



Sebewaing Light and Water Department

110 West Main Street

P.O. Box 645

Sebewaing, MI 48759

Phone: (989) 883-2700 Fax: (989) 883-2792

Information Regarding Electric Rates

The following information is provided to assist our Electric Customers in understanding our rate structure and the addition of the Power Cost Adjustment, PCA.

Electric Rate Study

In the fall of 2021, Sebewaing Light and Water (SLW) embarked on an Electric rate study for our community. We contracted with Utility Financial Services (UFS), a Michigan based company that assists electric, water, wastewater, telecommunications, gas and solid waste utilities with independent financial planning, cost of service studies and rate design services. We utilized them to determine our cost of service and rate design for our electric utility.

A Five-Year Plan

The rate design has been completed and the results were presented and approved by Council in April of 2022. In an effort to provide incremental adjustments to our customers due to rising costs, we implemented a five-year plan with the focus of “unbundling” our rates. This is necessary due to the changing Electric energy markets with innovative technologies and sources being introduced.

Each year we will review our financials with UFS to ensure we are on track to maintaining a financially healthy utility and work with Michigan Public Power Agency (MPPA) to ensure we continue to grow as our energy landscape changes.

Power Supply Costs

Our Power Supply Costs include, but are not limited to, Fuel (natural gas and diesel) and related costs, fuel transportation costs, environmental, maintenance related costs for the natural gas and diesel engines, power purchase agreements, capacity, and transmission costs. In fiscal year 2021-2022, these power supply costs represented over 60% of our Electric Budget.

To help in understanding our power supply costs, Sebewaing Light and Water has two components: Market Purchases and Internal Generation Costs.

- On the market purchases for the month of May, we have seen cost for energy go from an average of \$27.70 per Megawatt-hour in 2021 to \$76.80 per Megawatt-hour in 2022. On average, a \$49.09 per Megawatt-hour increase or a staggering 277% (2.77 times).
- On our generation side, natural gas has also increased dramatically. The graph below shows the volatility in natural gas spot prices at the Henry Hub. The 2022 trend is on the rise and well above the 2020 spot price.



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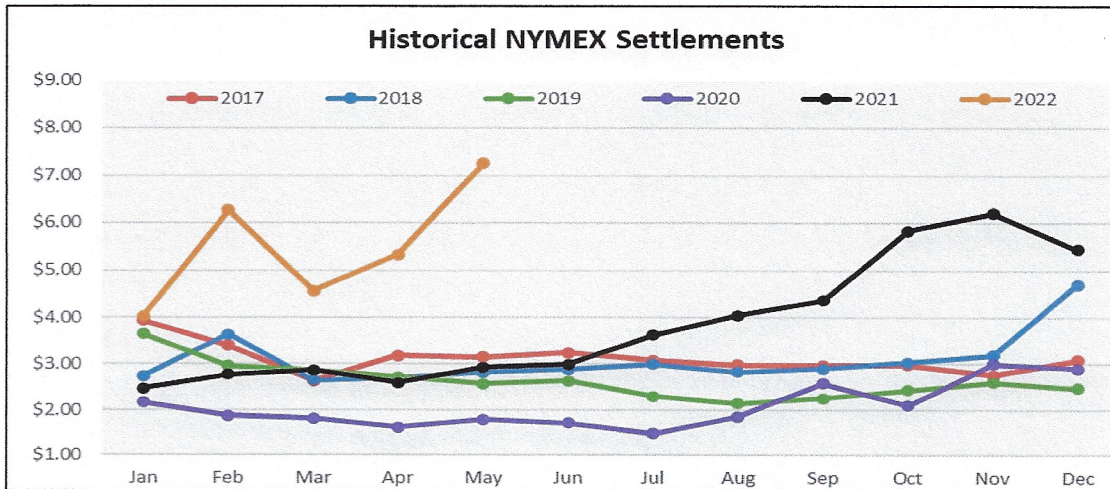
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On the NYMEX Historical Natural Gas Settlements graph below, this again shows that the trend for 2022 is well above previous years resulting in higher natural gas prices.





