

Key Factors Influence Electricity Prices

The cost to supply electricity varies minute to minute. The wholesale price of electricity on the electric power grid reflects the real-time cost of supplying electricity. Demand for electricity contributes to the cost of supplying electricity. Electricity demand is usually highest in the afternoon and early evening (peak hours), so costs to provide electricity are generally higher at these times.

Electricity prices are usually highest in the summer. Changes in price generally reflect variations in electricity demand, availability of generation sources, fuel costs and power plant availability. Wholesale power costs are higher when generation sources are added to meet the increased demand.

The cost of generating electricity is the largest component of electricity. In 2020, the major components of the U.S. average price of electricity were generation (56%), distribution (31%) and transmission (13%). For DEMCO, wholesale power generation costs account for 60% to 65% of our cost.

Many factors influence electricity prices. Electricity prices generally reflect the cost of building, financing, maintaining, and operating power plants and the electricity

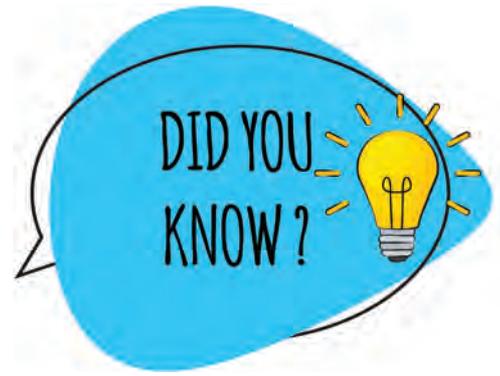
grid—the complex system of power transmission and distribution lines.

Several key factors influence the price of electricity:

- **Fuels:** Fuel prices, especially for natural gas and petroleum fuels, may increase during periods of high electricity demand and when there are fuel supply constraints or disruptions because of extreme weather events and accidental damage to transportation and delivery infrastructure. Higher fuel prices, in turn, may result in higher costs to generate electricity.

- **Power plant costs:** Each power plant has financing, construction, maintenance and operating costs. When consumer power demand is high, wholesale power costs increase—often high demand can lead to less supply. To meet the demand, power generation may depend on less efficient resources or plants, which can increase cost.

- **Transmission and distribution system:** The electricity transmission and distribution systems that connect power plants with consumers have construction, operation and maintenance costs, including repairing damage to the systems from accidents or



extreme weather events and improving cybersecurity.

- **Weather conditions:** Extreme temperatures can increase demand for heating and cooling, and the resulting increases in electricity demand can push up fuel and electricity prices.

- **Regulations:** In some states, public service/utility commissions fully regulate prices, while other states have a combination of unregulated prices (for generators) and regulated prices (for transmission and distribution).

Electricity is delivered to consumers through a complex network. Electricity is generated at power plants and moves through a complex system—called the grid—of electricity 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 the United States, the entire electricity grid consists of hundreds of thousands of miles of high-voltage power lines and millions of miles of low-voltage power lines with distribution transformers that connect thousands of power plants to hundreds of millions of electricity customers across the country.

The retail structure of the electricity industry varies. The company selling you power may be a not-for-profit municipal electric utility; an electric cooperative owned by its members; a private, for-profit electric utility owned by stockholders (often called an investor-owned utility); or in some states, you may purchase electricity through a power marketer.

DEMCO is a not-for-profit electric cooperative that purchases power from a wholesale power supplier, then distributes that power to our member-owners. ■

