

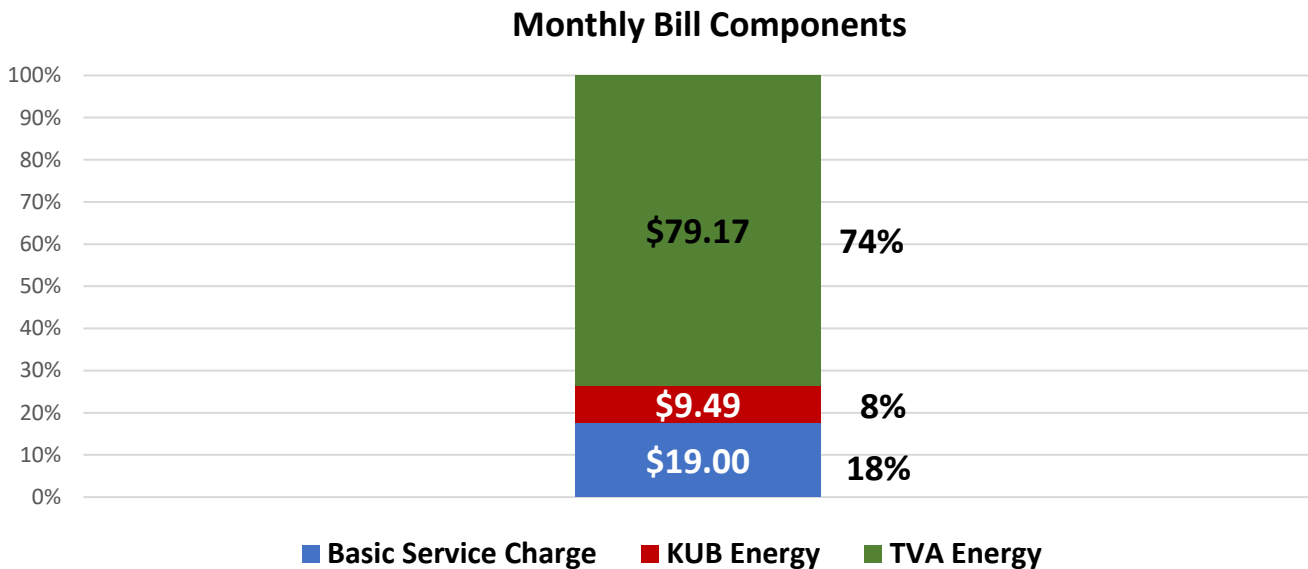
Residential Electric Basic Service Charges Frequently Asked Questions

What is the purpose of a basic service charge?

Residential electric rates include two main components: a basic service charge, which is fixed each month, and an energy charge, which varies according to how much electricity you use. Basic service charges help KUB recover the costs of providing electric service that don't vary with your energy use, such as metering costs, and infrastructure that must be built and maintained to provide your service.

How does TVA impact KUB rates?

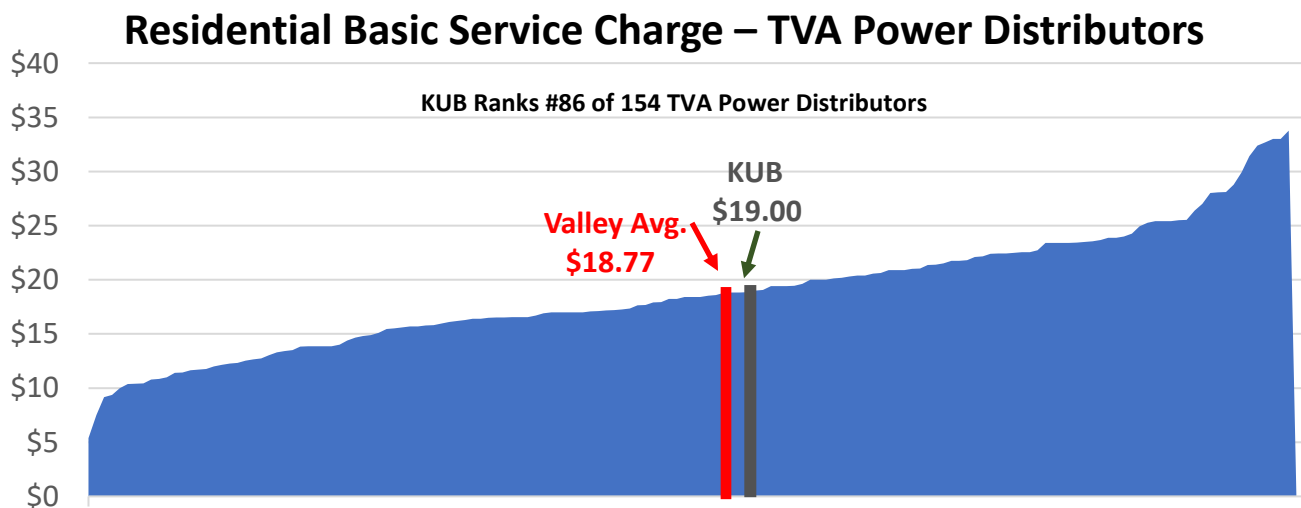
KUB is one of more than 150 local distributors that purchase power from TVA. TVA sells the power at wholesale rates to distributors like KUB, and KUB passes the cost along to customers through bills. If the cost for power changes, KUB passes those changes along without any additional markup. The cost of energy from TVA is the largest part of your bill:



