

RMU and CITY COUNCIL PRESENTATION

July 9, 2007

This presentation is intended to provide City Council and the viewing public, a clear understanding of the economic drivers and policies that effect consumer rates.



RMU's MISSION

The mission of the
Rolla Board of Public Works
is for Rolla Municipal Utilities to
serve the Citizens of Rolla with
the best possible service
at the lowest possible cost.

As We Begin

- This presentation is about Electric Rates.
- RMU is also responsible for the water supply system for the City of Rolla.
- Sewer and Sanitation are functions of the City of Rolla. RMU is the billing agent for the City and does not set rates for sewer and trash.

We Have Broken the Discussion Into Seven Sections

- The Basics of Power Supply
- MPUA/MJMEUC/MoPEP
- Recent RMU History and Rate Changes
- RMU Budgeting and Ratemaking
- RMU Communications
- Nationwide Rate Information
- Questions

The Basics

- In order to understand how, and under what circumstances, RMU receives power, it is important to understand some of the basic fundamentals of power providers.
- There are two basic entities which supply power in the U.S. domestic market.
 - Investor Owned Utilities (IOU)
 - Public Power Utilities

Investor Owned Utilities

- Investor Owned Utilities (IOUs) operate generation, transmission and distribution systems in a “for profit” mode.
- The four major Electric IOUs in Missouri include:
 - AmerenUE (A division of Ameren Corporation)
 - KCP&L (A division of Great Plains Energy)
 - Empire District Electric Company
 - Aquila (Selling Missouri Electric Utility to Great Plains Energy)
- Retail Rates (rates for individuals and most businesses) are regulated by the Missouri Public Service Commission (MoPSC)
- Wholesale Rates (rates paid by municipalities and large businesses) have been de-regulated since 1993. There is no governmental regulatory oversight on negotiated wholesale power agreements.

Public Power Utilities

- Public Power Utilities in Missouri consist of two distinct groups:
 - The Cooperative System
 - Municipalities

The Cooperative system operates in a three-tiered system.

Think of the cooperative system as an inverted pyramid.

- The system's top tier is made up of 51 distribution cooperatives in Missouri, southern Iowa and northeast Oklahoma. (i.e. Intercounty, Gascoy, Crawford Electric, etc...)
- At the second level of the system are the 6 regional transmission cooperatives that transmit Associated's power to the 51 distribution cooperatives. (i.e. Sho-Me Power Corp., KAMO, M&A, etc...)

- In 1961, the six G&Ts joined to form the system's third tier, Associated Electric Cooperative Inc. Associated was subsequently given the responsibilities for generation and power procurement.
- All assets represented by this pyramid are solely owned and operated by the cooperative system from the generator to the meter on the home.



Municipals

- Most Municipal Electric Utilities operate and maintain the distribution systems solely within the City Limits of their municipality.
- Most Municipals purchase their wholesale generation and transmission requirements from either the IOU or cooperative systems.
- Some Municipals, like Springfield, Columbia, New Madrid, Sikeston, Independence, Fulton, or Chillicothe, have considerable on-site base-load generation which provides low cost power for their citizens.

Missouri Public Energy Pool (MoPEP)

- Background on MPUA, MAMU, MJMEUC and MoPEP
- Rising costs in the energy industry
- MoPEP cost containment strategy

MPUA Organizations

121 Municipal Utility Systems

**MISSOURI PUBLIC
UTILITY ALLIANCE**

**Missouri Association
of Municipal Utilities**

Not For Profit Corp 501 (C) (6)

121 Cities

**Missouri Joint Municipal
Electric Utility Commission**

A Political Subdivision
of the State of Missouri

58 Cities

**Municipal Gas
Commission of Missouri**

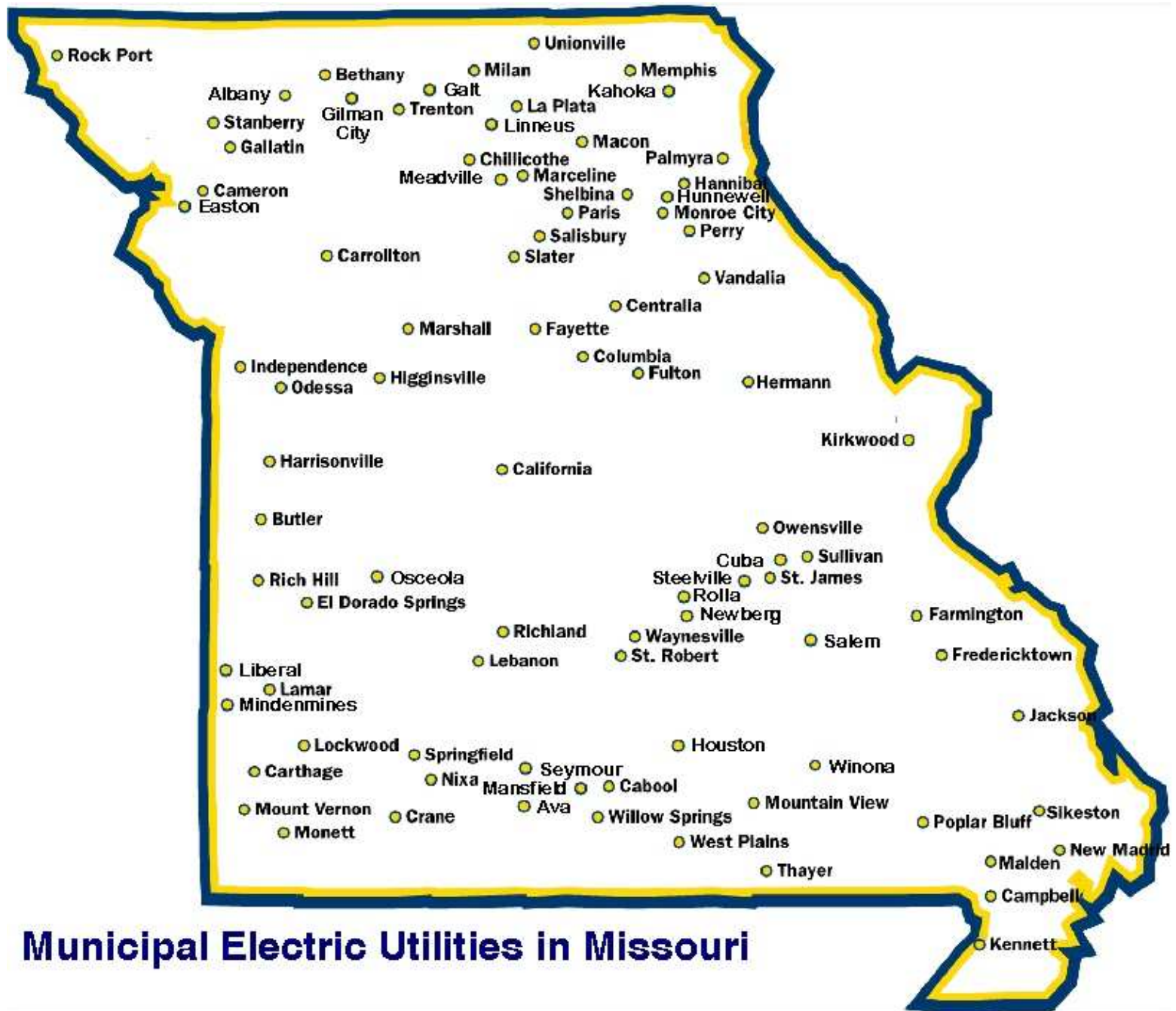
A Political Subdivision
of the State of Missouri

18 Cities

MoPEP

32 Cities





Municipal Electric Utilities in Missouri

Missouri Joint Municipal Electric Utility Commission

(MJMEUC)

- Authorized by Missouri statute in 1978 and established by Municipalities by Joint Contract in 1979.
- Governmental entity - Does not operate for profit.
- Directed by a Board of Directors with 1 voting member from each municipality.
- Helps municipal utilities manage power supply costs.

