

CEO Column – A Different Way of Selling Power

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Historically, the retail pricing of electric power is not consistent with hourly, daily or seasonal changes in the cost of production. As a result, the consumer has no incentive to use less power when the cost of production is high. Consequently, when peak usage keeps increasing, it becomes necessary to build or purchase new generation to keep up with demand. More importantly, the average cost of power to our Members keeps climbing. This needs to change, and we can make it happen.

When South Mississippi Electric purchases market power from neighboring generating resources, the difference between on-peak and off-peak power cost is at least \$15 to \$20/MWh. During periods of high demand, the pricing is higher, and that difference can translate to at least 1.5 to 2.5 cents per kWh at retail. Similarly, our own generation is dispatched in economic order, so peak retail usage causes us to utilize our more expensive generation to meet peak demand.

For several years, we have been exploring options for designing our system's wholesale and retail rates to reflect the economic realities of the varying costs of generating or purchasing power. The purpose is to send appropriate price signals that will enable the ultimate consumer to modify usage to the extent possible—and thus save money—if and when desired.

Our wholesale coincident peak rate (B-2) went into effect for all Member systems on June 1. With that rate, there is a Time-of-Use (TOU) Rider that is an option for each Member. As of June 1, five Member systems have elected to take service under the TOU Rider, which will enable those systems to develop and offer retail TOU rates that reflect the cost savings in our rates for moving off-peak. On-peak is the period from 3:00 p.m. to 8:00 p.m. throughout the year, as well as from 6:00 a.m. to 8:00 a.m. during the period November through April.

Several Member systems are using the TOU rate with retail customers. Singing River has had a TOU rate for years, even before there was a wholesale TOU rate. Twin County EPA has had a mandatory TOU rate for cotton gins for several years. Those who comply save significantly; the gins that do not pay higher costs. Twin County EPA also has an industrial customer using a TOU rate that became effective this year. Yazoo Valley EPA has had a pilot TOU rate program for commercial and industrial accounts electing to participate.

This year, Delta EPA implemented a voluntary TOU rate for agricultural customers, primarily irrigation loads. To the extent that the farmers operate fully off-peak, average savings are projected to be 16% or more below that provided by standard rates. Of course, some customers are more aggressive than others in moving energy use off-peak, and the less aggressive customers achieve lower savings. Delta Electric also has a large commercial rate, with one catfish feed processing plant taking advantage of the TOU option. In the first month, by changing their work shifts so that the plant is not operated during peak hours, the plant saved 21% based upon projected power costs. Other large commercial customers are expected to move to this rate in the near future if work schedules can be adjusted.

SME has offered wholesale TOU rates to Member systems for use by certain larger power customers. Yazoo Valley EPA, Southern Pine EPA and Dixie EPA have successfully used the wholesale TOU rate to design and implement retail TOU rates for their larger industrial customers, such as the paper mills. These customers have on-site generation that can be utilized during onpeak periods. The retail TOU rates, like the wholesale TOU rates, are designed to encourage customers to utilize on-site generation during the on-peak periods defined in the rates to reduce overall costs. Making effective use of the TOU rates, these few customers have reduced their demand by as much as 25MW cumulatively during on-peak periods. During the recent hot spell in June, we also saw the mills reduce their usage and thus reduce our peak significantly.

Coast EPA is implementing the first voluntary residential TOU rate. This is a great challenge but also offers great rewards. Coast employees recently participated in a successful test program. To illustrate what can be saved with the rate, one employee achieved 82% off-peak usage in the pilot program by consciously moving electric usage to off-peak periods. The employee did not alter his HVAC system thermostat or electric stove usage, allowing home comfort and meal times to remain unaffected, but the change in off-peak usage reduced his power bill by 12%, or more than \$30 for the month. Coast's residential TOU rate is now in place and will be marketed to the membership this fall. (see chart below) Our Member systems are to be commended for their leadership in implementing retail TOU rates. I believe that TOU retail rates offer our Members the opportunity to partner with the G&T for the common purpose of keeping rates affordable. It also gives consumers control over their power costs if they are willing to alter their usage. I believe that this is an example of what sets us, as cooperatives, apart from for-profit companies and will help keep us competitive in the face of rising costs.