Public Utilities

Electricity and natural gas usage will grow in tandem with the state's population.

Despite several years of substantial price increases, electricity remains an excellent value relative to other forms of energy. In 2009, electric utilities costs will continue to rise, which will prompt additional rate increases, but despite the higher price for power, electricity usage in the residential and commercial markets will remain relatively steady. Commercial use will benefit from steady demand for services, but growth will be constrained by fewer new business startups, closures of existing businesses, and limited prospects for growth in occupied commercial floor space. Use in the industrial markets will decline.

As a whole, Georgia's electric utility industry is relatively well positioned. The state's population growth will continue to grow twice as fast as that of the nation, providing a solid source of demand growth in both residential and commercial markets. Its operating costs are relatively low, the fuel mix is diverse and tilted towards coal, and the long-term outlook for the regional economy calls for growth that exceeds the national average. But several concerns are obvious: rising interest rates, the industry's increasing reliance on natural gas instead of coal, uncertainty about deregulation, and creating incentives to invest to ensure the adequacy of the electricity supply and the grid.

Sales to residential customers will roughly track increases in household formation, but greater use of energy-efficient appliances and more energy-efficient building codes suggest that the incremental push to electricity sales per newly formed household will continue to decline. The steep decline in homebuilding will temporarily exacerbate that trend. It is very likely that the average size of newly built homes has peaked—at least for a number of years. This reflects the overall aging of the population, less optimism regarding housing as an investment, and higher energy costs. On the other hand, it is likely that households will continue to find new uses for electricity. One very favorable trend that will boost electricity sales is the increased use of electricity for home heating. High natural gas prices is one of the drivers behind that trend, but an expected population boom in warmer parts of the state, where heat pumps work extremely well, is another factor that will boost electricity use year round.

In recent years, fuel expenses and purchased power costs were the main factors that pushed up electricity prices. In the coming year, it is expected that oil and natural gas prices will be both high and volatile. Thus, the push to electricity rates stemming from higher fuel prices should not be discounted. Coal prices should be relatively steady, however. Several additional factors also will contribute to higher costs for electric utilities in 2009. Utilities will face higher maintenance and insurance costs and will spend more to meet clean air standards. Long-term interest rates will rise in the second half of 2009, and interest costs are significant in this capital-intensive industry. Pension costs will rise, reflecting a tidal wave of long-time employees who are about to retire. Capital outlays for new, large, base-load coal and/or nuclear generating plants eventually will have to rise significantly.

Sector Summary

Direction: slight increase
Performance: average

Due to record-high natural gas prices and limited prospects for substantial increases in natural gas supplies, electricity providers may reconsider planned outlays for new natural gas-fired peaking units. Long-term analysis suggests that natural gas markets will remain tight for many years, with gas prices rising faster than alternative fuels, such as relatively affordable domestic coal. There is a real possibility that the high price of natural gas relative to other fuels will idle many of the recently built natural gas generation facilities, at least those that were not built with dual-fueled equipment. Lured by its environmental advantages, lower capital costs, and relatively short construction times, the industry has become too dependent on this price-volatile fuel.

Since demand for power will continue to escalate, electric utilities' reserve margins are likely to shrink further. Thus, after two decades of declining capacity margins, electric utilities will be busy preparing for the construction of more large base-load coal-fired and nuclear generating plants, which means that significant rate increases can be expected as the capital cost of building these new mega-plants are recovered. Also, since the location of these mega-plants will be controversial, they are unlikely to be built close to major markets, and companies will have to spend millions more for transmission facilities. In the meantime, utilities can be expected to emphasize policies that encourage more efficient electricity use.

Natural Gas

In 2009, steady demand for will help to support commercial gas sales, but high gas prices and stiff competition in many of Georgia's most energy-intensive manufacturing industries may curb industrial demand. Indeed, high natural gas prices probably have destroyed a portion of industry demand. Despite the cost, electric utilities will use more gas for power generation at both their existing plants and the new gas-fired plants now being developed. Also, recent sharp price spikes and general dissatisfaction with natural gas deregulation probably will persuade more Georgians to opt for all-electric homes. On the other hand, natural gas appliances and other trendy upgrades to homes will provide an extra push to natural gas sales. So, as large industrial users' share of total demand declines and electric utilities and residential users' shares rise, the overall demand for natural gas will become less predictable.

The main long-term problem facing the industry is an imbalance of supply and demand, with gas supplies increasing much more slowly than demand. It is unlikely that domestic production will increase rapidly enough to keep pace with demand growth. Producers are restricted from developing many of the nation's most promising gas fields, and imports from Canada via pipeline are gradually expected to decline. Imports of liquid natural gas will expand dramatically, but will only partially fill the gap. On the positive side, technological advances are lowering the costs of producing liquid natural gas. Also, the long-term outlook for natural gas supplies would be much better if gas producers were allowed to drill in places where larges amounts of gas are known to exist. ❖