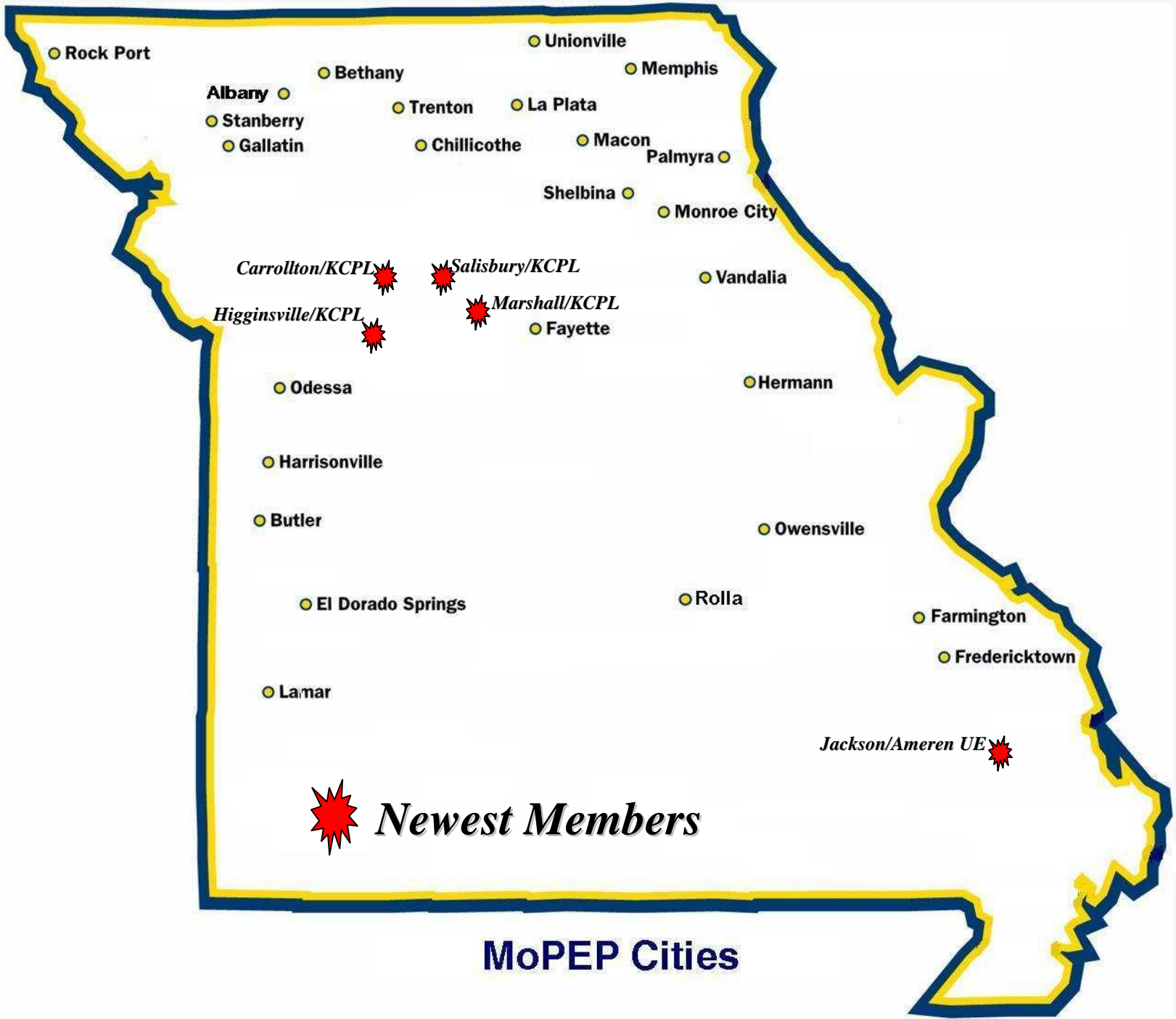
Many Benefits of Joint Action by Municipals Utilities

- Economies of Scale
- Reserve and other Resource Sharing
- Greater Ownership Opportunities
- Greater Market Purchase/Sales Opportunities
- Greater Political Leverage
- Aim: Lowest Long-term Wholesale Power Supply Costs

MoPEP Power Pool

(Missouri Public Energy Pool)

- Not a power supply company – a coalition of cities partnering to purchase and develop power supplies.
- 19 Cities launched operations on January 1, 2000.
- Rolla, Owensville, Farmington & Fredericktown joined by 2001.
- Nonprofit, Cost-of-Service & Member-Directed.
 - ~ One City, One Vote ~
- Full requirements pool with supply managed by MJMEUC.
- 30 cities & 437 MW peak load in 2006
- Continuing Expansion
 - Now supplying 31 member cities
 - At least 1 additional member city in 2007 for a total of 32
 - **Recent additions because of inability to negotiate suitable wholesale contracts**
 - 5 additional cities are considering joining the MoPEP pool
 - 1 or 2 considering leaving



 ***Newest Members***

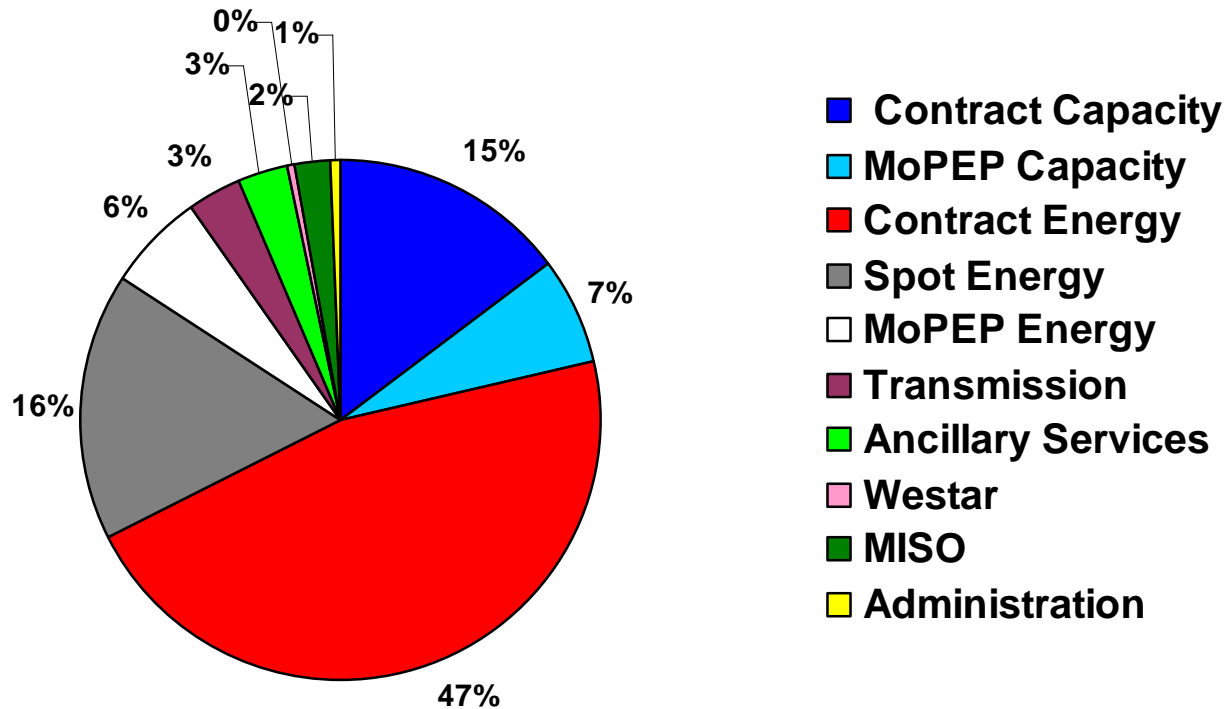
MoPEP Cities

MoPEP/RMU Synergies: Sharing Essential Functions & Costs

- Integrate Existing Resources with Best New Resources
- Analysis of Additional Capacity Needs
 - Baseload Energy Needed
 - Intermediate Needed
 - Peaking – Local
- Resource Mix
- Contract Negotiation
- Transmission
- Control Area Services
- Ancillary Services
- Off-system Sales
- Energy and transmission scheduling
 - Monthly
 - Day ahead
 - Next hour

