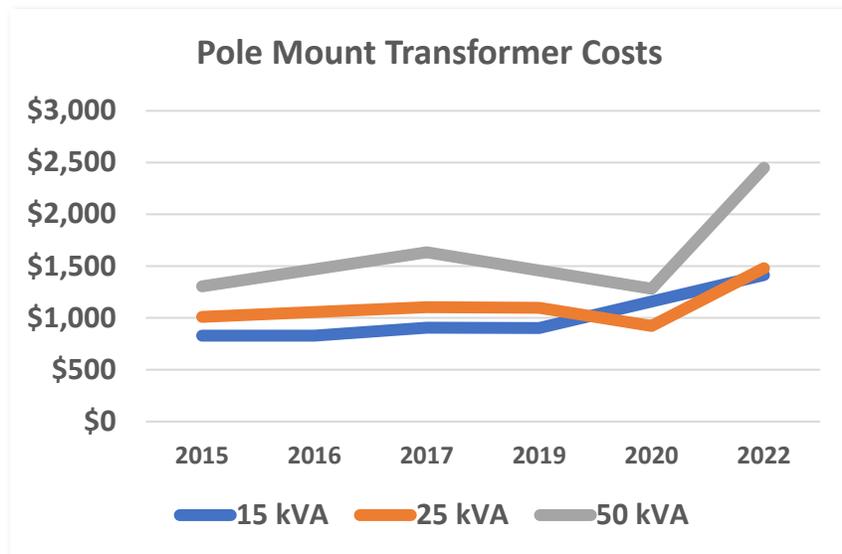
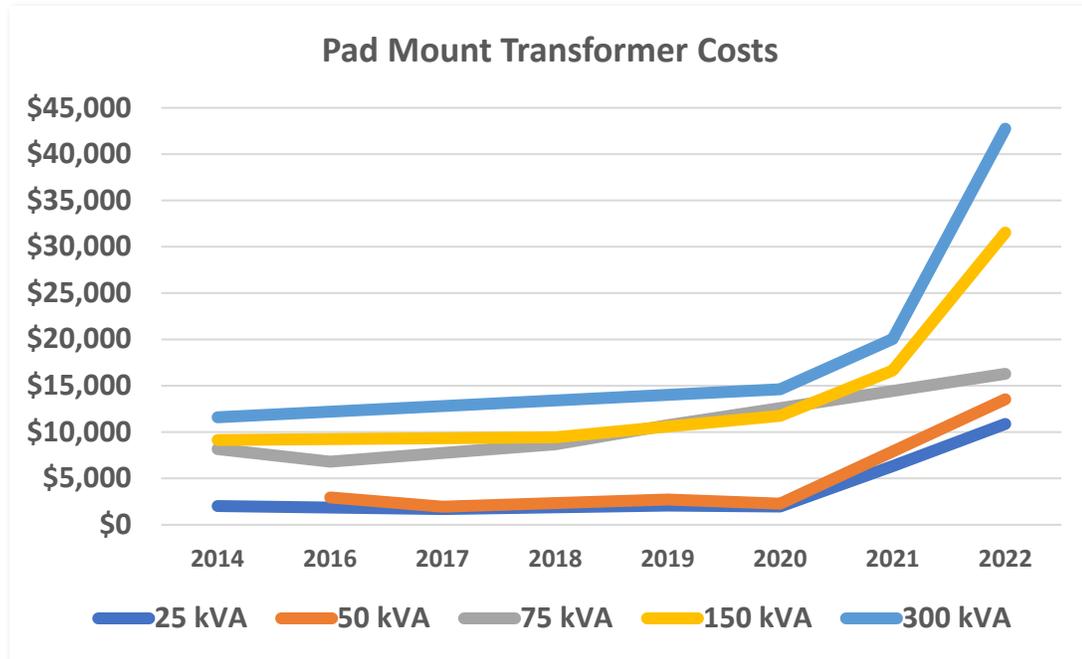


It has been 30 years since KEA has raised its electric rates. That has been an incredibly long streak. Unfortunately, it is coming to an end. Two forces have come together that have had a negative impact on our finances to the point that KEA must enact a rate increase. The first is inflation and the second is lower electric sales, which have and will cause lower revenue. These two together have caused our costs to go up at the same time our revenue is going down, which will not allow us to meet our financial loan covenants. We will be discussing this rate increase at our February 22, 2024, and March 28, 2024, Regular Board Meetings. The rate increase we have proposed is a 12.5 percent increase, which comes to about \$12 per month extra for the average residential user.

Inflation has been everywhere. We see it at the pump, or the grocery store every week. KEA has seen it constantly in the equipment we need in order to operate our electric grid. Below are a couple of graphs that represent some of the price changes in transformers that we have seen over the last few years. Transformers are an integral piece of our electric grid, and every electric service needs one. The increases KEA has seen have ranged from 50 percent increase to 500 percent increase depending on the size of transformer. All of our costs are going up. We have done what we can to use the equipment as efficiently as possible, but these increases are very difficult to manage.





The amount of electricity we sell is also very important to us. It is what drives how much revenue we receive. The fishing industry uses over 1/3 of the power we produce. They are seeing a reduction in their industry, so we are seeing a reduction in our sales. Therefore, we are seeing and going to see a reduction in the amount of revenue we will be bringing in.

KEA has various financial targets it must maintain with our lenders. Since our costs are going up quite high - rapidly - and our revenue is going down, it will be difficult to reach our financial targets. In 2023, KEA received a \$2 million grant from the Department of Energy for Production from Hydroelectric Unit 3 at Terror Lake. It was very fortuitous timing. KEA's Board of Directors wisely set that money aside in a reserve account to be drawn on to help maintain our financial targets. This decision definitely helps. However, due to the previously mentioned issues, we need more revenue. KEA is proposing a 12.5 percent rate increase starting on April 1, 2024. This will impact all rate classes. This will be discussed in more detail at the Board of Directors Regular Meetings on February 22, 2024 and March 28, 2024. You can also call KEA with questions.

Since we have gone over 30 years without a rate increase, we are still in a good position relative to our peers. Even with this rate increase, our cost to the average residential consumer will still be much lower than Homer or Anchorage. For the average residential usage of 600 kilowatt hours per month, the new KEA bill will be \$117.45, while for the same amount of power in Homer, it would be \$173.67 and in Anchorage it would be \$135.26.

At KEA, we strive to bring cost effective, reliable, and safe service to you, our members. We believe we are still achieving that goal. We wish we did not have to do this rate increase, but the external pressures of inflation and loss of revenue were too much to overcome.

President/CEO Darron Scott