Understanding Ontonagon REA's Upcoming Rate Increase: What TIER Means and Why It Matters

Electric cooperatives exist to provide reliable, affordable service at cost—not to generate profits. That means rates must be set carefully to ensure the cooperative can meet its financial obligations, maintain the system, and invest in reliability. As part of this responsibility, Ontonagon County REA conducts an annual Times Interest Earned Ratio (TIER) analysis to determine whether current rates are sufficient to meet lender requirements and long-term financial needs.

For 2025, that analysis showed a significant shortfall, making a rate increase necessary beginning September 1, 2026.

What Is TIER?

TIER—Times Interest Earned Ratio—is a standard financial measure used by all electric cooperatives and required by lenders such as RUS, CoBank, and CFC. It ensures the cooperative generates enough margin to pay interest on long-term debt and maintain financial stability.

The formula is straightforward:

TIER = (Adjusted Total Margins + Interest) ÷ Interest

In the cooperative's 2025 financials, Ontonagon's adjusted total margins were **$51,744**, and long-term interest expense was **$659,350**. As the packet states:

"The TIER calculation for the 2025 operating year indicates an adjusted TIER of **1.08**."

Lenders require a minimum TIER of **1.5** to ensure the cooperative can meet its obligations, maintain infrastructure, and respond to emergencies. To reach that level, Ontonagon must generate **$989,295** in annual margins—but is currently far short of that amount.

The packet explains:

"A revenue increase of **$937,281** or **12.18%** is required to achieve a Target TIER of 1.5."

Why Is a Rate Increase Necessary?

1. Meeting Lender Requirements

Cooperatives borrow long-term, low-interest funds to build and maintain the electric system. These loans require a minimum TIER of 1.5. Falling below that threshold—like Ontonagon's current 1.08—puts the cooperative at risk of violating loan covenants.

2. Recovering Actual Operating Costs

The cooperative experienced unusually high expenses in 2025, including storm restoration costs, consulting fees during staffing transitions, and write-offs of old work orders. ***These one-time items were removed from the TIER calculation, but even after adjustments, margins remained far below required levels.***

3. Ensuring Reliability and System Investment

Ontonagon's infrastructure—poles, wires, substations, meters—must be maintained and upgraded continuously. Without adequate margins, the cooperative cannot reinvest in reliability, respond to outages, or plan for future needs.

4. Operating at Cost

As a nonprofit, Ontonagon cannot over-collect revenue. Rates must be set precisely to cover actual costs. The TIER analysis showed that current rates are not sufficient to meet those costs.

What Members Can Expect

Beginning **September 1, 2026**, monthly service charges and per-kWh energy charges will increase across all major rate classes. For example:

- **Residential Monthly:** +$4.00/month and +$0.0231/kWh
- **Seasonal:** +$6.00/month and +$0.0231/kWh
- **C&I Small/Large:** +$8.00/month and +$0.0231/kWh

These changes directly reflect the revenue needed to return the cooperative to a healthy TIER of 1.5.

The Bottom Line

This rate adjustment is not about generating profit—it is about ensuring Ontonagon REA remains financially stable, meets lender requirements, and continues providing safe, reliable electricity to all members. The cooperative's costs have increased, margins have fallen, and the TIER analysis shows clearly that a correction is necessary.

By implementing this increase now, Ontonagon protects its long-term financial health and ensures the system remains strong for years to come.