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Implemented Strategies

Michigan Public Power Agency, MPPA, assists our utility in market transactions along with a sound risk strategy (hedge policy) to layer in market purchases. This layering assists in reducing the risk exposure to the real-time markets. We are also implementing this strategy on our natural gas purchases as well.

Power Cost Adjustment

While this component is new to SLW, it is used by most utilities to ensure a timely collection of power supply costs. The Power Cost Adjustment (PCA) permits the monthly adjustment of rates for the costs incurred in supplying electricity. With the volatility in the power supply market, a sound financial strategy is to implement a power cost adjustment, PCA.

The power cost adjustment (PCA) reflects the increase or decrease of power supply costs. The current rates already include a portion of these costs, known as the base power supply cost.

Actual power supply costs are calculated on a monthly basis and the difference between the base power supply cost and the actual power supply costs is known as the power cost adjustment. Sebewaing Light and Water will use a 6-month rolling average that smooths out the increases/decreases over the period to minimize large monthly swings in power supply costs.

Recovery of Costs

In our current rates, we have a base cost of power of \$0.04520 per kilowatt-hour (kWh). If the 6-month average power supply costs exceed \$0.04520/kWh, a positive power cost adjustment allows recovery of these additional costs. If the 6-month average power supply costs are less than \$0.04520/kWh, a negative power cost adjustment allows for a reduction and returns the savings. Therefore, on your bill, if the PCA is greater than our base, then there will be an additional cost on your monthly bill. If the PCA is lower than the base, then there will be a credit on your monthly bill.

The power supply cost adjustment will be a direct pass through of the actual power supply costs. An example of the PCA calculation is below:

Example PCA Calculation

Description	Power Costs
Calculated Cost of power based on Rolling Cost	\$ 0.06639
Base cost of power/kWh	\$ (0.04520)
PCA (Difference of Rolling Cost minus Base Cost)	\$ 0.02119
Positive = Increase, Negative = Decrease	



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Sample Electric Bill Calculation

In the examples below, our PCA calculation for the 6-month rolling average is \$.02119 per kWh. This means our costs for power supply is greater than our base. The PCA is then multiplied by the kilowatt-hour usage of the customers. If the PCA were negative, then this amount would be credited to the bill.

The following are examples of the Electric portion of your monthly bill:

Electric Residential Example:

Residential Rates R0	Current	Cost
Meter		
Monthly Usage kWh	540	
Monthly Facilities Charge:		
Monthly Charge	\$ 6.50	\$ 6.50
Energy Charge:		
All Energy per kWh	$\$0.11135 \times 540 =$	\$ 60.13
PCA		
All Energy per kWh	$\$0.02119 \times 540 =$	\$ 11.44
Total Electric Portion of the Monthly Bill		\$ 78.07

Electric Commercial Example:

Commercial Rates C0	Current	Cost
Meter		
Monthly Usage kWh	1530	
Monthly Facilities Charge:		
Monthly Charge	\$ 8.00	\$ 8.00
Energy Charge:		
All Energy per kWh	$\$0.11538 \times 1530 =$	\$ 176.53
PCA		
All Energy per kWh	$\$0.02119 \times 1530 =$	\$ 32.42
Total Electric Portion of the Monthly Bill		\$ 216.96



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Again, the PCA is for the costs incurred for our electric power supply and is directly passed on without any additional charges.

Cost of Service, Financial Review and Rate Design

Utility Financial Solutions, UFS, assisted us in our cost-of-service study, financial review, and our rate design with the focus on financial stability.

