



**EDISON ELECTRIC
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Wall Street Turmoil: Impacts on Electric Utilities

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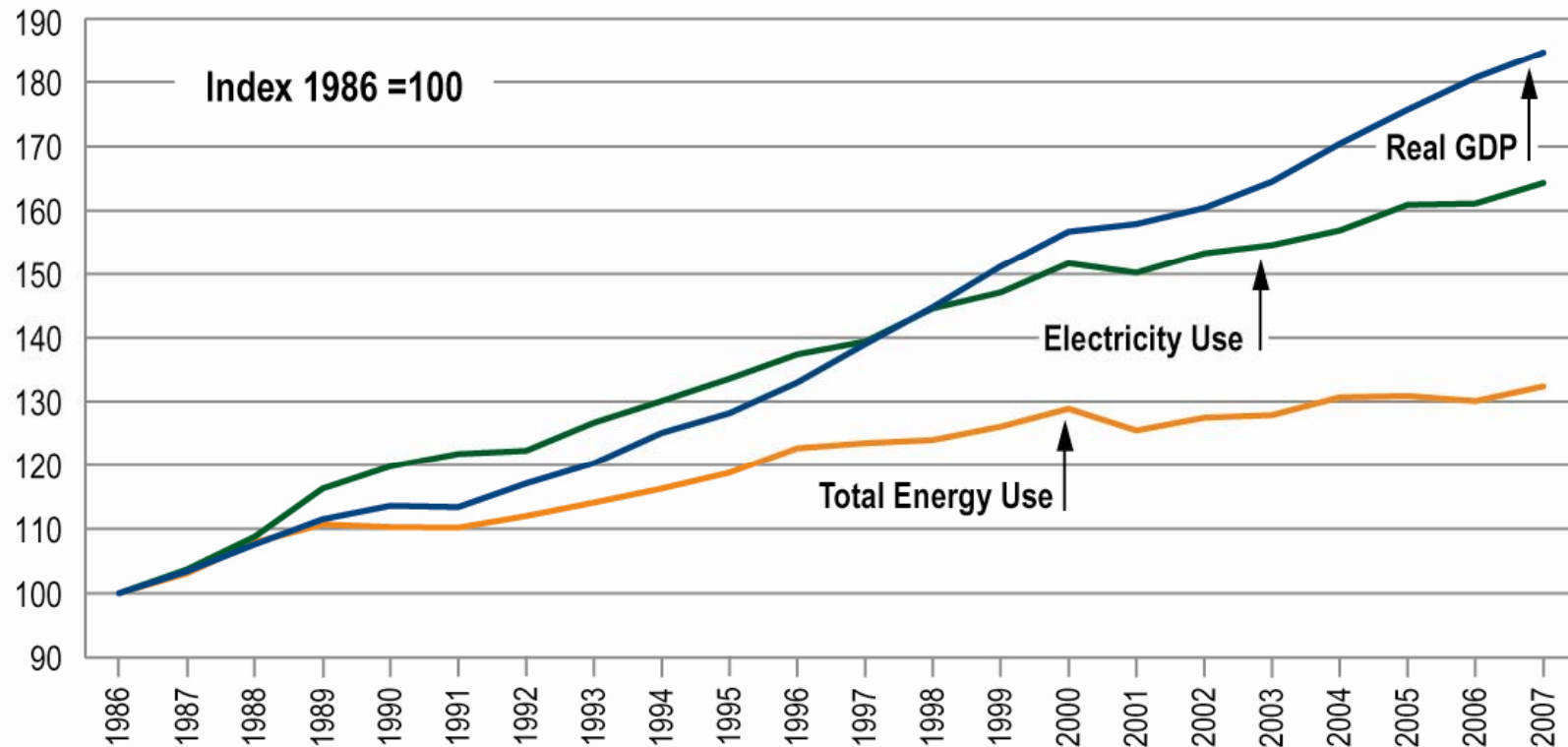
NARUC Winter Committee Meetings
February 17, 2009



Overview

- **The recession has resulted in dampened demand, but demand is forecast to rebound and grow into the future**
 - Commodity, equipment, and labor costs are down, making it an ideal time to build and prepare for future demand increases
- **The utility industry is at the beginning of a major investment cycle**
 - Driven by new technology, demand growth, efficiency and environmental CAPEX
- **Addressing climate change and new priorities**
- **Wall Street Turmoil: access to capital markets and increasing cost of capital for needed utility investments**
 - As one of the most capital-intensive industries, reduced access to capital markets at higher costs, means that enhanced liquidity and financial flexibility is important