Breakdown of MoPEP Costs for 2006

All-in Cost = \$63.52 / MWh



Does not include Transmission, Local Facility Charges
or Contracted Losses

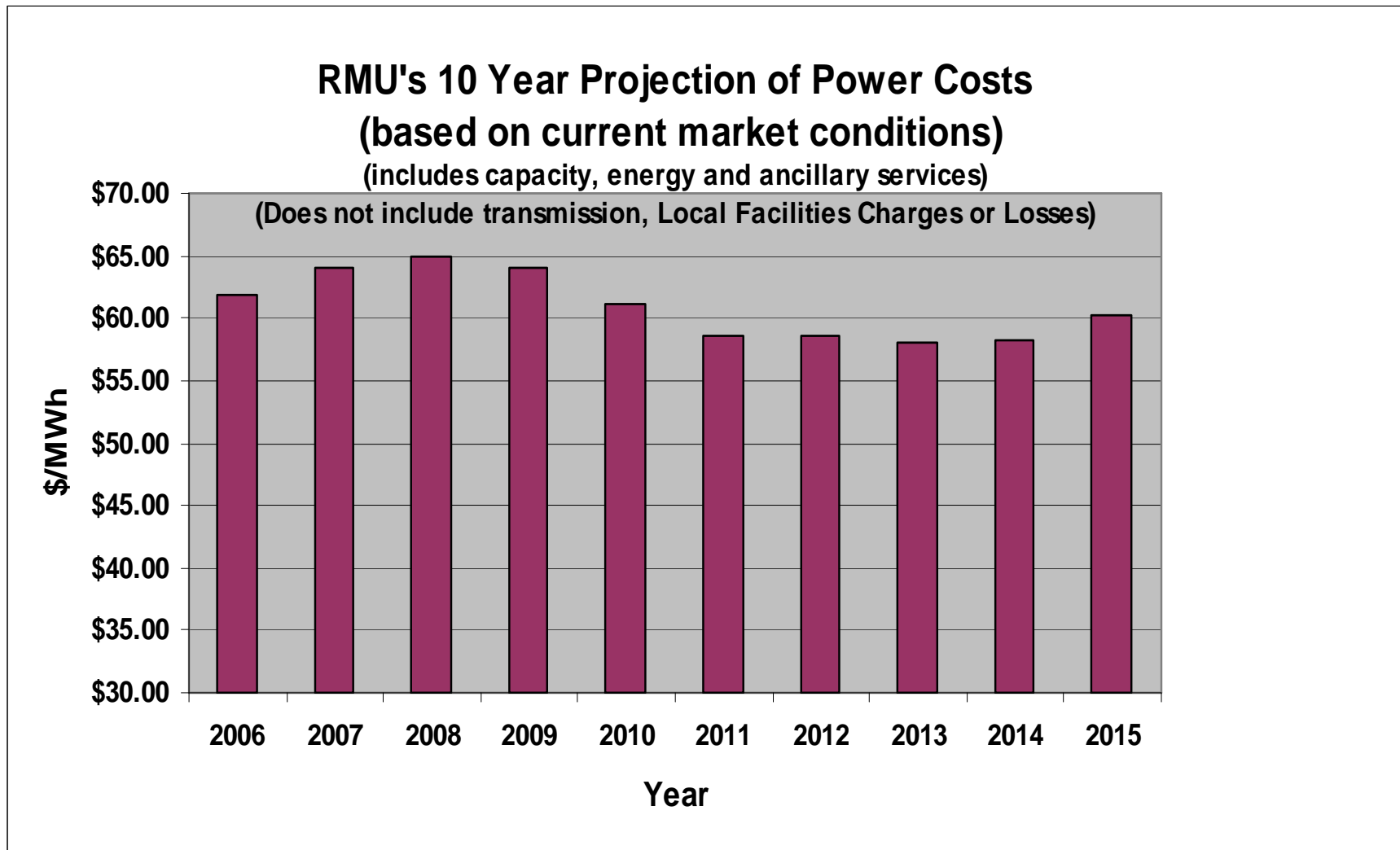
MoPEP Cost Containment Strategies

- MoPEP membership growth and alliances to spread fixed costs
- Study membership growth policies in light of new resource value
- Energy and Capacity sales
- Scrutinize performance and costs of contract services
- Local cost-control task force
- **Develop cost-based power supplies**

MoPEP Resource Plans – Energy

- 85% of MoPEP's energy is expected to come from owned generation or long-term contracts by 2012
- MoPEP is moving toward long term, cost-based energy vs. market-based power supplies
- This activity will result in the lowest power supply cost for the member cities.

Based on what we know today...



Rising Costs Are Increasing Rates Nationwide -- Including Missouri Utilities'

Within the past year, retail and/or wholesale rate increases have been filed, implemented or forecast by:

- All of Missouri's investor-owned utilities - AmerenUE, KCP&L, Empire and Aquila;
- Associated Electric Cooperative (AECI):
 - In 2005, Associated indicated their intent to raise wholesale rates by approximately 47% beginning April 1, 2006.
 - At their 2006 annual meeting, Gascoage Electric Cooperative Board President Jake Warren announced AECI is projecting annual increases in wholesale power costs totaling 41% from 2008 to 2012.
 - Most cooperatives and municipalities which receive power from AECI through the cooperative system raised rates around April 1, 2006. (Intercounty raised rates October, 2006)
 - **This rate increase will be typical for all wholesale consumers of AECI (Cooperatives and Municipals).**
 - While we can only speculate on the impact, Intercounty's residential rates could increase from \$0.0685 to \$0.096/kWh plus their \$21 service availability fee if projected AECI wholesale rate increases translate into equivalent retail rate increases.

Conclusions and Outlook

- Entire electric industry to experience increasing costs during remainder of the decade, but MoPEP cities have already absorbed substantial cost/risk factors still facing other sectors
- MoPEP is successfully implementing its strategy of increased generation ownership and reduced reliance on shorter term power market purchases
- Significant positive impact for MoPEP cities is expected by 2009, as first major new unit is scheduled to begin operating

Rolla Municipal Utilities

- **Why Did RMU Join MoPEP?**

- In a November 10, 1998 meeting, AmerenUE indicates they are not interested in offering any long term (10 year) power supply contracts and they think their pricing is too low.
- RMU hires Dr. Bruce Weier of Midstates Power Consulting to evaluate power supply options and to make recommendations to the Board.
- As a result of the Consultant's study, RMU requested formal Request For Proposals (RFP) for Power Supply (Bidding Process).
- Approx. 45 respondents submit responses to the Power Supply RFP.
- AmerenUE terminated the Full Requirement Contract Negotiations for power supply after December 31, 2000.
- June 13, 2000 - Resolution #00-002 passed by Board, formalizing RMU's participation in the Missouri Public Energy Pool.

HEADLINE: “Electric Rates have increased 65% in the last five years.”

- Have you seen this headline before? What was the time frame?
- **This event occurred for RMU customers from 1970 – 1975.**
- It's important to put everything in context. This isn't the first time the country, and more importantly, Rolla has seen double digit electric rate increases.

RMU Residential Electric Rate Changes Since 1993

- 1993 - Rate restructuring (Winter/Summer Rates)
- Sep 2003 – 10% Rate Increase
- Sep 2004 – Eliminated Seasonal Rates, added Service Availability Fee
- Oct 2005 – 12.5% Rate Increase
(5% PILOT became a line item, 7.5% rate increase)
- Feb 2006 – 10% Rate Increase
- Jun 2006 – 15% Rate Increase
- Aug 2006 – 15% Rate Increase
- May 2007 – 10% Rate Decrease on 1st 1000 kWh

RMU Residential Rate Increase Summary, 1993 - 2007

- For the average Residential customer consuming 1500kWh/month, the electric rates have increased:
 - 90% over Winter Rates
 - 81% over Summer Rates
- In 1993, your bill would have been \$80 Winter & \$84 Summer for 1500kWh usage
- Your bill in June 2007 would be \$151.73 for 1500kWh usage
(This includes the City PILOT & Service Availability Fee)

Rate Comparison with IECA

1993 – 2007

(Assumes average 1,500kWh/mo usage)

- From March '93 to Feb '06 (13 years), Intercounty rates were higher than RMU rates
 - Mar '93 – Sept '03 IECA 22/28% higher than RMU*
 - Sep '03 – Jul '04 IECA 11/16% higher than RMU*
 - Jul '04 – Sep '04 IECA 22/28% higher than RMU*
 - Sep '04 – Oct '05 IECA 10% higher than RMU
 - Oct '05 – Feb '06 IECA 3/-2% higher than RMU**
- From Feb '06 to Present (16 MONTHS), Intercounty rates are below RMU rates
 - Feb '06 – Jun '06 IECA 6/10% lower than RMU**
 - Jun '06 – Aug '06 IECA 17/21% lower than RMU**
 - Aug '06 – Oct '06 IECA 27/31% lower than RMU**
 - Oct '06 – May '07 IECA 20/24% lower than RMU**
 - May '07 – Present IECA 14/18% lower than RMU**

**Compared to RMU Residential Summer/Winter Rates*

*** Compared to RMU Residential base rate and RMU Residential Base rate & City PILOT*

Current Rate Comparison with IECA

(June 2007)

kWh	RMU	RMU w/PILOT	IECA	% Difference	
				IECA vs. RMU	IECA vs. RMU w/PILOT
100	\$19.30	\$20.27	\$27.85	44%	37%
200	\$28.60	\$30.03	\$34.70	21%	16%
300	\$37.90	\$39.80	\$41.55	10%	4%
400	\$47.20	\$49.56	\$48.40	3%	-2%
450	\$51.85	\$54.44	\$51.83	0%	-5%
500	\$56.50	\$59.33	\$55.25	-2%	-7%
600	\$65.80	\$69.09	\$62.10	-6%	-10%
700	\$75.10	\$78.86	\$68.95	-8%	-13%
800	\$84.40	\$88.62	\$75.80	-10%	-14%
900	\$93.70	\$98.39	\$82.65	-12%	-16%
1000	\$103.00	\$108.15	\$89.50	-13%	-17%
1100	\$111.30	\$116.87	\$96.35	-13%	-18%
1200	\$119.60	\$125.58	\$103.20	-14%	-18%
1300	\$127.90	\$134.30	\$110.05	-14%	-18%
1400	\$136.20	\$143.01	\$116.90	-14%	-18%
1500	\$144.50	\$151.73	\$123.75	-14%	-18%

Summary of RMU Rate History

- From 1979 to February '06, RMU's basic Residential electric rate was lower than Intercounty.
- From March '93 – October '05, RMU had significantly lower rates than IECA (IECA averaged 25% higher than RMU for 11½ years)
- Average Residential customer saved approximately \$240/year (over \$2,600*) from 1993 to 2004.
- It's only since February '06 (the last 16 months) has Intercounty rates been lower than RMU. Intercounty is currently 14% lower (\$20 for an average use of 1500kWh/mo).
- For low usage customers (<450kWh), RMU basic Residential rate is less expensive than Intercounty.

(* Assumes average 1,500kWh/mo usage)

RMU Budgeting and Ratemaking

RMU follows the Governmental Accounting Standards Board (GASB) Uniform System of Accounts. These standards were adopted for the purpose of uniform reporting to the Department of Energy.

Cost Of Service

- RMU is a cost of service utility whose first priority is safe, reliable, not-for-profit electric service.
- The major components of cost are:
 - Wholesale Energy (including Local Facility Costs (LFC), Transmission Expenses, and Contracted Losses)
 - Operating and Maintenance Expenses
 - Capital Improvements
 - Depreciation
 - Reserves

Reserve Account

- Reserves are essential for:
 - Non-insured losses, such as storm damage
 - Unexpected expenses
 - Establish Credit Worthiness
- Budgeted improvements to the Reserve Account are the first to go when RMU incurs an unexpected expense
- Unexpected expenses can deplete Reserves
- Current Reserve balance is \$5,385,830 as of June 30, 2007.
- Should be \$10 to 12 million based on contractual obligations and asset exposure and for unexpected expenses.

