

Where do we get our power?

Carteret-Craven Electric Cooperative purchases power with 20 other electric cooperatives in North Carolina. By combining our needs, we are one of the largest purchasers of wholesale power in the country. Buying in bulk enables us to command lower prices for energy than we could if we were buying solely for our own needs.

Our power portfolio includes power generated by nuclear fuel, coal, hydro, natural gas, and some purchases from the short term market. A breakdown of how our energy is generated follows: 47 percent nuclear, 39 percent coal, 10 percent natural gas, 2 percent hydroelectric, and 2 percent market. A comparison of how much we pay for this energy shows the following: 34 percent nuclear, 35 percent coal, 30 percent gas, and 2 percent market purchases.

A closer review shows that we purchase a relatively small amount, 10 percent, of energy generated by natural gas; but it commands 30 percent of our total power costs. The change in wholesale power cost adjustment is directly related to this relationship. To understand this concept, a review of natural gas prices is necessary.

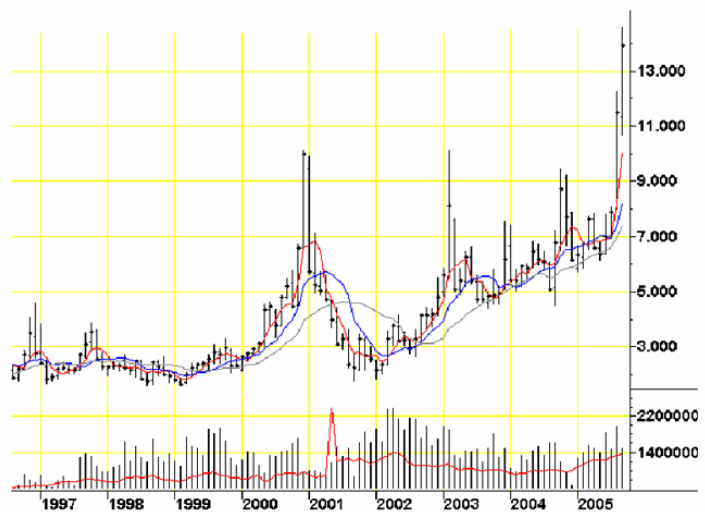
A graph showing the natural gas prices as posted on the NYMEX for the period of 1997 through 2005 is included below. This graph shows that natural gas prices prior to 2001 were low in the summer months, with seasonal increases during the higher demand periods in the winter heating season. During the winter season in 2000-2001, the first hint of volatility in the gas markets were experienced, with prices exceeding \$10 per Mcf (1,000 cubic feet).

A review of prices following the 2000-2001 time period shows two things. One easily recognized trend is a general upslope in the graph, which depicts increasing prices for natural gas. Second is the price of gas during the summer and fall months of 2005. Record prices for natural gas were established during late summer and fall of this year. News stories attribute this rise in cost to the effects of Hurricanes Katrina and Rita and the impact on production and distribution facilities located in the Gulf of Mexico.

This rise in price occurred during a time when demands for electric energy are near their highest levels. Natural gas is used to fuel generating plants needed to meet the summer air conditioning demands. As a result of increased electrical demands and a warmer summer than normal, more gas was used in these plants. With the record high gas price and increased consumption, a significant impact on electric prices was experienced.

During the past three months, the cooperative has paid over \$2 million in adjustments to the wholesale power bill to pay for the natural gas. This cost was not projected, but must be paid. As a result of this unexpected charge, the wholesale power cost adjustment on the retail electric bill has been raised. This adjustment will be maintained only as long as necessary.

A common question is: When will the wholesale power/fuel cost adjustment go away? We do not have an answer at this time. It is anticipated that the cost of natural gas should decrease in the future. However, the timing of this decrease may not happen until after the winter heating season. We will continue to monitor fuel costs and will do everything possible to reduce this adjustment.



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