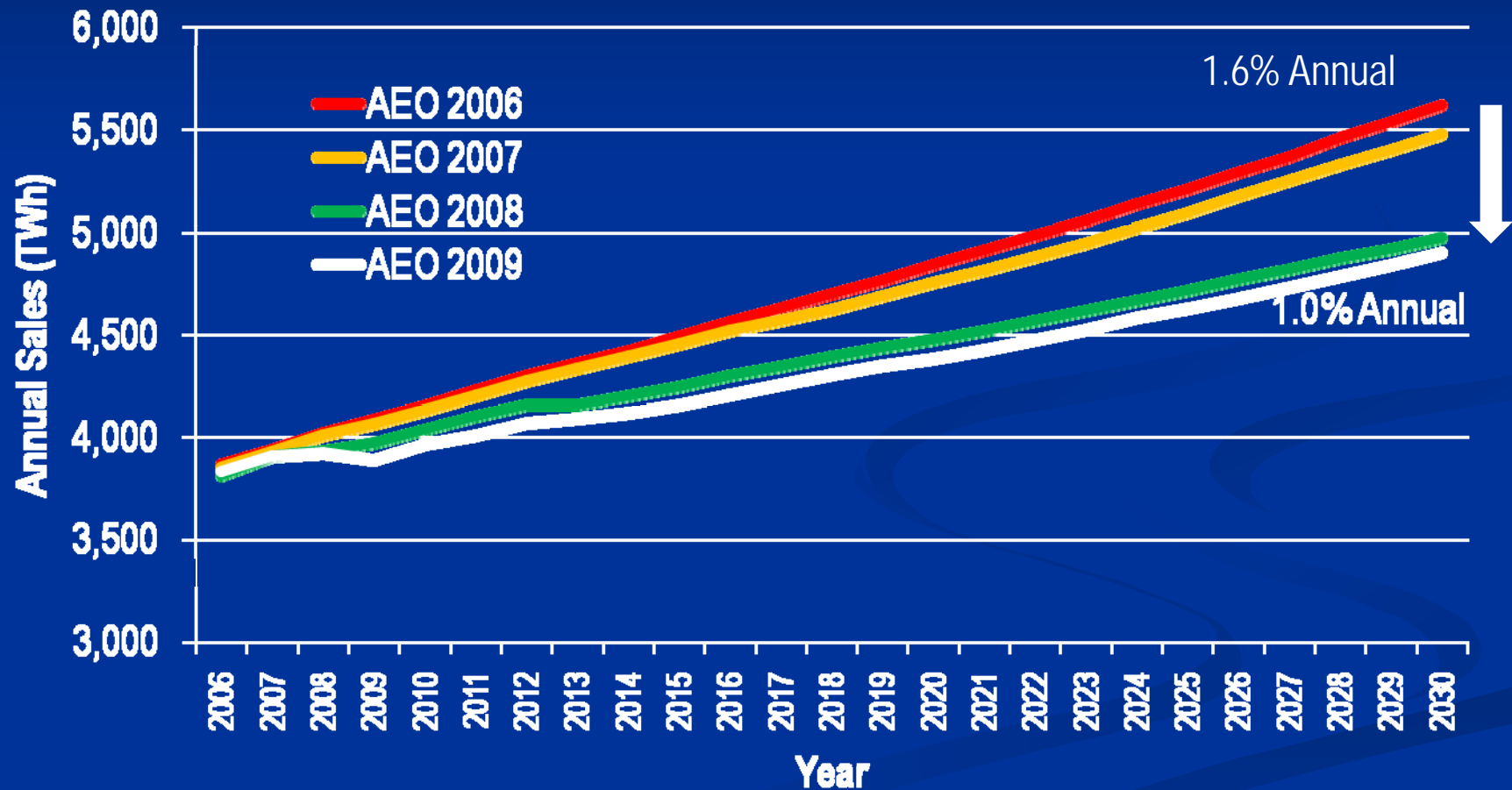
Electricity Growth Is Linked To U.S. Economic Growth



1986 represents the base year. Graph depicts increases or decreases from the base year.

Source: U.S. Department of Energy, Energy Information Administration (EIA).

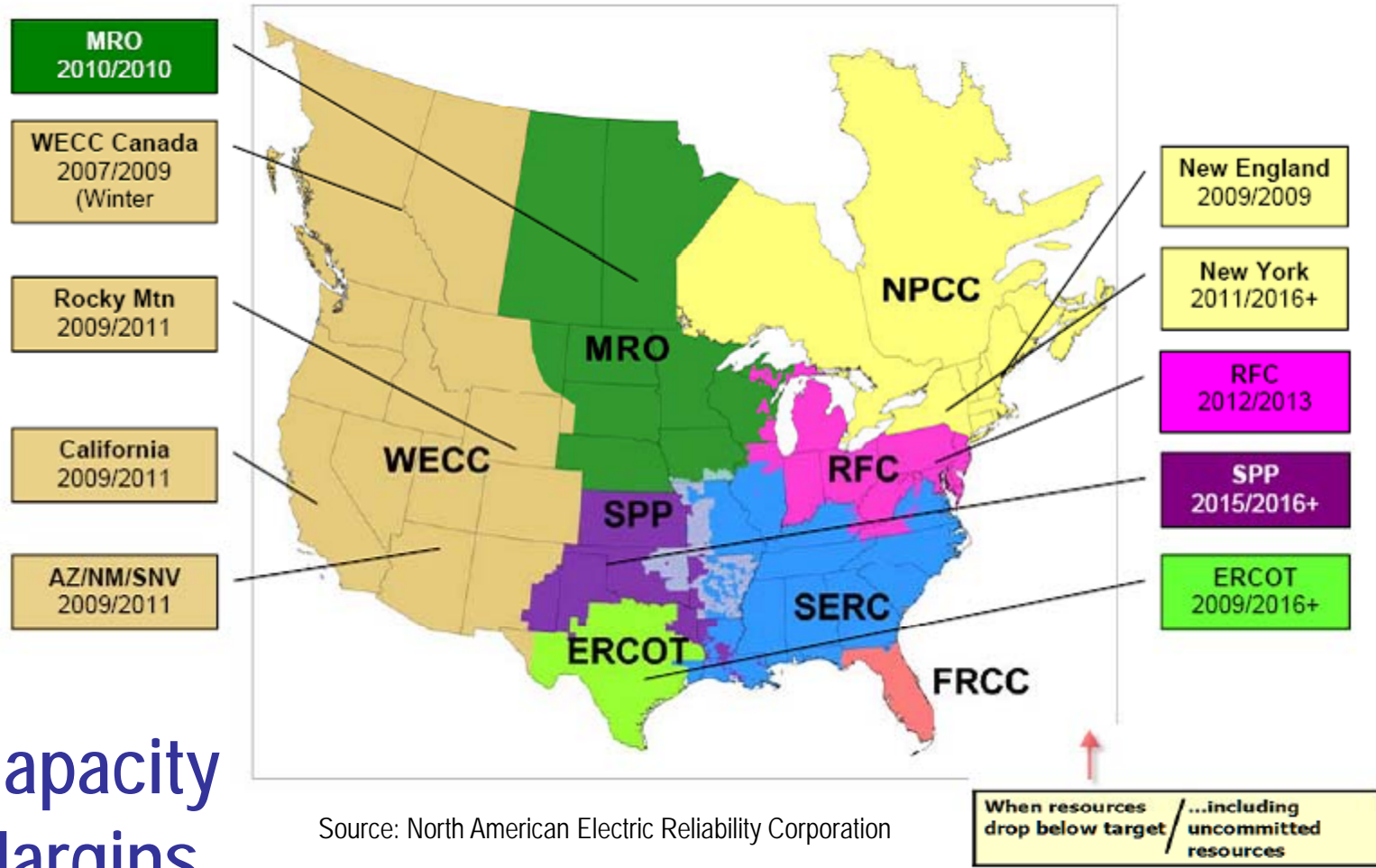
Long-Term Projections of Growth in Electric Sales (Reduced but Still Upward Sloping)



