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## News Release

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### **HIGHER ENERGY PRICES ALL BUT INEVITABLE**

ATHENS, Tenn.—Officials at Athens Utilities Board say that wholesale energy suppliers such as TVA and natural gas companies are in lock step when it comes to predicting the direction of energy costs in the near future: prices will continue on an upward trend.

AUB spokesman Wayne Scarbrough said though the news is unsettling, AUB wants to communicate the realities early and fully, especially since the local utility cannot control wholesale cost spikes and must pass the increases along to retail consumers.

"I know it sounds like a cop out to hear us say, 'there's little we can do about it except pass the costs along as they hit us.' But if you want the truth, that's the truth. We're not going to spin it into something pretty," Scarbrough said.

Scarbrough and other utility officials attended a recent meeting during which TVA senior executives presented facts and figures about what AUB can expect in the coming months and years regarding electric power.

"TVA's CEO Tom Kilgore, CFO Kim Greene, and other senior level execs spoke at length about the agency's power generation outlook, generation costs, and the availability and cost of market power that TVA must purchase during peak demand periods. They also described the forecast for power demand across the Valley and the challenges of meeting the ever-rising peaks," Scarbrough said.

AUB's general manager, Eric Newberry, said TVA's message is unambiguous.

"They sent us clear signals that the next five to seven years likely will bring continued rising costs for generation fuel sources such as coal and natural gas, which likely means higher power-generation costs. TVA is also going to have greater capital expenditure needs to ensure adequate power supply to meet demand in the Valley," he said.

In fact, Newberry said, the additional revenue being generated by TVA's April 2008 base power rate increase is pegged for use in building, upgrading or purchasing power generation assets.

"The data we see clearly demonstrate that in the next few years, if demand for power continues on its current path, TVA will not have the generation assets on the ground to meet forecast demand. That means buying assets, building new assets, buying expensive market power in larger ratios or reducing demand," he said.

TVA is embarking on a concerted Energy Efficiency/Demand Reduction mission with a goal of reducing valley-wide power demand by 1400 megawatts over the next four years.

“That’s about a Watts Bar unit’s worth of power,” Scarbrough said. “It’s an aggressive goal. It requires that we, the public, fully embrace energy efficiency as a personal goal in our homes and businesses.”

Scarbrough said that rising costs for generation “fuels” such as coal, natural gas for combustion turbine plants that generate electricity, market power, and other generation related needs is not unique to the Valley.

“Anyone who goes to the gas pumps or reads financial information about energy commodities markets knows that this is not just a phenomenon for TVA. It’s the same for power producers nationwide.

“We in the Valley still enjoy about the third cheapest power rates in the country with little distance between us and the cheapest. The rising fuel costs on TVA directly translate into higher FCAs, the fuel cost adjustments that TVA announces quarterly that are purely fuel-cost recovery mechanisms,” Scarbrough said.

Electric power is not alone in the rising-cost category.

“The wholesale natural gas market is, in a word, nuts,” Scarbrough said.

This is the time of year—spring and summer—in which AUB typically stocks up on its physical storage of natural gas for the following heating season.

“Summer wholesale costs typically following the basic laws of economics 101 and fall notably as residential home heating goes away for the season. Not this year,” Scarbrough said.

In recent years AUB could purchase natural gas in the summer—for storage injection to cover winter heating demand—in the \$5 to \$7 per decatherm (a million BTUs) range. Even that seemed high compared to the late 90s when a decatherm was in the \$2-\$3 range, Scarbrough explained.

“Today, as of this writing, the wholesale price is hovering near \$12.40 per decatherm for summer gas. That price point is equivalent to prices just after Hurricane Katrina when drilling platforms were out of operation, supply was tight throughout the reconstruction period, and prices spiked as you would expect,” Scarbrough said.

He went on to say that today there is ample national storage and injections from the pipelines and platforms are not shut down as they were post Katrina. But global demand for natural gas is high, driven by developing markets such as China and India, and prices are moving sympathetically with crude oil.

“Ask 10 pundits why natural gas wholesale costs are what they are and you’ll get ten versions ranging from pure gouge-principal to pure economics. Nonetheless, we are in the wholesale scenario of extremely high price.”

Last week, Newberry said, AUB received a memo from Atmos Energy, the company through which AUB purchases natural gas, warning that market prices are shaping up to be approximately 35 percent to 40 percent higher for this summer and next winter.

“This impacts not only those of us who use natural gas. It also loops back to the electric power cost picture because a notable slice of the electric power pie nationwide is generated using natural-gas fueled assets,” Newberry explained.

“AUB will continue to operate as effectively and efficiently as possible in our daily operations, our purchases of natural gas on the market, and every front possible,” Newberry continued.

“Because we operate as a not for profit with margins only great enough to ensure adequate maintenance and capital reserves, we typically have to pass through wholesale rate actions by our energy suppliers in order to stay whole and continue to operate.”

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