



A Touchstone Energy®
Cooperative

2020

RATE change

Western invites all its consumer-members to attend an information meeting where Western staff and board members will be available to answer questions. All meetings are scheduled from 6 - 7:30 p.m.

Oct. 7 • WaKeeney: 635 S. 13th Street

Oct. 10 • Ellsworth: 645 E. 15th Street

Oct. 16 • Plainville: 202 S.E. Cardinal Ave.

Nov. 6 • Grinnell: 105 S. Adams Street

Nov. 7 • Olmitz: 21 Cleveland Ave.

Nov. 12 • Schoenchen: 209 Front Street

HOW MUCH IS WESTERN'S RATE CHANGE? WHEN DOES IT GO INTO EFFECT?

The overall total company rate change will be 1.9%. The average impact on a residential bill will be approximately \$8.27 per month.

While the total company overall impact is relatively small, we recognize it will impact rate classes differently depending on if consumer-members are a native member or a member on the acquired Mid-Kansas system. The average monthly cost impacts after rates are consolidated are shown in the table below. Individual average bill impacts will vary as shown in the rate summary sheet in the following links: [MKEC East Division](#), and [Native West Division](#).

Western's consumer-members own Western Cooperative and have a voice in the decisions made by their democratically elected Board of Trustees. Therefore, Western's members are invited to attend public meetings regarding the rate change as well as attend the Western Board meeting on December 19, 2019, during which the Board will discuss and vote on the proposed change. The rate change, if approved, will be effective for usage on or after January 1, 2020.

Comparison of present and proposed rates

Rate Class	Energy Sales (kWh)	Average Rate		Proposed Increase (%)
		Present (c/kWh) cost per kilowatt hour	Proposed (c/kWh) cost per kilowatt hour	
Residential Service	57,829,159	11.79	12.73	7.9 %
Residential Service - Electric Heat	3,237,591	11.08	11.93	7.6 %
General Service - Small	78,006,056	11.51	11.89	3.3 %
General Service - Medium	120,593,958	9.97	9.83	-1.4 %
General Service - Large	39,885,673	8.83	8.66	-2.0 %
Irrigation Service	7,151,565	11.61	12.75	9.8 %
Lighting	1,790,416	18.08	18.55	2.6 %
Temporary Service	15,440	20.60	20.60	0.0 %
Industrial Interruptible	1,836,160	10.09	10.09	0.0 %
Sub Transmission Level Service	33,768,670	6.25	6.25	0.0 %
Special Contract	31,748,702	8.50	8.50	0.0 %
TOTAL RETAIL RATE TARIFF REVENUE	376,163,390	10.07	10.26	1.90%

WHO DECIDES WHEN A RATE INCREASE IS NEEDED?

Western's Board of Trustees sets the cooperative's electric rates. Trustees are Western members who pay the same rates that you do. They are elected by you and other members each year.

Western sells and distributes power to our consumer-members at cost, not for profit. We strive to operate efficiently and continue to evaluate our operations in an effort to keep rates as low as possible. While it is Western's goal to avoid rate changes, sometimes changes are necessary to ensure the long-term financial and operational health of the cooperative. Trustees must ensure electric rates are adequate to maintain a solid financial condition, provide the necessary revenue for delivery of reliable electric service, and minimize the subsidization between member rate classes.