Source: U.S. Department of Energy; Energy Information Administration (EIA) Annual Energy Outlook (AEO) 2006-2009



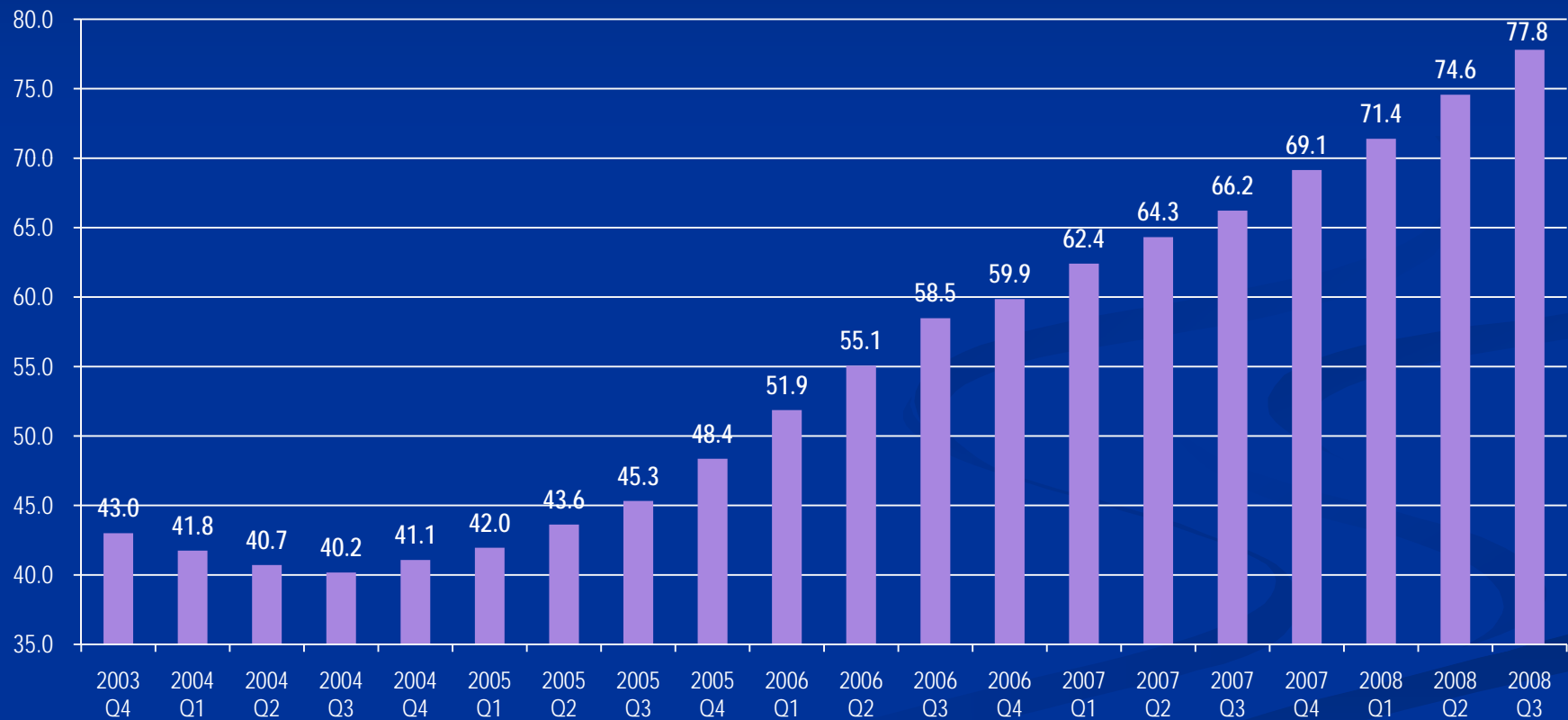
Electricity Supply Margins Projected to Fall Below Minimum Target Levels in Some Areas of North America in Next 2-3 Years



