

WB1



# Rates Lunch and Learn



South Plains Electric  
Cooperative, Inc.  
Your Touchstone Energy® Cooperative 

## Agenda

1. PCRf

2. Base Rate and PCRf Working Together

3. Wholesale Power Suppliers

4. Co-op Finance 101

PCR Video



# Power Cost Recovery Factor (PCRf)



## PCRF

- PCRF is designed through PUC so utilities don't have to constantly do base rate changes.
- Zero or negative for 14 years, positive only for seven months (Feb-Aug 2022)
- **The current increase in our PCRF is 99% driven by rising costs of natural gas used to generate power.** Winter Storm Uri accounts for only about a half-cent increase per kilowatt hour.



## PCRF

- The South Plains Electric Cooperative Board regularly analyzes electric rates to make sure they are covering current costs to serve you.
- The largest part of every dollar you send to the Co-op goes to buy power. As of June 2022, 81¢ of every dollar a member pays us goes back to buy power.
- Remember that every penny of the PCRF goes to buy power for you. SPEC is NOT making a profit on PCRF because we are a not-for-profit cooperative efficiently operating the day-to-day business on about 19¢ on the dollar.

## PCRF

- We have only had four rate adjustments in the past 19 years.
  - Those were in **2003, 2007, 2016** and **2017**. Even with these increases and the increased PCRF, today's rate is 6.72% higher than it was in 2007. A pound of bacon is 46% high today compared to 2007.

## PCRF

- Most of your power comes from natural gas, along with renewables such as wind and solar.
  - Natural gas prices have been on a steady climb from \$1.92 in September 2020 to \$5.16 in September 2021. Unfortunately, gas prices are projected to stay high for the foreseeable future. So, the days of credit on your bill for PCRF are in the past for now.
  - Natural gas was showing \$5.51 in October 2021, \$6.60 in April 2022, \$8.14 in May 2022, and July is projected at \$8.94.
  - The Co-op must set rates based on estimating the cost of wholesale power over the next 10-12 years.



## PCRF

- The 2007 rate adjustments factored in natural gas for power generation at about \$7.00 per million Btu, based on 2006 and 2006 natural gas prices.
- By 2009, natural gas fell to an average of \$4.00 per million Btu and to \$3.00 by 2015.
- The 2016 and 2017 rate adjustments allowed us to adjust the natural gas portion of the 2007 base rate from \$7.00 to \$3.00, to better match the current market condition.

## PCRF

- Remember, as a Co-op, we try to keep our rates as close to break-even as possible.
- We continued to enjoy low natural gas prices until 2021. They have since been on a steady climb from \$1.92 in September 2020 to \$5.16 in September 2021 to \$8.14 as of May 2022.
- The futures markets are predicting natural gas at over \$9.00.

## PCRF

- No one can predict when the price will come down and level out. We just don't know.
- One of our lenders, CFC, is projecting it will be the middle of 2023 before we see the start of natural gas prices coming back down to normal.

# Base Rates and PCRFB Working Together

## Base Rates Explanation

- Have you ever wondered how the base rates you pay for electric service are established? The revenue derived from the base rates paid by the members for electric service funds the operation of the electric cooperative.
- It's the responsibility of the board of directors and management to examine rate periodically to be sure they are just and reasonable and will allow the Cooperative to fulfill its obligations to the members and the Cooperative's lenders.

## Base Rates Explanation

- Rate studies are complicated. In a sense, they are an attempt to predict the future, or at least the answers to a few questions.
  1. What revenue will be required to fund the operation of the Cooperative for the foreseeable future?
  2. What is the fairest way to collect that revenue through rates?
  3. What external factors will affect the Cooperative's financial picture?
  4. What will the weather be like in the coming years?
  5. Rate studies typically take a year to complete and cost around \$50,000.

## History of Rates Changes

- 2007: Overall increase of 2.28%
- 2016: Over increase of 5.67% because of \$4.00 per meter increase in facilities charge; but also lowered base rate by \$0.005 per kWh
- 2017: Lowered base rate by another \$0.005 per kWh

## Base Rates Explanation

- Cost of service studies are used to set base rates, which include an amount to cover fluctuations in wholesale power costs.
- PCRf allows us to “true-up” the fluctuations in wholesale power costs monthly.



