

Fuel Cost Adjustment Passed by Board

Scanner Magazine – July 2008

As each of us knows all too well, we find ourselves in challenging times. The prices of crude oil, gasoline, diesel, natural gas and all other fuels are rising at alarming rates. Transportation costs are increasing the prices of many other goods and services.

The electric industry is being affected by these trends just like other sectors. Fuels such as natural gas and coal are needed to generate electricity and are, by far, the largest driver of South Mississippi Electric's costs to provide service to its Members. Over the past 16 months, natural gas prices have risen more than 50%, and coal transportation costs have increased by nearly that same amount. We are also facing significant additional costs for environmental compliance over the next several years.

In order to continue recovering fuel costs through the rest of 2008, SMEPA's Board of Directors approved a 4.5 mills/kWh fuel cost adjustment that took effect in June. Although each Member has different pricing methods, the average retail consumer will see an approximate \$5 per month increase on their bill beginning in July.

"This is not something anyone is pleased about, obviously, but it is necessary in these times of rising costs," said Jim Compton, general manager/CEO. "Rates are climbing for utilities around the country. Unlike other businesses, we do not see any financial benefit or profit by increasing costs, but we must recover our costs."

"Our member systems will now charge approximately \$110 for 1000 kWh/month. That compares to about \$120 for Mississippi Power and \$136 for Entergy, so we are maintaining our competitive advantage."

SMEPA is trying to work with its Members to help communicate the fuel cost issues and also help find solutions. Singing River Electric is offering its members an incentive to purchase and use new CFL bulbs as a way to help consumers reduce their bills and also to shave demand.

"Among other considerations, we are trying to find ways to reduce demand wherever possible," Compton says. "Lee Hedegaard (Singing River's general manager) looked at the numbers and determined that giving away CFL bulbs would actually pay for itself very quickly, both for his system and for his members if they buy additional bulbs. SMEPA has offered to help pay part of the cost because it helps our system too. We are hoping that some of the other Members will consider similar plans."

Rising natural gas prices are causing problems for utilities and other industries nationwide. For example, SMEPA's budgeted fuel costs for 2008 were based on a delivered natural gas price of \$8.34/MMBtu. In April those costs were projected to be more than \$9.80/MMBtu for the rest of the year, as gas is currently in the \$11.00 - \$12.50 range. South Mississippi Electric prepurchases or financially hedges 50 percent of its gas, according to Board policy.

“The cost of purchased power during peak summer months may rise as well, because much of that power is also generated from natural gas,” said Compton. “We will continue to work hard to find solutions. In the meantime, we need everyone in our organization to be aware of these trends and be focused on doing their jobs efficiently, as always. Our industry has not faced times like these since the 1970s.”