

Margin of Error Too Thin on Electricity Supply



MESSAGE FROM MANAGER JERRY D. WILLIAMS

Another near miss in August demonstrates again that Texas is riding too close to the line when it comes to electricity supply. It seemed to me like an ERCOT (Electric Reliability Council of Texas) plea went out almost every day in August for everyone to conserve electricity. Why is this happening? Why were a lot of people put in the dark in February and threatened the same in August? In my opinion, the short answer is simply that we got what we asked for.

One of my childhood Sunday School teachers taught me to be careful what you asked for, because you may get it. It seems that is part of God's plan, and it applies to everything. So, how did we ask to be in this position of not knowing if the lights will be turned off because not enough people heeded the plea to conserve? The answers are not really that complicated, but first we need to look at how we got to where we are now.

In 1995, the Texas Legislature voted to deregulate wholesale electricity and gave the job of implementing it to the Public Utilities Commission (PUC). When the PUC started looking for a way to make sure everyone could use private electric transmission wires while being treated fairly, they turned to a small organization that was already performing that task for a few utilities—ERCOT. The PUC expanded what ERCOT was doing and gave it some legal authority.

The roots for this ERCOT organization date back to World War II. In 1941, the Texas Interconnected System (TIS) was formed to support the war effort. Several utilities banded together to form TIS and use their private high-voltage transmission wires to send their excess electric power to some aluminum plants on the Gulf Coast that used huge amounts of electricity. Before 1995 (excluding TIS), each utility or town was responsible for generating their own electric needs and negotiating a sale of any excess power to its neighboring utilities.

Before 1995 (excluding TIS), each utility or town was responsible for generating its own electric needs and negotiating a sale of any excess power to its neighboring utilities. There was a gentleman's agreement to always have 15 to 17 percent spinning reserve in case the weather turned bad or a generator broke down. If the two utilities were not close enough to directly connect their transmission wires, they would negotiate a contract to use the private transmission wires of a utility between them. Investor-owned companies, cooperatives or municipal utilities privately own all the transmission wires to this day. The government did not build the electric grid.

At this point, you are probably getting the picture that deregulation was actually regulation of activities and assets that had previously operated with negotiated contracts between owners. Welcome to the world of "deregulation," which exists due to a bunch of new regulations.

In May 1999, the Texas Legislature voted to deregulate the retail electric market. Of course this resulted in a lot of new regulations, and by 2001, all the power generated was required to be put into a pool. The pooling of all generation (overseen by ERCOT) is

the crux of the problem now.

Owners of power generators basically name their selling price one day ahead (their bid). All the companies selling Retail Electric Power (REP) project one day ahead how much they think they have sold (projected demand for power). Starting with the lowest-priced electricity generated, ERCOT will add up the electricity offered by the generating companies until they have enough generation to supply the projected demand for electricity. In other words, they match supply to the demand for electricity. If a generator priced his power too high, he is told, "Thank you, but we will not need your power." This is called "being out of the market." Generators that are out of the market sit idle.

There could be many reasons why a generator submits a price that is too high. For example, it could have an older, less efficient plant, or simply be trying to maximize its profits. The problem is that unless the projected demand for electricity is way too low the next day, the generator that bids too high **GETS NOTHING**. The generator has invested in a power plant, and now eats the cost of that investment. Over time, if the generator continues to be out of the market, it will be forced to shut down.

This procedure of paying generating companies to generate electricity has the ultimate effect of driving less efficient operators out of business and causing plants that must add expensive environmental scrubbers to shut down. In the end, only power plants that get paid to generate will exist, and there is little incentive for other plants to stay operational for only a few days each year. The law of supply and demand works for electric generators.

We asked for a deregulated market, and that is what we have. Only those

power plants that can make a profit survive and all the others go away. Investors in marginal power generators are left with the option of hoping for extreme weather (hot or cold) to make a profit by operating a few days each year, or going belly up.

This process produces a market for electric power that is the average price the generating companies offered for their power. In areas of the state served by investor-owned utilities, such as Oncor, hundreds of companies have entered the electric business of buying power at the market rate and selling it to retail power users. Often, these companies offering retail electricity fail to mention that the ultimate customer will pay their price for the energy plus all the add-on charges from the company that owns the substation, wires and meter. Electric cooperatives and municipal utilities did not opt for this roller coaster way of selling electricity like used cars, but that is a subject for a future article.