Cost Management

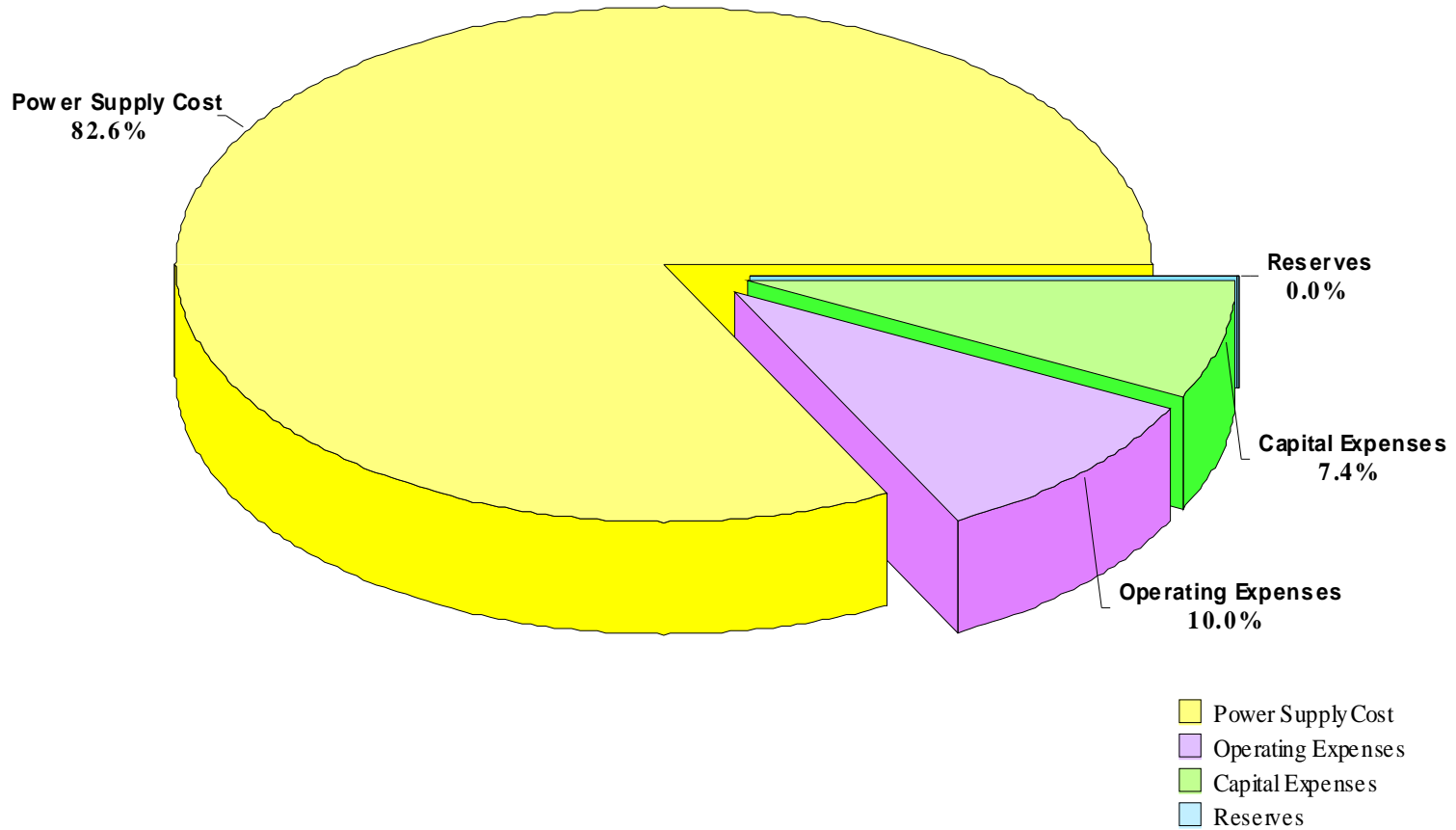
- RMU utilized two million dollars out of the Reserve Account in 2004/2005 to cover unexpected increases in power supply costs
- RMU delayed over one million dollars of Capital Expenditures in 2006 to offset higher power supply costs and to balance our budget
- Capital projects were also delayed in FY2007 budget
- Constantly reviewing O&M and Capital Expenditures to reduce costs

Simple Explanation

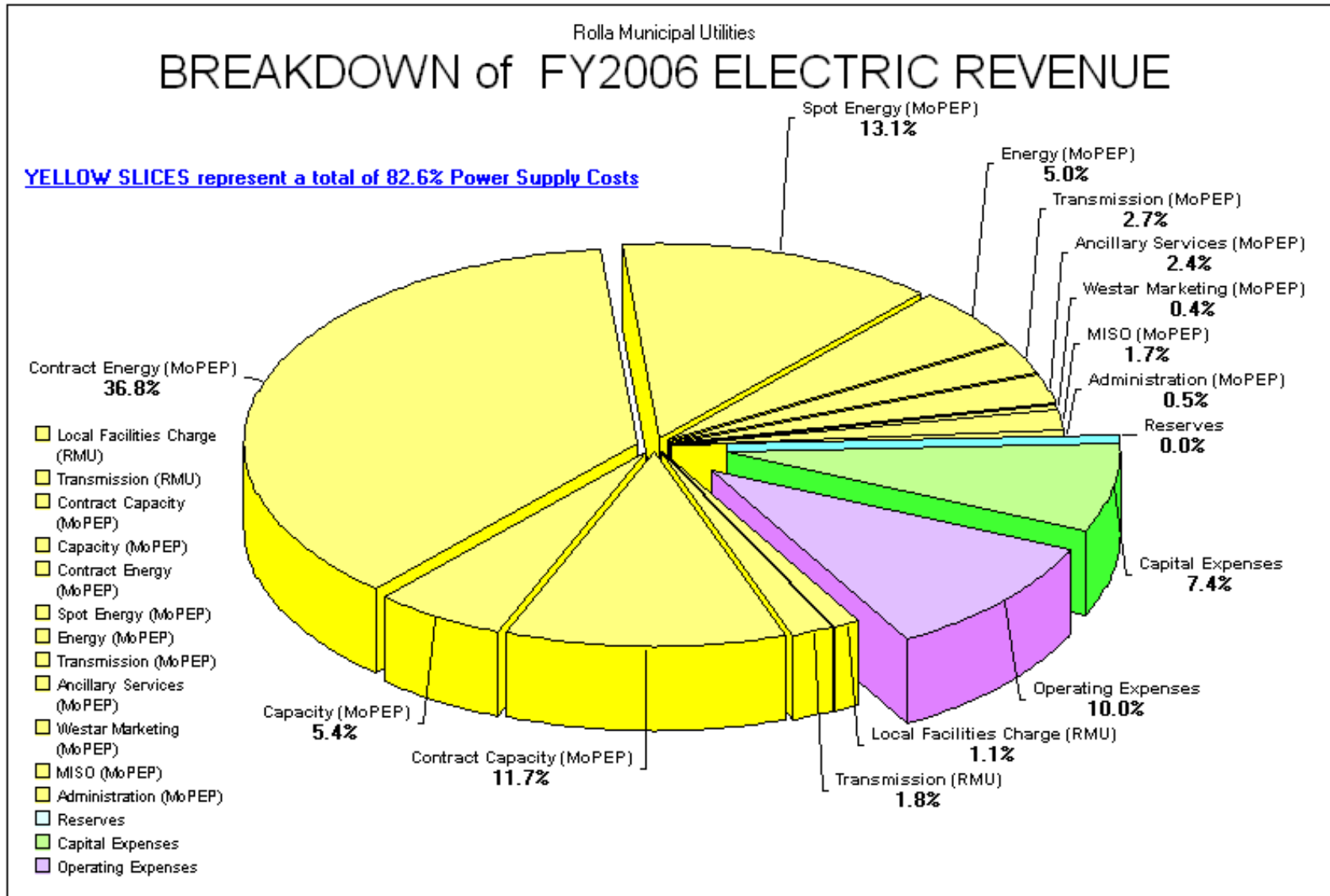
- Revenues must exceed expenditures.
- In FY2006, RMU revenues went to:
 - 83% Power Supply Costs
 - 7% Capital Projects
 - 10% Operating & Maintenance
 - 0% Reserves
 - 100% Budget

