



News Release

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Renewable Energy Sources—What Can We Really Expect

By Jim Compton, General Manager & CEO

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Some readers of this article may be old enough to recall the energy crisis of 1973, which included major gasoline shortages and long lines at gas stations. At the time, Congress and the ensuing Carter administration thought the answer to the oil embargo was to move the American energy system to renewable sources. In 1978, the Public Utilities Regulatory Policies Act (PURPA) was passed to promote greater use of renewable energy. In part, PURPA required electric utilities to buy renewable power from non-utility sources. South Mississippi Electric has one such agreement with Leaf River Energy in New Augusta. That facility and our hydropower contracts constitute our “green power” resources, which make up about two percent of South Mississippi Electric’s total energy delivered to its Members.

In the past three decades, national leaders have tried to further encourage the development of renewable energy. The usual stimulus is a subsidy in the form of a tax credit, with the goal of enabling renewable power sources to compete economically with traditional power generation facilities. Early on, the thought was that these subsidies would “prime the pump,” so that as wind and solar production increased, their cost would go down and renewables would be financially competitive with conventional, large-scale generation resources.

The reality is that despite 30 years of subsidies and political encouragement, conventional energy sources are still much more economical and reliable than renewable energy sources. This is especially true here in the Southeast, where we do not have wind patterns with sufficient speed and duration needed for wind turbine operation. Consistent solar production is also limited in our region due to frequent rain and cloud cover. Biomass-fueled generation does exist to a small degree and has some potential for growth, but it is significantly more expensive than existing power resources and cannot match the scale required to meet the around-the-clock needs of hundreds of thousands of customers. So even if renewable generating resources were available and reliable, there are limits to what can be achieved in South Mississippi, unless customers are willing to pay much more for electric service.

I will readily admit that developing renewable sources is a good idea, but any steps we take toward that end must be balanced with cost and reliability considerations. Despite the economic disadvantages of most renewable power sources, particularly in the Southeast, we are seeing increasing efforts to promote renewables nationwide. The latest effort is to legislatively mandate that an electric utility be required to provide a certain percent of renewable power for its overall output. More than half of the states have enacted this legislation (California calls for 20% by 2010 and Florida 20% by 2020) and Congress is considering national requirements. The result of such mandates will unquestionably result in higher costs for power, amounting to a hidden tax to benefit renewable power providers. We, of course, are concerned about the likelihood of federal legislation, especially considering our limited ability to generate adequate amounts of “green power” in Mississippi.

In a recent survey, electric consumers in Mississippi told us that they do not want higher costs. Meanwhile, demand for electricity is growing here and throughout the nation, so that even if we want to increase the percentage of electricity generated by renewables, we still must move forward with other sources. (Because of their intermittent nature, renewable sources require additional sources of consistent generation for back-up purposes.) Low-cost coal is currently the basis of nearly 50% of the electricity generated in our country. As our industry considers how to build hundreds of thousands of megawatts of new capacity, few coal-fired projects have actually moved forward since 2002 and more than 33,000 megawatts of coal-fired plants have been canceled or postponed due to political, legal, financial, or other uncertainties. Nearly 50 new nuclear plants will be required just to maintain the current level of the country’s output from that source (roughly 20%), but technological and political hurdles have slowed that process and few if any projects are expected to be on line within the next decade.

We believe that it is important to try to help find solutions. We have joined the National Renewables Cooperative Organization (NRCO), a non-profit association formed by generation and transmission co-ops like South Mississippi Electric from across the country. I was elected to the Board of Directors and also serve as treasurer and chairman of the Finance Committee. NRCO’s goal is to investigate and develop cost-effective renewable energy projects, and we have selected a CEO and an energy firm to begin screening projects. (See more about NRCO elsewhere in this insert.)

This debate is not just about energy; it is about peoples’ lives and the importance of energy to individuals and families. While we would welcome the sun and wind becoming viable fuel sources—as we would not have to worry about contracts for fuel supplies, fuel transportation, and hedging the market risk of fuel prices—the economic reality is that we cannot substitute renewables today for our present generation resources. You expect us to keep the lights on, and keeping our rates affordable and our service reliable in these difficult times is our number one job.

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