

Focus on Rates

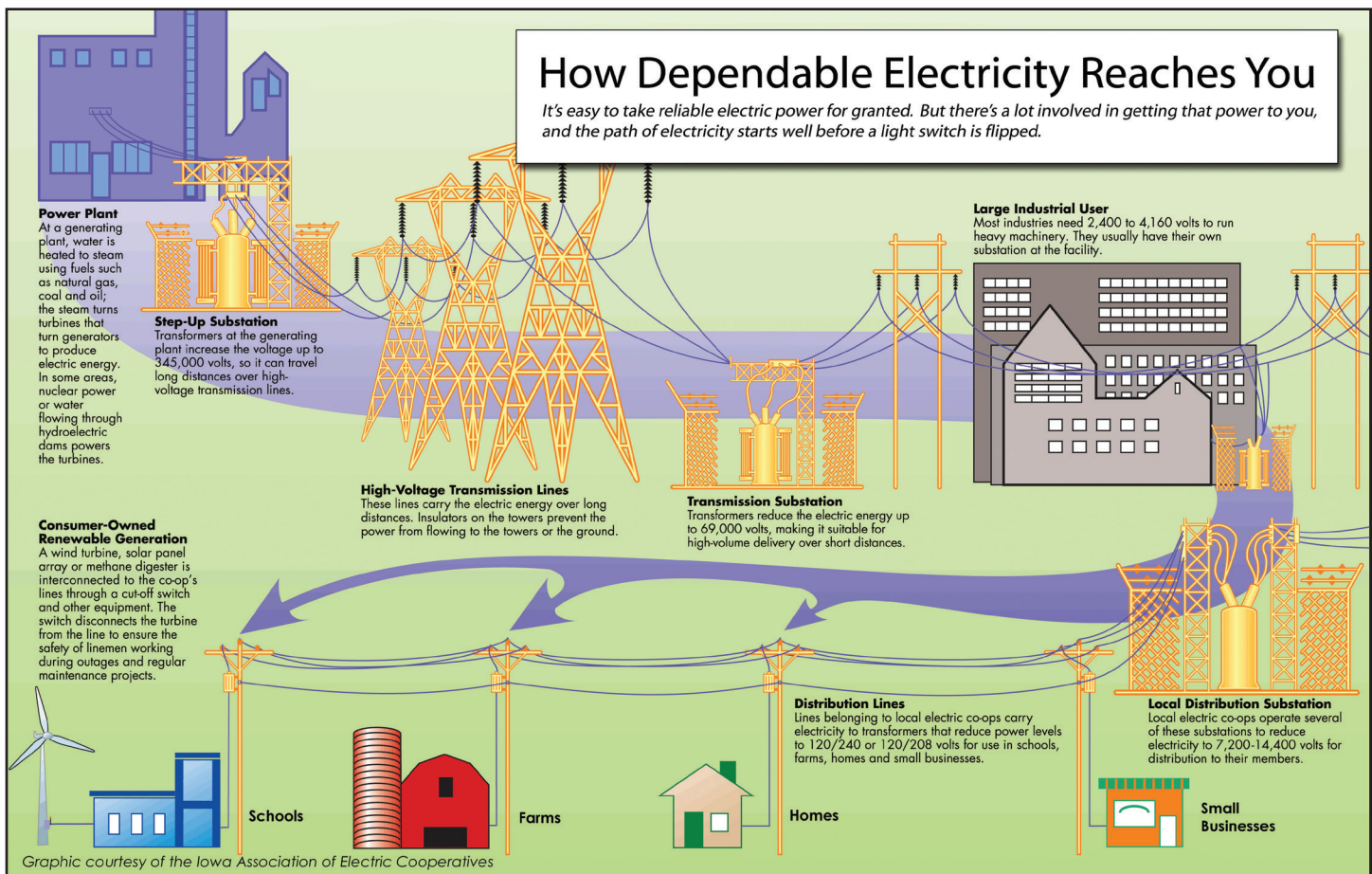
Q How is electricity delivered to consumers?

A Electricity is delivered to consumers through a complex network. Electricity is generated at power plants and moves through what is often referred to as the grid, a system of electric substations, transformers, and power lines that connect electricity producers and consumers. Most local grids are interconnected for reliability and commercial purposes, forming larger, more dependable networks that enhance the coordination and planning of electricity supply.

In Kansas, the entire electric grid consists of over 10,000 miles of high-voltage transmission lines and hundreds of thousands of miles of low-voltage power lines with distribution transformers that connect more than 150 power plants to 1.5 million electricity customers across the state.

Q Why does the price of electricity or energy cost adjustment vary throughout the day and year?

A The wholesale price of electricity on the electric power grid reflects real-time variable costs such as fuel and price signals to balance supply and demand. Demand for electricity contributes to the cost of long-lived physical assets. Electricity demand is usually highest in the afternoon and early evening (peak hours), so costs to provide electricity are usually higher at these times. If renewable resources are online, they can offset fuel costs, but only for that period. Most consumers pay prices based on the seasonal average cost of providing electricity, so they do not experience these hourly or daily price fluctuations. Some utilities offer their customers time-of-day pricing or load management incentives to encourage electricity conservation and to reduce peak demand for electricity.



Q What are the primary cost drivers of retail electric rates?

A Power supply and transmission costs amount to over 50% of the consumer's bill. The remaining amount is made up of distribution-related costs such as operations and maintenance, depreciation, administrative and general expenses and a margin. As not-for-profit cooperatives, the operating margin is typically less than 3%.

Q The Southwest Power Pool has some of the lowest market prices in the nation, so why is the retail rate so much higher?

A SPP operates a wholesale electricity marketplace with the goal that the most reliable and lowest-cost generation is dispatched to meet load. The market clearing price is only the price of energy at that moment and does not include any capacity-related costs such as power plants and transmission lines. Each utility must own, or contract for, electric generation to participate in the SPP marketplace and this includes associated costs of operating, which are passed to the end-consumers. The SPP marketplace depends on a robust transmission network. These costs must also be passed along as part of the cost of energy delivered to the distribution cooperative. Finally, distribution-related costs for building, operating and financing substations, feeder lines, transformers and meters must be added on to and recovered via retail electric rates. As an analogy, consider the cost of untreated water in a distant reservoir compared to the cost of clean, drinkable water delivered to a neighborhood.

