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Butler REC **NEWS**

FROM THE MANAGER

Annual Meeting Issues Recap

I would like to offer my congratulations to Bryce Flaming on his re-election as Trustee of District 3 and to Riley Walters on his election as the District 7 Trustee. Both were selected at the Annual Meeting on March 11.

I look forward to working with both, along with the other members of the Board, during this very challenging time at our cooperative.

We had excellent attendance at this year's annual meeting with one of the largest turnouts in recent years. It was great to have so many of you there.

Energy Efficiency and Consumption

Last year was a very busy year for the Board of Trustees and employees of the cooperative. It had been 10 years since the cooperative had last completed a major rate study, and the electric industry experienced a lot of changes in that decade.

Issues like difficulty in building new power plants, the lack of transmission facilities to move power from one region to another and government regulation have changed the electric utility industry in significant ways. Increases in the cost of construction materials were also dramatic.

Increases in the cost of constructing new generation plants, the adoption of state and federal renewable portfolio standards, transmission line expansion to accommodate renewable energy, pending carbon cap and trade legislation and fuel price increases are creating, in many areas of the country, a "perfect storm" that is significantly increasing wholesale and, as a consequence, your electric rates. Your reaction to these price increases is fairly predictable.

For many years, increased energy consumption has been good for business. The more energy we sold, the greater our revenues. So for many years, energy consumption has been encouraged. But now, conservation and energy efficiency are becoming the primary emphasis. How many businesses do you know that are voluntarily promoting programs that lower sales for the good of their members?

You, our members, want to conserve and use electric energy as efficiently as possible as the price of electricity increases. Indeed, in response to a national call for energy conservation, many members are responding, not just because of increasing prices, but also because you hear the message that conservation is "the right thing to do." Add to this the energy efficiency standards that are being considered in both state and federal legislation and reduced usage per member is headed our way.

Butler and other cooperative partners in Kansas have an excellent portfolio of generation supply including nuclear, hydro and coal and in this past year we reached a contractual agreement for over one-third of our supply for the next 38 years.

Steve Parr, CEO of Kansas Electric Power Cooperative (KEPCo), our power supplier, was our keynote speaker at this year's Annual Meeting and deserves a large amount of credit in putting that agreement together.

The agreement guarantees Butler REC and other KEPCo member cooperatives cost-based wholesale rates and electric supply in a time when generation is hard to build. As a cost-based supply, the overall rate is very good in today's market,



R. Dale Short

I would like to thank all of you who attended the Annual Meeting.

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Annual Meeting Issues Recap

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but the components did change in focus. The demand component of the bill basically tripled and the energy component decreased. Does that sound familiar? Why you might ask?

Well, it is some of the same issues we face on the distribution side. They are assigning the costs to the proper area in order to eliminate subsidization by one cooperative or member to another.

Eighty-three percent of our members are residential, the majority who all come home at 5 p.m. and start doing chores so we get hit hard with the increased demand costs compared to those cooperatives with irrigation and industrial usage that is consistent all day long.

So what happens when everyone comes home and starts using power at the same time? Our power demand increases and, as a result, Butler pays more for your power. If any of this sounds familiar maybe you can start to see why staff and the Board of Trustees asked our consultant to help us develop a rate that gives our members an incentive to look for ways to conserve where possible.

We had the opportunity to anticipate these significant changes and proactively respond to them by providing you ways to reduce your energy bills while maintaining the financial strength of our cooperative.

Fixed Costs

One of the major challenges that cooperatives face is how to effectively manage and recover the cooperative's "fixed costs." These are the costs that are present due to the fact that a member is being served, and they do not increase or decrease based upon how much energy a member uses or doesn't use.

These "fixed costs" include poles and wires, cooperative buildings, transformers and everything else a cooperative needs to serve its members, no matter how much energy that member

uses. For a distribution cooperative, almost all of the cost of its distribution facilities and services are a fixed cost.

One of the bedrock principles of rate design is to recover fixed costs through fixed charges (the "member charge") and variable costs through variable charges (the "energy charge" or "per kWh" charges).

Following this fundamental rate design principle helps to assure that all of a cooperative's members are treated fairly and that one group of members does not "subsidize" another group.

Under the old rate with the lower member charge, no demand and higher kWh charge, members with higher than average kWh usage subsidized those with lower than average usage.

Here is the cruel truth of cost-of-service rate making: if under the new rate your bill goes up more than the average residential increase of 9.5 percent, then the changes since the last major rate adjustment have gradually caused other members to subsidize your electric costs.

If, on the other hand, your increase is less than the 9.5 percent, then new rate design will benefit you going forward.

In order to be as fair as possible to all members, the fixed cost of a cooperative's distribution system is divided into two components:

▶ **Member-related costs**—The portion classified as "member-related cost" is the portion of the fixed costs of the distribution system that is the same for everyone.

▶ **Demand-related costs**—The portion classified as demand-related cost is the portion of the fixed costs of the distribution system that varies with the load carrying capability of the distribution facilities; that is, the size of the demand that the member places on the system during any hour of the day.

Variable Costs

For a typical distribution cooperative in

Kansas, about 60 percent of its cost structure is purchased power from its supplier, which is a variable cost, while the remaining 40 percent represents distribution system costs, which are fixed costs.

