**The moon watches over Oregon Trail Electric Cooperative lines in Baker County.** PHOTOS COURTESY OF OTEC

# OTEC Implements First Rate Increase in More Than Five Years

**By Shane Stenquist, OTEC Manager of Communications**

Oregon Trail Electric Cooperative recently announced a rate increase across all rate classes, averaging 9.5%. For specific details, please visit otec.coop/rates to learn more.

The decision was not made lightly. The board of directors carefully considered various contributing factors and conducted thorough evaluations before concluding a rate increase was necessary.

This move comes as part of the cooperative's ongoing efforts to maintain and improve its services, ensuring it can continue to meet the growing energy demands of its member-owners while keeping the system reliable and efficient.

While rate increases are never easy, the board's deliberations reflect a commitment to the cooperative's long-term sustainability, balancing the need for financial stability with the best interests of the communities and member-owners it serves.

Six months ago, in the September issue of Ruralite, we looked at the effects of inflation on all of our lives and, more specifically, the effects on materials and other things that impact electricity rates and your cooperative.

At the time, we had seen the average cost of 1 kilowatt-hour of electricity skyrocket nationally from 13.5 cents in January 2019 to 17.3 cents in January 2024.

Despite rising costs, OTEC had not raised rates since November 2019 when the cooperative implemented a 2.71% average rate increase, which included a $4 increase to residential member-owners' delivery charge, with no increase to the kilowatt-hour charge.

**How did OTEC avoid raising rates?**

Michelle Long is OTEC's chief financial officer. She has been at the co-op since 2020 and says a lot has changed since 2019.

"We've experienced a global pandemic, two presidential elections and out-of-control inflation," she says. "During that time, the cost of nearly everything has increased, from fuel to eggs to my Netflix subscription."

When asked how OTEC managed to avoid raising rates for so long, Michelle says, to understand this, it's necessary to look at OTEC's history and structure.

As a cooperative, OTEC is owned by the people who live and work in OTEC's service territory—Baker, Grant, Harney and Union counties—and receive their power from OTEC. The first OTEC member-owners borrowed money to buy the system in 1987 from CP National

**OTEC lineworkers face extreme conditions to maintain service for member-owners.**

Corp., an investor-owned utility based in California. The original loans were created with large balloon payments near the end of the life of the loans in 2021 to 2023.

As the payoff of those loans approached, OTEC leaders began to explore options— including raising rates—to cover these loan payments as well as rising costs. Fortunately, a solution presented itself when Bonneville Power Administration announced OTEC would receive a BPA power dividend distribution.

Because OTEC is a primary (all requirements) BPA customer, the co-op received a dividend when BPA experienced higher yields from selling power to secondary markets, such as California and Nevada. OTEC was able to effectively leverage the BPA dividends to provide a cushion until the large loan payoff was complete.

"The windfall from BPA's power dividend distribution was a significant factor in OTEC's ability to avoid raising rates," Michelle says.

### Why change rates now?

Despite the success in managing rates during the past half-decade, the future poses financial challenges.

The end of the power dividend distribution—along with the impacts of inflation, interest rates, labor costs, insurance, depreciation and increased investments in wildfire mitigation—contributes to the cost of electricity.

However, one of the most significant factors affecting OTEC rates is the cost of buying wholesale electricity from BPA. Purchased power typically constitutes about half of the overall costs. BPA operates the federal dams in the Pacific Northwest, which provide OTEC with clean, carbon-free electricity at a much lower rate than most other areas in the United States.

Every two years, BPA conducts a formal process, known as a rate case, to ensure its projected revenue from the electricity it sells will cover the expenses it incurs. The amount BPA charges must cover payments on the federal dams, building and maintaining transmission lines, fish and wildlife mitigation, energy-efficiency programs and other obligations that are required by federal and state laws.

"A BPA rate increase has a significant impact on the expenses of our cooperative," Michelle says. "Any financial slack that was previously available has been eliminated by the BPA rate increase coupled with these other factors. We simply cannot continue to maintain the level of service our member-owners expect and deserve without adjusting rates."

OTEC's ability to avoid raising rates is a testament to its strategic financial management and effective use of BPA dividend funds. Through thoughtful financial planning and effective supply chain management, OTEC has managed to navigate financial challenges while maintaining stable rates for its customers since 2019.

While we recognize any rate increase is difficult, it allows OTEC to continue to focus on providing clean, reliable energy at an affordable cost. ■

### Why Can't OTEC Use Capital Credits to Reduce Rates?

Capital credits represent each member's ownership in the cooperative. Member-owner equity is a sign of the strength of a cooperative. When OTEC recovers excess revenues, these margins are allocated to member-owners through the capital credit allocation process.

OTEC is required to have a certain level of margins/equity to meet our borrowing obligations from our lender, National Rural Utilities Cooperative Finance Corp. OTEC has lending requirements that require us to maintain a minimum debt coverage ratio.

Capital credit allocations are required for a cooperative to qualify for tax-exempt status under federal income tax laws, which reduces costs to our member-owners.

Furthermore, the capital credits system of allocations and refunds helps keep member-owners' rates lower by reducing the cost and/or amount we need to borrow to maintain and upgrade the electrical system. The money OTEC returns through capital credit retirement is actually member-owner equity OTEC has used to build lines and reduce the need for borrowing. This allows OTEC to keep rates lower in the long term.

OTEC's board of directors has a fiscal responsibility to maintain the financial integrity of the cooperative in a way that provides competitive rates and allows the return of capital credits to member-owners. A sound equity management plan and a commitment to serving member-owners are key to achieving this.

*OTEC is implementing a rate change affecting all member rate classes, which you will see on your April bill. The average overall change equals a 9.5% rate increase but affects each rate class differently. Visit otec.coop/rates for updated rate information and helpful tools.*