Rolla Municipal Utilities

BREAKDOWN of FY2006 ELECTRIC REVENUE

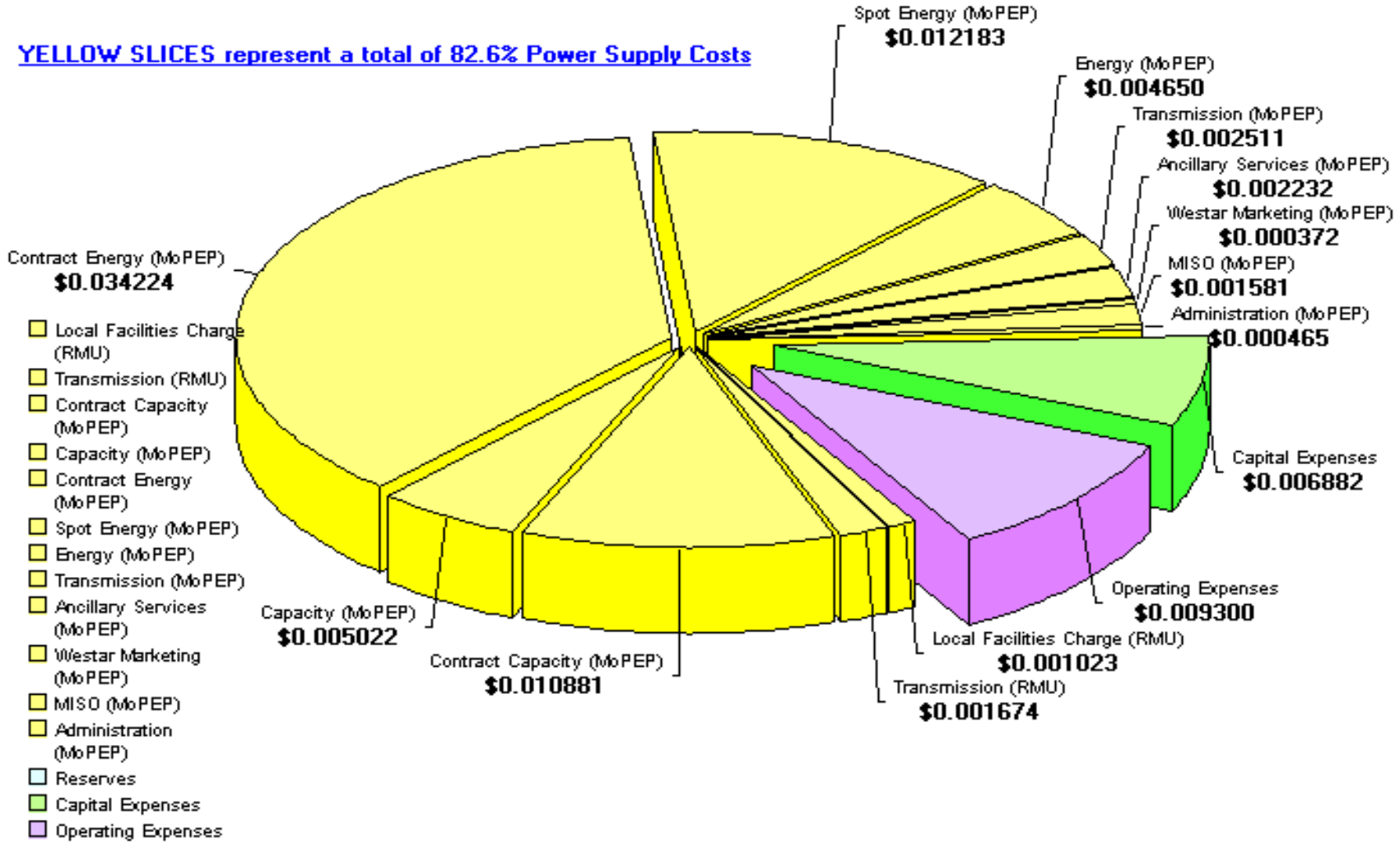


Where Does the Money Go?

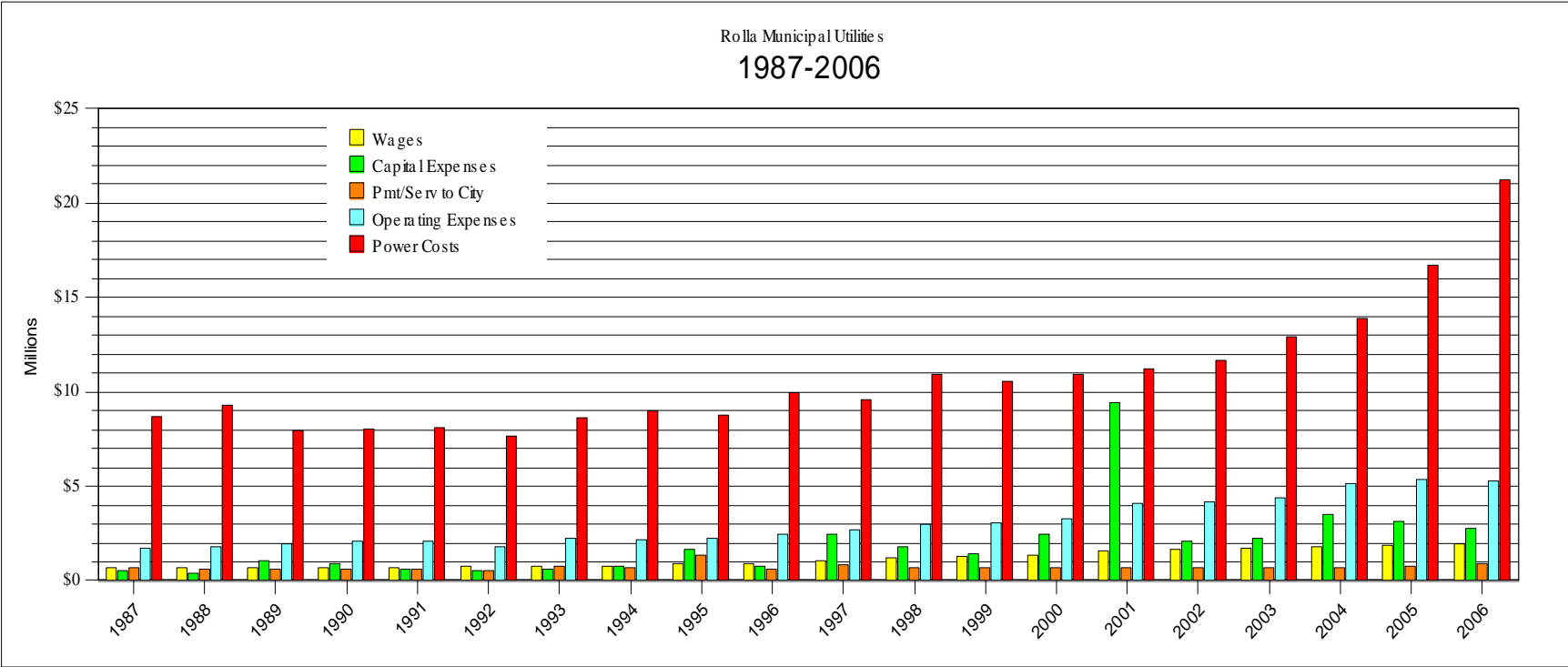


Rolla Municipal Utilities
9.3 Cents per kWh

YELLOW SLICES represent a total of 82.6% Power Supply Costs

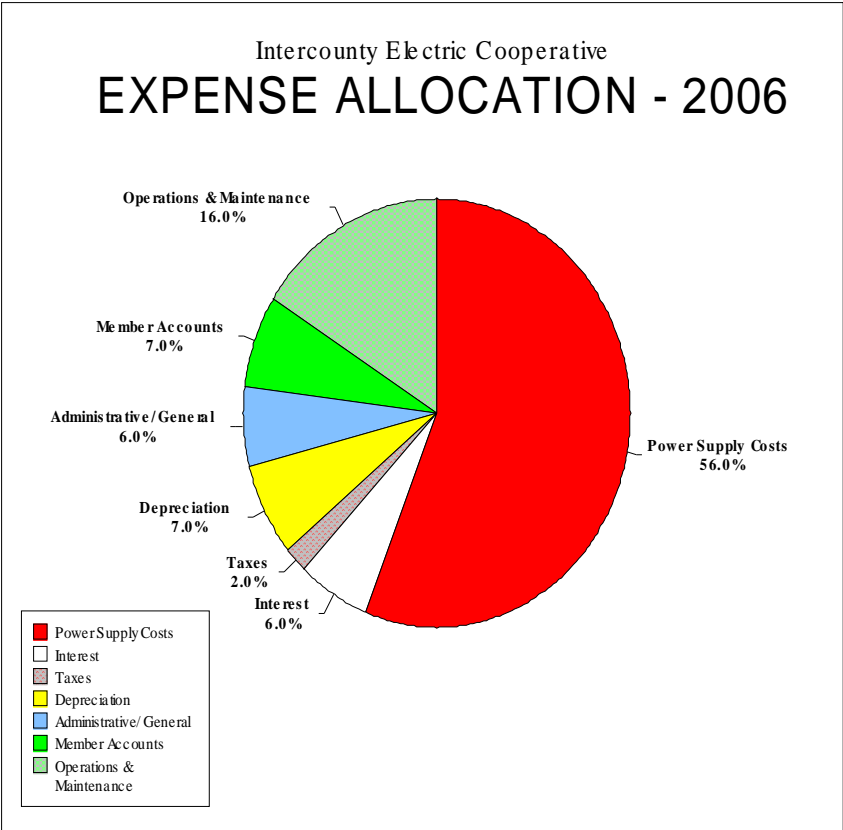


RMU Expense Comparison (20 year)