Capacity
Margins

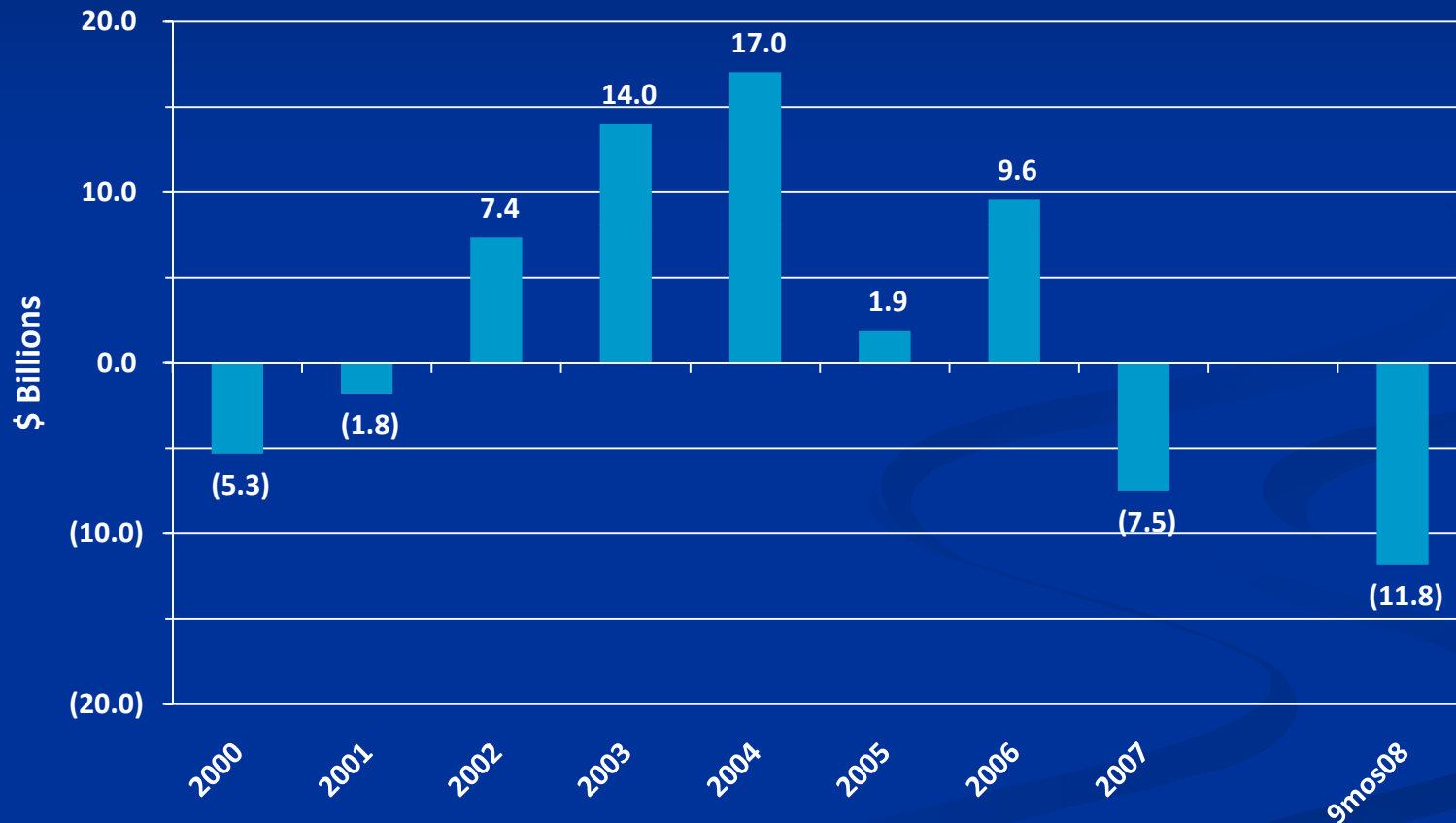
Rapid Capex Growth Since 2004

Capital Spending: Trailing 12 Months
U.S. Shareholder-Owned Electric Utilities (\$ Billions)



CAPEX Impacts On Utility Cash Flow

Pre-Dividend Free Cash Flow
(Cash from Ops - Capex)

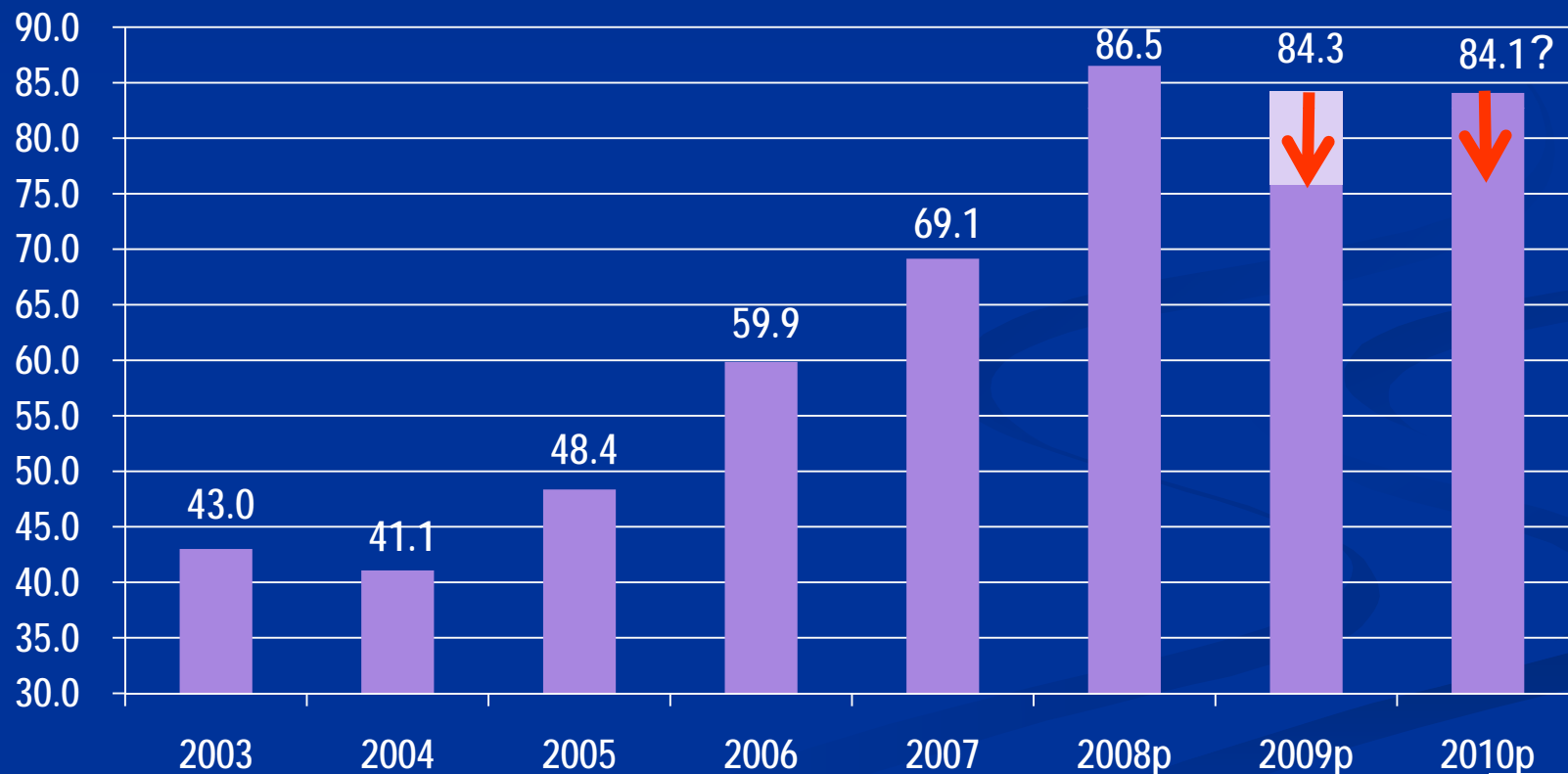


Source: SNL Financial and EEI Finance Dept.