Lamar Electric, along with four other cooperatives, owns Rayburn Country Electric Cooperative, which negotiates long-term electric power contracts and generates power from owned generators. Rayburn still has to toss its generated power into the pool, and then essentially sells it to us at their bid price (a wash). Power we are not projected to need is bid at the highest price Rayburn thinks the market will pay. Then the power is available for these REP firms to sell.

When summer's record-breaking heat prompted millions of Texans to run their air conditioners, the demand for electricity came dangerously close to outstripping the amount of electricity the available electric generators could supply. This scenario was almost a repeat of the one in February, when demand for heating during one of the coldest snaps in recent years forced rolling blackouts. The August heat lasted a lot longer than anyone could have predicted and was a lot hotter than expected, but we have a lot of generators in Texas and more wind power than any other state in the nation. As you might have guessed, a lot of the wind generators were not

turning during our hours of peak demand, which no one can control.

The drought that has gripped the state has also made the problem worse, hobbling some power plants that don't have enough available water to run their gas- or coal-fired boilers to generate electricity from the steam. It takes a lot of water to run these steam-driven turbines because of the moisture lost into the atmosphere when cooling the steam for reuse.

Weather won't always be as extreme, and the drought—we all hope and pray—will break. But there are other factors that figure into the power demand picture that won't go away: the state's growing population and the strong business climate.

The need for electricity will increase as more people move to the state. Texas continues to grow, adding almost 5 million people from the 2000 to the 2010 census. A lot of population growth is because people are coming here to work.

Texas' economy appears to be weathering the national recession better than other states. That business strength increases demand for electricity to power factories and stores.

Building new generation facilities is not easy. It never has been. Future growth is an incentive for investors to build more electric generators, with the expectation that they will be "in the market."

But, they still face another major obstacle, and that is the U.S. Environmental Protection Agency (EPA). The lack of a comprehensive national energy policy, which has been stalled in Congress for years, and an increasingly stringent set of regulations from the EPA have made it harder recently. Uncertainty about the direction of future federal regulations makes investors leery of putting money up to pay for new generation.

In Texas, we have developed a process that has stripped us of excess power generating plants that can be used in case of an unexpected need. If we don't get our federal energy policy regulations straight, the next big heat wave or cold snap could result in more than a near miss—it could leave a lot of folks in the dark.



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Operating in Lamar, Red River, Delta and Fannin counties

Find us on the web at www.lamarelectric.coop

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YOUR "LOCAL PAGES"

This section of Texas Co-op Power is produced by LEC each month to provide you with information about current events, safety, special programs and other activities of the cooperative. If you have any comments or suggestions, please contact the local office.

MEMBER BENEFITS:

- Level billing
- Automated meter reading
- Free bank draft service
- E-Bill
- Visa and MasterCard accepted

The Cooperative Difference—Local, Trusted and Serving You

Every October since 1930, nonprofit cooperatives have celebrated Cooperative Month. During this time, it makes sense to highlight the qualities that make electric cooperatives different from other types of utilities and businesses.



members live and work. From helping to sponsor kids showing their animals at county livestock shows to sponsoring two high school juniors or seniors who live in Lamar Electric's service area to go on the Government-in-Action Youth Tour in Washington, D.C.

First, electric co-ops are owned by those they serve. That's why those who receive electric service from us are called members, not customers. Without members, there would be no local electric co-op.

Members maintain democratic control of our co-op, which means that at every annual meeting they elect fellow members to represent them on the board of directors. We return profits, or "margins," to our members in the form of capital credits.

One principle that sets us apart from other businesses is our concern for community. As a cooperative, we have a special responsibility to support the areas in which our

Lamar Electric stand as a driving force in our community.

Co-op employees are the people you see at your local Walmart, hardware store, feed store, gas station, etc. We live where you live and shop where you shop, and chances are, you know at least one of us.