# Tariff/Rate Review

Available on our website at [SPEC.coop](http://SPEC.coop)

## Co-op Power PrePay

- What is it? Co-op Power PrePay allows you to pay when you want, in the amount you want. Instead of receiving a paper or an electronic bill each month, usage is calculated daily. Co-op Power PrePay members never pay a deposit, late charge, disconnect fee, or reconnect fee.
- Is PrePay the right choice for you? Would it be easier for you to make weekly or bi-weekly payments, rather than one large payment each month? If so, PrePay may be for you. If you are interested in monitoring and lowering your electricity usage, you could potentially benefit from the PrePay program.
- How does PrePay work? PrePay works similar to a prepaid cellular phone. You put money into your PrePay account, and as you use electricity, the cost of the usage will be deducted daily from your PrePay account balance.

## **Levelized Billing Helps Smooth Out the Highs and Lows of Your Bills**

- All residential members who have maintained a satisfactory payment history with the Cooperative for the past 12 months are eligible for Levelized Billing.
- If you have not been with the Cooperative for 12 months, Levelized Billing will average the time you have been with the Cooperative. If that is the case, your bill may have higher swings until you reach 12 months.

## Levelized Billing

- Your monthly amount will be determined each month by averaging up to the previous 12 months (including current usage) and that month's PCRF.
- Your bill may not be the exact same amount monthly due to averages changing and the changing PCRF. Your bill will change a little, but not to any appreciable degree.

# Summer Weather Trends Review

# May 2022 Weather Trends



Six days at or over 100 degrees  
Fourteen days at or over 90 degrees

# June 2022 Weather Trends

June		2022		View		
SUNDAY	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
29 Mostly Sunny Actual: 98°   74° 0 in	30 Mostly Sunny Actual: 95°   74° 0 in	31 Partly Cloudy Actual: 94°   73° 0 in	1 Cloudy Actual: 84°   58° 0 in	2 Scattered Showers Actual: 76°   57° 0 in	3 Thunderstorm Actual: 76°   60° 0.8 in	4 Mostly Cloudy Actual: 88°   62° 0 in
5 Mostly Cloudy Actual: 99°   71° 0 in	6 Mostly Sunny Actual: 92°   66° 0 in	7 Mostly Cloudy Actual: 86°   69° 0 in	8 Mostly Cloudy Actual: 86°   65° 0 in	9 Mostly Sunny Actual: 94°   65° 0 in	10 Mostly Sunny Actual: 99°   67° 0 in	11 Mostly Sunny Actual: 105°   79° 0 in
12 Mostly Sunny Actual: 106°   79° 0 in	13 Foggy Actual: 101°   72° 0 in	14 Partly Cloudy Actual: 99°   76° 0 in	15 Mostly Sunny Actual: 98°   77° 0 in	16 Mostly Sunny Actual: 97°   72° 0 in	17 Mostly Cloudy Actual: 96°   72° 0 in	18 Mostly Sunny Actual: 93°   68° 0 in
19 Partly Cloudy Actual: 94°   67° 0 in	20 Mostly Cloudy Actual: 94°   68° 0 in	21 Partly Cloudy Actual: 95°   66° 0 in	22 Partly Cloudy Actual: 95°   67° 0 in	23 Mostly Sunny Actual: 96°   73° 0 in	24 Mostly Sunny Actual: 99°   74° 0 in	25 Mostly Sunny Actual: 99°   71° 0 in
26 Mostly Sunny Actual: 86°   68° 0.01 in	27 Mostly Cloudy Actual: 86°   61° 0 in	28 Mostly Cloudy Actual: 86°   67° 0.02 in	29 Mostly Sunny Actual: 91°   64° 0 in	30 Mostly Sunny Actual: 98°   70° 0 in	1 Mostly Sunny Actual: 98°   76° 0 in	2 Mostly Sunny Actual: 99°   73° 0 in

