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Electricity 101

Both product and delivery are key components to understanding usage

A typical energy bill can be confusing.

But at the most basic level, all energy bills consists of two components — charges for actual energy, and charges for the delivery of that energy — explains Gail Workman, regional vice president, South, for GDF Suez Energy Resources NA.

Workman

Workman handles retail commodity sales to large commercial and industrial customers.

"The delivery costs represent costs associated with getting the energy from the electricity generator station to the meter on the building and include the cost for the safe operation of all parts of the delivery system from the transmission system to the neighborhood distribution lines," she says.

"The energy portion of the bill — which generally makes up about 75 to 85 percent of the total cost — is where customers have options to choose a fixed rate or a flex rate, meaning a price that varies with the market value of energy."

Below, Workman answers frequently asked questions regarding energy usage and billing:

Q How are costs of delivery and energy determined?

Delivery costs are rarely left up to the energy provider and are driven by regulatory bodies and "independent system operators" that are responsible for managing the integrity and reliability of the delivery system, more than by market forces. The independent system operators set the operating requirements that generators must provide to operate a safe delivery system. The additional costs are passed along to the retail energy providers, which have little to no control over the costs and cannot truly hedge them.

The cost of energy itself is tied directly to the availability of supply and demand for the product and, because it cannot be stored, is constantly changing and can be highly volatile. Also, there are many other factors such as time of year, weather patterns, generation fuel type and economic activities that can impact pricing.

Q Aren't there other factors — such as the time of day — that affect the price of electricity?

The price of electricity is determined for each hour of the day and fluctuates throughout the day depending on factors such as time of day, season of the year, weather and economic growth. Peak hours tend to be from 8 a.m. to 5 p.m.

Electricity costs may fluctuate from one season to another due to increased demand to run air conditioning or extended business hours. The weather can also influence prices, when heat or extreme conditions strain the electricity grid and cause costs to rise. Also, the health of the financial and energy markets play a huge role in determining the price of electricity.

Q What are some of the most important things customers should consider when purchasing electricity?

When looking at different providers, it is most important that customers clearly identify the products and features that are vital to their particular business and meet their objectives.

It is critical that customers make "apples to apples" comparisons among different products offered by diff erent suppliers and remember that timing, too, can impact an offer. Customers should ensure they are working with a qualified supplier that has worked with similar types of businesses. Look at the fine print. If customers know

and understand what components to look for and how they work, they will be better equipped to make smart choices about their electricity.

Q Are there options for customers to lower their own energy costs?

Yes. Product features that allow broad swings in the amount of energy consumed or unplanned additions or deletions of meters and facilities may add cost. Features that limit these swings in energy and meters to a smaller tolerance band may save dollars. Extended payment terms generally come at a price, and may also increase a customer's bottom line.

Some components of the energy cost, such as delivery cost, may fluctuate less over the term of the contract and allowing these to settle at market prices may result in cost savings. Depending upon market conditions and the ability to manage month-to-month variances in energy cost, some products offer the ability to take advantage of market movements and lock in all or a portion of energy cost after the contract has been signed and service may have already begun. Purchasing these blocks of energy at various times over the term of the contract may also provide a savings in energy cost. Not all retail energy providers offer the same products or flexibility, so it is critical to understand the benefits each product can provide in order to select solutions that fit energy budgets and operating goals best. ■

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