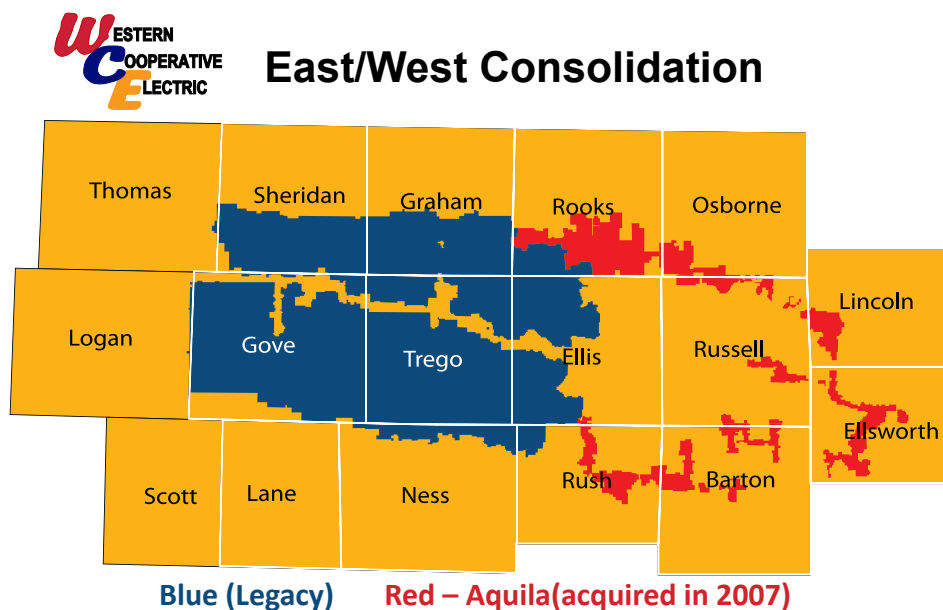
WHEN WAS THE LAST RATE CHANGE?

Although costs rise each year, the Western rate change is the first one since 2011 for members in the western part of the territory (native) and since 2015 for members in the eastern part of the territory (acquired in 2007).

Western Cooperative was formed in 1945 and has been serving rural (legacy) members for more than seventy years. In 2005, Western and five other rural electric cooperatives formed Mid-Kansas Electric Company, Inc., to purchase Aquila's Kansas electric network. Western's service territory expanded into seven additional counties.

When the new Mid-Kansas members were absorbed into Western's legacy cooperative, rates and rate structures were not changed in an effort to make the transition easier. This created several challenges, including the fact that not all members of the same rate class were paying the same rate, and different procedures were being applied depending on whether a member was a legacy or Mid-Kansas member.

Western has been working to align the legacy and Mid-Kansas policies, rate, and rate structures so all consumer-members will have the same rates. Bringing the two sides of the system together will help Western gain efficiencies in services and reduce the cost of operating two systems.



HOW DOES WESTERN RECOVER ITS COST TO SERVE ITS CONSUMER-MEMBERS?

Each month, Western's members' energy bills include a Customer Charge. This charge includes the expenses related to the facilities directly connected to consumer-members' property, such as wires, meters, transformers, accounting, member programs, and collections.

The Customer Charge is identical for each member of a particular member rate class, and the cost-of-service study identified the appropriate, fair Customer Charge for each rate class. The remainder of the bill is typically represented by the energy charge and the Energy Cost Adjustment (ECA), which vary based on wholesale power costs increasing or decreasing monthly.

WHAT ARE WESTERN'S CONSUMER-MEMBER RATE CLASSES?

Western has residential service, residential electric heat service, general service small, general service medium, general service large, industrial service, water pumping, irrigation, temporary, and lighting.

HOW IS THE AMOUNT OF RATE CHANGE DETERMINED?

Western's board of trustees chose to hire an outside, independent consultant to conduct a Cost of Service Study (COSS), an important tool used to set fair and equitable electric rates. Each rate class has unique load and service characteristics that impact service costs, and the COSS findings offer trustees guidelines to responsibly allocate costs to each class of members in a way that minimizes subsidization between rate classes. The COSS analysis helps Western understand how the cost should be recovered in each rate class and determines the amount needed to meet financial targets required by Board Policy and our lenders. These factors determine the amount of change needed.

Careful oversight was maintained at every step in the rate change process. The consultants were instructed to develop the study using standard methods developed by regulatory authorities across the country and the same methods used by the Kansas Corporation Commission when Western was not yet self-regulated.

WHAT WERE THE PHASES OF THE COST OF SERVICE STUDY?

