



REC Response to Report on Wholesale Power Supply Costs

November 12, 2018

On Nov. 1, Repower REC and the Institute for Energy Economics and Financial Analysis issued a report stating Rappahannock Electric Cooperative (REC) pays above market rates for the wholesale power it buys from Old Dominion Electric Cooperative (ODEC). As part of their media release the group provided a power supply analysis comparing REC's actual power costs to estimated market prices.

This study is an oversimplified review of only a brief period. We have identified several flaws in the assumptions, and the claims made by Ms. Kunkel, author of the study, and Mr. Heald, an organizer of Repower, contradict what regulators have found to be true about the long-term value of REC's contract with ODEC.

An order issued by the Virginia State Corporation Commission states customers served by "a more diverse portfolio of assets via the Cooperatives' contractual relationship with ODEC" experience a benefit compared to being served "at power supply prices that are subject solely to the vagaries of the wholesale market." (ORDER of the Virginia State Corporation Commission dated May 14, 2010, Case No. PUE-2009-00101; page 8.)

Consumers should understand that power supply is a marathon, not a sprint, and any accurate study must be evaluated over the long term. The following information is provided to illustrate the shortcomings of this study.

- A "snapshot" of the market compared to a long-term contract is not an "apples-to-apples" comparison; it's like saying the interest rate of a variable-rate mortgage is lower than the rate of a fixed mortgage – it might be true today, but are you willing to take that risk over the 30-year term of the mortgage? Anyone buying on the hourly spot market would be fully exposed to the volatility of the market, such as price spikes that occurred during the Polar Vortex of 2015.
- The cost of transmitting electricity from the generator to the local utility is a significant and growing component of supplying electricity. A footnote in the study indicates a "20% adder" has been included to represent transmission costs. Actual

transmission costs in the years evaluated average more than 30%, and were almost 37% in one of those years.

- Any review based solely on the day-ahead market prices, as is this study, is oversimplified and seriously flawed in that it assumes the ability to perfectly forecast how much to purchase from the market during each of the 8,760 hours in a year. Failing to buy enough electricity in advance of a high-demand period or buying too much during a low-demand period moves the actual price to the hourly spot market, which has much greater volatility than the day-ahead quotes. The volume purchased during each hour greatly affects the total cost.

- REC members benefit from ODEC's diverse and balanced portfolio of generation resources and power contracts. This diversity provides long-term benefits by delivering more stable rates over time. To address the growing loads of our member-owners, ODEC has established a portfolio of generation resources using a variety of fuel types, including renewable energy through wind and solar power. With the recent addition of the technically advanced, low-cost, and low emission natural gas-fired Wildcat Point Generation Facility in 2018, ODEC is well positioned to competitively meet the power needs of its member-owners into the future.

- The study does not take into consideration that REC's payments to ODEC are also an investment. Today, REC has more than a 28% equity investment in ODEC, a company with \$2.2 billion in assets.

- REC members are receiving a \$6.75 million direct reduction in the electric bills as a result of REC's relationship with ODEC.
 - \$3 Million in credits on REC's November 2017 electric bills
 - \$3.75 Million in credits appearing on bills this month

- REC's large industrial members have the ability to acquire power supply directly from the market. In 10 years, only one company has chosen the market over REC, indicating these highly sophisticated and analytical energy users recognize the value of stable, long-term prices.

- Approximately 6% of the power supplied by ODEC is from renewable sources. The study does not indicate what, if any, percentage of the PJM energy is from renewable resources nor how that might affect the comparison prices.