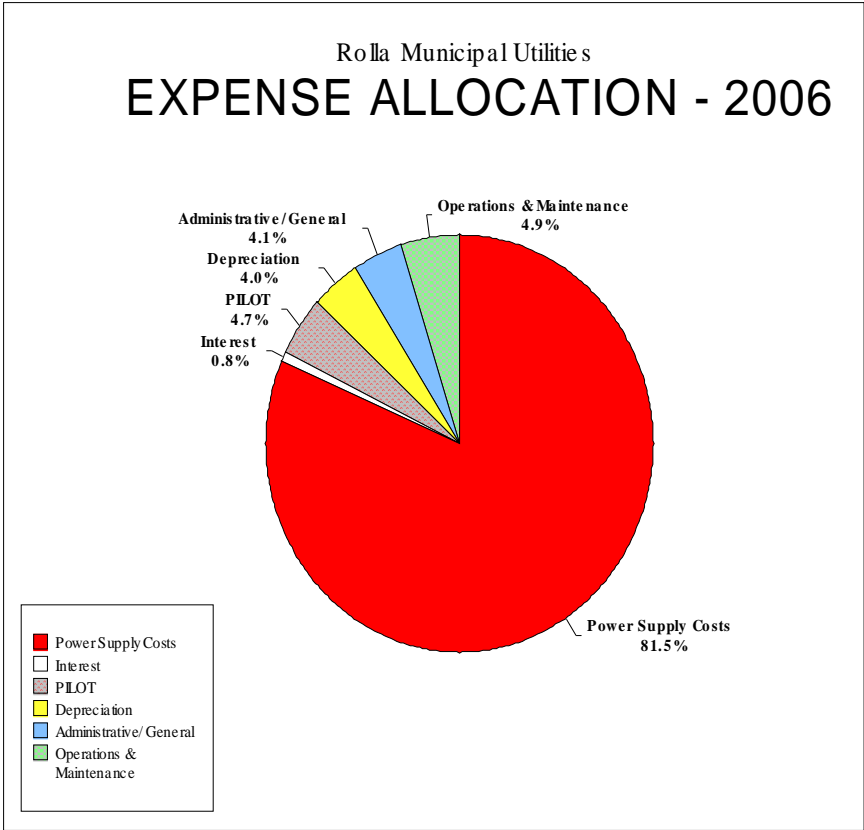


Expense Allocation Comparison IECA vs RMU

(for illustrative purposes only)



2006 IECA Secretary/Treasurer's Report



RMU data includes City PILOT

Future Cost Impacts (i.e. Capital Expenses)

- Rolla West Project (\$6M+)
- UMR Tech Park (\$500k+)
- Industrial Park Expansion
[Rolla East (\$6M+) and Cunningham Property]
- 138kV Substation and 34kV Lines (\$15M)
- 4kV Substation Capacity Upgrades
- 12kV tie line between Dewing and Bridgeschool Substations
- 4kV to 12kV Conversions

RMU Communications

Examples of RMU's Efforts to Keep Customers Informed About Electric Rates

Included are:

- 7 Excerpts from Direct Mailings to RMU Customers
- 13 Excerpts from Rolla Daily News Articles

- “Once again, for the 5th straight year, Rolla Municipal Utilities (RMU) will be holding the line on electric rates. According to the American Public Power Association during research conducted in 1996 of the state of Missouri ... Rolla Municipal Utilities showed an average cost ... 21% lower than the Missouri municipality average! In the January-February 1998 issue of Public Power magazine, the 1996 utility rate survey ... **RMU was still 13% lower to the municipality numbers and 22% lower than the coops!**”

- *Rolla Municipal Utilities*
1998 article *Holding the Line on Electric Rates*

- “It’s important for you, our customer, to know that Rolla Municipal Utilities is a cost of service, rate based utility, and the electric rates have not increased since March of 1993. It was also in 1993 that the Federal Energy Regulatory Commission (FERC) deregulated the wholesale power market. RMU was unaffected at the time because of a long term contract with AmerenUE. In December of 2000, that contract ended and AmerenUE offered a contract extension that included a 25% increase in power supply cost, which ultimately would have been passed on to you, the consumer. ... This year RMU has experienced a 14% increase in the cost of power supply due in large part to the rising cost of natural gas which is used to produce electricity.”

- *Rolla Municipal Utilities*

Letter mailed to RMU customers July 31, 2003

- “Last year, the Rolla Board of Public Works (RBPW) approved RMU’s first electric rate adjustment since 1993. The result was a 10% increase for all kWh’s billed. A rate adjustment was necessary largely due to a 13% rise in wholesale electric costs brought on by record setting spikes in the price of natural gas (which is used to generate power), lower cost long-term power supply contracts ending and being replaced by higher cost market-based contracts, rising cost associated with power transmission, increases in insurance premiums, and reduced interest income. Continued upward pressure in RMU’s fiscal responsibility, in particular power supply cost, has made it necessary for the Rolla Board of Public Works to adjust electric service rates for FY2005.”

- *Rolla Municipal Utilities*
Letter mailed to RMU customers
June 30, 2004

- “Due to worldwide demand & events, cost of materials have soared in recent history. Just like you, RMU has experienced the effects in the increased cost of everything, from the price of PVC pipe down to the transportation of that pipe and all other materials purchased. Fossil fuels (i.e. natural gas) continue to escalate, which is one of the determining factors that drive the cost of power supply upward. ... The Rolla Board of Public Works’ mission is that RMU serve it’s customers with the best possible service at the lowest possible cost.”

- *Rolla Municipal Utilities*
Letter mailed to RMU customers
August 1, 2005

- “Power supply costs continues to be volatile, and at the forefront of what drives RMU Electric Department expenses upward. **Heading into the 2005-06 winter heating season, electricity prices are reported (Platts) to be 46% higher than a year ago. The cost of nearly all fossil fuels used to generate electric energy has continued to spiral upward.** The average U.S. monthly natural gas prices for November rose by 4.3% from October, to \$12.42/MMBtu — a level 68.6% above the November 2004 average and the highest average since the wholesale market was deregulated in the mid-1980s. The cost of coal has also been increasing, although at a much slower rate than natural gas. With the high cost of natural gas and other competing fuels, the demand for coal has become much greater. Increased demand coupled with the high cost of railroad transportation has increased the cost of energy from coal fired generating plants. ... **Power supply cost to Rolla are anticipated to be volatile and incline over the next couple of years. As a result, RMU retail rates must be closely monitored by RMU’s governing Board, and will be adjusted upward as needed to maintain fiscal stability.”**

- *Rolla Municipal Utilities*
Letter mailed to RMU customers
December 28, 2005

“The predominant factor ... continued increase in power supply costs. There are several contributing reasons for the rising energy market.

1. Fossil fuels (i.e. natural gas, coal, oil) are used to generate electric energy, and the costs for these are continuing to increase. International developments, weather events, federal regulatory changes, transportation delivery issues, and environmental regulations have increased cost for fossil fuels. Fossil fuel costs, together with rising energy consumption by the consumer, has created a matter of supply and demand. With limited supply and a growing demand, the result is increased cost.
2. Federal government deregulation of the wholesale energy markets has also contributed to rising cost. Many experts believed energy costs would be lowered by having more choices of energy companies in which to purchase power. However, to the contrary, more and more municipal utilities are forced to purchase power outside the Midwest. Power producers within the Midwest have found they can sell their power outside the Midwest at a higher price.

Historically, it was not uncommon for municipal utilities to purchase power from one supplier under a ten to twenty year contract. Because of these long term contracts, power cost held relatively steady. Today, power markets have become much more volatile since the implementation of deregulation. Municipal utilities now commonly purchase power from many different suppliers under short term contracts. When a contract expires, it is replaced with a new short term contract, possibly even a different supplier.”

(Continued on next page)

“New contracts are subject to the rising cost of fuel, and therefore the new contract is at a higher cost. Since a municipal utility is a cost of service entity, they must then adjust their retail rates to pass the increased cost onto the ultimate user.”

“RMU joined the Missouri Public Energy Pool (MoPEP), along with other municipal utilities, in order to purchase power as a group. Thereby, collectively purchasing power at a lower rate than if RMU was negotiating contracts on its own.”

“MoPEP has arranged to purchase energy at cost of service rates from new power plants being developed in Nebraska, Illinois and the Kansas City area. The first of these plants is scheduled to begin generating power by 2009.”

“Rolla is not experiencing these circumstances alone. Many of Missouri’s investor-owned utilities and electric cooperatives, as well as municipal utilities, have implemented or announced rate increases during the past year. Please consider the foregoing, and remember RMU’s December letter to you wherein you were informed that power supply cost to Rolla are anticipated to be volatile and incline over the next couple of years. As a result, RMU retail rates must be closely monitored by RMU’s governing Board, and will be adjusted upward as needed to maintain fiscal stability.”

- *Rolla Municipal Utilities*
Letter mailed to RMU customers
April 18, 2006

- “The Rolla Board of Public Works has approved an electric rate reduction that will become effective with billing on May 1, 2007.”

“The decrease in this rate comes after power supply costs have somewhat stabilized. As a cost-of-service utility, RMU’s governing Board will continue to monitor the cost of power, and make the necessary adjustments to maintain fiscal stability. As a consumer and rate payer, you can be assured that every effort is being made to control costs, thereby providing services as economically as possible.”

- *Rolla Municipal Utilities*
Letter mailed to RMU customers
March 23, 2007

What The Local Media Has Reported

- “Responding to increased costs to purchase electricity the Rolla Municipal Utilities Board of Directors voted Tuesday to increase the rates its customers pay for electricity.”

- *Rolla Daily News article*
Bill Morrison, July 30, 2003

- “Utility rates increased this month for Rolla Municipal Utilities (RMU) customers and more increases are likely to occur in the not-too-distant future.”

“We expect to see price increases in a year and we don’t know what they’ll be,” said Board chairman Dr. Jim Stoffer.

- *Rolla Daily News article*
Bill Morrison, September 29, 2004

- “Continued upward pressure in RMU’s fiscal responsibility, in particular power supply cost, has made it necessary for the Rolla Board of Public Works to adjust electric service rates for fiscal 2005.”

- *Rolla Daily News article*
June 2005

- “Our costs will continue to increase ... for the foreseeable future,” Stoffer said. ... “Stoffer said the rate increases are driven by higher costs to purchase power; that’s an expense RMU has no control over”, he added. “Our revenue is not increasing as fast as our power supply costs are,” Stoffer said.

