

NAME OF UTILITY           CHOCTAWHATCHEE ELECTRIC COOPERATIVE, INC          FORMULA REVENUE REQUIREMENTFRR**APPLICATION**

Formula Revenue Requirement Rider Schedule FRR-1 ("Rider" or "Rider FRR") defines the procedure by which the revenues of CHOCTAWHATCHEE ELECTRIC COOPERATIVE (CHELCO) set out in Attachment A to this Rider shall be periodically reviewed and adjusted. Rider FRR is applicable to all electric service billed under CHELCO's rate schedules designated in Attachment A to the Rider, whether metered or unmetered.

**BILLING PROVISIONS****1. RATE ADJUSTMENTS**

The adjustments to CHELCO's rates as set forth in Attachment A to this Rider ("Rate Adjustments"), shall be added/subtracted to the Net Monthly Rates or Net Seasonal Rates in CHELCO's currently effective rate schedules as set out in Attachment A. The Rate Adjustments shall be determined in accordance with the provisions of Sections 2 and 3 below.

**2. ANNUAL DETERMINATION AND REVIEW****A. FILING DATE**

On or before April 1 of each year, CHELCO shall file a report with its Board of Trustees ("Board") containing an evaluation of the Rate Adjustments set forth in Attachment A to this Rider prepared in accordance with the provisions of Section 3 below ("Evaluation Report"). A revised Attachment A shall be included in each such filing and shall reflect such modified Rate Adjustments as may be required under the provisions of Section 3 below.

**B. REVIEW PERIOD**

The Board shall then have until April 30 of the filing year to review the Evaluation Report to ensure that it complies with the requirements of Section 3 below and that it balances the interest of both CHELCO and its member-owners. At the time each such Evaluation Report is filed, CHELCO shall provide the Board with work papers and forecasts supporting the data and calculations reflected in the Evaluation Report.

In accordance with the objective of providing quality service at minimum rates, it is the intent of this rider to allow CHELCO to change rates (increase or decrease) in order to maintain a prudent return that is within specifically defined boundaries. Should the review indicate the earned return is below the threshold lower boundary return, the Board will contemplate an increase. If the earned return is above the threshold upper boundary return, then the Board will contemplate a decrease. However, the Board may elect not to change rates even if the Evaluation Report may indicate a rate change is required, or the Board may deviate from the formula for good reason. The Board will render its decision on or before April 30 of the each year.

Issued by: Leigh V. Grantham  
Chief Executive Officer

Effective: May 1, 2012

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**C. GENERAL RATE PROCEEDINGS**

In the event the Board initiates a general rate proceeding while this Rider FRR is in effect, the Rate Adjustments in the then currently effective Attachment A shall be revised to be zero. Such revised Rate Adjustments shall become effective on the effective date of the revised rates resulting from such a general rate proceeding.

**3. ANNUAL EVALUATION OF RATE ADJUSTMENTS**

**A. EVALUATION PERIOD**

Each annual evaluation of the Rate Adjustments shall be based on data for the twelve-month period ended December 31 of the prior calendar year ("Evaluation Period"). All data utilized in each evaluation shall be based on actual results for the Evaluation Period as recorded on the books CHELCO in accordance with the Uniform System of Accounts and such other documentation as may be appropriate.

**1. DEFINITION OF TERMS**

**a. RATE OF RETURN ON RATE BASE**

The Rate of Return on Rate Base (RORB) for any Evaluation Period shall be CHELCO's net utility operating income divided by its rate base and shall be determined in accordance with the formula set out in Attachment B. The RORB determination shall reflect the Evaluation Period Adjustments set out and described in the Evaluation Report.

**b. BENCHMARK RATE OF RETURN ON EQUITY**

The Benchmark Rate of Return on Equity ("BROE") is the forward looking target return on equity of CHELCO. The BROE shall be determined in accordance with the formula set out in Attachment C.

**c. EVALUATION PERIOD EARNED COST OF COMMON EQUITY**

The Evaluation Period Cost of Common Equity ("EPROE") is CHELCO's earned cost of common equity at the end of the Evaluation Period and shall be determined for each Evaluation Period in accordance with the formula set out in Attachment B.

**d. RATE OF RETURN ON EQUITY BANDWIDTH**

There shall be a Rate of Return on Rate Base Bandwidth ("Bandwidth") around the BROE within which no change in the Rate Adjustments will be made. The upper limit of the Bandwidth ("Upper Band") shall be the BROE plus 1.00%. The lower limit of the Bandwidth ("Lower Band") shall be the BROE minus 1.00%.