First, existing data was used to determine what revenue is required to operate the cooperative in the future. Next, the cost-of-service study was conducted to assign the costs of providing electric service to each rate class (e.g., commercial, industrial, residential) using traditional rate-making principles. Western then received rate study results from an independent consultant. Finally, rates were designed to meet costs, to recover the revenue fairly from each rate class, and to meet any other strategy or goals identified by the board in the rate study process.

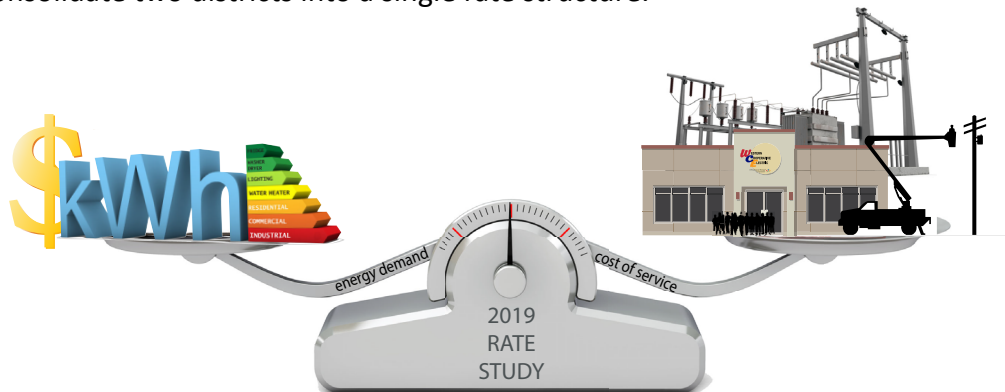
Analyzed data to determine necessary revenue to operate Western

Used cost-of-service study results to determine the actual cost to serve each rate class

Designed electric rates that are fair to each rate class

WHAT WAS THE OBJECTIVE OF THE COST OF SERVICE STUDY?

- Ensure that rates are fair and equitable.
- Ensure rates are adequate to maintain a solid financial position.
- Review the cost of service for each rate class, recognizing that each rate class has unique load and service characteristics that impact cost.
- Determine how and why costs are incurred in each rate class (e.g., commercial, industrial, residential).
- Determine how much energy members use by rate class, when they use it, and how their usage varies have an effect on the cost to provide them with electric service.
- Identify costs associated with each aspect of the co-op (e.g., energy generation, wires, poles, office and warehouse facilities, trucks maintenance, staff, loans).
- Identify costs associated with future projects.
- Minimize subsidization between rate classes.
- Moving towards greater recovery of fixed costs through the fixed charges (i.e., customer charge, demand).
- Consolidate two districts into a single rate structure.



WHAT WAS THE OUTCOME OF THE COST OF SERVICE STUDY?

- Load growth (demand for electricity) is projected to be flat out to 2037.
- Cost of Service Study (COSS) showed a revenue deficiency of \$670,675.
- Residential and small general service showed the greatest % of under recovery (i.e., revenue brought in is not covering the cost of service to those rate classes).
- Overall company increase is 1.9%.
- Average impact on residential electric bill = \$8.27 per month.

WHAT IS CAUSING THE RATE CHANGE?

Along with strong financial health, Western must maintain the quality, reliability, and stability for the services we provide.

Everyone needs a reliable energy grid, so we all share in the cost of building it and maintaining it. By making prudent investments today, capital improvements will save money and improve efficiency over the long term. A few examples are a new ESRI mapping database and staking package, outage management systems, substation communications, and automated switching.

We must also protect against an increasing number of cyber-attacks, which requires ongoing investment in new technology to maintain a secure grid and protect our business. Additionally, the cooperative has invested \$36 million dollars to replace aging infrastructure, increase capacity, and improve reliability since the last rate changes. Increased investments in capital also increase depreciation and interest expenses.

WHY WASN'T THE RATE CHANGE IMPLEMENTED IN STEPS INSTEAD OF ALL AT ONCE?

