News

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Utility rates may be shielded by public ownership

BY CHET MULLIN

Nebraska's utility rates are among the lowest in the nation, thanks to the state's publicly owned utilities, a fact that may spare residents from some of the steep increases in electricity and natural gas reported elsewhere.

Nationwide, prices for natural gas and coal, which utilities use to generate electricity, are up more than 50 percent from this time last year. And that has translated into sharp rate increases for consumers.

Spokesmen for the Omaha Public Power District and the Nebraska Public Power District said they anticipate rate increases of about 4 percent to 8 percent by 2009. A spokesman for the Metropolitan Utilities District said he didn't expect to see rates go up next year.

Two for-profit providers also operate in Iowa and Nebraska:

• MidAmerican Energy, a subsidiary of Berkshire Hathaway, provides natural gas to 702,000 customers and electricity to 720,000 customers from Sioux Falls, S.D., and across Iowa to Davenport. Its spokesman said he doesn't expect rate increases now.

• Aquila, which is based in Kansas City, Mo., serves about 900,000 customers in five states, including Nebraska and Iowa. Aquila is in the process of selling its natural gas operations to Black Hills Corp., of South Dakota, and the rate outlook is uncertain.

Higher rates aren't due only to higher fuel costs, utility officials said. Additional factors are higher labor costs, the expense to build new plants and refurbish old ones, and new regulatory requirements.

MUD President Tom Wurtz said he believes speculation rather than demand is driving much of the increase in wholesale natural gas prices.

"We add 3,000 to 4,000 new customers every year, but our demand isn't going up that much because people are conserving," Wurtz said.

For example, new furnaces are more energy efficient than old models, he said.

Ultimately, though, the cost of crude oil has an impact, because 85 percent to 90 percent of the cost of gas is related directly to the price of oil, Wurtz said.

OPPD's Mike Jones said long-term contracts for coal have blunted the impact on rates, but those contracts expire at the end of the year.

"The concern is, what happens when these contracts expire?" he said.

Jones said the OPPD board is scheduled to meet in July to consider proposals on new contracts for coal and transportation.

OPPD, which is one of the largest publicly owned electric utilities in the country with more than 310,000 customers, expects to raise rates by 4 percent to 6 percent in 2009, Jones said.

The utilities' costs are escalating on several fronts, he said. Higher prices for steel, copper and aluminum have resulted in more expensive transformers, Jones said.

Since 2004, substation transformers have risen from $388,650 to $897,000 this year, while the cost of a commercial-application transformer has gone from $16,675 to $35, 223.

OPPD only generates about 2 percent of its energy from natural gas and oil, Jones said, with the rest from nuclear and coal sources.

The utility expects coal and oil prices to rise, and higher natural gas prices mean OPPD will charge more for the energy it sells on the wholesale level, Jones said.

"Profits from the wholesale business are returned to the customer-owners of OPPD, helping to reduce a potential rate increase."

At NPPD, spokesman Mark Becker said the utility has met with its wholesale customers to talk about the rate outlook for 2009. NPPD supplies about 25 public power districts, such as Southern Public Power District in Grand Island and Norris Public Power District near Beatrice, as well as providing power to entire communities, such as Auburn.

"Initial results indicate a potential for rate increases of between 5 percent and 8 percent for our wholesale customers in the next year," Becker said.

He said NPPD's fuel sources — coal, uranium and natural gas — have "risen at unprecedented rates," even with long-term contracts.

Increases in the cost of coal, which NPPD uses to generate about 57 percent of its electricity, has grown considerably in the past five years, Becker said, adding that it was the primary reason for a 9 percent increase in rates early this year.

Other pressures include going to the spot market to buy fuel during spikes in demand. Becker said that from 2004 to 2008, coal rose 68.6 percent on the spot market, natural gas was up 102.9 percent, and uranium climbed 403.2 percent.

NPPD recently finished replacing about a third of the fuel at Cooper Nuclear Station. Becker said. The utility replaces about a third of the nuclear fuel every 18 months, he said.

In 2005, nuclear fuel cost about $45 million. When the utility replaced a third of the fuel this year, Becker said, the price was $90 million.

MidAmerican Energy spokesman Mark Reinders said the company hasn't raised electric rates since 1995 and has no plans to do so now. As for natural gas, he said MidAmerican buys gas at lower prices now and stores it for high-usage, winter months.

"We try to have roughly 70 percent locked up by Oct. 1," Reinders said.

Congress is considering new carbon-emission and environmental regulations that could significantly affect utilities' costs and rates, the spokesmen said.

Reinders said that from 2004 through the end of next year, MidAmerican will spend $400 million on environmental upgrades to curb emissions.

NPPD's Becker said analysts estimate the possible cost effects of carbon-emission and environmental regulations "in excess of 30 percent."

Conservatively, OPPD estimates that new emissions standards would require rate increases of nearly 20 percent beginning in 2012, Jones said.