Near-Term Steps to Enhance Liquidity: 10%+ Reduction for 2009 but Capex Remains High

Capital Expenditures U.S. Shareholder-Owned Electric Utilities (\$ Billions)



P = projected

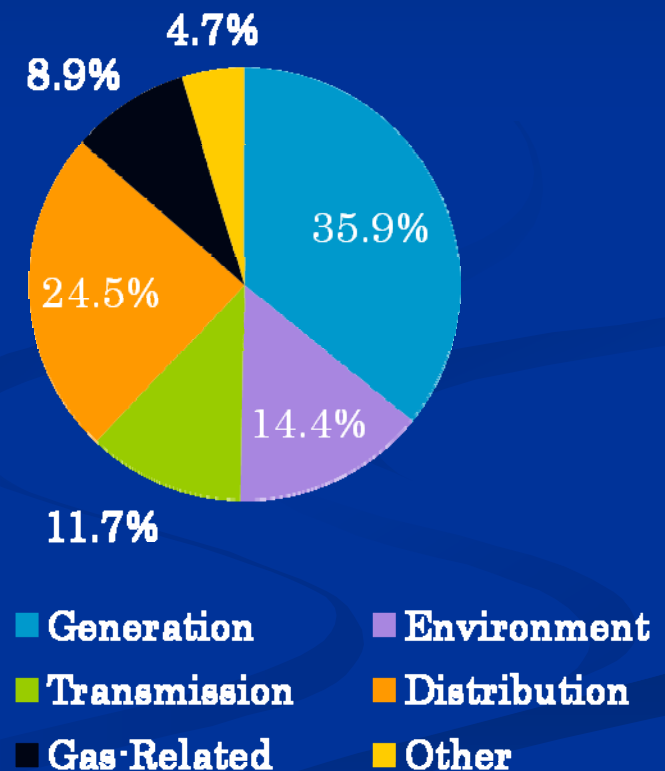


Industry Capital Expenditures

- Industry committed to reliability
 - making needed investments in generation, transmission, smart grid/distribution & the environment
- Financial crisis brings sharp revisions
 - 2009 CAPEX down 10% or more
- Multi-year trend of soaring construction /materials costs reversed in Q3 2008
- Increased spending expected to continue into the future
 - Total CAPEX for 2010-2030 ~ \$1.5 trillion*
 - Excludes impact from climate legislation

2008 Capital Expenditures

U.S. Shareholder-Owned Electric Utilities

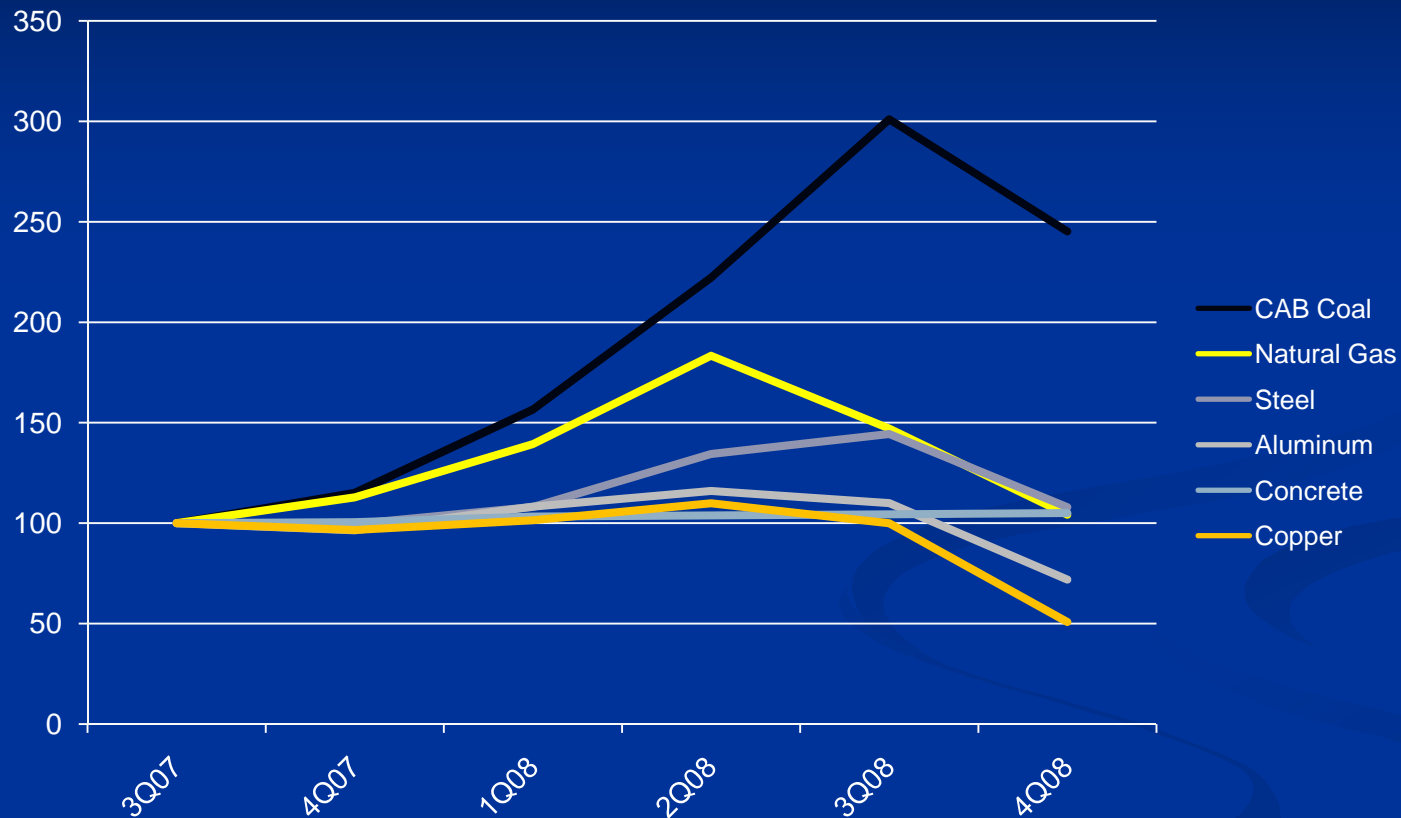


* The Brattle Group, preliminary findings from The Edison Foundation presentation titled Transforming America's Power Industry. Represents the entire Power sector.