A rate study is only performed when needed. Depending on the results of the study and the impact to members, a determination is made on how to implement the rate design and associated changes. In this cost of service study, the overall impact was minimized to accomplish the following objectives:

- Ensure rates are adequate to maintain a solid financial position
- Review the cost of service for each rate class
- Minimize subsidization between member rate classes
- Consolidate two distinct rate structures into a single unified rate structure

WILL MEMBERS OF EVERY RATE CLASS EXPERIENCE A RATE CHANGE?

Yes, every rate class will experience a rate change. The percentage of change is based on the costs required by Western to serve each rate class. The way members of each class use energy impacts the cost to provide service.

DID MY RESIDENTIAL RATE INCREASE BECAUSE THE COST OF SERVICE HAS INCREASED TO A RATE CLASS TO WHICH I DO NOT BELONG?

No, each rate class must be able to support its own cost of service.

CAN I CHANGE MY RATE CLASS?

No, you are assigned to a rate class based on the character of service, type of load, size of load, demand, and voltage class. You must meet a rate class criterion to be in that rate class.

WHY DOESN'T WESTERN RAISE THE kWh ENERGY CHARGE INSTEAD OF THE CUSTOMER CHARGE?

Western's wholesale energy supply has a large fixed cost component. In contrast, when Western sells electricity to consumers, most of our revenue stream comes through variable charges (i.e., energy rates) versus fixed charges (i.e., consumer charges).

On the wholesale cost side, the only variable cost is the variable portion of Power supply. On the retail side, only the Monthly Meter Charge and Demand Charge revenues are equivalent to fixed cost recovery through fixed charges, and the rest is recovered through a variable energy charge. When there is a misalignment of cost and rate structure and a significant amount of fixed costs are being recovered through energy sales, the risk increases for over/under recovery within rate classes. When energy sales are growing, revenues and margins are typically strong. When sales are projected to remain relatively flat, or even decreasing, it increases the risk of insufficient margins to generate capital credits. This risk is increasing as Western gets farther apart in how wholesale costs are incurred (mostly fixed) and how they are recovered (variable energy usage). Considering current economic conditions, energy efficiency and conservation initiatives, increasing fixed cost is in the best interest of the consumer-members and the cooperative.

Raising the fixed cost recovery is a strategic business decision. It helps stabilize the Western's finances and reduces under recovery on small usage accounts and over collecting from large users. Setting retail rates in a manner that stabilizes the collection of fixed costs in a fair and equitable manner is a primary goal.

IN 2015, WESTERN'S CONSUMER-MEMBERS VOTED TO SELF-REGULATE? IS THAT WHY RATES ARE INCREASING?

No, the vote in 2015 was to allow Western to self-regulate and not be under the jurisdiction of the Kansas Corporation Commission (KCC). Since 1992 the State of Kansas has allowed electric cooperatives the right to self-regulate since they are democratically governed. Legislation passed in 2009 allowed additional cooperatives the opportunity to vote for self-regulation. The enabling legislation is K.S.A. 66-104d.

Although Western is no longer regulated, Western has an established policy that governs the process to change rates and provides opportunity for member information and feedback. Two of the steps included in the policy are also required by Kansas law: notice of time and place of any board meeting during which rates will be discussed and voted on must be sent to the membership 10 days in advance of the meeting, and the meeting must be open to the public. Western is still subject to other state and federal environmental, safety, reliability and labor regulations, and certain functions still remain under the authority of the KCC.

Western follows the guidelines set by the KCC for member notification and hiring an independent rate consultant for a Cost of Service Study (COSS). By being self-regulated, Western saves hundreds of thousands of dollars in processing and legal fees, publication fees, and staff resources. These savings equate to lower rate costs than they otherwise would be for our consumer-members.

