

Directors' Update Provides Timely Information

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National environmental issues. Compliance with reliability standards. How Mississippi Power views the industry. The state of South Mississippi Electric.

Our industry has more than its fair share of issues, and all of the above topics and several others were discussed at South Mississippi Electric's fifth annual Directors' Update, held June 7-8 at the Hattiesburg Lake Terrace Convention Center. More than 160 people attended the update, including directors from all eleven Members and other invited employees and guests.

This year the meeting was expanded to two days, with SME staff members providing information regarding Association-specific topics during several afternoon sessions on the first day.

"It is essential for everyone associated with running our business to be aware of these many issues," said Jim Compton, general manager/CEO. "We face a very difficult time in terms of the number of issues that can now affect our industry. Our challenge is not only to understand and work through each item, but to effectively communicate the potential consequences to all of our Members and to their members."

The Tuesday breakout sessions allowed attendees to choose between several topics, including an update on Japan's nuclear crisis presented by Nuclear Specialist Brad Edwards; a presentation by System Operations Manager Gary Hutson about Control Center dispatch economics; an update on construction projects provided by Generation Projects Manager Chris Rhodes; an overview of SME financial issues provided by Chief Financial Officer Ray Haley; and two presentations by Chief Operating Officer Nathan Brown regarding the potential effects of Entergy's plans to join MISO and economic evaluations that SME conducted before deciding to invest in the Kemper IGCC project.

During the second day's meeting, Compton updated the audience about the Association's plans to meet power supply needs, as well as the financial planning required for the next several years. He noted that system demand continues to grow, with new summer and winter system peaks being established in 2010. Total revenues for the year were a record \$789 million, but wholesale rates to Members actually decreased by 7.4%.

"Our challenge moving forward will be finding the financing to pay for new generation resources and environmental compliance while trying to moderate the impact on rates," he told the group. "Over the next five years, we plan to spend more than \$1 billion to expand our generation and transmission resources, increasing our debt as well as equity."

"SMEPA must remain financially strong and continue the positive trends we have established. Our equity to assets ratio, which has increased to more than 15% over the past five years, is an important element to avoid overleveraging our balance sheet. We must maintain adequate margins for debt service, and we must continue to have cash on hand for contingencies. Our Board of Directors has provided support and sound judgment in ensuring that SMEPA meets its financial targets."

Compton also discussed the changing environmental landscape that threatens the electric industry. "The Environmental Protection Agency is using the Clean Air Act to force drastic modifications to emissions limits, which will severely impact America's fossil-fuel generation

fleet,” he said. “An estimated 36,000 megawatts of coal-fired resources in the eastern half of the country may be forced to shut down by 2018 if the strictest regulation proposals are passed. Once the new regulations are passed, we will have to determine our options, as will virtually every other major electric power provider.

“What remains to be seen in such a scenario is how the country will replace these lost resources. It would appear that natural gas will have to play a significant role, with estimates of its use as a boiler fuel doubling in the next twenty years. I’m not sure it is in the best interest of anyone to become so dependent on a resource that has proven over the years to be unstable in price and availability.”

Mississippi Power Company’s president, Ed Day, told attendees that his company faces the same regulatory and cost challenges as SME and the rest of the industry, noting that it will be difficult to make major operational adjustments in the short timeframe that EPA is proposing. Decisions about whether to retrofit coal plants or build new natural gas facilities require time for planning, permitting, design and construction.

Day said that the Southern Company (MPC’s parent company) believes, like SME, that having generation resource options is the best strategy. Southern Company is currently building a nuclear plant in Georgia and is pursuing options with renewables, including a new solar facility that recently came on line in New Mexico. Day also mentioned Southern’s strong support for the Kemper IGCC project, which he called “21st Century coal” because of its low emissions and carbon capture capabilities.

“We are very proud of our partnership with SMEPA on Kemper,” Day noted. “Our goals on this project—having a low cost, reliable, stable energy source that is good for the state—are aligned with yours. It is very powerful to say that we are working together.”

Joel Gilbert, co-founder and chief software architect for Apogee Interactive, discussed his thoughts about the future of the energy industry. A 40-year veteran of the industry, Gilbert pointed out how important it is to help customers understand how complex the industry is. “Electric service is vital to all of our lives, but most people are not aware of how the many issues we are facing will affect them,” he said. “All they hear when our industry is discussed are simplified soundbites and they think the choices are simple, but they are not. We must engage people or they will not develop any personal commitment to these issues.”

As an example, Gilbert said that the public discussion regarding wind and solar energy has not effectively made the point that such resources are not reliable, are costly, and will require backup capacity. He also pointed out that while natural gas may be relatively inexpensive now, if the country continues to invest in new gas-fired generation and then the cost of fuel increases, it will have significant effects.

In looking to the future, Gilbert suggested not only that the industry should find more ways to communicate with customers, but that customers will expect more communication. Social media is a way of life for younger consumers and that mindset will only expand. It will be highly important to educate customers about the industry’s side of the story as national energy choices are being debated.

Mary Hauner-Davis, an environmental engineer with Burns & McDonnell, provided meeting attendees with more information about six major regulations that EPA is currently proposing for

electric generating facilities: Utility Maximum Achievable Control Technology (MACT), aimed primarily at further reducing existing emissions levels for particulate matter, mercury and acid gas hazardous air pollutants; Clean Air Transport Rule (CATR), which addresses sulfur dioxide and nitrogen oxides levels; National Ambient Air Quality Standards (NAAQS), which would increase standards associated with ozone; the Greenhouse Gas Tailoring Rule; proposals for considering coal combustion by-products as hazardous; and rules affecting cooling water intake structures.

“As Mr. Compton mentioned (earlier in the program), these rules taken together have the capacity to shut down anywhere from 35,000 to 65,000 megawatts of coal-fired resources around the country,” Hauner-Davis said. “In order to comply with the new regulations as they are written now or are being proposed, many plants will have to install scrubbers, SCRs (selective catalytic reduction), carbon injection and baghouses, or other technology. The sheer expense of adding such equipment to many existing facilities will make them economically unviable.”

Hauner-Davis, who is familiar with South Mississippi Electric’s generating facilities, encouraged the Association to continue its pro-active approach in considering compliance options. “SMEPA has always been good with evaluating what it needs to do as regulations change,” she said. “Your varied portfolio of resources gives you options, and I know you are careful to consider any rate impact as you make your decisions.”

Tommy Clark, director of control and computer systems, was the morning session’s final speaker. He discussed the growing number of NERC reliability standards and how important it is to comply with the requirements, including at the distribution system level.

“Compliance has always been important, but the number of standards has been growing rapidly,” he noted. “Every day it seems like there are reports of various companies that have been hacked or compromised in some way. We can never let our guard down.”

SME must meet standards related to critical cyber assets, transmission operations, communications, facilities connections, interconnection reliability and several other operational categories. Much of the threat comes from outside the organization, which is why it is vital that all employees are alert to website or email viruses and other possible cyber intrusions. One way to help in that effort is to maintain strong passwords and to constantly be aware of the source of any electronic information introduced to work-related computers.

“We need for everyone to be vigilant in safeguarding our systems, including our Members’ employees,” Clark said.

“All of the presenters did an excellent job,” said Compton. “Attendees rated the meeting very highly and expressed their appreciation to us for providing the information. These directors and key staff members are the leaders of their organizations. As we face numerous challenges together, it is critical that we have a shared understanding of the issues and their effects on all of us. We look forward to providing more information in the future.”