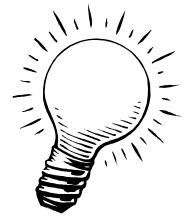




CO-OP LITE



December 2006
Member Newsletter

VEC Files for Request to Increase Rates

By Michael Bursell,
Chief Financial Officer

As you all know, fuel prices have gone up a lot over the past couple of years. This also affects VEC, and as a direct result of increasing



power supply costs, VEC filed on November 15, 2006 a request to increase rates.

Without an increase in rates for 2007, VEC would not meet our financial requirements and could face severe financial consequences. The request to increase rates by 8.41 percent is driven by the dramatic changes in the wholesale power supply market. Power supply and transmission services now make up 76 percent of our revenue requirements.

The 8.41 percent rate increase will be reduced to 7.97 percent if VEC's sale of our Southern District to Central Vermont Public Service is completed in 2006. The sale will mean that VEC will not have to purchase as much wholesale power and allows us to eliminate the need to finance a \$4 million bond in 2007, resulting in a decrease in our rate increase request by an equivalent of nearly \$500,000.

The power supply market has changed dramatically in a relatively short period of time. In 2003, VEC was paying about 3.8 cents per kilowatt-hour for our wholesale purchases of electricity. Now VEC is paying nearly 8.5 cents per kilowatt-

hour, a 123 percent increase in our most significant cost. For 2007, VEC had to replace 30 percent of our power supply portfolio as a result of market contracts expiring at the end of 2006. These favorable contracts were replaced with current market-based power contracts resulting in the significant increase in our cost of power. Without the changes in the wholesale power market VEC would not have needed to file a rate increase request this year or last year, and would still be operating at levels approved in our 2002 rate case.

VEC has been highly exposed to the wholesale market partly as a result of the 1997 reorganization under bankruptcy, when we lost our generating units, and partly as a result of our smaller position with the Hydro Quebec (HQ) contract that makes up only about 35 percent of our portfolio. Some Vermont utilities were criticized harshly for choosing to commit a much larger portion of their portfolios to long-term contracts with HQ and Vermont Yankee. At this point in time, though, these long-term deals are allowing those utilities to purchase power significantly below current market prices, creating savings over the wholesale market. VEC's power contracts with HQ will expire beginning in 2012.

When VEC filed its rate increase in 2005, some of our members thought that we were being greedy, or commented that their cost-of-living annual raises were much lower than our rate increase. Members wanted to know why VEC

couldn't merely absorb the cost of higher power and not pass it on to them. The reason is simply that we cannot sell below our costs and remain a viable business. VEC's power costs are by far our single largest expense (76% of our revenue requirements). The electric business is not only very capital-intensive (poles and wires) but also is impacted significantly by changes to the natural gas and the worldwide global energy markets. The increased power supply costs have been so significant that even if we had no employees left on our payroll, the increased costs that we have experienced over the past two years in power supply could not be covered with existing rates.



On a more positive note, VEC is planning in 2007 to increase our tree trimming budget to 60 percent more than our 2005 levels. This should impact our reliability positively without negatively impacting our rates. In addition, VEC is participating as a principal partner in development of local generation resources, and is investigating the purchase of power supply agreements from other local developers. Finally, we have entered into intermediate-length power supply wholesale contracts of 3 to 5 years to mitigate the variability of the market.

The Public Service Board notice of the rate increase, including a listing of all the new rates, will appear on our website (www.vermontelectric.coop). in the next few weeks. That notice will include addresses where you can send comments on the increase. ✨

Ask Rachael?

Q. My heating bills are *incredibly* high – about \$400 a month! A friend recommended that I get a blower door test. How will that lower my bills?



A. The test won't lower your bills, but the information it gives you might get you on your way to savings!

A blower door test measures the air leakage rate of your house. During the test, a temporary door is set into an open exterior doorway. A hole in this temporary door accommodates a large fan that exhausts air from the house while a calibrated meter measures the resulting leakage rate.

While the fan is operating, all the leaks in the house are exaggerated and easily identified. An experienced energy auditor then can determine which are the most important leaks and prioritize the holes that are worth sealing. Since air leakage is generally the single greatest source of heat loss in most buildings, a blower door test is a good start toward reducing fuel bills. To find someone

who can perform a blower door test at your house, check the Efficiency Vermont Web site at www.encyvermont.com and click on the "Marketplace" tab for a list of energy auditors and contractors in your area.

Rachael is a business development specialist at Efficiency Vermont. Do you have questions about energy use in your home or business? Write to ask-rachael@encyvermont.com or call, toll-free: 1-888-921-5990 and a customer service representative will answer your question.

Do we have your phone number on file?

If not please be sure to contact our Member Service department at 1-800-832-2667 to update. During outages, this will help VEC serve you more efficiently with our IVR phone system!

Energy Efficiency Charge 2007

Since 2000, Vermont electric bills have included an Energy Efficiency Charge (EEC). Funds collected by the charge pay for energy efficiency services designed to save money by reducing Vermont's electricity needs. This notice contains the new EEC rates in effect with bills rendered on February 1, 2007.

The EEC pays for an organization called Efficiency Vermont to provide energy efficiency services to most of the state. For more information, including technical advice, education, rebates and other financial incentives for homes, farms and businesses, contact Efficiency Vermont toll free at 1-888-921-5990 or at www.encyvermont.com.

Energy efficiency benefits Vermont in two ways: first, using less electricity lowers the bills of individuals who take steps to reduce their power use; second, and more importantly, when statewide use goes down, it reduces electric utilities' total system costs, which would otherwise be paid by all electric customers through rates.

Effective with bills rendered on February 1, 2007 the EEC rates for all customers except those of the City of Burlington Electric Department (BED) will be:

	<u>Current 2006 EEC rates</u>	<u>New 2007 EEC rates</u>
Residential:	\$0.00493 per kWh	\$0.00496 per kWh
Commercial:		
Non-demand customers	\$0.00461 per kWh	\$0.00408 per kWh
Demand customers	\$0.00274 per kWh plus \$0.6048 per kW/month	\$0.00242 per kWh plus \$0.5098 per kW/month
Industrial:		
Non-demand customers	\$0.00309 per kWh	\$.00293 per kWh
Demand customers	\$0.00227 per kWh plus \$0.4359 per kW/month	\$0.00219 kWh plus \$0.2699 per kW
Street and Area Lights:	\$0.00461 per kWh	\$0.00408 per kWh
	{ determined by multiplying the light wattage by 360 hours per month }	

For more information about the charge, please contact your local utility of the Department of Public Service Consumer Hotline at 1-800-622-4496.