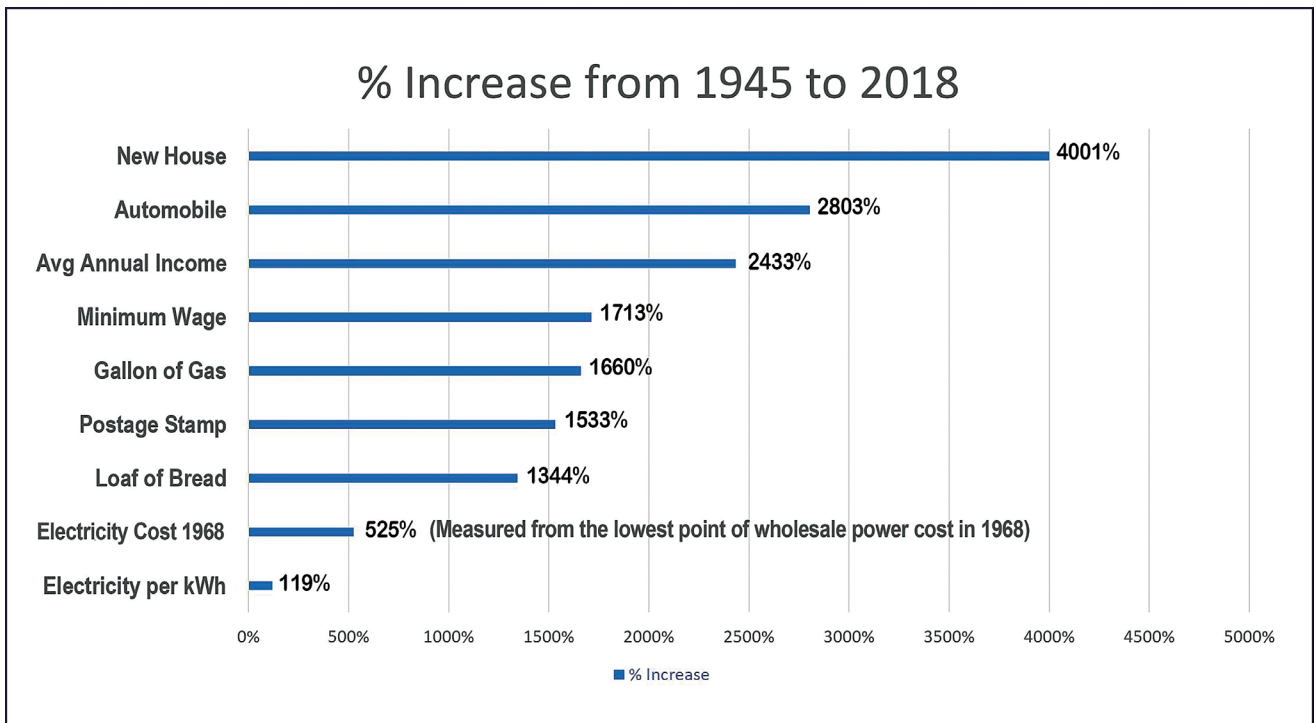


- Even more Local Control
- Lower Costs
- Faster reaction time

HOW DO WESTERN'S RATES COMPARE TO THE RATES OF OTHER KANSAS ELECTRIC UTILITIES?




The average residential rate for all Kansas cooperatives for the year ending Dec 31, 2018, was 13.9 cents/kWh. Western's cost during this period was 12.04 cents/kWh or 13.4% below the average. Investor-Owned Utilities (IOUs) in Kansas averaged 13.05 cents/kWh. Western's residential rate was approximately 8% below IOUs.

HOW DO WESTERN'S RATES COMPARE TO INCREASE OF PRICES FOR OTHER PRODUCTS?



I AM ON A FIXED INCOME AND CAN'T AFFORD A HIGHER BILL. WHAT CAN I DO?

Western has adopted a PrePay POWER that allows you to pay as you go. This program gives you the power to monitor your electricity usage online and adjust your usage to save money. It also allows you to choose when to pay and how much to pay at a time. For more information, please call 1-800-456-6720 or visit westerncoop.com.

-  You put credit on your account.
-  You make your payments when you want and how you want.
-  Your electric charges are subtracted daily from your pre-paid account.

