

Rachel Johnson ([00:16](#)):

Welcome back to Co-op Energy Talk. I'm your host, Rachel Johnson, and you are listening to the board meeting brief for the board meeting from Monday, November 27th. There are five things that we did at this board meeting that I wanted to highlight for you this month. First, we spent quite a bit of time going over our proposed 2024 operating expense budget. So this, uh, this kind of presentation this month was designed to educate the board about the assumptions we're building into it, what we see coming up in 2024, get their feedback and then we'll finalize the operating expense budget and bring it back to them for approval in their December board meeting. There are just a few highlights from that that I thought I would share with you this month and then I'll let you know, um, if anything changes next month. First of all, as I've been talking to you about in some of our previous podcasts and also in some of my manager's columns, we knew we really needed to tighten our belts for 2024 just because of all of the cost pressures that we are facing right now.

Rachel Johnson ([01:03](#)):

Cost pressures you're familiar with in your own homes and businesses, inflation, interest rates, utility inflation is particularly, um, strong this year. So lots of things for us to manage, but I'm really, really pleased to report to you that we did do some really significant conservative budgeting for 2024 and we're able to put together an expense budget with a 5.2% reduction over 2020 three's expense budget. So if you look at our controllable operating expenses, our 2024 proposed budget was about 5.2% less than our 2023 approved budget, which is amazing. We were able to do that by not hiring any new employees by slowing down some of our tree trimming and other processes for the year. So just really, really careful budgeting. However, despite those, um, very, I think conservative and smart approaches to our operating budget, we are still projecting that we will have about a 7.5% increase in our power supply costs.

Rachel Johnson ([01:59](#)):

And when we layer in the interest expense that we expect to incur next year as we do our long-term borrowing on our capital budget, we're we're expecting to have about an 11% increase in interest cost over 2023. So when you layer all of that together, unfortunately those costs that are really outside of our control have essentially offset all of the savings that we were able to build into our budgets. The budget we're putting in front of the board right now that we talked to 'em about on the Monday, November 27th board meeting basically says that if everything goes perfectly at the end of 2024, we'll be right at zero, right? We will have, we have, we have almost no margin, and that is, uh, there's a lot of assumptions built into that that we're just not sure that we can manage over the course of the year.

Rachel Johnson ([02:41](#)):

If the weather were to be mild like it was this year, which we're thinking it could be, then our sales might not be as high as we need them to be, or if our power supply costs were to be in any way volatile, which they could be, right? So there's a, there's just a lot of things outside of our control. So basically the next step for us in this budget process is preparing for a rate increase sometime in mid 2024. I don't have a lot of details about what that's gonna look like because once we have the, the budget itself finalized, then we'll really, um, put some thought into what a rate increase would look like mid, mid 2024. I'll share all those details with you as we work through them, but I'm anticipating it's going to be a very reasonable increase, not as big as it was last year, and I think probably also not as high as actual inflation.

Rachel Johnson ([03:21](#)):

So I think, I think we'll be in a good place, but we will need to increase rates sometime in 2024. The second thing that we did at this board meeting was approve the capital budget. So I gave you all the details about what was in that budget in the board meeting brief podcast last month. So if you're interested in that, go listen to the October board meeting brief, but all you need to know is nothing really changed. And so we brought that back to the board and they approved it. That's about a \$12 million capital budget for next year. And that includes everything from computer equipment to trucks to lines and poles and kind of the, the guts, if you will, of the distribution utility. But here is another really cool thing that we were able to report to the board this month. All those, all those things we include in the capital budget are really about keeping the lights on for the members, right?

Rachel Johnson ([04:00](#)):

Like it's all about reliability and we were really excited to report to the board this month. Our COO ran our numbers from October, and we are currently coming in at nine 9.995 reliability in October or as of the end of October. So that's basically just means we're keeping the lights on all the time. We've had a really good year as it pertains to our resiliency against storm related outages, and we're really proud of those numbers. It's something we continue to invest in. I wanted to note that while we know that, um, we know those numbers sound big when we talk about our capital budget, all of those numbers are the reason we're able to get to those kinds of reliability outcomes. The third thing that we did at this board meeting was update our line extension fee structure. Let me tell you what that means 'cause that's a super jargony way of describing it.