Commodity Price Reversal and Decline

(Beginning in the Second Half of 2008 into 2009)



Sources: Bureau of Labor Statistics, NYMEX, Platts, SNL Financial, World Bank.
Prices/indices averaged over calendar quarters and indexed to "100" at 3Q07.



Industry Faces Difficult Decisions

To Invest or Not to Invest?

Defer or cancel infrastructure projects to enhance current liquidity position

Opportunities with sharply declining commodity and input costs



Electric reliability could be impacted when economy and demand rebound

Higher financing costs

Environmental Costs:

Compliance CAPEX

- From 2002-2005, the electric power industry spent at least \$21 billion on compliance with federal environmental laws; state and local rules drive costs even higher.
- The electric power industry is expected to spend approximately \$12.5 billion on environmental compliance measures in 2008.
- The research, design, development and deployment of new technologies needed to reduce greenhouse gas (GHG) emissions will require additional investments.

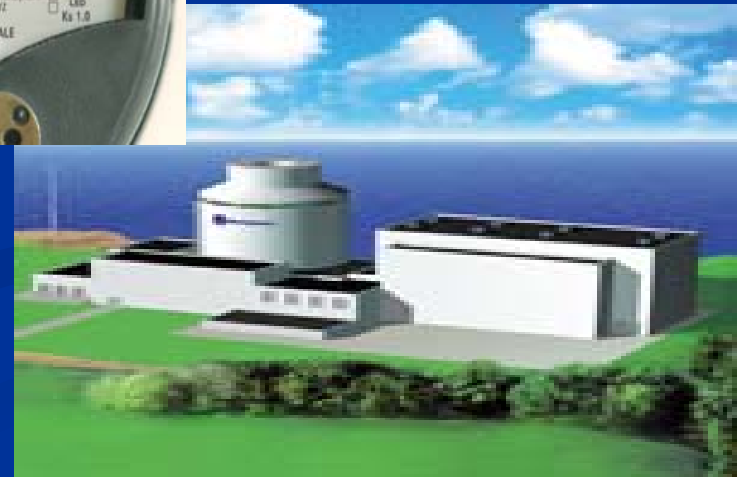
Source: Edison Electric Institute, Finance and Accounting Division, 2008 Capital Expenditures Study, based on projected results for 70 U.S. shareholder-owned electric utilities, July 2008.



Addressing Climate Change



PHEV - GM VOLT



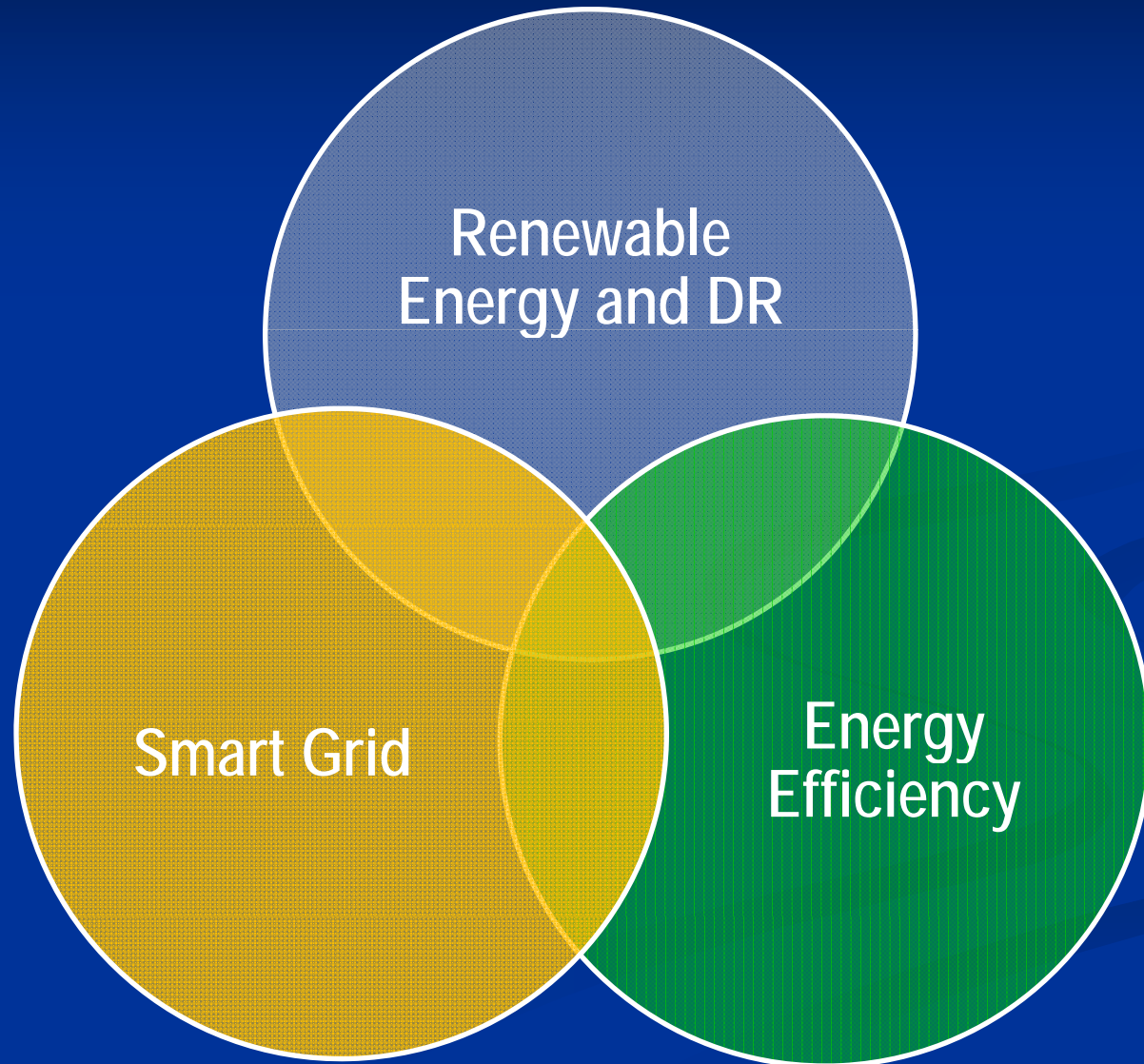
CAPEX to Address Climate Change: Key Challenges

- According to EPRI, it will cost up to \$1.8 trillion to dramatically reduce CO₂ emissions by 2050.
- Investing now in research and development could reduce overall costs. EPRI believes investments of about \$1.4 billion per year, through 2030, could decrease the cost to \$900 billion.
- After technology reaches commercialization phase, continued investment is needed to operate and maintain technologies.

