IMPORTANT NOTICE ABOUT YOUR ELECTRIC BILLS FOR 2016

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The fluctuating Fuel Adjustment, True Up and Demand charges that Indiana Michigan Power Company passes on to customers has been very frustrating to our customers. This was because a monthly bill could go up dramatically even though the customer used the same amount of kilowatt hours as the previous month. This made it impossible for a customer to budget their monthly expenses.

We heard you. We are making a change to 'smooth' out those passed-on costs so you can budget expenses and avoid the frustration. The change does not change the total amount a customer pays but rather smooths out the fluctuations over a year. We are doing what most others are doing. Most other municipal owned electric companies (those that produce and those that distribute), along with investor owned and cooperative utility companies calculate all their total costs into their rates as well. We have not but are starting to do so now.

We did so by averaging the last five years of the passed-on costs and the total kilowatt hours all customers use. We added up all the passed-on costs for the last five years and came up with the average annual cost. We also added up the total kilowatt hours (kWh) all our customers used for the last five years and came up with the average annual kilowatt hours customers used. The math and results look like this:

Annual average of all passed-on charges - \$ 1,025,120.77

Annual average of total kilowatt hours purchased by all customers – 40,234,162.80 kWh

We then divided the annual average passed on charges by the annual average of total kilowatt hours purchased to determine the cost per kilowatt hour.

1,025,120.77 divided by 40,234,162.80 = 0.025479 / kWh (2.5479 cents per kilowatt hour)

The 2.5479 cents per kilowatt hour will be added to the customers' usual electric rate. Starting with your January 2016 bill, there will be no fluctuations in the next 12 months. Your January bill will be mailed in February 2016. [Remember, utility billing is always one month behind. The bill you get in January is for electricity you used in December 2015.]

For example: A residential customer's base rate remains at 7.767 cents per kilowatt hour. The smoothing average of passed on costs, 2.5479 cents per kilowatt hour, will be added to this. The bill a residential customer gets in February will show a cost of 10.3149 cents per kilowatt hour.

A Little Background: Paw Paw is one of 11 members of the Indiana Michigan Municipal Distributors Association (IMMDA) that purchases electric energy from the Indiana Michigan Power Company. As a group, we purchase about 354 megawatts (MW) of electricity of which we are about 40.2MG. The rate we get as a group is much better than the rate Paw Paw would get if it had to purchase power on its own. The agreement allows IMP/AEP to 'pass on' the costs above. The federal government allows such a practice as a way to maintain the company's return on investment. Some suggest we 'turn the hydroelectric plant back on and produce our own electricity. That isn't possible as the hydroelectric dam in its best days could only produce about .6 MG of power; far short of what our customers use today.

Larry Nielsen, Village Manager