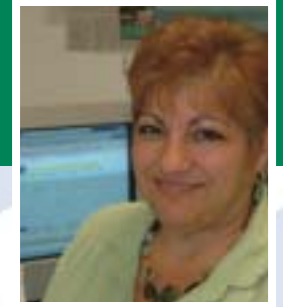


## Your Electric Bill and the Cost of Oil



When the Public Utilities Commission authorized the purchase of Kauai Electric by Kauai Island Utility Cooperative, they made some recommendations:

1. KIUC would charge KE rates and would refund to their members 25% of margins
2. KIUC would develop an Equity Management Plan targeting 2% equity per year to ensure fiscal solvency for our members

KE's base rates were set at .1747 cents per kWh and became effective in September of 1996. This rate was based on a fuel oil cost of approximately \$12.40 per barrel world oil prices, and has not changed since its original effective date in 1996. In the 1970s, long before the rate case of 1996, the PUC began allowing for an Energy Rate Adjustment Clause so bills could be adjusted to pay for increases and decreases in the price of fuel, and ONLY for fuel. The ERAC does NOT pay for people, poles, trucks, buildings, etc. Your electric bill fluctuates due to the variations in the price of fuel used in our power plant. KIUC passes through the actual cost of fuel with NO markup.

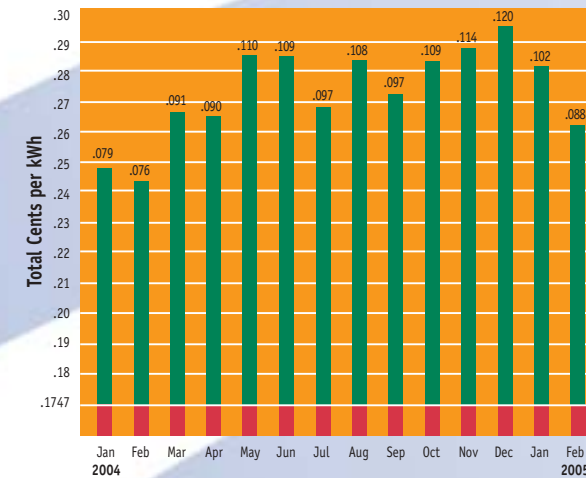
The chart below shows the effect of oil prices (ERAC) on your electric bill:

### Residential Bill based on 500kWh

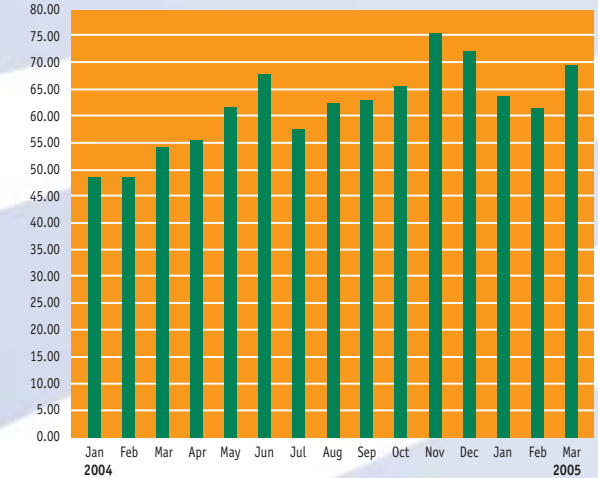
	Dec '98	Dec '03	Dec '04
<b>Oil Price</b>	\$13.00	\$31.11	\$48.47
<b>Diesel Price</b>	\$0.54	\$1.04	\$1.64
<b>KWH Charge</b>	\$87.45	\$87.45	\$87.45
<b>ERAC</b>	\$4.31	\$19.68	\$49.00

Note: the kWh charge is unchanged

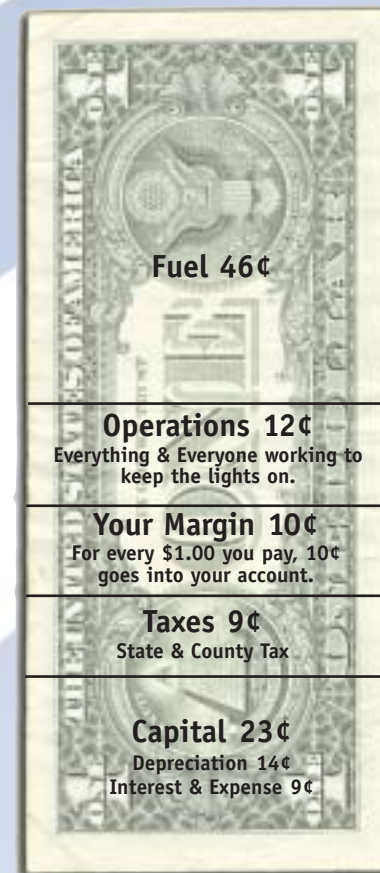
### Base Rate Plus Additional Fuel Change



### Fuel Oil Costs/Dollars Per Barrel



### Where Your Electric Dollar Goes



### Patronage Capital

As a member of an electric cooperative, you receive a benefit reserved for owners of a company, a return on your investment through the allocation and disbursement of capital credits. Capital credits come from the money a cooperative has leftover after paying all of its expenses in a given year. At the end of the year, that money is credited to each member's account according to the amount of energy the member paid for.

When KIUC's finances permit, that money will be returned to members in the form of patronage capital refunds.

A rural electric cooperative is a non-profit business that exists solely to provide its members with electricity. In a co-op, margins don't belong to the company; they belong to the individual members who paid money on their monthly bills.

In effect, the members of a cooperative are the shareholders. Because of that, when the cooperative takes in more money than is needed to operate the business, pay outstanding loans and pay any additional expenses, the owners are entitled to a share. That's the philosophy behind member equity.