Source: "The Power to Reduce CO₂ Emissions," Discussion Paper, August 2007, EPRI.



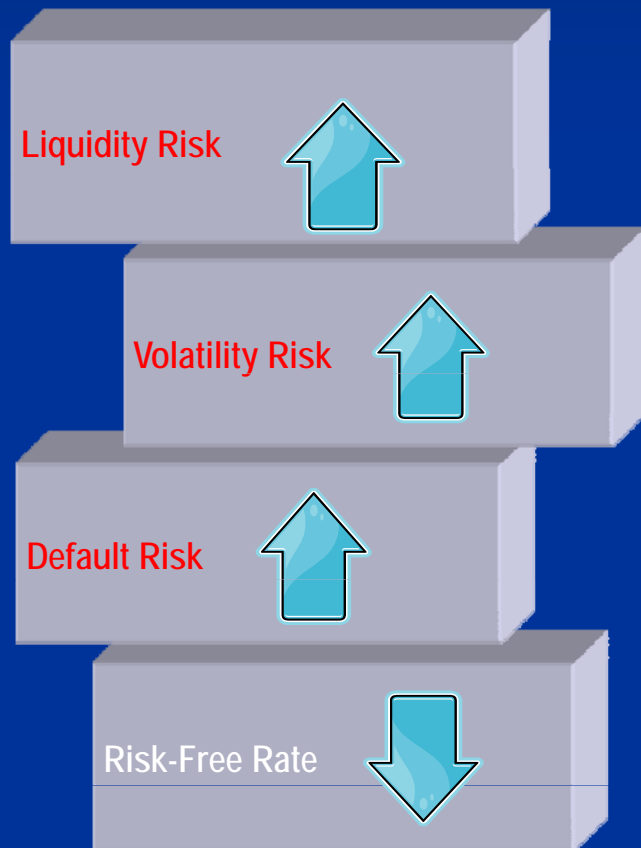
Utilities Will be Key Implementers of the Energy Priorities for the New Administration



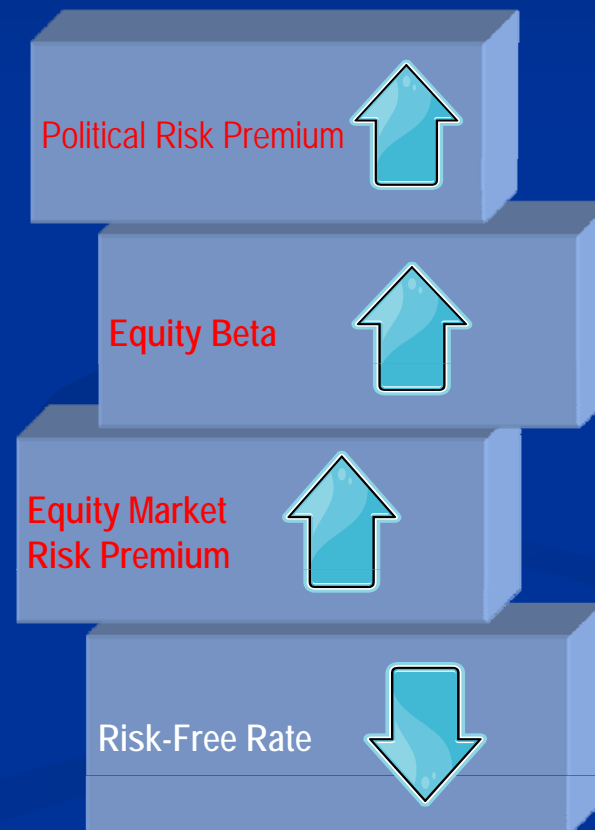
Cost of Capital In the New Market Environment

