



News Release

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Our Commitment to You

by Jim Compton, General Manager/CEO

Today in Mississippi insert – June 2008

As your wholesale power provider, South Mississippi Electric is obligated to provide reliable, affordable electric energy to your electric power association. While reliability and cost are important, equally important is our commitment to be environmentally responsible.

All of our owners and all of our employees live here in Mississippi. This is our home, too. We do our best to practice and promote wise energy use and environmental compliance while also providing energy for a sound economy. We must continually balance electric system upgrades for reliability; present and future costs for affordability; and environmental impacts for good stewardship and regulatory compliance. Appropriate attention to all three—reliability, affordability, and sustainability—is essential in order to meet the electric needs of the more than 400,000 homes, businesses, and industries we serve.

Thus the climate change debate is of great concern to us. Our member owners have invested more than \$1.25 billion in our bulk electric system. We have also committed to hundreds of millions of dollars in long-term contracts to supply power. The foundation of that investment is coal-fired generation. Coal and nuclear generation are the cheapest, most reliable sources of base load electric energy in the world. More than 55% of the power flowing through your meter comes from coal-fired generation, and we're currently upgrading our facilities to meet the most recent environmental regulations.

The climate change bills being discussed in Washington would require drastic reductions of CO₂, particularly from electric generating plants. There are several different bills, but all essentially will make it impossible to operate conventional coal generation in about 20 years. If a climate change bill passes, the next big issue will be how to replace the 55% of the electric energy which is produced from coal today. Applicable technology to accomplish the task is still in its infancy, so the changes will occur only at great cost or by a great reduction in the usage of electricity.

A friend of mine recently spent some time in Italy. Electric rates there are very high, so Italians have adapted to low usage. The village house she stayed in was like other Italian houses in that it had no air conditioning, no microwave, no freezer, no clothes dryer, and only a small refrigerator and clothes washer. Unemployment in Italy is high, so most homemakers do not work and have time each day to go to town to buy fresh food and prepare meals. As washing machines are small, most clothes are hand washed and dried on a clothes line. Beverages are served at room temperature because ice is not readily available. It is a low-electricity-usage lifestyle, and some in Congress and the world want Americans to adopt such a change.

Interestingly, Italy signed the Kyoto Accord as a means of reducing CO₂ levels assumed to be linked to global warming. Recently however, Italy announced plans to build new coal-fired power plants in order to reduce electric rates and meet their demand for more power usage. Other developing countries which are not part of the Kyoto accord, including China and India, are rapidly adding electric generation to meet increased industrial and residential demand. China is adding a new coal-fired generating plant every week—fifty per year—and none are equipped with modern emissions controls.

It's ironic that at the same time that Congress is considering legislation to end low cost, coal-fired generation in the U.S., we are increasingly exporting coal to China where it is burned without environmental controls to make products for export to the U.S. The CO₂ production will be the same, but the economic effect will be very different.

The large scale costs of producing electricity cannot be overlooked in this discussion. The fuel cost for our coal-fired plant in Purvis is about \$3 per million Btu (a common, comparable measurement). Natural gas has been promoted as an alternate fuel since it produces half of the CO₂ of an equivalent amount of coal, but the cost of natural gas is currently about \$11 per million Btu. Because fuel costs represent about 40% of your total electric bill, you can see that replacing the 55% of generation currently coming from coal with natural gas—even if enough natural gas were available and gas plants could be built—will dramatically increase your electric bill.

We have looked at a number of “renewable” energy projects in Mississippi—wind, solar, and biomass—in the last few years, but the economic results were always the same: double or triple the cost of conventional coal-fired generation. And reliability is an issue with wind and solar—are you willing to have electric power only when the wind blows fast enough or on a cloudless day? Renewable sources have their place, but for our region they are small, supplemental options.

Credible studies on the cost impacts of the pending Congressional climate change legislation, such as the Lieberman-Warner bill, all point to the same result: eliminating conventional coal-fired generation through cap-and-trade proposals will at least double your electric bill. The results from the best researched study I have seen projects a \$120/month increase in the average residential cost of electricity by 2015 if the legislation is implemented. By 2020 rates will likely be much higher. If we at South Mississippi Electric believed that the use of carbon-based fuel was indeed harming our environment, I would agree that perhaps such radical costs had a purpose. But the science still is highly

debatable; many credible, ethical climate scientists state firmly that there is no evidence that man-made CO₂ is causing an increase in global temperatures.

This insert is intended to provide information that should be part any discussion about climate change and power costs. Electric rates will be increasing over the next several years, due in large part to federal mandates and/or a failure to regulate fuel markets and railroads. Your Electric Power Associations will continue to question the facts in these debates and will fight to include reliability and affordability as essential parts of the decision making process. Believe it or not, members of electric cooperatives may be able to have the most say in these matters, simply because our numbers are so large and we want to do the right thing, rather than what is expedient or popularly driven by special interests. I hope you will join us, and let our representatives in Congress know about our concerns regarding these vital, complex issues.

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