**2. RULES FOR CHANGING RATE ADJUSTMENTS**

In each annual Evaluation Report, the determination of the change in the currently effective Rate Adjustments shall be made based on the following rules:

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Chief Executive Officer

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- a. If the EPROE is less than the Lower Bandwidth, the then currently effective revenues shall be increased in accordance with the provisions of Attachment B below so that, when the Rate Adjustments so revised are applied to the Evaluation Period billing units ("kW" or "kWh"), the resulting increase in revenue would increase the EPROE for the Evaluation Period to meet the Lower Band. However, the amount of such revenue increase shall not exceed 5% of the Cooperative's unadjusted Evaluation Period revenues.
- b. No change shall be made to the Rate Adjustments if the EPROE is less than or equal to the Upper Band and greater than or equal to the Lower Band.
- c. If the EPROE exceeds the Upper Band, the then currently effective revenues shall be reduced in accordance with the provisions of Attachment B below so that, when the Rate Adjustments so revised are applied to the Evaluation Period billing units ("kW" or "kWh"), the resulting reduction in revenue would reduce the EPROE for the Evaluation Period to meet the Upper Band. However, the amount of such revenue reduction shall not exceed 5% of the Cooperative's unadjusted Evaluation Period revenues.

### 3. EFFECTIVE DATE AND TERM

Rider FRR shall be effective with bills rendered on or after May 1 and shall continue in effect until modified or terminated in accordance with the provisions of this Rider FRR or applicable regulations or laws. Nothing herein shall prevent CHELCO or its members from proposing elimination of this Rider FRR at any time in the manner provided by CHELCO's By-Laws.

If Rider FRR is terminated in the future, then the Rate Adjustments then in effect shall continue to be added to the Net Monthly Rates CHELCO's currently effective rate schedules until such time as new general rates become effective pursuant to a final Commission order in a general rate proceeding, which may be concurrent with such termination of Rider FRR.

#### A. MAJOR COST ADDITIONS

It is recognized that CHELCO may from time to time have to construct or acquire major plant additions; make major modifications to existing plant; or incur significant new costs to comply with environmental or other laws and regulations, which are outside of the annual average increases to plant or normal expense growth. Such costs may significantly increase CHELCO's revenue requirements and thereby require rate changes, which this Rider FRR is not designed to collect. Should CHELCO construct, have constructed/sell, or purchase major plant, make major modifications to existing plant, or be required to incur substantial costs to comply with new laws or regulations, then CHELCO may increase/decrease, as provided by its By-Laws, for rate or other relief outside the provisions of this Rider. Such a request will be considered by the Commission in accordance with its rules and regulations and applicable law governing such filings.

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**B.    SPECIAL RATE FILINGS**

Nothing in this Rider shall be interpreted as preventing CHELCO from proposing to revise existing rate schedules or implement new rate schedules as may be appropriate. Any such rate changes shall be filed with the Commission and evaluated in accordance with the rules and procedures then in effect.

**C.    FORCE MAJEURE**

In addition to the rights of CHELCO under this Rider, or as provided by law, to change rates outside the terms of this Rider, if any event or events beyond the reasonable control of CHELCO, including natural disaster, damage or loss of generating capacity, and orders or acts of civil or military authority, cause increased costs to CHELCO and result in a deficiency in revenues which is not readily capable of being redressed in a timely manner under this Rider, CHELCO may seek to increase/decrease rates outside the provisions of this Rider FRR, such requests shall be considered by the Board in accordance with its regulations and applicable By-Laws governing such actions.

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            Chief Executive Officer

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Attachment A  
Revenue Adjustment Based On Application  
Of Formula Revenue Requirement Rider

Attachment A

**Proposed Rate Adjustment**

Line No.	Rate Group	(a) Existing Revenues	(b) Proposed Increase	(c) Proposed Revenues	(d) Percent Change
1	Residential				
2	Commercial				
3	Industrial				
4	Street Lighting				
5	Public Authorities				
6	Total Metered Sales				
7	Other Misc. Revenues				
8	Total Operating Revenues				
<p>Notes:</p> <p>1   Increases/Decreases are spread to rate groups based on existing revenues.</p> <p>2   Line 8 (b) is taken from Attachment B Schedule 4 Line 7 (a).</p>					

