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Touchstone Energy®

Answers to Your Questions

BY MIKE V. WELLS || CHIEF EXECUTIVE OFFICER || GCEA@GCEA.COOP

By the time you read this the October 1, 2011, rate increase will be in effect. The last rate increase was January 1, 2009, and we have worked to control expenses to avoid any additional rate adjustment for as long as we could; however, with rising operating costs and the higher cost of purchased power we could no longer hold rates stable. As a not-for-profit electric co-op our rates are designed to recover only what we need for our operations and a small margin for operating capital. All margins above our cost of business are allocated and refunded to our members on "first-in first-out rotation" basis. Rate increases generate many questions and our consumer service representatives and employees are available to help answer the questions you may have. Consumers have many of the same questions so here is a list of questions that may help you understand the rate components and adjustment.



Mike V. Wells

tion's website. A letter was mailed to the industrial services notifying them directly of their rate change. The full rate schedule may be found on our website, www.gcea.coop, or by calling Gunnison County Electric Association at 970-641-3520.

Q. How much is the projected revenue from this rate increase? And why is that amount needed?

A. This increase will provide approximately \$1,152,000 in increased revenue. This increase will help pay for system improvements and enable us to fund ongoing operations. It is estimated that approximately \$549,000 of this increased revenue will offset a wholesale power cost increase from Tri-State effective January 1, 2012.

Q. How much will my bill increase?

A. Based on rate classification and consumption, the impact to the members will vary. The table below is for residential, single phase consumers and illustrates the relationship between your monthly usage and the percent of increase to be expected:

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Q. How much is the rate increase?

A. The overall rate increase is 7.86 percent. This is a system-wide average increase for all rate classes and will vary among individual rate classes.

Q. How do I find the proposed rate for my rate class?

A. Any proposed changes to the rates for the residential, small commercial and large commercial rates were published in the newspapers located within the service territory. A notice was also included along with the consumers' bill in August and September and was posted on the associa-

Monthly kWhs	Old Bill	New Bill	Dollar Increase	Percent Increase
0	\$16.00	\$22.50	\$6.50	40.63%
100	\$27.28	\$34.00	\$6.72	24.64%
250	\$44.20	\$51.25	\$7.05	15.96%
500	\$72.40	\$80.00	\$7.60	10.50%
700	\$94.95	\$103.00	\$8.05	8.47%
1,000	\$128.79	\$137.50	\$8.71	6.76%
1,250	\$156.99	\$166.25	\$9.26	5.90%
1,500	\$185.19	\$195.00	\$9.82	5.30%
2,000	\$241.58	\$252.50	\$10.92	4.52%
3,000	\$354.37	\$367.50	\$13.13	3.71%
4,000	\$467.16	\$482.50	\$15.34	3.28%

Answers to Your Questions

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Q. What is the change to the Service Availability Charge?

A. The change to the Service Availability Charge differs per rate classification. For residential members, the Service Availability Charge will increase as follows:

Residential Class	Old Rate	New Rate
Single Phase < 50 kW Capacity	\$16.00	\$22.50
Three Phase < 50 kW Capacity	\$30.00	\$42.00
> 50 kW Capacity	\$145.00	\$145.00

Q. What does the Service Availability Charge represent?

A. The Service Availability Charge is a component of your bill that covers a portion of the fixed expenses that are incurred each month so that your home or business can have access to the electric grid regardless of how much electricity you use. This charge is similar to the fixed monthly amount for telephone, Internet, basic cellular, satellite television, etc. These fixed costs include repairs and maintenance of existing power lines, meters and transformers, as well as costs associated with processing your monthly billing.

Q. Why is there such a significant increase in the Service Availability Charge?

A. GCEA recently completed a Cost-of-Service Study that was performed by an independent rate expert. A Cost-of-Service Study is a comprehensive review of rates that helps us determine what it costs to serve each class of consumer — whether, residential, commercial or industrial. GCEA's study indicated the Residential Service Availability Charge should be approximately \$35 per month in order to recover the fixed costs associated with that class. This charge is currently only \$16 per month. The \$6.50 increase doesn't get us to the \$35 per month as recommended by the study but is a significant first step toward collecting more of our fixed costs in the Service Availability Charge.

Q. Why is GCEA's monthly Service Availability Charge so much higher than the city of Gunnison's monthly service charge?

A. The most significant reasons are consumer density and the geographical nature of our service territory. GCEA serves approximately 10 consumers per mile of line, whereas the city of Gunnison serves better than 80 consumers per mile of line. In addition, the GCEA service territory has many geographical challenges that the city of Gunnison does not have.

Q. How does the GCEA service charge compare to other co-ops in Colorado?

A. There is a trend in the electric utility industry to begin recovering more of the fixed costs in the monthly service charge and we are seeing this with other Colorado cooperatives as well. Many of the other Colorado cooperatives have completed a Cost-of-Service study that shows that their service charge should be in the \$30-\$40 range.

