

Oil Industry Win Comes at a Cost for Others

Q The oil industry claims it has proposed a win-win-win solution for lowering their electricity costs. Why is this incorrect?

A Representatives from the Kansas Independent Oil and Gas Association (“KIOGA”) have offered several proposals with the goal of reducing their cost of electricity by 20% over five years. These proposals include forming a working group of electric and oil & gas stakeholders to seek solutions, increasing oil representation on electric cooperative boards and offering special rates including tying their price of electricity to the price of oil. Farm and rural residential customers should not be the safety net for entrepreneurs choosing to play in international commodity markets. The oil industry proposal purports to be a win for the oil pumping consumer (class-specific rate relief), state and local governments (continued tax collections), and electric cooperatives (customer preservation). While oil pumping consumers and taxing entities will be guaranteed winners, electric cooperatives and their consumer-members would be forced to subsidize the oil class. The other ratepayers would assume the risk that after charging the oil pumping customer a below-cost electric rate, they will be able to weather the downturn in world oil prices and exit on the other side to resume operations in normal conditions and be able to pay above-cost rates to pay back the subsidy. Essentially, the other consumers would be providing oil pumping consumers with an operating loan.

Q Why not provide a discount to oil pumping consumers during times of low world oil prices?

A Electric prices are determined based on the costs of providing electric service to each class of customer. Electric prices do not track the market price of oil, or the price of beef or corn, for that matter. The price of oil is established based on actions of world market players and the industry has experienced both boom-and-bust cycles during its existence.

Q Should oil pumping consumers be eligible as an industrial class consumer?

A Simply labeling a load as “industrial” does not impact the true cost to serve it. Oil pumping loads rarely reach the size of a large industrial consumer such as

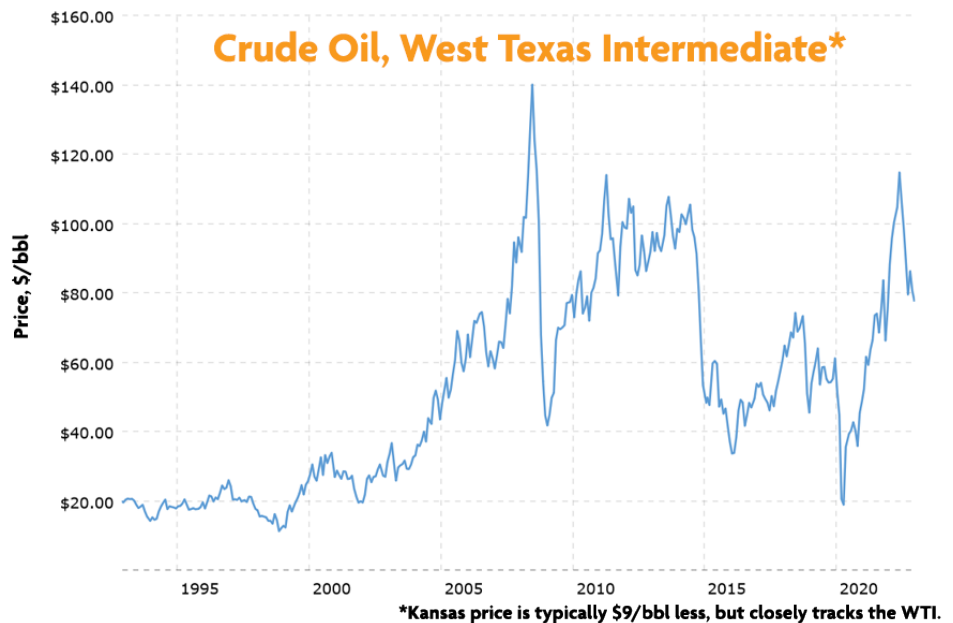
a manufacturer or pipeline pumping station, which typically has demands of 500-5,000 kW or more. A handful of oil loads may be as large as a single industrial customer but require far more upstream electric facilities. Small oil wells are dispersed across wide expanses rather than being aggregated as a single point of delivery.

Q But in aggregate, don't they equate to a large industrial consumer?

A The total electrical load for an oil producer with multiple services may equal the demand of one large industrial consumer. However, the cost-of-service to the cooperative will be higher due to many miles of feeder lines, rural substations and multiple transformers and meters.

Q Why not create a separate rate class for oil pumping consumers?

A This makes sense at some cooperatives when they serve a significant number of oil pumping consumers, and some have recently created such a class. This allows the cooperative to conduct a class cost-of-service study to determine the appropriateness of the existing rates and whether an increase or decrease is needed. However, other cooperatives may have a relatively small number of oil pumping consumers and it does not make economic sense to carve out these few consumers into their own rate class.



Q Can an oil pumping consumer run for the electric cooperative board?

A All electric cooperative members in good standing are eligible to be elected to the board of trustees, provided they meet the qualifications outlined in state law or co-op bylaws. Some cooperatives have a bylaw provision requiring that board members reside on cooperative lines. This ensures that board members are close to the issues and concerns of fellow members. Therefore, to the extent the owner or employee of an oil pumping business meets the qualifications, they would be eligible to run for a position on the cooperative's board. Cooperative residency requirements are similar to residency requirements of the state legislature.

Q What have cooperatives done to address the concerns of the oil pumping consumer?

A Given the large number of oil pumping services, Midwest Energy, Hays, has for decades maintained a separate oil field class of customers and electric rates based on cost-of-service results for this group. Sumner-Cowley Electric Cooperative, Wellington, developed a load management rate that encouraged the customer to reduce load during peak periods. In exchange for curtailing



its load, the cooperative passed along its cost savings to the oil pumping customer. In response to the oil industry's request for rate relief during the oil price drop in the mid-1990s, Sunflower Electric Power Corp., Hays, developed a marginal oil well rider. The rate was in place for over 20 years and not a single customer signed up for it.