“In another RMU matter, survey results of customers indicate residents are satisfied with the service it provides.”

- *Rolla Daily News article*
Bill Morrison, July 19, 2005

- “RMU experienced significant unanticipated increases in electricity costs during the last four months of this year,” Director Dan Watkins said. “RMU has had to dip into reserves to make up for those costs increases.”

“I don’t see anything buy higher prices in the future,” (Stoffer) said. “I foresee it’s going to be even worse in the future.”

“In 1998, Rolla was being served by AmerenUE, which announced a 25 percent rate increase effective in the year 2000. Instead of accepting that increase, RMU joined the Missouri Public Energy Pool. By doing so, Stoffer said, “RMU has been able to save every customer about \$1,000 during that five-year span.”

- *Rolla Daily News article*
Janese Heavin, December 20, 2005

- “According to the Missouri Energy Bulletin, the price of coal from western states is up 177 percent over the same time last year. Inadequate regulation of natural gas markets has also been a factor in price spikes according to a report released this month by the attorneys general of Missouri and three other Midwestern states.”

“While the group helps keep costs down by buying collectively, soaring wholesale costs will drive up rates throughout the state and nation. Almost all of Missouri’s investor-owned utilities and electric cooperatives as well as municipal utilities have implemented or announced rate increases once or twice during the past year.”

- *Rolla Daily News article*
Martin Schwartz, March 30, 2006

- “The Rolla Board of Public Works voted Thursday night to approve two electric rate increases, the first effective June 1 to be followed by a second increase on August 1.”

“The biggest problem is that power supply costs for February of this year were 50 percent higher than February of 2005. And costs have more than doubled since 2000.”

- *Rolla Daily News article*
Martin Schwartz, April 7, 2006

- “The increases are necessary to compensate for the volatile cost of wholesale electricity. The letter, signed by RMU General Manager Dan. A. Watkins, cites the two major reasons for volatility in the market as being the cost of fossil fuels that are used to generate electricity and federal deregulation of the wholesale energy markets.”

- *Rolla Daily News article*

Martin Schwartz, April 21, 2006

- “Rates and rate increases again dominated the discussion at a meeting of the Rolla Municipal Utilities Board yesterday morning.”

“The cost of power is two-and-a-half times greater than it was six years ago in 2000,” said Rolla Board of Public Works President Dr. James Stoffer. “That’s a staggering number.”

“Labor costs were also about two-thirds the national average.”

- *Rolla Daily News article*
Martin Schwartz, May, 2006

- “Stoffer repeatedly emphasized that his goal was to educate the council on why power costs would be going up in Rolla.”

“RMU is a cost of service entity”, Stoffer said, “and would change what was necessary to cover the costs of providing electricity.”

- *Rolla Daily News article*
Martin Schwartz, June 7, 2006

- “Discussion of Rolla Municipal Utilities’ budget for FY07 began on a negative note - a negative \$2 million note, to be more precise.”
- “On the negative side, RMU has increased rates and revenue to date has improved by \$2 million. Unfortunately, operating expenses have increased over \$4 million.”
- “We’ve experienced, essentially, two bad years: FY2006 and FY2005. We’ve got to recover from that as well as we had to stop it from getting any worse. That’s why we had to take the rate increase,” (Watkins) said. Watkins said RMU currently has \$4.9 mil in reserves, but he is projecting that will be reduced another \$775,000 by the end of this year.
- “Much of RMU’s facilities are not covered by insurance, requiring reserves be in place to cover for potential emergencies. Watkins said that with \$4.9 million, the total falls short of the \$10 million that he would prefer to have there. “There are a whole lot of rules that apply to what your reserves should be, but we’re short of those numbers today,” he said.”
- “Right now, we have had some capital expenditures since 2005 that were moved into 2006 and further capital projects that were moved out of 2006 into 2007, “ (Watkins) said. “The dollar amount that we have delayed or deferred doing out of 2006 is about \$665,000 dollars. We’ve done that to keep from reducing our reserve any more than we have to in order to survive the year.

- *Rolla Daily News article*
Martin Schwartz, June 22, 2006

- “Rolla Municipal Utilities received a clean audit report from Evers & Company at the Rolla Board of Public Works meeting Monday evening. Jo Moore of Evers & Company was at the meeting to discuss RMU’s audit with the board members. “We conducted this audit to determine if the financials were free of misstatement, and they were,” (Moore) said. “We found that the accounting practices are efficient and the financials are in order.” Evers & Company gave RMU what’s called an “unqualified opinion” ranking, which is basically the best possible rating RMU could have earned.”

“Watkins ... addressed the fact that RMU was operating at a loss during seven months out of the past year. “There were seven months this year where we were operating at a loss because the market [for fossil fuels] was so volatile,” he said. “For seven months out of the year we sold power for less than we bought it.” That fact concerned the board, which collectively agreed that RMU needs to try to at least break even in every month of the year. Watkins said that’s a challenge because the power supply makes up 83 percent of RMU’s operating costs. That means 83 cents of every dollar a customer pays goes to the cost of the power. “We have a very lean operation,” Watkins said. “In fact, I don’t think we could be operating with more efficiency than we are right now. As far as our numbers go, our operating expenses are extremely lean compared to the median of other utility companies in Missouri.”

- *Rolla Daily News article*
Jaime Baranyai, December 20, 2006

- “During a time when utility and energy prices are on the rise everywhere, I’d like to reassure Rolla residents and Rolla Municipal Utilities (RMU) customers that RMU has taken a very proactive approach towards cost-cutting measures, sound business practices and communications.”

- *Rolla Daily News Weekend article*
Mayor Bill Jenks, March 17 & 18, 2007

Rate News From Around the Country

24 Excerpts from Articles/Statements in
chronological order beginning in 2005

Associated Electric Cooperative, Inc.

- “After 20 years without a rate increase, we are increasing our wholesale power rate 8 percent on April 1, 2006. Like other utilities nationwide, Associated is experiencing significant upward pressure on costs and rates. The wholesale market is undergoing fundamental changes that are affecting the entire industry. To put it plainly, the cost of producing electricity is going up.”

- AECI Annual Report 2005, Page 5

Associated Electric Cooperative, Inc.

- “Furthermore, according to an Associated Electric Cooperative, Inc. (AECI) news release and Barton Electric Coop Website, the AECI Board of Directors proposed five 8% increases for wholesale power cost which began in April 2006. At the end of this rate process, wholesale power costs are forecasted to be 47% higher than pre-2006 rates.”

- MPUA's, The Alliance Advantage,
Special Report, December, 2005

Tennessee Valley Authority

- “In its second major rate hike in less than a year, the Tennessee Valley Authority’s board on Monday approved a 9.95% increase in wholesale electric rates that will take effect April 1. TVA said it needs the increase to cover the sharply rising costs of coal, natural gas and purchased power.”

- APPA Public Power Daily
February 15, 2006

Baltimore Gas & Electric

- “The average BGE customer’s bill will increase about 72 percent — from around \$1,033 to about \$1,800 annually — when prices return to market levels on July 1.”

- Capital News Service
Friday, March 17, 2006

Ameren Asks to Raise Rates

- “AmerenUE, Missouri’s largest utility, says it will ask regulators for permission to raise electric rates for its 1.2 million customers.”
- “Ameren’s intent to raise electric rates in Missouri comes at a time when a sharp increase in home heating costs and higher gasoline prices are straining consumers’ budgets. The request also comes as the state offices that represent consumers in utility matters are busy juggling several other rate cases.”
- “Like other utilities, Ameren faces rising costs for fuel used to run its power plants and higher rates for transporting coal by rail. The company estimates those costs will rise as much as 15 percent this year and up to 20 percent in 2007.”
- “Ameren has also warned that it will have to spend as much as \$2.9 billion over the next decade to outfit its coal-fired generating plants with emission controls to help meet tightening clean-air standards.”
- “With rate cases involving Kansas City Power & Light, Empire District Electric Co., and Atmos Energy Corp. already underway, it’s possible that the PSC could add to its staff or hire contract workers or retirees to help with the investigation.”
- “In Illinois, where the electric market will be fully deregulated next year, Ameren’s utilities already have warned that rates may rise as much as 35 percent.”

- *MPUA’s The Alliance Advantage, June 2006*
(Reported in the *St. Louis Post Dispatch*)

Don't Be Shocked, But Electricity Will Jolt You Next Year

- “Brace yourselves, consumers. By next year, the same trends that have you paying more to fill your car’s tank and heat your home will make it more expensive to turn on a light bulb. In Illinois, higher electricity prices will kick in January 1 as the state implements the final phase of a nine year old deregulation law. In Missouri, Ameren officials say they will file a rate increase request by July 10. The Public Service Commission has 11 months to consider the request, so expect higher bills about a year from now.”

- *MPUA's The Alliance Advantage, July 2006*
(Reported in the *St. Louis Post Dispatch*)

AmerenUE

- “Costs for AmerenUE’s primary generation source —coal— have risen significantly. The cost of a ton of coal delivered to an AmerenUE plant in 2007 will be 42 percent higher than the delivered cost of a ton of coal in the 2002 electric rate case.”

“The cost of materials used in the company’s delivery system has also risen meaningfully: Aluminum overhead wire costs have grown approximately 95 percent; copper underground cable has risen approximately 145 percent, and the costs of poles and transformers have jumped approximately 35 percent and 55 percent, respectively.”

