

CHIPPEWA VALLEY ELECTRIC COOPERATIVE

NEWSLETTER

JANUARY 2006

FROM THE PRESIDENT & CEO

FUEL COST, PURCHASED POWER INCREASING 2006 RATES



The past year has been a challenging year for all Americans, as skyrocketing energy prices have hit hard in pocketbooks and caused great concern about the economy.

As 2006 approaches, electric utilities throughout the nation are facing a number of issues which are resulting in one of the most significant challenges facing the energy industry in decades. Some are comparing the issues to a "perfect storm"—a combination of events cascading upon us, guaranteeing substantial cost increases and making our job of delivering reliable and affordable electric service more difficult.

Although Chippewa Valley Electric Cooperative and our wholesale power supplier, Dairyland Power Cooperative, are diligently working to mitigate the impact of these cost-driving factors on your energy costs, Dairyland's wholesale power cost, which accounts for 56 percent of Chippewa Valley Electric's operating budget, is facing unprecedented upward pressure, especially in the areas of fuel transportation and purchased power.

While Dairyland's 2006 budget and wholesale rate are still being finalized as this goes to print, preliminary results indicate that Chippewa Valley Electric will be facing a sizable wholesale rate increase in the coming year. The combination of several factors will cause an estimated increase of

Dairyland's 2006 average wholesale rate of more than 20 percent over the 2005 rate. Pending Dairyland Board approval, a first step will be implemented with a temporary surcharge of up to 15 percent January through April, followed by a wholesale rate increase on May 1.

Chippewa Valley Electric Cooperative will be absorbing a portion of the wholesale rate surcharge that begins in January. We recognize that cost increases are difficult for our members, however, we find it necessary to pass on a portion of the increased costs through a Power Cost Adjustment on your monthly bill. This amounts to approximately \$7 for our average retail customer using 1266 kWh per month and will begin with your January usage.

In addition, Chippewa Valley Electric is reviewing our rates in anticipation of a pending May 1 wholesale rate increase. We promise to work hard to try to lessen the impact of these costs on our members. However, we also know we must not compromise service and reliability and a rate increase will likely be necessary in mid-2006.

WHAT ARE THE COST-DRIVING FACTORS?

The most significant factor affecting Dairyland's wholesale rate is an unexpected doubling of costs for rail transportation of coal to its power plants in Genoa and Alma, Wis. This single factor is likely to yield an increase on the order of

\$30 million in total delivered fuel costs for Dairyland in 2006. As a part-owner of Dairyland, this is a very large cost impact for our cooperative. More details about the captive rail issue were printed in the last issue of this magazine.

Fuel to operate Dairyland's generating facilities, primarily coal, accounts for our power supplier's largest, single expense. These costs are comprised of the fuel itself and the cost to deliver it. Dairyland's power plants use about 3 million tons of coal each year. The coal is mined and shipped via rail and/or barge to Dairyland from mines in Wyoming, Utah and southern Illinois.

Over the last couple years, the cost to ship coal by rail has been a growing problem for Dairyland and other utilities. Rail costs affect us because the vast majority of our electricity is generated using coal, and all of Dairyland's coal is moved by rail to our plants or barge loading facilities.

Demand for railroad transportation of products and merchandise (not just coal) has exceeded the capacity of the nation's railroads. Unfortunately, with no excess capacity, the railroads have no incentive to compete for a shipper's business and have been setting the price of transportation at the highest rates. In addition, the railroads are also applying fuel surcharges on top of their increased base rates.

(continued...)

Dairyland, and many other utilities, as well as industries like paper producers and chemical companies, are being hit by the full impact of these huge increases in rail pricing. This is the key driver for Dairyland's increased rates.

We are supporting legislative initiatives to provide Dairyland and other "captive" rail shippers access to fair competition. However, the outlook for transportation relief is uncertain at best. We assure you that we are working with Dairyland, government officials and others in the industry to help correct practices that hurt our cooperative and increase your energy costs.

Another major factor affecting rates is a significant increase in purchased power costs, driven mainly by the high cost of natural gas and the emergence of new wholesale energy markets. Although the power plants, poles and wires in our system were not directly hit by Hurricanes Katrina and Rita, we are still feeling the impact of these catastrophic storms. Both Hurricanes Katrina and Rita affected the supply

of natural gas for the United States—and prices for that commodity nearly doubled.

Since Dairyland relies primarily on coal for baseload generation, along with a growing portfolio of renewable energy sources, the increased cost of natural gas has primarily impacted Dairyland when additional power is needed and purchased on the volatile open wholesale energy market. Buying and selling energy are a regular part of operations for Dairyland, especially when generating plants are limited in output or out of service for required maintenance. (Higher fuel costs and fuel availability have also impacted operations at Dairyland's Elk Mound combustion turbine, a natural gas or oil-burning facility.)

Virtually all utilities are feeling the pinch of high fuel prices. Along with Dairyland, many utilities in our region and throughout the nation are preparing to raise their rates.

While Dairyland faces these financial obstacles in the coming year, it is essential that our wholesale power provider continues to

maintain a strong financial position and invests in projects to meet our future energy needs. Plans underway include 30 percent ownership in the 500 MW Weston 4 generating facility near Wausau, Wis., investment in new environmental controls at Dairyland's largest coal-fired facilities and continued expansion of its renewable energy portfolio.

Our costs are rising and we recognize the negative impact this has on each of you, our members. However, let me assure you that Chippewa Valley Electric and Dairyland will continue to work hard to stabilize costs and provide our members with a reliable, competitively priced energy supply.

Chippewa Valley Electric Cooperative

P.O. Box 575
Cornell, Wisconsin 54732
(715) 239-6800 or 1-800-300-6800

Your Touchstone Energy® Partner 

Business & Residential Long-Distance Phone Service

5.9¢/Minute—All Calls in Wisconsin
4.9¢/Minute—All Calls Out of State

**20 Hours a Day ♦ 7 Days a Week,
Plus 6-Second Incremental Billing**

- ♦ Free to join
- ♦ No monthly fees or minimums
- ♦ Major carrier
- ♦ No codes to dial
- ♦ 800 number 5.9 cents - 4.9 cents per minute (no fees)
- ♦ Free calling cards 13.9 cents per minute (no surcharge)

Chippewa Valley Electric Cooperative, through an association with a large consortium of electric cooperatives, is offering long-distance telephone service through PowerNet Global Communications. This long-distance service is one of the lowest-cost long-distance services available. As you can see, you can call anywhere in the State of Wisconsin for a low \$0.059 per minute or anywhere out of state in the continental United States for \$0.049 per minute. In addition, you can have your own personal 800 number to receive calls from family members or acquaintances. Incoming calls on your 800 number are billed at the same rates noted above. All rates are the same 24 hours a day, 7 days a week.

There are no monthly fees, no minimums, or long-term agreements. For additional information or to sign up, call toll-free at 1-800-239-7420. **Be sure to mention that you want the special plan through Chippewa Valley Electric Cooperative.** This will ensure you get the special rate we've negotiated for you.

For additional information or to enroll by phone, call: 1-800-239-7420.

Billed by PowerNet Global Communications Payment Methods:

1. Personal Check
2. Automatic Credit Card Debit