

TO: ODEC BOARD OF DIRECTORS
FROM: JACK REASOR
SUBJECT: FRIGID WEATHER EFFECTS RATES FOR ODEC MEMBERS
DATE: MARCH 28, 2014

The past few months have seen unusually cold weather in much of the country due to a combination of typical seasonal trends and a weather phenomenon called the polar vortex (a weather system that typically traps cold air in the Arctic that has temporarily come south). The Energy Information Administration (EIA), reported that over 50 locations in the Southeast experienced one of the top three coldest Januarys on record, recording temperatures 6-8 degrees below average for the entire month. In our members' service territories, the months of December 2013 and January 2014 were recorded as the coldest in the last 30 years. These extreme weather conditions caused ODEC to experience its highest ever peak demand for electricity. Additionally, the regional electric transmission system operator for the territory served by ODEC (PJM) set its new all-time winter peak power electrical demand and recorded eight of its 10 highest winter electric power demand levels in January of this year. Not only was the electric power grid experiencing all-time peak demands but according to EIA, the five highest values of total natural gas consumption since 2005 all occurred in January 2014 as well.

The cold weather doesn't just affect demand—causing it to spike—it also impacts production. With much of America suffering from the frigid winter temperatures, many power generators experienced unforeseen outages causing additional stress on the power grid. This coupled with constrained natural gas pipelines pushed up the price of electricity and natural gas on the wholesale market. The unusual, prolonged, and geographically expansive cold snap which led to the record high electric and natural gas demands resulted in acute price spikes for wholesale electricity which will impact hundreds of thousands of consumers across the country. The series of cold snaps in the Midwest, Mid-Atlantic, and Northeast

pushed hourly power purchase prices above the allowable threshold of \$1000 per MWh, nearly 10 times the normal retail rate. Unfortunately, these increases in gas and power prices will result in increases in the monthly utility bills of ODEC's members.

The economic strain isn't limited to ODEC—in the New England area, natural gas fuels much of that region's power plants, so expensive natural gas has inflated the cost of power for customers. And in Maryland, an energy retailer, Clean Currents, was forced to shut down, because it was not adequately hedged for soaring winter energy prices.

ODEC has diligently worked over the past five years to lower costs, resulting in a 17 percent decrease between 2008 and 2013. However, with the cost of procuring and producing power this past winter in the Mid-Atlantic region being significantly above expectations, ODEC's cost of providing generation to our member cooperatives was also significantly higher.

The wide spread cold caused scarce power supplies in many regions of the country. Despite these extreme weather conditions, while power outages occurred due to specific winter storms, there were no major power outages in our region. We will, as always, continue to work to ensure our members have more than enough electricity for the coldest or hottest days.

Jackson E. Reasor
President & CEO
Old Dominion Electric Cooperative

ODEC is a generation and transmission electric cooperative owned by 11 distribution electric cooperatives in Virginia, Maryland, and Delaware.