



Rio Grande Electric Cooperative, Inc.

UP DATE



February, 2006

Happy Valentine's Day! We love our Co-op members!



A Message From The General Manager/CEO

By Dan Laws

Understanding "Fixed" and "Variable" Costs

By now, you have received your first bill with the new availability charge. Residential accounts using the standard rate went from \$13 to \$17 each month. The increase amounts to \$48 per year. This particular availability fee was set twenty-three years ago, and has remained the same for all those years. Unfortunately, costs go up for everyone, including the Cooperative. Absorbing these increased costs simply can not continue, if the Cooperative is to remain financially healthy.

Most of your day-to-day transactions, do not include an availability charge. For example, when you buy gasoline, the station attendant doesn't say, "Sure, you can buy some gas, but I am going to get \$5 a month from you whether or not you buy gas." Similarly, when you go to the grocery store, the manager doesn't greet you at the door and say, "Welcome to Foods-R-Us. You will need to pay \$10 per month in order to shop here." So, why do electric utilities, including Rio Grande, have such a charge?

Well, the answer is fairly simple, but may be one you don't often think about. Every business has both "fixed costs" and "variable costs". "Fixed costs" are those expenses incurred whether or not a patron passes through the doors. For example, a filling station that never sells a gallon of gasoline still has the expense of electricity to run the facility. It still has the expense of risk insurance, payroll, building payment or rent, repayment of loans for equipment, etc... These bills continue to come in, even if there are no customers, and must be paid, which is why they are classified as "fixed costs".

As the name suggests, "variable costs" are those incurred due to changing conditions. Some of those conditions, depending on the type of business, might be the volume of patrons, weather, cost of raw materials, and number of hours a business is open each day. To further explain, consider the number of patrons. If a grocery store has a higher volume of patrons on some days than others, the cost of employee wages will increase or decrease, as additional personnel are needed. When the weather is hotter or colder in one month as opposed to another, heating and cooling costs will rise or fall.

Needless to say, in most businesses, "fixed costs" and "variable costs" are rolled into one charge for the product being purchased. However, that method of recovering costs is not as fair as the cost-based rates Rio Grande charges for the kWhs you purchase. To continue with the grocery store example; a family of five buying groceries each week will pay a greater share of the store's fixed costs than a family of two, simply because they buy a larger volume.

As you know from personal experience, the price you pay at the grocery store does not change much, and rarely goes down. Such is not the case for your electric bill with Rio Grande. If you do not believe this to be true, then put me to the test. Each month when you receive your electric bill, divide the total dollars by the number of kWhs purchased. Month in and month out, you will see the cost per unit purchased go up and down with the increase and decrease of certain variable expenses the Cooperative incurs.

In the end, you need to know the increase in our fixed cost recovery amount was necessary. I want to assure you, it was absolutely necessary. The fact that we waited twenty-three years to do it, proves it was necessary; it's also what makes Rio Grande your "**Home Team Advantage**".