Q. Why not raise the kilowatt-hour energy charge instead of the Service Availability Charge?

A. This rate change does feature a slight increase in the kWh energy charge. If we set the variable kWh charge arbitrarily high, we would create an internal reliance on energy sales in order to meet fixed daily operating costs. By doing so, we would create a strategic disconnect when we promote conservational energy use that would drive down revenues. If energy use were to drop due to weather, energy efficiency or conservation, we would face declining margins, which ultimately would impact our ability to invest in reliable service as well as promote the wise and best use of electricity.

Q. I own a cabin and only use my electric service for three months each year. Why do you still charge me a \$22.50 service fee for the months I am not there?

A. The electric service is still there and must be maintained. As a result, the fixed costs exist whether a single kWh is used or not. In other words, the cooperative incurs these costs regardless of the level of energy use. It comes down to a matter of fairness. If you don't pay your fair share of the fixed costs then other consumers end up subsidizing the cost of your electric service.

Q. I have two meters — one on my house and one on my garage. They're both served from the same transformer and same pole. Why do I have to pay \$22.50 for each meter?

A. We don't get down to that level of detail in our cost-of-service studies; rather, it is based on the total number of meters. Similarly, there are many other members who could benefit from individualized costs (i.e. those who live closer to a substation, those who live in a more densely populated neighborhood, etc). However, there is only so far we can go with a cost breakdown.

Q. How does GCEA's total residential rate compare to other Colorado co-ops?

A. According to a survey that is published annually by the Colorado Association of Municipal Utilities (CAMU), GCEA's residential rate is on the high side of average for the total cost (service availability charge plus kWh energy rate) when compared to the other Colorado cooperatives.

There are several factors that are unique to GCEA that contribute to this higher rate. GCEA's territory is geographically challenging in that it is extremely rugged and expansive. In addition, the loads that we serve are spread out and many are located considerable distances from a substation. Also, due to member influence, GCEA has more underground line than most cooperatives. While underground line has higher aesthetic value it is more expensive to install and maintain. Another factor that leads to higher than average rates for GCEA is less revenue due to less kWh sales than most cooperatives in Colorado. In 2010, GCEA's kWhs sold per mile of line was 109,320 while the state median was 130,300. The average kWh usage per month for 2010 by rate class compared as follows:

Class	GCEA 2010 Avg. kWh Usage Per Month	State Median 2010 Avg. Kwh Usage Per Month
Residential	677	811
Small Commercial	2,111	3,238
Large Commercial	73,370	325,273

Q. What is the effective date of the new rates and when will I see this reflected on my bill?

A. The new rates are effective with your kWh usage beginning October 1, 2011. The new Service Availability Charge will be reflected on your bill that is mailed in October. Because GCEA bills in cycles and most bills are therefore not based on a calendar month, you will be billed a blended energy rate in October to account for usage under the previous rate and the usage under the new rate. The bill in November will reflect the new full energy rate.

Q. When was the last GCEA rate increase?

A. The last GCEA rate increase was January 1, 2009, and was 8 percent based on a system-wide average.

Q. Who determines when a rate increase is necessary and the amount of the increase?

A. GCEA's Board of Directors and management continuously monitor the financial stability of the organization to determine if or when a rate adjustment is necessary. However, it is important to note that only the GCEA board of directors, who are elected by the membership, are authorized to approve retail rates.

Q. Will the new rates change the cost of my security light?

A. No. The security and yard light rates are not changing at this time.

Q. When can we anticipate another rate increase?

A. Absent some unforeseen major event, we are confident this rate increase will carry us until at least January 1, 2013. We know that our power supplier, Tri-State G&T, will be raising our wholesale power rates on January 1, 2012. While we have not yet received final notice of what the financial impact of this increase will be, we have estimated this additional revenue requirement based on Tri-State's most recent economic forecast. This additional revenue requirement was taken into account and has been included as part of the October 1 increase.

Q. What is GCEA doing to keep costs down?

A. GCEA strives to operate efficiently while adhering to our commitment of providing affordable, high-quality and reliable electric service. We continuously evaluate our operations in an effort to keep your rates as low as possible. Our most significant expense is what we pay Tri-State for power to meet our members' needs. For each dollar collected on an electric bill, approximately 58 percent goes to Tri-State for the power we purchase from it. Due to the magnitude of this expense, it is imperative that we maintain strong leadership that will be effective in managing our relationship with Tri-State. After Tri-State, our next most significant cost is labor and benefits for our employees. This cost is approximately 20 percent of our total expenses. In 2010, we implemented an employee base wage freeze and froze base wages again in 2011 for senior management. In addition, we reduced the level of health benefits in 2011. We also evaluate our day-to-day operations on an ongoing basis for opportunities to improve and gain efficiencies.

Q. How much of the increase is due to the new headquarters remodel/expansion?

A. It is part of the reason, but not a majority reason. The cost of the new building has been amortized over 40 years so only a portion of the total costs hits the operating statement each month. The building expansion was needed and this larger, updated headquarters

was long overdue. We outgrew the original facility and no longer could accommodate additional employees, vehicles and materials. In addition, we had some serious high-cost maintenance issues with our old building that were happening on a regular basis.