If a cooperative is assured of recovering its distribution system costs, which are not related to the volume that it sells, through a fixed charge, then it can work cooperatively with members in reducing the 60 percent of the bill that goes to the cooperative's generation and transmission power supplier, which benefits both the cooperative and members through lower energy bills.

Thus, recovering these fixed costs through a fixed member charge creates the right environment for the cooperative and you as members to pursue energy efficiency, conservation and member-owned generation to help members reduce their energy bills while ensuring that the Butler REC will be here when you need us. That's what our new rate is designed to do.

Rates are Working as Designed

Overall the new rate is working as designed. Even with the record winter where for the first time in over a 100 years we didn't have a day that reached the 60s in December, January and February.

Thanks to your conservation efforts, the new rate that was designed to produce a 9.5 percent increase in revenue only produced a 6.9 percent increase since inception. If those numbers hold true for the next five months it means that the cooperative members as a group used conservation and efficiency efforts to shave 2.6 percent off of the increase.

Some have said that we simply added a demand component to your bill and increased the member charge from \$15 to \$25, but that is only part of the story. The whole picture is that we also reduced the kWh and power cost adjustment (PCA) charge by almost 2.5 cents per kWh.

Changes in our Energy Future

The new residential rate was a big change needed because of a changing time in our world. Utilities across the country are scrambling to make the adjustments now that we made last summer. Some still don't have the equipment necessary, countless others are analyzing their data or in the process of making similar changes.

Just the other day another Kansas cooperative manager told me they were in the process of adopting a similar rate with the exception that instead of the \$5 demand charge per kW they were charging \$0.30 per kWh

during the 3 to 9 p.m. time period. Cost-of-service studies have shown \$25 to \$35 member charges to be the norm now rather than the exception. More accurate usage data for our members means we have a better ability to build rates that are fair to our members by assigning the costs to the proper portion of the rate.

There are always anomalies to these rate making rules, but, to be fair to all rate payers, a rate such as the one we implemented last August more accurately assigns the fixed costs to the member-charge and demand-charge and the variable cost to the kWh charge.

Remember if your annual rate goes up more than 9.5 percent from August 2009 to July 2010 you were more than likely getting your power below actual cost. If your rate increase is below the 9.5 percent you have benefited from the rate being brought up to date with the current cost of service study.

I would like to thank all of you that attended the Annual Meeting. We had good food, lively discussion and great entertainment. I hope you enjoyed your evening and I promise that we will take your questions and comments back to the Board and staff meetings and discuss possible win-win scenarios.

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Small Changes Add up to Big Savings

Sometimes the little things in life mean a lot. Simple steps such as turning off lights when you leave a room, unplugging appliances when you're not using them, and raising the temperature on your thermostat as our weather warms up, when done together, can help your family rack up big energy savings.

At Butler REC, we're always looking for ways to help you, our members. With energy costs rising due to a growing demand for electricity, higher power plant costs, and federal regulations, energy efficiency remains a key part of our efforts to keep rates affordable. Best of all, energy efficiency—simply making the electricity you use do more—saves you money.

Because we're part of the Touchstone Energy® Cooperatives network, you have access to a valuable resource that not only identifies simple energy-saving tasks but also illustrates the real-dollar savings they produce, specific to your home. TogetherWeSave.com uses real savings calculations—based on our co-op's rates and climate zone—to motivate and inspire small changes in behavior.

Intrigued? Check it out at www.butler.coop and just click on the Together We Save icon. You'll be asked for your ZIP code; this helps us provide accurate electricity rates for your home.

The Virtual Home Tour provides a good starting point. As you move through each of the six rooms, clicking on areas highlighted in yellow prompts you to take various interactive energy-saving measures and shows how these changes translate into savings on your electric bill.

A visit to the attic, for example, recommends adding insulation. Slide the arrow up the scale to add extra inches of insulation and watch the exciting end result. Adding nine inches saves up to \$143 a year. Add 15 inches, and that



Butler REC encourages you to see how making little changes can add up on your electricity bill by visiting www.TogetherWeSave.com.

figure jumps to \$241.

Now head downstairs to the living room. Most folks enjoy watching television and playing Wii or Xbox games, but you don't need these gadgets on 24 hours a day. By unplugging entertainment center devices when they're not in use, you could save up to \$174 every year. Seems simple enough—and every small step adds up to big savings. In fact, just lowering your thermostat one degree in winter could save \$82.

Want more in-depth information on energy efficiency? TogetherWeSave.com also includes a library of short videos on various topics.

Finding ways to help you save energy dollars during tough times is important to us. Valuable tools like TogetherWeSave.com are just one more way we at Butler REC are looking out for you. Want to learn about other ways to make your home more energy efficient try out our Home Energy Suite to learn even more about energy efficiency.

Does Your Current Surge Protection Come with a Warranty?



Butler REC will install a surge protector in your meter base to protect your whole home for less than a quarter a day. All your valuable electrical appliances and equipment will be covered under the new and improved warranties. If the TESCO surge suppressor has been tripped due to a power surge through the electric lines you are covered with a \$50,000 warranty through TESCO. Butler REC will also cover up to \$250 of your home owners insurance deductible with out the surge suppressor being tripped (See lease agreement for details).

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