- AmerenUE Press Release
July 7, 2006

Memphis, MO

- “Even if the city (Memphis,MO) did escape its MoPEP contract, there are fewer options available than back in 1996. Most of the electric cooperatives no longer offer wholesale power contracts, meaning the city has limited options to replace MoPEP, even if it legally could.”

- Memphis Democrat
August 10, 2006

Associated Electric Cooperative, Inc.

- “In the next decade, we estimate our fuel cost will increase more than 100 percent. As a result of these rising costs and the increasing demands placed on our system by our members, our commitment to a strong and flexible financial position is more important than ever. On April 1, 2006, we increased our wholesale power rate to members, and we expect rates will continue to increase in the future.”

Jackson's Electric Rates Could Jump One Third (Missouri)

- “Jackson residents and businesses will pay 33 percent more for electricity over the next six months if city officials approve a major electric-rate revision plan. City officials say the combination of high fuel prices, federal energy policies on deregulation and environmental restrictions are the cause for higher rates. A Kansas City engineering firm has presented the aldermen with suggestions for the proposed rate adjustments.”

“Jackson isn't the only city in Missouri increasing its electric rates.”

“The City (Jackson) buys electricity from Ameren Energy Marketing, which is a subsidiary of Ameren, and sells electricity to its residents.

“When the city's contract with Ameren Energy Marketing expires at the end of the year the city will sign a new contract with the Missouri Public Energy Pool. An electric supplier for 31 cities across the state, MoPEP will be the cheapest supplier for Jackson, Roach said.”

- *MPUA's The Alliance Advantage, Sept. 2006*
(Reported in the *Southeast Missourian*)

Ameren's Illinois Customers to See '07 Rate Hikes

- “The increases mean AmerenIP and AmerenCIPS customers could expect to pay about 40 percent more than present rates. For AmerenCILCO customers, it would mean an increase of about \$33, or 55 percent more than present rates.”

- *MPUA's The Alliance Advantage, Oct 2006*
(Reported in the *St. Louis Business Journal*)

PSC Grants Rate Increases for KCP&L, Empire

- “The Missouri Public Service Commission (PSC) has approved a rate increase for Kansas City Power & Light Company (KCPL), the first increase since May of 1988. Empire District Electric Company also received the nod to increase permanent electric revenues by approximately \$20 million a year, or about 5 percent. Both Commission votes were 3 to 2. The PSC’s order grants KCP&L a rate increase of approximately \$50 million or an approximate 10% increase.”

“As part of its decision, the Commission authorized KCPL a return on equity of 11.25%.”

“The Commission granted Empire a return on equity of 10.9%.”

- *MPUA’s The Alliance Advantage*
January 2007

FEC Plans 8.5 Percent Rate Increase This Spring

- “Farmers’ Electric Cooperative announced today a general rate increase will go into effect for its member-owners this spring. Effective with the May 1 billing, FEC member-owners will raise its rates an average 8.5 percent.”

“This rate change continues what we told our member-owners, beginning at the 2004 annual meeting and in articles in the Rural Missouri Magazine since that meeting,” said FEC CEO Mike Sanders. “We are beginning a time in which we are probably going to be adjusting our rate on a more regular basis.”

“We did absorb a rate increase that we received in April of last year from Associated Electric Cooperative, our power supplier, but we were forced to take action when we received word from our power supplier that another rate increase in our power bill was going to occur this April,” Sanders explained.

- *MPUA’s The Alliance Advantage, Feb. 2007*
(Reported in the Constitution Tribune)

Mountain Parks Electric Coop., Colorado

- “At the Mountain Parks Electric local distribution cooperative level, almost everything we use to build and maintain the electric system has gone up due to global demands:
 - Transformer prices are up 40%.
 - Copper wire which cost \$1 per pound in 2004 went to \$3.61 per pound in 2006.
 - Wood pole prices increased 40%.”
- “I’m sure I don’t need to tell our members what’s happened to gasoline and diesel at the pump!”
- “If there is anything good about this, it is the fact that we are all in it together. When our Board of Directors, all local citizens, sets rates, the rate increase goes on their bills as well as those of all of the MPEI employees.”
- “The Edison Electric Institute (EEI) on 11/6/06 reported average residential electricity prices will rise to 10.6¢ per kWh in 2007. At Mountain Parks Electric, our average will be approximately 11.1¢ per kWh, which will keep us in the “middle of the park” of rates charged by over 40 utilities in Colorado.”
- “In the 20 years from 1985 to 2005, the Consumer Price Index has increased by 82% according to EEI, while electricity increased only 27% during this time. Electricity, in comparison to other forms of energy, is a good value and has been for a long time.”

- Mountain Parks Electric
2007 Rate Increase Notice

Gascosage Electric Cooperative

- “The bad news is that beginning January 1, 2008, Associated (Electric Cooperative Association) is projecting annual increases in the cost of our power through 2012, resulting in the cost of our power increasing by a total of 41% from 2008 to 2012.”

- Gascosage Board Pres. Jake Warren
2006 Gascosage Annual Meeting Highlights

KCP&L Files for 8% Rate Increase in Missouri

- “Kansas City Power & Light is seeking an 8% rate increase in Missouri to cover higher fuel and overhead expenses, as well as some of the cost of its energy plan. The request, filed Thursday with the Missouri Public Service Commission, comes a year after another rate request by the utility. State regulators approved a 10% increase in December, which went into effect earlier this month.”

“A separate request to raise rates in Kansas is expected to be filed with state regulators in a few weeks. The Kansas Corporation Commission in December approved a 9% increase for KCP&L customers in the state.”

“The cost of the energy plan has increased in recent months. William Downey, president of KCP&L, said that by 2010, when the power plant will be completed, rates to pay for the energy plan should have increased by 20 to 25%.”

“The 20-25% figure, however, doesn’t include rate increases for other expenses such as higher fuel costs.”

- *MPUA’s The Alliance Advantage, March 2007
(Reported in the Kansas City Star)*

Ameren Corp.

- “...Warner Baxter, Ameren’s executive vice president and chief financial officer... told the analysts that, despite the firestorm of criticism prompting lawmakers to reconsider a rate freeze, the electric costs being charged in Illinois were not outrageous, at least when looked at nationwide. “So while there has been quite a bit of rhetoric in terms of how high those rates are, they continue to be solid rates from the national perspective,” he added. “They are right at the national average.”

- Herald & Review (Decatur, IL)
April 11, 2007

Deregulation

- “An Associated Press analysis of federal data shows consumers in the 16 states that deregulated their electricity markets paid an average of 30% more for power in 2006 than their counterparts in regulated states. That's up from a 24% gap in 1990—a 25% increase in the price difference between regulated and deregulated states.”

- Associated Press story by reporter, Ryan Keith
April 21, 2007

Waverly, Iowa Adopts New Rate Structure

- “The board of Waverly Light and Power in Iowa has approved a new residential “inverted” rate to encourage energy efficiency. The utility’s summertime residential energy charge will be 8.5 cents per kWh for the first 600 kWh; 12.01 cents per kWh for the next 500 kWh; 16 cents per kWh for the next 400 kWh and 17.01 cents per kWh for more than 1,500 kWh. In winter, the energy charge will be a flat 8.5 cents per kWh. “A price signal may be perhaps the best way to promote energy efficiency,” said Glenn Cannon, the utility’s general manager.”

- *American Public Power Association
Public Power Weekly, April 30, 2007*

FERC Summer '07 Rates

- “The Federal Energy Regulatory Commission expects double-digit increases in wholesale electricity prices this summer over last summer, based on forward prices that are 19% to 32% higher than actual prices last summer.”

“FERC staff cited two reasons for the higher prices: (1) natural gas prices are expected to be higher, and (2) generation additions over the last year have not been as robust as in the past and nationwide have not kept pace with demand.”

“Recent forward electricity prices for this summer include... \$82.75/MWh in the Midwest ISO (a 30% increase)...”

“FERC Chairman Joseph Kelliher noted that wholesale electricity prices are forecast to be higher in all regions of the country...”

- APPA Public Power Daily
May 18, 2007

Why Electric Co-ops in the Heartland Will be Raising their Rates

- “Missouri co-op customers – get ready! Your rates are going up and no one’s sure yet how high they’ll go.”

“Tens of thousands of customers all across southeast Missouri will soon see some big rate increases.”

- *MPUA’s The Alliance Advantage, June 2007*
(Reported by Kathy Sweeney -
KFVS Heartland News)

PSC Approves Electric Rate Increase for Aquila

- “The Missouri Public Service Commission has granted an electric rate increase to Aquila, Inc., reflecting higher operating and maintenance costs. The new rates are the result of increased fuel and purchased power costs and expenses associated with increased customer demand and growth.”

- *MPUA's The Alliance Advantage, June 2007*
(Reported by Missouri Public Service
Commission Press)

2007 President's Report

- “AECI is projecting a substantial increase in its wholesale power supply rate in 2008. This will be the third increase in a series of rate adjustments projected over the next few years. These increases are necessary due to rising coal and fuel prices, cost of new generation to meet energy demands and environmental controls.”

- 2007 IECA (Intercounty) Annual Meeting Invitation

Summary

- Rate increases are happening all across the nation.
- RMU hopefully has seen the worst of it, and is projecting more stable rates.
- Other entities will be raising rates into the next decade and we should see an “equalizing” effect in the next few years.

Where Do We Go From Here?

- For RMU, we are business as usual.
- The Board of Public Works mission is for Rolla Municipal Utilities to serve the Citizens of Rolla with the best possible service at the lowest possible cost.

QUESTIONS