Rachel Johnson ([04:43](#)):

Basically, if you're a current member, this probably doesn't affect you, but if you are building a new home on our system or a new pole barn on our system and you need us to come in and do a line extension, we have fees designed to help us capture back some of the cost of that line extension. And then there's a built-in assumption that the rest of the cost will capture over time as you pay your electric bill and pay for electricity from us. The only change that we are making to our line extension fees is that historically we've given the first a hundred feet for free. We changed our policy a few years ago. That was always overhead. Now we've moved to allow overhead or underground and to default to underground, which is significantly more expensive than overhead. But in addition to that, all of our costs for construction have gone up.

Rachel Johnson ([05:26](#)):

So what we're doing is just restructuring so that there is no a hundred feet free. So when a, um, a new member or a new home is being built on our system, someone calls and says, Hey, I need to set up electricity at my house, or, you know, not they, they don't have a house, I need to set up electricity so I can build my house. What we will do is, we'll, our engineering team will put together a plan for that, and then we will charge them \$6 a foot for whatever it takes to build from where the power line is right now to where they need it to be. That \$6 does not capture all of our costs. So this, this new structure still assumes that we'll recapture a significant portion of our cost through future sales to that location, but it does help us capture, I think, a, a, a more accurate percentage of our cost in today's environment.

Rachel Johnson ([06:07](#)):

That will go into effect January 1st. You can find details about all of our tariffs on our website, but I will just again reiterate this doesn't really impact you unless you are building a new home or doing some sort

of significant upgrade that requires us to do a new line extension at your existing home. The fourth thing we talked about, actually, more like in line with the third thing, since we're already talking about, uh, new construction, this has actually been a very busy year for us, for new construction. We're seeing a lot of development on our system, a lot of multifamily units developed on our system, and just a tremendous amount of construction pressure. But one of the things we talked through in the board meeting today is that we have knocked it out of the park. So in the busiest construction season, we've probably ever had our COO reported to the board today that 92% of our member driven construction orders.

Rachel Johnson ([06:53](#)):

So a member calling and saying, Hey, I need you to come do this work at my house. 92% of those requests have been completed within 15 days of the member completing their part of the paperwork in this supply chain environment. And as, as as busy of a construction season, has it been, this can't, I just can't overstate how very, very grateful I am and lucky we are to have the team we have willing to put in the work and get the work done quickly so we're not holding up our members' project. So kudos to those teams. And then the last thing I wanted to update you about from the board meeting, the board met with the owners of the Bluebird Tavern in Leland. For those of you who aren't familiar with the Bluebird, it's such a cool family business. They've been in business in Leland since 1927.

Rachel Johnson ([07:36](#)):

The current owners are third generation owners and there is a fourth and maybe even future fifth generation who are lined up to succeed them in running that business. However, um, just kind of based on a lot of different market dynamics, they've decided to demolish the current building and replace it. You know, when things have been around for almost a hundred years, they start to really need a lot of work. This body's been around for a lot less than a hundred years, and it's, it's already starting to fail, so I can't imagine how a hundred year old building is feeling at this point. So anyway, the Tel guards have realized that they needed to make some significant investments in that property, and they are committed to getting the Bluebird back open next year in Leland. And they talk to the board about how we could support them with some zero interest financing.

Rachel Johnson ([08:15](#)):

So just a really amazing kind of family business to hear about their passion for Leland, their passion for the Bluebird, and we're really, really excited that we're gonna get to help support bringing them back in 2024. And I would encourage all of you to pay attention to that. And when they open back up, go out there and, and definitely make sure to, uh, stop by and, and have a meal at the Bluebird. So those are the highlights from our board meeting from Monday, November 27th. Our next board meeting will be Monday, December 18th. And as always, we will start with member input at 9:00 AM If you would like to address the board, just swing by our office in Gro and let them know that you're here for the board meeting. Join us next time for more co-op Energy talk.