Based on 1000 kWh/month (October 2018 rates)

How does KUB's basic service charge compare to other TVA distributors?

KUB's basic service charge (\$19.00) is about average among all TVA distributors. Charges range from about \$5.38 on the low end, to \$34.00 on the high end. Among municipal utilities in Tennessee, KUB is also about average. The chart below shows where KUB's basic service charge ranks among other TVA distributors.



I want to install a solar unit – how does this impact me?

Unless you are completely disconnecting from the grid, you will still use KUB services for times when the sun is not shining, or when your system doesn't generate enough energy to cover your needs. You will also need access to the KUB system to sell energy at times when your solar panels generate more than you need. That means that KUB still has to have metering, poles, wires, transformers and system capacity to provide you service. The basic service charge helps cover those costs. Your solar unit will still help to offset the variable costs associated with your energy use.

I want to manage my bill – does the basic service charge mean my energy efficiency efforts won't help?

No. For an average residential customer, KUB's basic service charge is only about 18% of the total bill, so changes you make to your home or your usage habits can have a real impact on what you pay. For example, customers served by the KUB [Round It Up](#) program have experienced savings of over 20% in their bills after energy efficiency improvements were made at their homes.

Why should I have to pay a basic service charge before I even flip a switch?

Because in order to "flip the switch," all of the electric infrastructure already has to be in place to provide service. Those facilities are there – and must be maintained – whether you use energy or not. The basic service charge helps cover those costs.

Compare it to owning a car: even before you turn the key in the ignition, you must pay a monthly car payment, insurance and maintenance costs to have the car in the first place. You can save money if you limit how much you drive, because your fuel costs will be lower. But if you have a car, those fixed costs must still be paid even if you never take it out of the garage. Basic service charges on your utility bill are like those fixed costs of owning a car.

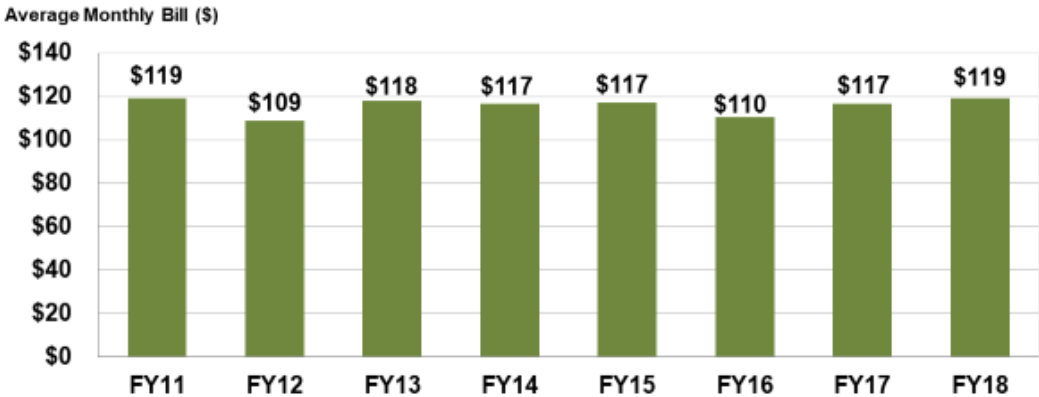
Are basic service charges unique to the electric industry?

No. In fact, many industries use fixed fees. If you have an unlimited cellular phone plan, you probably pay a fixed fee for each line. Cable and internet companies also charge fixed fees for their services, although you can also purchase additional services on demand. In both of these cases, the cost model is similar to an electric utility: there is a lot of investment made in the systems to deliver your service, and each customer pays a share of that cost through a fixed fee before they ever make a call or turn on the TV or computer.

Have basic service charges dramatically increased residential electric bills over the past several years?

No. In fact, average residential electric use and energy costs have gone down since 2011. That means, even with the increases in the basic service charge, average residential electric bills are basically flat since 2011. See chart below.