Cost of Service provides

- rates that recover the cost of serving customers
- Understanding the alignment of rates with operational costs
- Define cost-based structure
- Reduce cross-subsidization between rate classes

Financial Review identifies

- Long term projections
- Key financial targets such as minimum cash reserves, debt coverage ratios required by our bond, along with target operating income

Rate Design assists in

- Moving towards the cost of service
- Understanding customer impacts
- Meet targeted revenue requirements

Our current rate design also focused on:

- Streamline our rates by reducing the number of rates in the rate class over the five-year period
- Implement a power supply cost recovery mechanism PCA
- Unbundle our rates so that the variable cost and the fixed cost are accurately reflected in our rate structure after five years


Additional information can be found on their website at <https://ufsweb.com/insights/how-public-power-sets-electricity-rates/>



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Approved Rate Structure

The following is our approved rates for 2022:

 ELECTRIC RATES Effective 5-20-22 to 5-19-23 Approved by Council 4/26/2022			4% Sales Tax on Residential 6% Sales Tax on Commercial Late Penalty 1.5%
RATE	SERVICE CHARGE		USAGE CHARGE
RESIDENTIAL	PER MONTH	TIER	\$ PER KWH
R0	\$6.50		\$0.11135
R02	\$6.50		\$0.11135
R1-Hot Water Thru Meter <i>(No New Customers on this rate)</i>	\$6.50	First 200 kWh Next 300 kWh over 500 kWh	\$0.11135 \$0.09522 \$0.11135
RX	\$6.50		\$0.11135
RESIDENTIAL HEAT	PER MONTH	TIER	PER KWH
H0 <i>(No New Customers on this rate)</i>	\$6.50		\$0.09522
H0E2 <i>(No New Customers on this rate)</i>	\$6.50		\$0.09522
H1 <i>(No New Customers on this rate)</i>	\$6.50	Nov-May June-Oct.	\$0.09522 \$0.11135
H2 <i>(No New Customers on this rate)</i>	\$6.50	First 800 Over 800 Nov - May Over 800 June - Oct.	\$0.11135 \$0.09522 \$0.11135
H3 DR <i>(No New Customers on this rate)</i>	\$6.50	First 200 kWh Next 300 kWh Next 300 kWh Over 800 kWh	\$0.11135 \$0.09522 \$0.11135 \$0.09522
GENERAL SERVICE - COMMERCIAL	PER MONTH	TIER	PER KWH
CH <i>(No New Customers on this rate)</i>	\$8.00		\$0.09847
CO	\$8.00		\$0.11538
C1 Hot Water thru Meter <i>(No New Customers on this rate)</i>	\$8.00	First 200 kWh Next 300 kWh over 500 kWh	\$0.11538 \$0.09847 \$0.11538
C4 <i>(No New Customers on this rate)</i>	\$8.00	First 500 kWh Over 500 kWh Nov-May Over 500 kWh June-Oct	\$0.11538 \$0.10247 \$0.11538
C5 3 Phase General Service	\$20.00		\$0.12247
INDUSTRIAL	PER MONTH	TIER	PER KWH
Large Industrial		per kWh	\$0.07931
Large Demand		per kW	\$9.50000
Lighting			PER LIGHT
Residential Outdoor Light			\$10.00000
Commercial Outdoor Light			\$10.30000



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Assistance

We understand that customers may need additional support in paying their utility bills. Please contact our office at 989.883.2700 to discuss or if you would like additional information.

The following agencies provide assistance with utility bills:

- Huron County Department of Human Services 989.269.9201 or www.michigan.gov/mibridges
- United Way 2-1-1 at 1-800-887-1107 or <https://www.211.org/>
- Salvation Army 810-232.2197 or <https://centralusa.salvationarmy.org/wmni/energy-assistance/>

Public Power

Sebewaing Light and Water is a municipal utility committed to providing our customers with safe and reliable power. We are not-for-profit and do not have shareholders. We are Community Owned. We are working hard to prepare for the pending grant funding available later this year, for grid resiliency and infrastructure improvements, including advanced metering infrastructure, AMI. If successful, this will improve our ability to analyze and manage our electrical infrastructure.

We continue to look for ways to streamline our utility, both financially and organizationally. Our office staff is here to help so please let us know if you have any questions. If you'd like to attend our committee meeting, it is on the first Monday of the month and is held at the Village Council Chambers, 222 N. Center.

Sincerely,

A handwritten signature in blue ink that reads "Charlene Hudson".

Charlene Hudson

Superintendent

Sebewaing Light and Water