

## **Market Based Purchase Agreements to be Replaced**

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A significant step for future planning -savings could exceed \$100 Million.

South Mississippi Electric's Mission: Deliver the South's best value for safe and reliable electric energy and serve as a common resource for our Member-owners.

Over the next several years, South Mississippi Electric and its Members will be facing a wide variety of difficult and complex challenges. As has always been the case, ensuring a reliable and economical supply of power during times of continued growth to our system will be chief among the demands.

Preparing projections for future generation and transmission needs requires constant planning—attempting to anticipate trends and available resources five, ten, twenty years ahead and beyond. It's a complicated process, especially for cooperatives trying to keep costs as low as possible.

"Overall, we use multiple resources to meet our Members' energy requirements," explains Nathan Brown, Chief Operating Officer. "We have our own generating facilities that are used to serve our combined system (SMEPA and Entergy Mississippi area) load, including Plant Moselle, Plant Morrow, and SMEPA's portion of Grand Gulf. In addition to dispatching SMEPA owned resources, the Control Center dispatches power from purchased power resources such as Batesville and other market suppliers on a day-ahead and hourly basis to meet Member needs.

"We purchase more than half of the power we deliver to our Members, through wholesale agreements with MPCo, purchase power agreements, and economy purchases. There are dozens of generating sources from which we can buy power on a long- or short-term basis, including Associated Electric Cooperative, Entergy, Mississippi Power, other Southern Company subsidiaries, PowerSouth (formerly Alabama Electric Cooperative), and merchant power providers.

"When we negotiate purchased power contracts, we must consider reliability of the system and economics. The most economical resource is not always best when transmission, fuel delivery, and environmental issues are considered. Our business is becoming very complex and it is getting harder to find reliable, low cost power supply options. We must be creative and diligent in seeking out opportunities that are in the best interests of our Members."

SMEPA has all-requirements contracts with Mississippi Power Company (MPCo) to provide service to Member delivery points in the MPCo area. Since 1997, portions of the delivery points served in the MPCo area were served under market based (MB) wholesale contracts. "These agreements were the best options available at the time and have served us well, but we're seeing conditions change now," Brown says. "When we entered into these contracts, the MB rates were lower than FERC approved cost based rates provided by MPCo."

After extensive evaluation, South Mississippi Electric recently took a significant step in its planning process by notifying MPCo that in three years, portions of the MB contracts would be cancelled. Beginning April 1, 2011, SMEPA will be responsible for providing generation resources for these loads, which total about 145 megawatts to thirteen Member delivery points.

“All utilities are seeing significant increases due to rising fuel and transportation costs, as well as possible future environmental expenditures,” Brown says. “As a result, the wholesale rates, including the MB rates from MPCo, have increased significantly. We believe there are better options to serve the MB loads for the future, so now it’s our responsibility to determine what those options are and have them in place by 2011.”

Transmission service to the existing MB delivery points will not change and projections do not suggest that any new transmission facilities will need to be built immediately. However, load will increase as growth continues throughout the Members’ service areas and the system will ultimately require upgrades to ensure reliability.

“The decision to terminate the MB loads will provide us with more options as we develop and expand the resources owned by SMEPA, instead of paying for resources which are owned by others,” Brown notes. “This is a great vote of confidence from the Board to take this path, and it will be a huge challenge for our employees.

“We’ve got much to do over the next several years--finding resources required to reliably and economically serve our Members’ existing needs and those associated with projected growth--but it will permit us to better control our own destiny.”