The Building Blocks of the Cost of Capital have Changed Over the Past Year

Cost of Debt

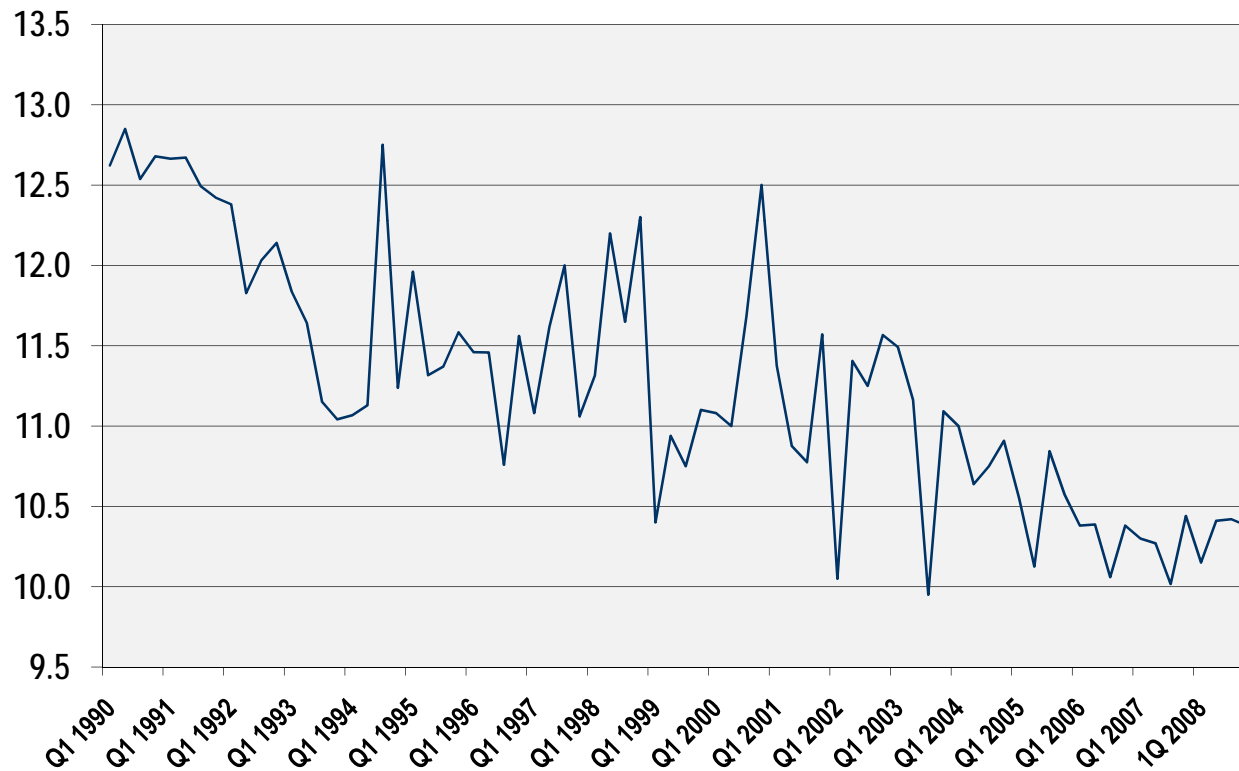


Cost of Equity



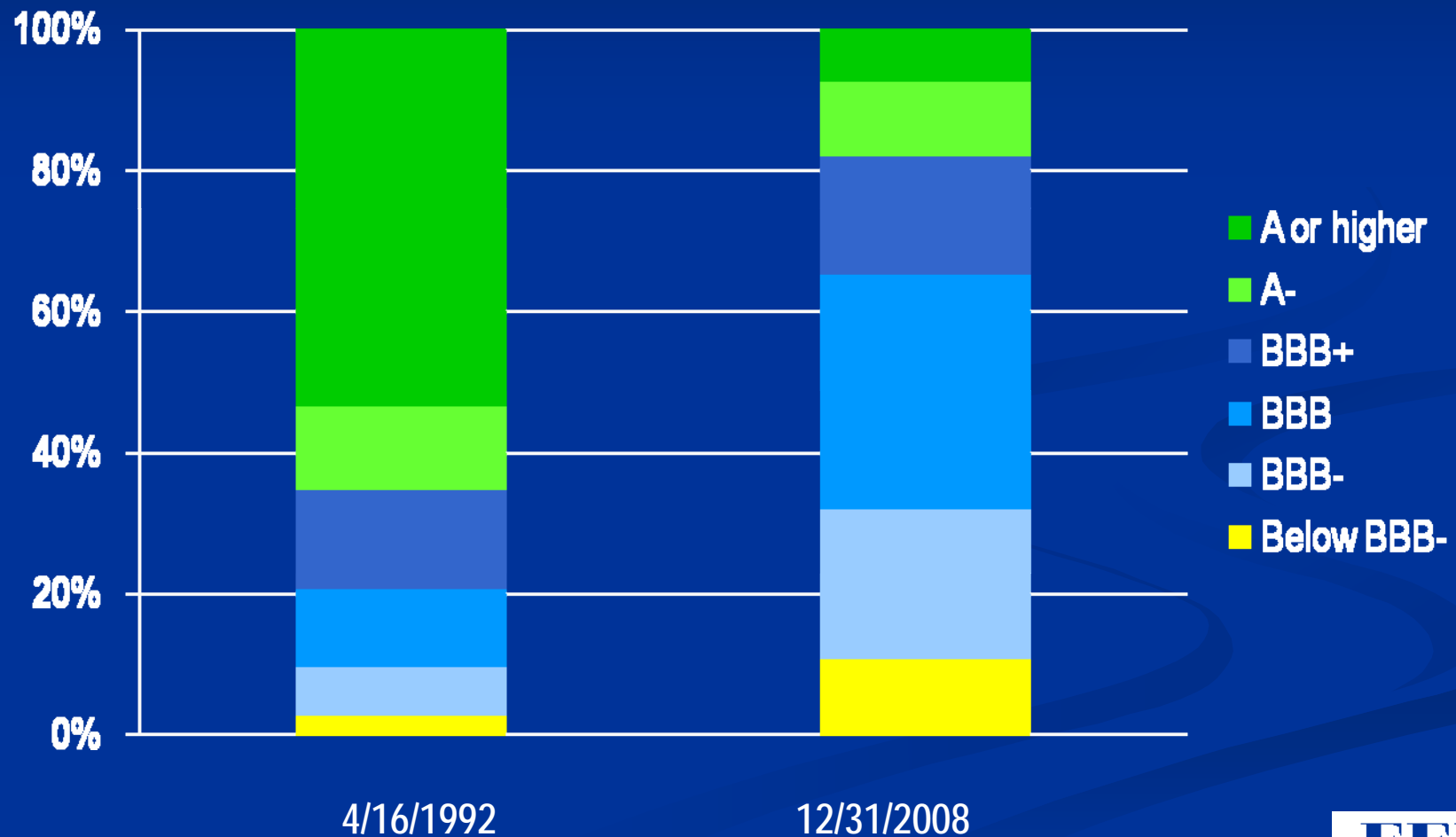
Awarded ROEs Remain at Low Levels

Average Awarded ROE: 1990-2008 (Quarterly)



Long-term Decline in Credit Quality: 1992 vs. 2008

S&P Credit Ratings Distribution, Electric Utilities



Recap

- The recession has dampened demand, but demand growth rebound and continue into the future
- The utility industry is at the beginning of a major CAPEX cycle
 - Driven by New Technology, Demand Growth, Efficiency and Environmental CAPEX
- Addressing the climate change and new priorities
- Impacts of Wall Street Turmoil
 - Access to capital and cost of capital