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Law allows JEA to make frequent fuel cost changes; Hurricanes' effect on gas prices made the latest hike inevitable, the utility says.

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*BY GREGORY RICHARDS
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JEA's 400,000 electric customers might be shaking their heads in disbelief after the utility's board last week approved the third rate increase in 11 months to cover skyrocketing fuel costs. In total, they represent about a \$25.95 increase to the typical residential customer's monthly electric bill.

But frequent rate adjustments -- on a monthly basis, even -- are the norm with electric utilities, industry officials and observers say.

"It's not uncommon to make fuel adjustments multiple times in a year because the fuel prices change dramatically," said Paul Sotkiewicz, director for energy studies at the University of Florida's **Public Utility Research Center**.

However, ratepayers may be unaccustomed to rapid-fire increases because they haven't been widely needed since at least the 1970s, during the country's last energy crunch, he said.

JEA's 11.5 percent increase that will go into effect Oct. 1 follows a 10 percent increase in February and 5.5 percent increase in November, roughly 27 percent in all. When approving the November and April increases, JEA's leaders said those hikes should be enough to cover fuel costs for several years.

Yet subsequent fuel prices overwhelmed those projections, they later said. Many other utilities across Florida are making similar rate adjustments to pay for more-costly fuel, including Clay Electric Co-op and Florida Power and Light Co., the state's largest utility, which has a service area that includes parts of Nassau, Clay and St. Johns counties.

"There's nothing that anyone could have done to anticipate this situation," said Barry Moline, executive director of the Florida Municipal Electrical Association, which represents the state's 33 municipal-owned utilities, including JEA.

The biggest increases have been from oil and gas. Though they are used to generate only 22 percent of JEA's electricity, they represent 66 percent of JEA's fuel expense. Natural gas and oil prices have risen a combined 70 percent since April, when the last rate increase occurred, according to JEA.

JEA gets the remainder of its power from coal and petroleum coke -- a by-product of refining fuel oil. Those prices have remained relatively stable, according to the utility.

A July survey by the state electric association showed 30 percent of the 23 Florida municipal-owned utilities that responded adjust their bills monthly in response to fuel price changes. Another 30 percent adjust it every six months, 8 percent say they do it annually and 22 percent say they do it on an as-needed basis.

Though they weren't included in that survey, both Gainesville Regional Utilities and Clay Electric Co-op have the power to adjust bills monthly to take into account shifting fuel prices.

So far this year, Clay Electric, which serves 154,000 customers, mainly in Clay and Putnam counties, raised prices in January, May, August and September, company spokesman Wayne Mattox said. Another increase is expected in October. Over that time, the rate will have gone from \$81.50 to \$97.20 per 1,000 kilowatt-hours, a 19.3 percent increase. That's on top of two price increases in 2004 that raised rates 4.2 percent.

A SUDDEN NEED

Officials with JEA, which provides electric service to most of Duval and part of Clay and St. Johns counties, said the latest increase crept up on them suddenly. Though prices had been trending upward for much of the year, it wasn't until between late August and mid-September that JEA realized a price increase was necessary, said Paul McElroy, JEA's vice president of financial services. Damage to oil and gas supplies in the Gulf of Mexico caused by Hurricane Katrina triggered that move.

It was the first use of JEA's new adjustable fuel rate that was implemented in April. JEA had run into trouble in recent years by not having billed customers for higher fuel costs over the last 14 years. That strategy turned what had been a \$100 million fuel reserve in 2000 into a \$250 million deficit by early this year. With the adjustable fuel rate, the charge is adjusted up or down every year if needed, or if JEA's fuel charges deviate by more than 10 percent of the utility's annual fuel budget.

For its fiscal year beginning Oct. 1, JEA projects its fuel bill will be \$491.5 million, 35 percent more than what it had anticipated it to be in May.

'IT'S NOT A THRILL'

J.D. Collins, JEA's chairman, defended the three increases.

"You have to operate your business on a sound business plan," he said. "If the fuel goes up, and you don't raise your prices accordingly, then somebody's going to be in a real deep hole.

"It's not a thrill for us to raise prices, I'll tell you that," he added.

Jim Dickenson, JEA's chief executive, also attributed the three increases this past year to having to play catch-up, after having run up that massive fuel fund deficit.

"We had to overcome more than other utilities had to overcome."

JEA's rates remain among the lowest in Florida.

If the utility didn't raise prices beginning in October, the bills would have accumulated, and a

bigger increase would have been required in the future, Dickenson said.

Mike Twomey, president of Florida Utility Watch, a Tallahassee-based consumer watchdog group, said for the most part he believes utilities are honest when they come forward seeking price adjustments for fuel prices.

"I think they're relatively straight about the bulk of it," he said.

To cover fuel costs in the current budget, which are \$50 million more than anticipated, JEA had to drain a fuel stabilization fund established just in April to cushion against fuel price spikes. That fund was emptied in addition to adding to JEA's fuel deficit. JEA began drawing from that fund in May, and by June the account was exhausted. In total, \$5.4 million was pulled from that account. The account is funded from a surcharge that was part of the April rate increase.

With the latest increase, that account should begin to be replenished, McElroy said.

The JEA board's approval last week to increase rates came a month after the city-owned utility agreed to give City Hall an extra \$1 million on top of the \$89 million already budgeted for the city in the next fiscal year.

Dickenson said that extra payment made sense because what the city is scheduled to pay JEA in electric and water costs next year exceeds the revenue it was to receive from JEA. He said he didn't want JEA to appear greedy, so city officials would be "reasonable" when the two sides sit down next to renegotiate the utility's city payment agreement

"It's a strategy of reasonableness," Dickenson said.

gregory.richards@jacksonville.com, (904) 359-4649

ELECTRIC RATES AT A GLANCE

Residential electric rates across Florida (for each 1,000 kilowatt-hours)

Current Proposed

Amelia Island	\$62.22	\$67.48
JEA	\$79.97	\$89.15
Clay Electric	\$92.20	\$97.20
Miami	\$92.01	\$105.45
Tampa	\$98.07	\$107.97
St. Petersburg	\$97.78	\$108.31
Jacksonville Beach	\$100.34	\$115.09

Note: The average household uses 1,200 kilowatt-hours per month
Source: Individual utilities

Load date: October 10, 2005