There are more than 29,000 co-ops across the nation. And not all are small or rural; just look at nationally known co-ops like Sunkist, Ace Hardware and Land O'Lakes. Overall, co-ops are more accessible than other types of businesses. We give our members a voice, and we are local—living and working alongside those we serve.

That's the cooperative difference.

COUNTRY CORNER EVENTS

October 1

Clarksville Fall Bazaar—Around the courthouse in Clarksville, 9 a.m.- 4 p.m.

2011 Paris Walk to End Alzheimer's—Trail de Paris, Registration: 8:30 a.m.; two-mile walk: 9 a.m. For information, e-mail katie.swafford@parismc.com.

October 1-2 and 6-9

"Our Town"—Paris Community Theatre in downtown Paris. Saturdays, Thursday and Friday, 7:30 p.m.; Sundays, 2:30 p.m.

October 7

Cruisin' the Plaza—Around the Plaza in downtown Paris, 5 p.m.

October 8

St. Joseph's Community Foundation 2011 Heart of Paris Gala

"Denim & Diamonds"—Love Civic Center in Paris. For reservations, call (903) 784-5136.

October 14-15

18th Annual Chiggerfest—Downtown Cooper, Friday live music: 7-9 p.m.; Saturday festival: 7a.m.-4 p.m.

October 14-16

Texas Square Dance Convention—Paris Fairgrounds

October 15

Lanes Chapel Harvest Festival

October 21

Bike Night on the Plaza—Around the Plaza in downtown Paris, 6 p.m.

October 22

11th Annual Festival of Pumpkins—Around the Plaza in downtown Paris, 9 a.m.-6 p.m.

October 27-29

Antique Fair—Paris Fairgrounds

October 27-29 and 31

Haunted House—Paris Fairgrounds

October 31

Halloween on the Square—Downtown Cooper

Historic Downtown Cooper Square
Sponsored by Delta County Chamber of Commerce
Friday, October 14, Live Music, 7-9 p.m.
Saturday, October 15, Festival, 7 a.m.-4 p.m.
For more information on events, go to www.deltacounty.org.

If you have any events that you would like listed for Delta, Lamar or Red River counties, please contact Marci Thompson. Information must be submitted two months in advance for the magazine. E-mail marci@lamarelectric.coop or call (903) 783-4911.

Notice of 2010 Capital Credit Allocations

Lamar Electric Cooperative recently allocated 2010 capital credits to each member's account.

After the end of each fiscal year, the cooperative must determine what, if any, margins were made during the year and allocate these margins to the members' accounts. Your cooperative's margin is the revenue received and receivable in excess of all its operating costs. Because members are owners of the cooperative, a part of the margin is allocated to each member's capital credit account.

These capital credits will be returned to members as approved by the board in the future and when doing so will not weaken the financial condition of the cooperative. At this time, all margins from 1938 through 1969 have been

returned to the members. The last year for which capital credits were retired was 1969, so it may be some time before you should expect to receive a check. In the meantime, the funds are used to construct new lines or make improvements to the electrical system even though the amount is credited to each member's capital credit account. The capital credits cannot be used to pay your electric bill.

These capital credits remain even if the member is no longer receiving service from Lamar Electric. It is very important that departing members keep the cooperative informed of their current mailing addresses in the future so they may receive capital credit refunds when they are paid.

Capital credits for each member in 2010 were calculated by multiplying each member's bill by 0.076640306. For example: If your total billing for 2010 from the cooperative (consisting of the energy billing and power cost adjustment) was \$2,000, simply multiply that amount by 0.076640306. The product of this arithmetic is \$153.28.

In calculating, you total your bill, including any security light charge, but do not include any tax, service or miscellaneous charges.

If you have any questions concerning these calculations, please contact the cooperative office.

(This article is intended to serve as an official notice of the capital credit allocation for 2010.)

Employee Anniversaries



WILL ARMSTRONG
Crew Foreman
32 years on October 29



DANNY MICHAEL
Lineman
31 years on October 21



RYAN DEAN
Lineman
7 years on October 18



JOSE RECENDIZ
Right-of-Way Foreman
2 years on October 12



MICHAEL SORENSON
Right-of-Way Crewman
2 years on October 12