3 days over 100 degrees  
18 days at or over 90 degrees

# July 2022 Weather Trends

July		2022		View		
SUNDAY	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
26 Mostly Sunny Actual: 86°   68° 0.01 in	27 Mostly Cloudy Actual: 86°   61° 0 in	28 Mostly Cloudy Actual: 86°   67° 0.02 in	29 Mostly Sunny Actual: 91°   64° 0 in	30 Mostly Sunny Actual: 98°   70° 0 in	31 Mostly Sunny Actual: 98°   76° 0 in	1 Mostly Sunny Actual: 99°   73° 0 in
2 Partly Cloudy Actual: 97°   76° 0 in	3 Partly Cloudy Actual: 98°   74° 0 in	4 Partly Cloudy Actual: 100°   77° 0 in	5 Mostly Cloudy Actual: 100°   75° 0 in	6 Mostly Cloudy Actual: 102°   78° 0 in	7 Partly Cloudy Actual: 101°   70° 0 in	8 Mostly Sunny Actual: 98°   70° 0 in
9 Mostly Sunny Actual: 101°   72° 0 in	10 Mostly Sunny Actual: 104°   68° 0 in	11 Mostly Cloudy Actual: 97°   74° 0 in	12 Partly Cloudy Actual: 98°   73° 0 in	13 Mostly Sunny Actual: 102°   71° 0 in	14 Mostly Sunny Actual: 98°   70° 0 in	15 Mostly Sunny Actual: 98°   76° 0 in
16 Mostly Cloudy Actual: 101°   71° 0 in	17 Mostly Cloudy Actual: 103°   73° 0 in	18 Mostly Cloudy Actual: 106°   81° 0 in	19 Mostly Cloudy Actual: 103°   79° 0 in	20 Mostly Cloudy Actual: 96°   78° 0 in	21 Partly Cloudy Actual: 94°   70° 0.03 in	22 Mostly Sunny Actual: 98°   74° 0 in
23 Mostly Sunny Actual: 96°   76° 0 in	24 Partly Cloudy Actual: 98°   78° 0 in	25 Mostly Sunny Actual: 100°   78° 0 in	26 Mostly Sunny Actual: 100°   80° 0 in	27 Mostly Sunny Actual: 99°   75° 0 in	28 Mostly Cloudy Actual: 95°   73° 0 in	29 Mostly Cloudy Actual: 98°   65° 0.01 in
30 Mostly Sunny Actual: 100°   76° 0 in	31 Mostly Cloudy Actual: 96°   80° 0 in	1 Mostly Sunny Actual: 99°   78° 0 in	2 Partly Cloudy Actual: 102°   79° 0 in	3 Isolated Thunderstorm Forecast: 101°   75° 0 in	4 Partly Cloudy Forecast: 99°   75° 0 in	5 Mostly Sunny Forecast: 99°   73° 0 in

Hottest July on record!  
14 days over 100 degrees  
17 days over 90 degrees  
No days under 90 degrees!

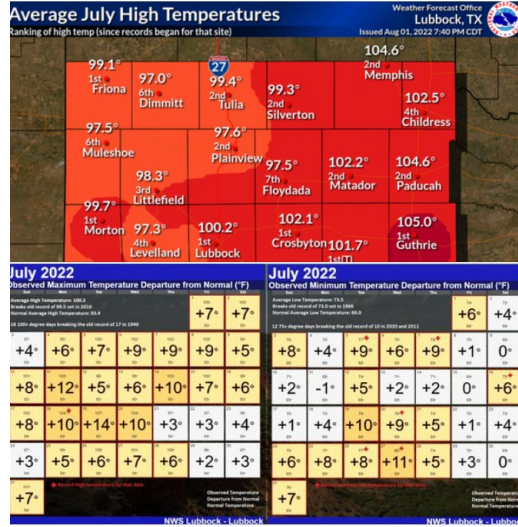


# July 2022 Weather Trends

US National Weather Service Lubbock Texas  
August 1 at 9:01 PM

Here is a look back at just how hot July was across the region. For each site, the average high temperature is shown along with the ranking for that value since record keeping began (i.e. 1st means this was the warmest July since records began).

The second image is a look at the daily high and low temperatures for Lubbock during the month of July. Several daily and monthly records were broken including most number of 100+ degree days in July, and hottest July on record.



# July 2022 Weather Trends

Chief Meteorologist Jacob Riley KLBK  
August 1 at 9:41 PM

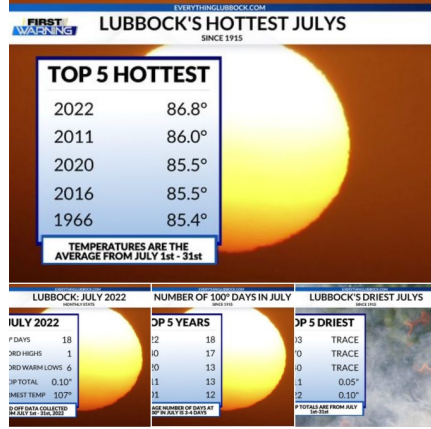
Data dates back to 1915 for historical weather data in Lubbock. Since then, we have not had a July as hot as the one we just saw.

The average temperature for July 2022 was 86.8°, shattering the old record of 86.0° set back in 2011 by nearly 1°. Our average high temperature was 100.2°, and our average low temperature was 73.5°. The average high and low temperatures were also the warmest in Lubbock's history.

