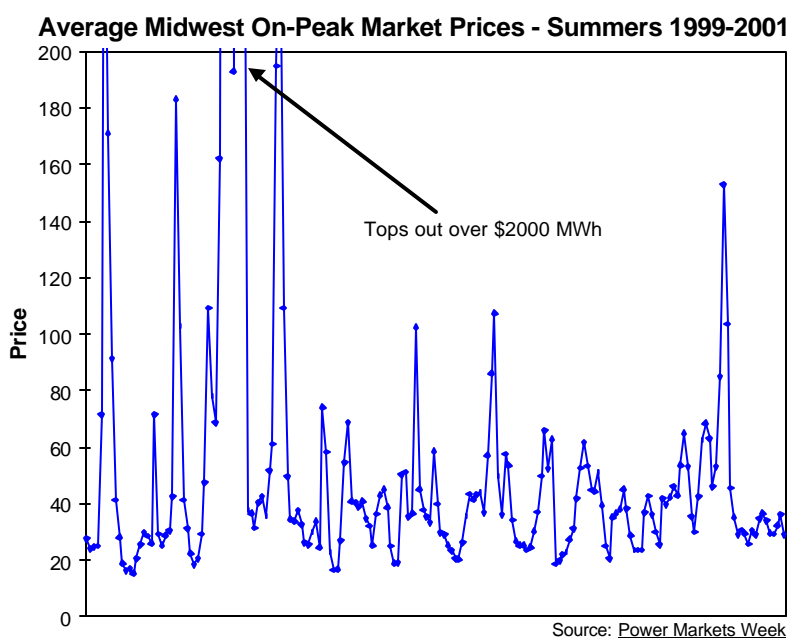


Wholesale Rate Design – New Approaches to Pricing

Tremendous changes have taken place over the last decade in the wholesale delivery and pricing of electricity. These changes have had a direct impact on the ability of electric cooperatives to acquire stable energy supplies at sustainable prices. Before electricity markets began deregulating, most distribution cooperatives purchased power from G&T cooperatives that in turn purchased power from the local investor-owned utility or maintained their own generation facilities. Without the development of a wholesale market, power was priced on a cost-plus system. Wholesale rates were stable, but often high.

As the wholesale power market has evolved, G&Ts have been forced to change the way they operate as well. Most G&Ts now rely on a mix of internal generation assets, long-term contracts with a number of IOUs and Independent Power Producers, and the ability to purchase power from the spot market when prices are low or demand is high. This flexibility and competition within the wholesale market has led to unimagined volatility. While prices are often lower in this new environment, price spikes can quickly shatter financial stability. G&Ts are under increasing pressure to build equity to meet credit requirements from market sellers, and they are being forced to undertake sophisticated risk management strategies.



Additionally, deregulation has spawned the need for both the G&Ts and the distribution co-ops to serve an increasingly sophisticated customer base. Large commercial customers place great emphasis on electricity pricing and reliability when considering locations for new plants or logistics centers. Retail customers and distribution cooperatives are increasingly interested in load control technology, dispersed generation, and renewable energy.

The implications for an established G&T are immense. Not only does the G&T have to develop the capabilities to function in a much more sophisticated environment, it must also acknowledge these changes when dealing with its customers – the distribution cooperatives. The driver in this relationship will be the G&Ts ability to restructure wholesale rates in a way that ensures the G&Ts ability to stay financially healthy while also responding to its member cooperatives' demands.

Management Consulting Services will work closely with a G&T and its member cooperatives to ensure everyone's needs are taken into account. MCS will help develop wholesale rates that not only support the G&Ts financial stability, but also help meet its member's goals – whether they center on growth, stability, price, or technology.



MCS will not only help develop new rates, but rigorously test new rate proposals using a range of analytic tools to ensure the rates offer the flexibility to meet the needs of both the G&T and its members under a variety of scenarios. We will analyze the relationships between growth, weather, system load, and market prices, and we will evaluate scenarios for utilizing load control technology, dispersed generation, and green power marketing.

Management Consulting Services also has years of experience in leading G&Ts and distribution cooperatives through rate cases in rate regulated states. We can play a key role in explaining to regulatory commissions the unique circumstances facing the cooperative world and how new rate structures are critical to cooperatives' continued success.