PREPAY 
POWER 
PAY AS YOU GO.

WHAT IF I HAVE A DISPUTE ABOUT MY BILL OR SERVICE?

As always, Western will attempt to resolve a dispute as quickly and fairly as possible. Please contact the Western office at 1-800-456-6720 if you have questions or concerns.

WHAT IS WESTERN DOING TO KEEP THE COSTS OF ELECTRICITY DOWN?

Western strives to operate efficiently while providing reliable and safe electric service at the least cost possible. We continuously evaluate our operations in an effort to keep consumer-member rates as low as possible by:

- Western has a member-elected board of trustees, who pay the same rates as all consumer-members.
- The Board has a history of requesting a change only when necessary.
- Strong Board governance and oversight of all activities, including spending.
- Operations monthly cost variance analysis.
- Financing through USDA's Rural Utility Service allows Western to borrow money at low interest rates to finance long-term debt.
- Leveraging technology to improve operations effectiveness. This includes investment in new platforms such as the ESRI mapping database, electronic staking and design packages, distribution automation and outage management systems. Making these prudent investments today saves money in the long-term.
- Protecting against cyber-security attacks provides business continuity and reduces potential monetary impacts from electronic intrusion.
- Effective Safety program to manage risk resulting in lower insurance premiums.
- Providing input and guidance on wholesale power supply operations by representing Western on the Board for Sunflower Electric Power Corporation. For each dollar collected in retail rates from our consumers, 65% of our expense is the cost of purchasing electricity to meet the needs of our consumer-members.
- Ongoing evaluation of our day-to-day operations for opportunities to improve and gain efficiencies through process improvement, risk management, preventative maintenance activities, line patrol, pole testing program on a 10-year cycle, and substation checks.
- Refinancing long-term debt at a lower interest rate when possible.
- Using a cash management service to earn interest on cash balances.
- Maintaining a low percentage of uncollected debt through effective policy management.
- Accepting alternative payment methods such as PrePay Power.
- Following governmental guidelines to obtain grants from FEMA related to storm damages that qualify for federal funding. Recovery obtained through grants are dollars our members will not have to pay in rates. To date, Western has qualified for approximately \$6M in FEMA recovery.

COULD MY RATE CLASS CHANGE PRIOR TO THE NEW RATE STRUCTURE BEING IMPLEMENTED IN 2020?

Yes, but only if load and character of service indicates it should have been on a different rate already. It is important to make these adjustments and ensure that members are on the correct rate. Load can change over time. Example: If a rate was intended for electric loads ranging from zero to 20kW in size and the load has grown to 22 kW, the rate classification should be changed to reflect the characteristics and profile of the load. Making these changes ensures the correct rate is assigned for the size of load.

WHY IS MY RATE CLASS BEING RECLASSIFIED BEFORE 2020?

The recent cost-of-service study process identified member accounts that need to be reclassified. It has been Western's practice to regularly check the classification of commercial accounts to verify we are billing the accounts on the correct tariff according to the nature and size of their load. Through the cost-of-service study and examining now available AMI data, we discovered a larger than normal amount of accounts that need to be changed to a different rate.

The changes that are of concern involve moving members from the General Service Small (GSS) rate to the General Service Medium (GSM) rate as they will now be incurring demand charges. We have identified 77 accounts belonging to 54 members that fit in this category. Detailed communication to these 54 members regarding the rate change is underway. Western will answer any additional questions to help members understand how this billing will affect their individual bill. These account reclassifications are distinct and separate from the proposed rate increase.