In regard to precipitation, Lubbock saw one of its driest Julys on records. We officially reported 0.10" of rainfall at the official ASOS site at Preston Smith International Airport, which is where all official weather data is recorded for the city of Lubbock. This was the 5th driest July recorded in Lubbock's history.

Another record that was set was the amount of +100° days that were recorded in the month. The previous record amount of +100° days was 17, set back in 1940. This year, Lubbock had 18 days where the temperature topped out in the triple digits.

Overall, dry and warm conditions plagued most of the South Plains region throughout the month of July. As we head into August, it doesn't appear that things will get any better. The Climate Prediction Center is forecasting temperatures to remain above average, with precipitation remaining below average.

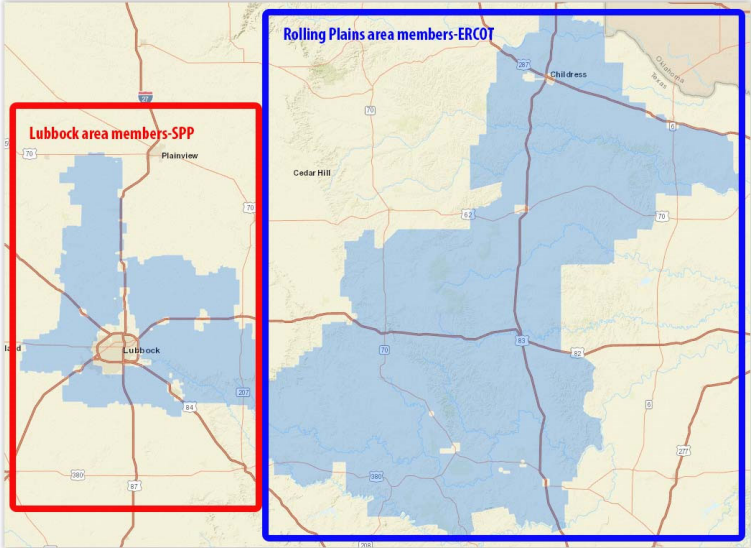


# Wholesale Power Suppliers

## Two Cooperative Wholesale Power Suppliers

- Golden Spread Electric Cooperative and Brazos Electric Cooperative
- Being part of these wholesale power cooperatives gives us a seat at the table
- July wholesale power bill was almost \$20 million, shattering previous record-high at about \$15 million

# Overview of SPP and ERCOT



Lubbock Division (everything on the Caprock) is part of SPP  
Rolling Plains Division (everything off the Caprock) is part of ERCOT

# Co-op Finance 101

## Co-op Finance 101

- Growth rate was 5.12% for 2021
- Managing cash flow
  - 81¢ of every dollar goes to buy power
  - 19¢ pays for everything else to run your Co-op
  - Use long-term debt to cover expenses over what we can cash flow
  - As system gets built out, rates and costs will level out

## Capital Credits

- \$53.5 million in cash returned to members
- Co-op doesn't "make money" from PCRFB
- Even in year when we do have margins, 100% allocated back to members and retired/refunded as cash flow allows
- Board will decide shortly about returning capital credits for 2021



## Future Predictions – Gas Market

- No change/decrease in prices expected for at least the next six months
- In February 2022, predictions were for natural gas to go back down to \$3 by summer, so it remains anyone's guess
- The war between Russia and Ukraine has severely reduced the flow of natural gas to the European nations

## Future Predictions – Gas Market

- Europe has become dependent on liquified natural gas imports from the U.S.
- We've had declines in natural gas production and storage levels in the U.S.
- The hot, dry summer has reduced the output from our wind resources
- Increased global and local demand is keeping natural gas prices high

## Future Predictions – PCRFB

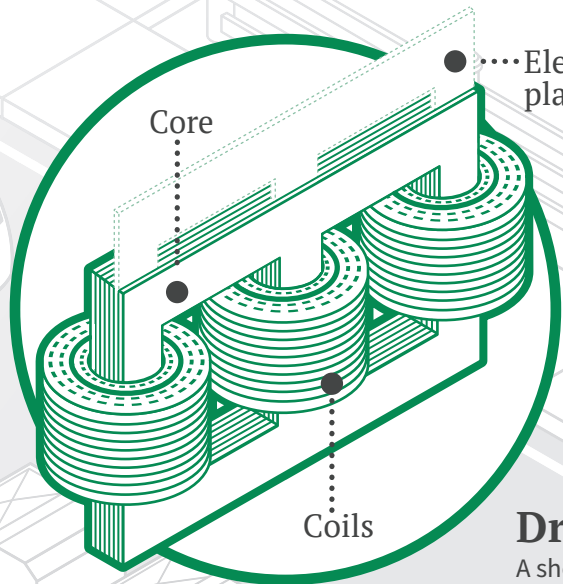
- Staying at 3.5¢ level just to keep up with higher wholesale power prices
- Coming out of summer months, so your usage will decrease
- Cooler weather will help increase wind production and decrease dependency on natural gas generation
- We predict no change to very little change in our PCRFB until next June