Q. GCEA has been promoting energy efficiency the past few years. But now that I have made my home more energy efficient, am I being penalized with a high service availability charge?

A. Our average cost per kWh has always been lower for higher use members. This is because you are spreading out the fixed monthly service charge over more kWh. Even though your average costs per kWh are higher (if you're a low-use member) your total bill is much lower and you are still better off if you are able to reduce your energy use. We will continue to emphasize energy efficiency and help members reduce their energy use because (although it raises the average cost per kWh) it lowers your total monthly cost.

Q. Can I hook up a renewable resource such as solar panels, wind or hydropower and sell power back to the cooperative to help offset the cost of my electric bill?

A. Yes you may. Our policy allows for net metering for qualified renewable resources. Net metering is limited to 10 kilowatts for residential services and 25 kWh for commercial services. You may offset your own usage through generation at the current retail rate. If your energy generated exceeds your own usage it is carried forward and applied against the subsequent month's billing. "True up" occurs in April every year and any unused kWh credit balance is paid to you at the association's wholesale energy rate. However, please keep in mind that most renewable generation equipment requires a high initial capital investment with a lengthy payback period.

Q. What can I do to reduce my electric costs and can GCEA provide any assistance in this area?

A. GCEA offers a number of options to help members manage their electric costs. One way that we can help is by helping you manage your electric usage. We offer free or low-cost residential and commercial audits, discounts on energy-efficient product and energy-efficient appliance rebates, to name a few. We also provide financial support and referrals to the Office for Resource Efficiency, which has a variety of energy efficiency products and services that are available to our members.

We also provide information to our members about the Colorado Low-Income Energy Assistance Program. This is a federally funded, state-supervised, county-administered system designed to provide financial assistance with winter heating costs for eligible participants.

In addition to the above mentioned programs, we offer flexible payment options such as budget billing, re-occurring credit card payments and auto-bank draft.

Q. I only need my meter for two months per year. Can I request to have my meter removed and then reinstalled as needed?

A. You may request to have your meter removed and then reinstalled as needed. However, in order to have the meter reinstalled you must prepay the removal cost as well as the estimated costs of the reinstallation of the electric meter and power facilities. On average, this costs approximately \$500 but varies based on the location and type of service.

GCEA Acknowledged for Outstanding Performance

Gunnison County Electric Association recently set the bar for best practices in electric cooperative safety. The Colorado Rural Electric Association rates Colorado cooperatives according to more than two dozen criteria, and GCEA clearly rose to the top with its safety performance record.

Roger Grogg and Dan McDonough were honored to accept two awards on behalf of GCEA at the 2011 Loss Control Seminar. The first award acknowledges outstanding performance in 2010 with a record of no lost time accidents.

The second, and more coveted award, is the Achievement of Excellence Award given to the top performing cooperative in the Colorado Rural Cooperative Association. There are a number of factors contributing to GCEA's selection for this award, including a record 913 calendar days and 87,457 total employee hours worked without lost time due to accidents.

"In our industry, one with high exposure to hazards, these accomplishments are difficult to attain," said CEO Mike Wells. "No achievement is more important than a safety award. It



Roger Grogg (left) and Dan McDonough accept awards for GCEA at the 2011 Loss Control Seminar.

means that our company values safety over everything else and we are committed to having our employees go home safely at night."

[employee anniversary]

Holly Palmer

Billing assistant II
13 years

congratulations!

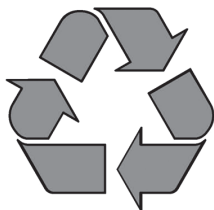
we value our employees

WIND DEMONSTRATION PROJECT CELEBRATES FIRST YEAR

GCEA's wind demonstration project in Saguache County celebrates its first year of operation this month. Partially funded by the Governor's Energy Office, the 2.4-kilowatt Sky Stream wind turbine is generating power to help run our radio communications site with excess power being fed into the grid.

GREEN PAPER

GCEA has long practiced multiple recycling options. After shredding and recycling our own waste paper for many years, the company recently determined the affordability of purchasing 40 percent post consumer recycled printer paper. Thanks to an ever decreasing cost for recycled goods and frugal use of resources, GCEA is now glad to add yet another practice to its green policy.



Cooperatives in the United States

- More than 29,000 cooperatives operate in every sector of the economy and in every congressional district; Americans hold over 350 million co-op memberships.
- U.S. cooperatives generate 2 million jobs and make a substantial contribution to the U.S. economy with annual sales of \$652 billion and possessing assets of \$3 trillion.
- The majority of our country's 2 million farmers are members of the nearly 3,000 farmer-owned cooperatives. They provide over 250,000 jobs and annual wages of over \$8 billion.
- Over 7,500 credit unions provide financial services to 91 million U.S. consumers.
- More than 900 rural electric co-ops deliver electricity to more than 42 million people in 47 states. This makes up 42 percent of the nation's electric distribution lines and covers 75 percent of our country's land mass.
- Approximately 233 million people are served by insurance companies owned by or closely affiliated with co-ops.
- Food co-ops have been innovators in the areas of unit pricing, consumer protection, organic and bulk foods and nutritional labeling.