



Ozarks Electric Cooperative

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UPDATE FROM YOUR CEO JULY 2008

HIGHER FUEL COSTS DRIVING UP ELECTRIC BILLS

As the demand for electricity grows, we are relying more heavily on gas-fired generation to meet the demand. Since January, natural gas prices have risen by 48 percent, setting records for the spring season. As of early June, natural gas was selling at \$12 per million British Thermal Units (MMBtu). Market forecasts as recent as last fall predicted natural gas for spring and summer of 2008 at about \$8 per MMBtu, or \$4 less than the current price. Analysts feel that there is no major relief in sight and forecast that prices will remain at the \$10-\$11 MMBtu level through March 2009.

With a move away from less expensive coal-fired generation because of climate change concerns, the demand for natural gas-fired generation will grow continuing the upward pressure on prices for electricity. The frenzy over the climate change issue has virtually put a halt to new coal-fired generation when utilities need to be building to meet the demand for base-load generation. The only fuel options for base-load generation (that is, power that is available on a continuous 24-hour basis) are coal, natural gas, and nuclear. Renewable energy, such as wind and solar, though often touted as the solution to America's energy needs, cannot provide base-load generation because the sun doesn't always shine and the wind doesn't always blow. Only 2 percent of the country's electricity is produced by renewable resources, despite years of federal subsidies, so there is not enough capacity to meet a significant portion of our nation's energy needs. By contrast, 50 percent of our nation's energy is generated by coal and 20 percent comes from nuclear power plants. Many coal-fired plants that would be nearing completion at this time were stopped due to climate change issues. This has left us with only one option, natural gas. "The combination of demand and speculation that gas is going to be a very limited commodity is dramatically driving today's costs," said Gary Voigt, President and CEO of Arkansas Electric Cooperative Corporation, the statewide generation and transmission cooperative.

The difference in the cost of electricity produced by natural gas and coal is significant. In June, coal costs were roughly \$1.90 per MMBtu, while natural gas was just above \$13 per MMBtu, or approximately seven times higher than coal. Based on these prices, the average cooperative member using 1100 kilowatt hours per month can expect an extra \$20 on their electric bill for the fuel charge. "We do not make a dime on the fuel charge on members' electric bills. These costs are exactly the costs that Ozarks Electric is paying for the electricity our members use and the cost passes directly through to the member," said Mitchell Johnson, President and CEO of Ozarks Electric. In July, the fuel charge will be approximately 3.2 cents per kilowatt hour or \$35.20 per month. The fuel costs for August is expected to recede slightly to 3.1 cents per kilowatt hour, and down to 2.1 cents by the end of the year.

We must change course. Energy efficiency is vital, but will only go so far in addressing the problem of rising energy costs. "The best path would be to develop a rational energy policy that would provide incentives to re-establish a nuclear industry in the U.S. and that would re-commit to using domestic coal resources for base-load generation," said Voigt. "To help the nation move toward a rational energy policy, the Cooperatives are working hard to educate the states' congressional delegation and cooperative members about the serious energy issues our country is facing."

- Mitchell Johnson, President / CEO