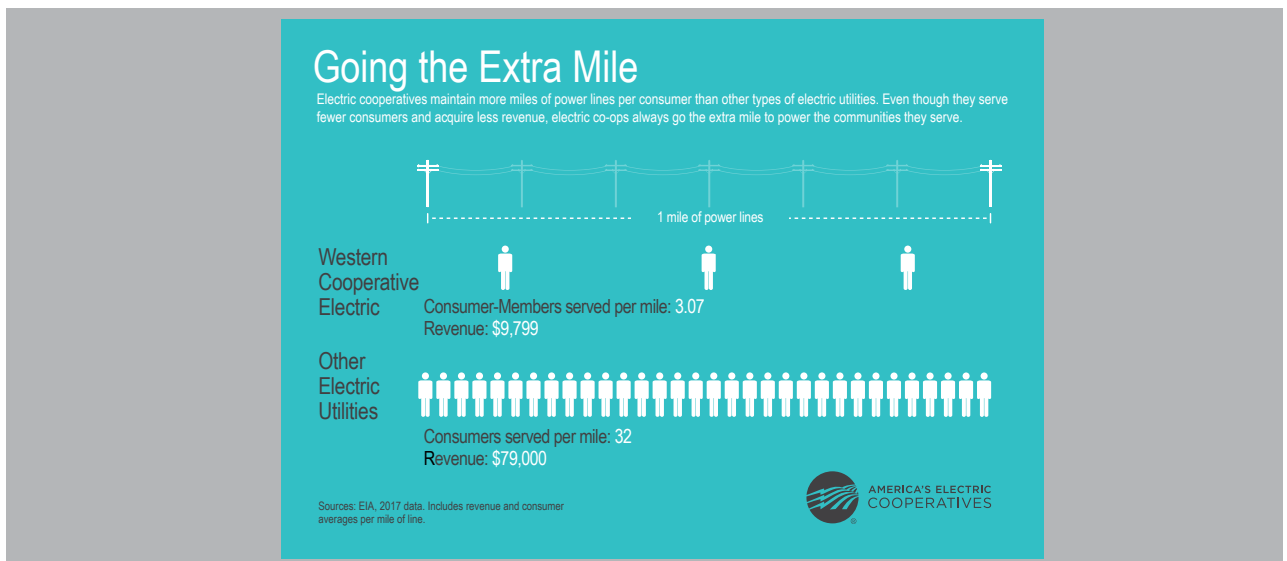
Tom Ruth, WCE General Manager

“ We all need reliable, affordable energy. Therefore, we all share the responsibility of making the right decisions today that will save money and improve efficiency over the long run. ”

WHAT IS THE DIFFERENCE BETWEEN BUYING POWER FROM AN ELECTRIC COOPERATIVE AND AN INVESTOR-OWNED UTILITY?

As a not-for-profit electric utility, Western's mission is to provide our consumer-members with reliable power at the lowest possible cost. Our mission isn't focused on making money for investors. We are owned and controlled by you, our member. At each annual meeting in May, the membership elects its Board of Trustees, which oversees the operation of Western, including the rate structure. As a member-consumer of Western, the rate you pay is based on the wholesale rate that Western pays for energy, plus a Customer Charge for operation expenses. The not-for-profit nature of cooperatives means that any revenue beyond what it requires to run Western is paid back to the membership in the form of capital credit refunds.

On average Western serves 3.1 meters per mile of line, whereas municipal and investor-owned utilities (IOUs) serve an average of 30-60 members per mile of line. Western's costs per member are double that of IOUs and municipalities. The revenues of IOUs per mile of line are three to five times more. Thus, they are much better positioned to spread their fixed costs. It costs more than \$23,000 to build one mile of single-phase line and \$40,000 for one mile of three-phase line. Rebuilding a mile of single-phase costs approximately \$30,000 and \$48,000 for three-phase. Nonetheless, Western's electric rates are generally lower than the rates of other utilities serving electric consumers in the state of Kansas.



Western takes pride in being member-owned and providing an essential service that impacts the way of life our consumer-members value in small towns and rural areas. We never forget that we work for you, our members, and every day we strive to serve you in the best way possible.

I encourage you to stay involved in YOUR co-op. Visit our website, follow us on Facebook, and attend the annual meeting. As always, if you ever have a question or concern, please don't hesitate to contact me at tomr@westerncoop.com or 785.743.5761.

Sincerely,
Tom Ruth, General Manager