**KUB Residential Electric Bills
Since Inception of Century II**



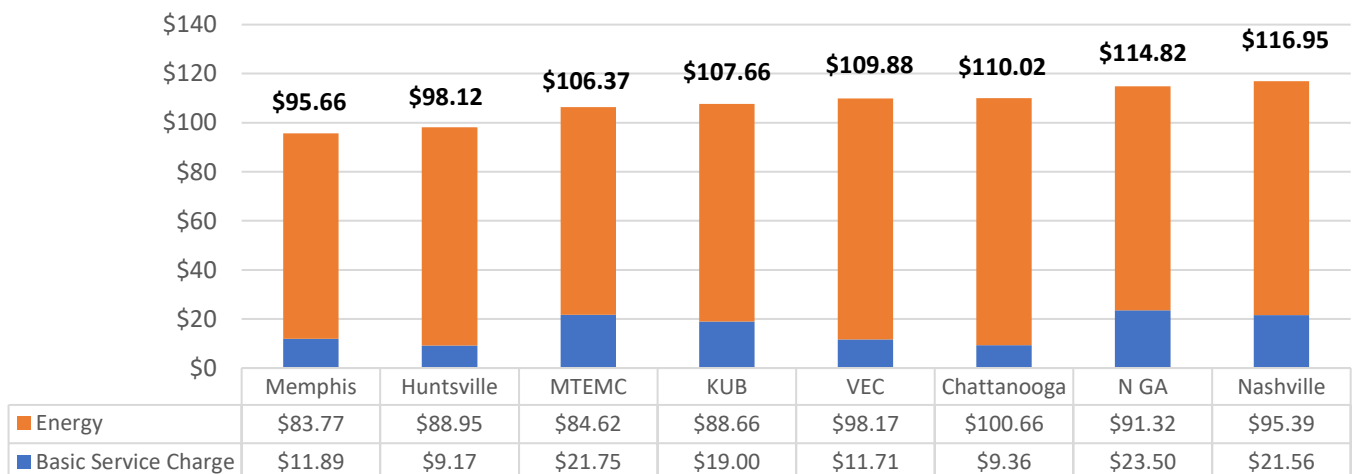
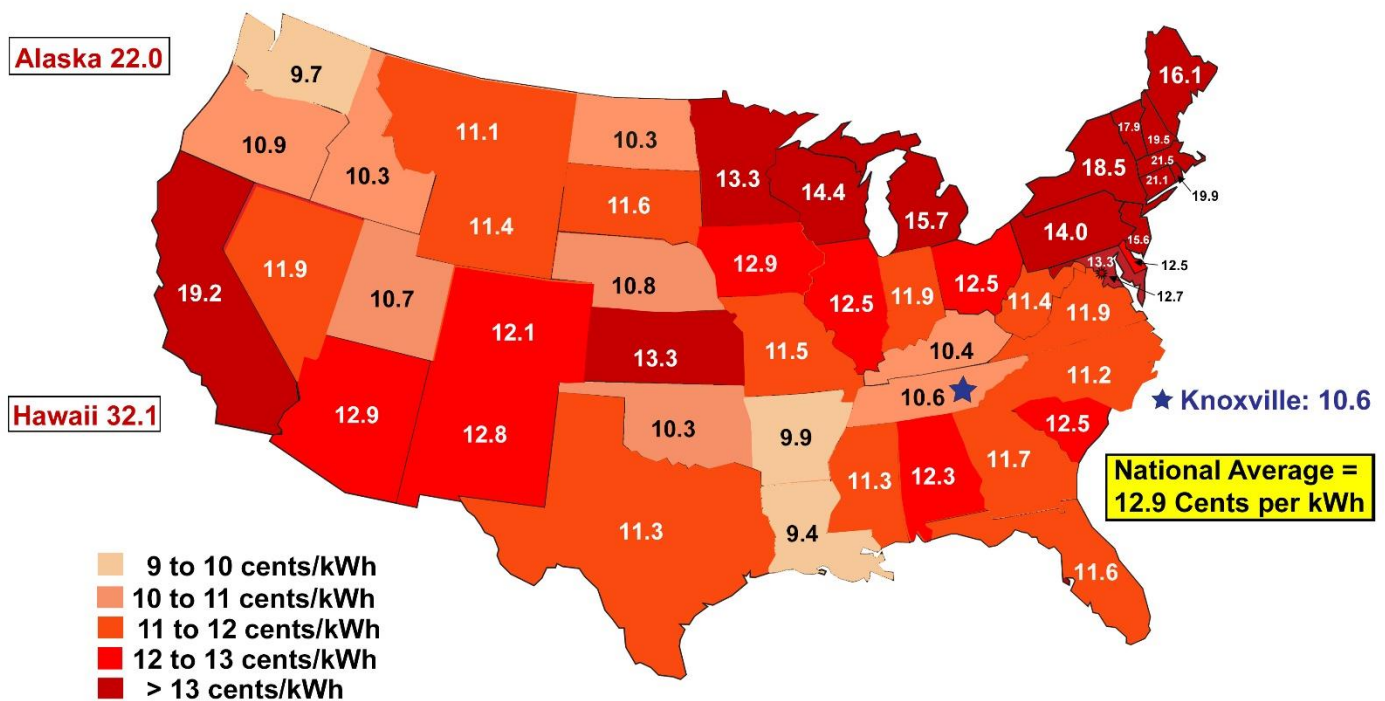
Average residential electric bills for twelve months ended June of each fiscal year.