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Attachment B  
Formula Revenue Requirement

Attachment B  
Schedule 1

**CHOCTAWHATCHEE ELECTRIC COOPERATIVE, INC.**  
**Rate Base and Existing Return Calculation**  
**December 31, 20xx**

Line No.		(a) Actual per Books	(b) Adjustments	(c) Adjusted Results	(d) Source
1	Utility Plant				RUS Form 7
2	CWIP				RUS Form 7
3	Accumulated Depreciation				RUS Form 7
4	Net Plant in Service				Sum of Lines 1-3
5	Materials & Supplies				RUS Form 7
6	Prepayments				RUS Form 7
7	Cash Working Capital [See Note (b)]				See Note B
8	Deferred Debits				RUS Form 7
9	Customer Deposits				RUS Form 7
10	Deferred Debits				RUS Form 7
11	RATE BASE				Sum of Lines 4-10
12	Operating Revenues				RUS Form 7
	Operating Expenses				
13	Total Operation & Maintenance				RUS Form 7
14	Annual Depreciation				RUS Form 7
15	Property Taxes				RUS Form 7
16	Taxes - Other than Income				RUS Form 7
17	TOTAL OPERATING EXPENSES				Sum of Lines 13-16
18	RETURN				Line 12 - Line 17
19	RATE OF RETURN - OVERALL				Line 18 / Line 11

Notes:

- (a) Schedule B and Schedule C
- (b) As adjudicated in last rate case or as currently calculated

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Attachment B  
Schedule 2

**CHOCTAWHATCHEE ELECTRIC COOPERATIVE, INC.  
Rate Base and Existing Return Calculation  
December 31, 20xx**

Line No.		(a) Capitalization per Books	(b) Capitalization Percentage	(c) Cost	(d) Weighted Costs
1	EXISTING RETURN: Long-Term Debt				
2	Total Equity				
3	Total				
4	ADJUSTED RETURN: Long-Term Debt				
5	Total Equity				
6	Total				

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Attachment B  
Schedule 3

**CHOCTAWHATCHEE ELECTRIC COOPERATIVE, INC.**  
**Return Calculation**  
**December 31, 20xx**

Line No.		(a) Cost	(b) Source
	BANDWIDTH CHECK		
1	Benchmark Return on Equity		
2	Upper Bandwidth Return On Equity		Benchmark ROE + 1%
3	Lower Bandwidth Return On Equity		Benchmark ROE – 1%
4	Earned Return on Equity		Schedule 2 Line 3 (c)
5	ROE Adjustment		Adjustment ROE
6	Adjusted ROE		Line 4 + Line 5
7	Adjusted Return On Rate Base		Schedule 2
			Line 7 (d)

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Effective: May 1, 2012



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Attachment B  
Schedule 4

**CHOCTAWHATCHEE ELECTRIC COOPERATIVE, INC.  
Rate Base and Existing Return Calculation  
December 31, 20xx**

Line No.		(a) Cost	(b) Source
1	Rate Base		Schedule 1 Line 11 (c)
2	Adjusted Return On Rate Base		Schedule 3 Line 7 (a)
3	Adjusted Return		Lines 1*2
4	Total Operating Expenses		Schedule 1 Line 17 (c)
5	Adjusted Revenues		Sum of Lines 3 and 4
6	Existing Operating Revenues		Schedule 1 Line 12 (c)
7	Adjustment To Operating Revenues		Line 5 - Line 6
8	Percent Increase		Line 7/Line 6

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**ATTACHMENT C**  
**EVALUATION PERIOD COST OF [COMMON] EQUITY (EPCOE)**

**1. The "Modified" Goodwin Model**

A. The following version of the "Modified" Goodwin Model as put forth by National Rural Utility Cooperative Finance Corporation and the Rural Utility Service shall be used and applied to CHELCO in determining its BROE:

$$k_e = \frac{((1+g)^{(n+1)} - (1+g)^n)}{(1+g)^n}$$

Where:

- $k_e$  = Cost of common equity for CHELCO.
- $g$  = Growth rate in Total Utility Plant for CHELCO. The growth rate data for CHELCO shall be computed as described in section B below.
- $n$  = Capital Credits rotation cycle policy in years

The Board of Directors shall use this formula as a guide to determining the BROE; however, they can deviate from it with good reason.

B. Growth rate shall be the 10 year average of the annual change in Total Utility Plant inclusive of CWIP.

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