



News Release

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Our Energy Decisions Must Begin with a National Energy Policy

by Jim Compton, General Manager/CEO

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The regulated electric business is different from most other businesses. If you own a bakery and demand for your bread and desserts increases to the point that you are sold out every morning, you would have a choice to make. Do you expand your existing business, build a new facility, or just have some disappointed customers? When you evaluate that choice, you look at costs to expand or to move, including interest rates, construction costs, and adding employees. You may also evaluate how long you want to work and whether you want to assume the debt that goes with an expansion. Then you decide to either meet the increased customer demand or leave some customers disappointed.

In the electric industry we cannot leave customers disappointed due to electric energy not being available—unless there is a natural disaster and then we must restore service as quickly as possible. When electrical demand increases, we have an obligation to build new plants or buy from other sources to meet that demand, even if construction and interest costs are high. In order to continue providing reliable service at the lowest possible cost, we evaluate the costs to build and operate generating units versus purchasing from the open market. We cannot discontinue or restrict service simply because fuel or purchased power costs are too high during certain times. The obligation to serve is part of the regulatory compact and is our foremost responsibility.

Thus, in order to meet increasing electrical demand with affordable rates, we need to plan for new generation resources. If the decision is to add new generating units, fuel cost is the most significant variable in deciding what type of units to build. A more expensive plant can actually save ratepayers if the fuel costs are lower. Consider this example: assume that two cars cost \$10,000 and \$100,000, respectively. The operating cost for the cheaper car is \$1 per mile, and 10¢ per mile for the more expensive car. If you drive 5,000 miles per month, the more expensive car is actually more economical overall to drive. But if you only drive 125 miles per month, the cheaper car is the obvious choice. You might also buy both if you have the right combination of short and long trips to take.

In the same sense, our needs will be for more base load plants that run almost continually—they are more expensive to build but have much lower fuel costs. To meet electrical demands that increase and decrease throughout the day, a mixture of base load, intermediate, and peaking capacity is needed. Our generation studies at South Mississippi Electric indicate that we need approximately 900 megawatts of new capacity in the next 12 years—nearly half of what we currently own and operate. Approximately 70% of the need is for base load generation, 25% for intermediate to run for several hours a day, and 5% for peak needs.

Solid fuel generation (coal or nuclear) is far less costly in the long run for base load generation, but long lead times are associated with constructing these options. Base load plants typically take eight to ten years to design, permit, and build. This is an increase from the previous timeframes of six to eight years, due to additional regulatory requirements and environmental challenges.

The bulk electric system is not an inexhaustible resource. We will need not only to meet new demand over the next few years but replace expiring contracts. We must have a fair opportunity to plan, study and build the right generation options to keep electric service reliable, affordable, and sustainable. If our decisions are made more difficult by regulatory uncertainty, we run the risk of being subjected to rising market prices, or worse, not having sufficient generation to meet our customers' needs.

Unfortunately, we find ourselves in the same position as electric utilities across the country. We are desperately hoping that Congress will turn its attention to the country's energy problems and develop an overall national energy policy. Today we are in a national *energy price* crisis, but in a few years, it will be a national *energy availability* crisis. As Dow Chemical Company Chairman and Chief Executive Andrew Liveris has stated:

For years, Washington has failed to address the issue of rising energy costs and, as a result, the country now faces a true energy crisis, one that is causing serious harm to America's manufacturing sector and all consumers of energy. The government's failure to develop a comprehensive energy policy is causing U.S. industry to lose ground when it comes to global competitiveness, and our own domestic markets are now starting to see demand destruction throughout the U.S.

I totally agree. This energy policy failure will lead directly to higher energy prices for our members. South Mississippi Electric and other Electric Power Associations in Mississippi have developed a position paper on national energy policy. We have forwarded this paper to our Congressional delegation, urging our legislators to make national energy policy development a top priority. We believe that any proposed climate change legislation or energy independence legislation should be part of a broader national energy policy that will guide us into a reliable, affordable, and sustainable future. We hope you will support our efforts.

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