How much have KUB's electric rates increased in the last 10 years?

Since 2008, KUB's portion of the monthly residential bill has gone up less than \$1 per year on average. These small, predictable annual increases have helped customers better manage their bills and have supported significant investments in the electric system under KUB's Century II program. These infrastructure investments have led to a more reliable system, with record low numbers for customer outages and recognition by the American Public Power Association as a Diamond-level RP3 (Reliable Public Power Provider) utility.

How do basic service charges impact low income families?

Utility bills can be a challenge for low income families, regardless of how rates are structured, so KUB works hard to keep rates affordable. That's why over the past 10 years, as basic service charges have increased, KUB has not raised rates on the energy portion of the bill – which represents the largest portion of any customer bill. Overall, KUB's residential bills are competitive, currently 18% lower than the national average, and fourth lowest among TVA's eight largest distributors (see map and chart below).



Map based on average price of electricity to residential consumers for 2018 year-to-date through August 2018.

Bar chart based on 1000 kWh/month (October 2018 rates).

What can KUB do to help low income customers with their bills?

KUB supports two major efforts to assist low income customers. The first is [Project Help](#), which provides emergency assistance to customers who fall behind in their bills. The second is [Round It Up](#), a program which rounds up customer bills to the next whole dollar and uses the change to fund weatherization for low income customers. The Round It Up program, coupled with major funding from TVA, has weatherized approximately 1600 homes in the past three years. Program participants have experienced utility energy bill reductions of over 20%, and requests for emergency utility bill assistance have dropped 40% after their homes have been improved. In addition to these programs, KUB Customer Counselors work one on one with customers in need, pairing them with other community resources that can help them with their utility bills.

Who authorized the changes in the basic charges?

Rates are approved by KUB's Board of Commissioners, made up of KUB customers. As a municipal utility, KUB is a community asset. Although it's run in a businesslike way, its purpose is not to provide profits for a private company, so rate increases are only implemented when they're needed to support critical services to customers.

All changes to KUB rates must be approved at two separate meetings of the Board, and members of the public may provide comments before the Board takes action. Since 2011, the KUB Board has adopted the practice of developing long term financial plans (ten years) to project both the financial needs of the systems and the rates needed to support those investments. This has provided greater predictability and transparency about rates.

Does KUB have a study that supports the level of its basic service charge?

All utilities must set rates in a way that provides enough revenue to cover the costs of providing service, and allocates those costs among different types of customers, including residential, commercial and industrial customers. Since rates are the only source of revenue for a utility, the challenge for decisionmakers is to ensure a proper balance among different customer classes, so that all customer classes are bearing an appropriate share of the costs.

KUB conducted an electric cost of service study to evaluate the allocation of costs among its various customer classes. Each customer class has a different profile, and the costs to serve them vary according to their usage and other factors. The study found, among other things, that the residential basic service charge is somewhat lower than required to cover the direct costs associated with providing service to a customer. The study also found that revenues collected from residential customers are somewhat lower than the actual costs to serve them. KUB's results are typical for TVA distributors, and the study noted that KUB's residential customer charge falls within a normal range.

The findings from the cost of service study will be considered when rate adjustments are next considered by the KUB Board, as part of the FY 2021 financial planning process.

Has KUB adopted further increases to the basic service charge?

The last of the KUB's previously adopted electric rate increases will increase the basic service charge to \$20.50 effective with November 2019 bills. KUB does not anticipate any additional electric rate actions until 2020. KUB's long-range financial plan (2020 and beyond) anticipates electric rate increases of 1% per year – an impact of between \$1.00 - \$1.50 on the monthly residential bill. However, the increases, if any, could be added to the energy rate or the basic service charge. That decision has not yet been made.

How do TVA rate decisions impact KUB rates? How does KUB participate in that decision-making process?

TVA is KUB's wholesale electric power provider, and TVA power costs make up approximately 75% of the average residential customer bill. Power supply is an important component of customer costs, and KUB monitors TVA's ratemaking process through industry trade groups and one-on-one interactions at the staff level. When providing input through these channels, KUB's focus is on ensuring that we can effectively serve all our customers, from the basic residential service, to customers with more complex commercial and industrial applications.