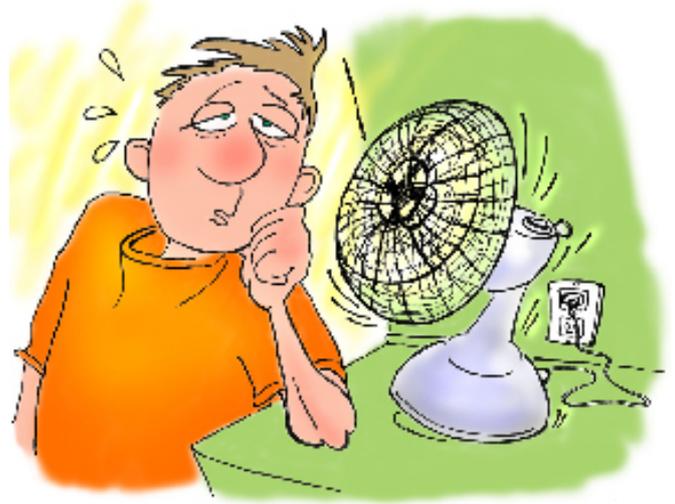
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through wise business decisions. But, your cooperative can no longer continue to absorb these rising costs of doing business. We must protect the financial stability of your cooperative. We don't take this decision lightly. In order for us to continue to provide you reliable service, we must make changes to our rate base.

We are committed to providing you with reliable, affordable electric service to your homes and businesses. If you have any questions or concerns regarding this matter, we encourage you to call our office at 1-800-556-2060. We will do our best to answer your questions and we will continue to provide you with measures to use that energy more efficiently in your homes. Right now, you have access to a number of calculators and ideas on our Web site - [www.southaec.com](http://www.southaec.com) - that you can implement to help manage your energy use wisely and efficiently. Look for more ideas to come.

# Beat the HEAT!

## Cool off with Conserve 101



They call them the “dog days” of summer. In the South, that means hot, sticky, humid, miserable weather.

This time of year, our members usually see their electric bills rise with the temperature due to the excessive use of their air conditioning system. Many members work their systems harder than necessary, throwing hard-earned money down the drain.

Instead, our members can save money during these hot, summer months by learning to use energy more efficiently.

Although usage varies among households, *air conditioning can account for as much as 40 -50 percent of your monthly power bill* during the hottest months of the year.

Ultimately, only you can control the amount of energy you use. A few simple, free steps could help you take charge of your energy consumption and save you money on your power bill. To help alleviate the effects of air conditioning on your monthly electric bill, follow these easy, energy-saving suggestions:

- **Use ceiling fans to disperse cool air.** They can make a room feel a couple of degrees cooler than they actually are, allowing you to keep your thermostat at a higher temperature. You can save up to 4 percent of your energy consumption for each degree you raise your thermostat in the summer months. Look for Energy Star certified fans if you need to purchase new or replace old fans.

- **Keep shades closed during the day**, especially on east and west facing windows. At night, open windows across from one another for cross-ventilation.

- **Delay heat-producing activities** - like dishwashing and laundry - until the evening. These appliances heat up your home, creating extra work for your air conditioner.

- **Keep lamps and TVs away from thermostat.** The heat they produce will cause our air conditioner to run longer, running up the cost of your power bill.

- **Do not obstruct air conditioning vents.** If the vents are covered, you won't feel the cool air that you are paying for.

- **Change your filters.** Cut your household energy consumption by 5 to 15 percent by simply keeping air filters clean. Always remember to change your filters once a month or when necessary.

- **Close all unnecessary openings** in your home. Keeping doors, windows and fireplace dampers closed will prevent cool air from escaping and going to waste.

- **Use the “auto fan” setting** on your thermostat. This will keep your home at a constant temperature and prevent your air conditioner from working harder than needed.

- **When you first turn your air conditioner on, do not set the thermostat lower than the desired temperature.** Setting it lower than necessary will not cool your home any quicker, it will only run longer in order to cool it to a lower temperature - this wastes energy.

- **Keep storm windows closed** during the summer months. They provide extra insulation for your windows, helping keep the hot air out and the cool air in.

In addition, low to moderate investments could save overall energy consumption. While they require money initially, they eventually pay for themselves by way of savings.

- **Look for a Seasonal Energy Efficiency Rating (SEER) of 14 or higher** when purchasing a new air conditioner. You should start seeing the difference on your monthly power bill immediately.

- **Install a programmable thermostat** and save up to 10 percent a year. A programmable thermostat can automatically adjust the temperature by 10 to 15 percent for the hours that your home is unoccupied. They are available in a range of prices and options to meet your needs.

- **Be sure your home is properly insulated.** It will keep your home cooler and reduce your cooling costs by up to 30 percent. Start in the attic, where temperature can reach 155 degrees Fahrenheit.

- **Seal leaks to save** 10 percent or more on energy bills. Caulk and weatherstrip all seams, cracks and openings to the outside.

Summer in the South is hot enough. Why not make your power bill one less thing to sweat about? Check out our website at [www.southbaec.com](http://www.southbaec.com) for more energy saving information.



# SUMMER

Conserving today means saving tomorrow.

## Conserve101 Saving Tips:

- ▶ **Use ceiling fans.** They make you feel about 1°-2° F cooler than the actual temperature.
- ▶ **Clean or replace AC filters monthly or as needed.** A well-maintained cooling system will run more efficiently and use less energy.
- ▶ **Plug energy leaks by caulking and weather stripping** all seams, cracks and openings to the outside. You can save 10 percent or more on energy bills.
- ▶ **Install a programmable thermostat.** Program your thermostat to automatically turn up the cooling when you are not home and when you are sleeping.
- ▶ **Keep thermostat set at 78°-80°F.** Each degree below this adds 5%-8% to cooling costs.



### Sources

•Residential Energy: Cost Savings and Comfort for Existing Buildings by John Krigger and Chris Dorsi • Touchstone Home Energy Savers Guide  
•www.touchstoneenergysavers.com • www.eere.energy.gov/consumers/ • www.energystar.gov • www.aceee.org

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