## Summary

- Continue to review and analyze costs daily and monthly
- Always looking for the best solution for the members and the Cooperative
- Being optimistic, trying to get PCRf down to 2.5¢ by January 2023

# Trouble With Transformers

Months of constricted operations at electrical transformer factories caused by the COVID-19 pandemic have strangled inventory of these essential grid devices. Add to that spiking demand from new housing developments, scarcity of raw and finished materials, bottlenecks at shipping ports and a shortage of freight drivers, and it's a recipe for a long-term supply crunch. Here are some of the key drivers of the current national transformer shortage.

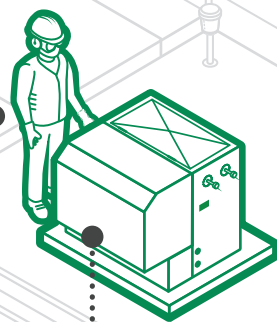


## Electrical Steel

A global shortage of electrical steel, a key component in transformers, is slowing production.

## Labor Shortages

A tight labor market is causing difficulties in hiring and retaining factory worker and technicians.



## Driver Shortages

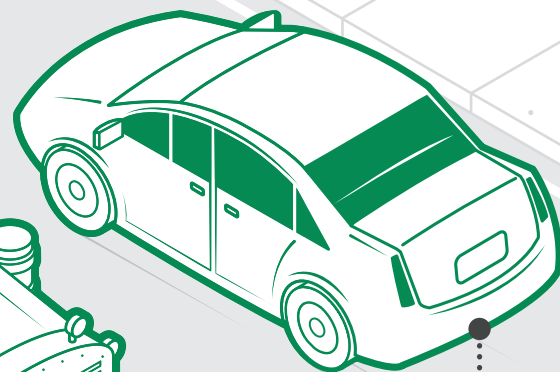
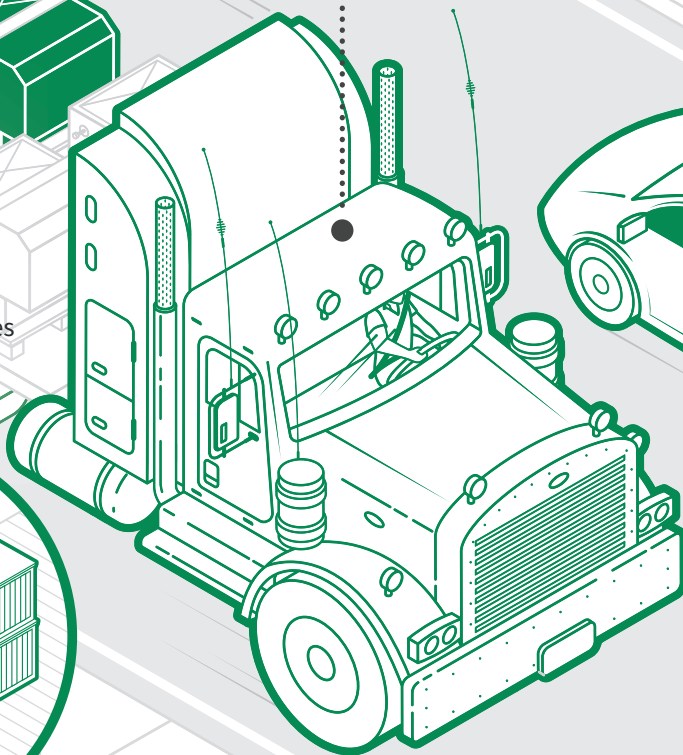
A shortage of truck drivers and warehouse workers is impeding deliveries of finished products.

## High Demand

Developments in growing areas of the country and summer storm prep are spiking the need for new transformers.

## Shipping Bottlenecks

Imports of components made overseas are being delayed by labor shortages at U.S. shipping ports.



## Electric Vehicles

Much of the world's tight supply of electrical steel is being absorbed by the booming EV market.