



CONCENTRIC
ENERGY ADVISORS

Resource Planning in a Changing Regulatory Environment

Utility Rate Cases Current Issues & Strategies *A Law Seminars International Program*

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Discussion Overview

A Consultant's Perspective on Electric-Resource Planning, Policy and Procurement Considerations

- *The resource planning process and observations on Integrated Resource Planning (IRP) and its relationship to other resource acquisition elements*
- *Understanding the parameters for a successful regulatory outcome when acquiring new electric generation resources*
- *Some recent state statutes and regulations on electric-resource planning and portfolio issues*
- *Industry views on critical regulatory issues and policy considerations to improve utility resource planning and acquisition practices*
- *Concluding observations*



Resource planning provides the strategic direction guiding a utility's long-term resource acquisition process

Through the planning process, utilities analyze how to meet customer demands for energy and capacity using supply-side resource procurement and demand-side resources (energy efficiency & demand response)

➤ **Planning Focus on Two Resource Areas:**

1. Energy-related planning – electricity generation and wholesale energy procurement.
2. Capacity-related planning – construction of new power plants, electric transmission and/or distribution facilities.

➤ **Dynamic & Flexible Process** – Planning requires iteration and testing to determine a combination of resources that offer maximum value over a range of likely scenarios over both short- and long-term horizons. It is a continual, ongoing process that must reflect market forces and an ever changing regulatory environment.

➤ **Impacts** – Decisions made in planning affect customer costs, service reliability, risk management, and the environment.



The resource planning process differs depending on the utility, state and region

Whether operating in a state with formal IRP requirements, market-based solutions or hybrid approaches, resource planning is a core function of all utilities

- **Utility** – Is it public or investor-owned, vertically integrated or “restructured”?
- **Local, State and Regional Needs** – Determines planning scope and provides policy direction regarding energy portfolios, such as resource priority, fuel diversity, and emissions reductions.
- **Stakeholder Involvement** – Many stakeholders participate in planning processes and the related decisions. Participants include: utility regulators; municipal governments, state and local policy-makers, regional organizations, environmental groups, and customer alliances. Collaboration at the regional level often occurs through regional transmission organizations (RTOs).



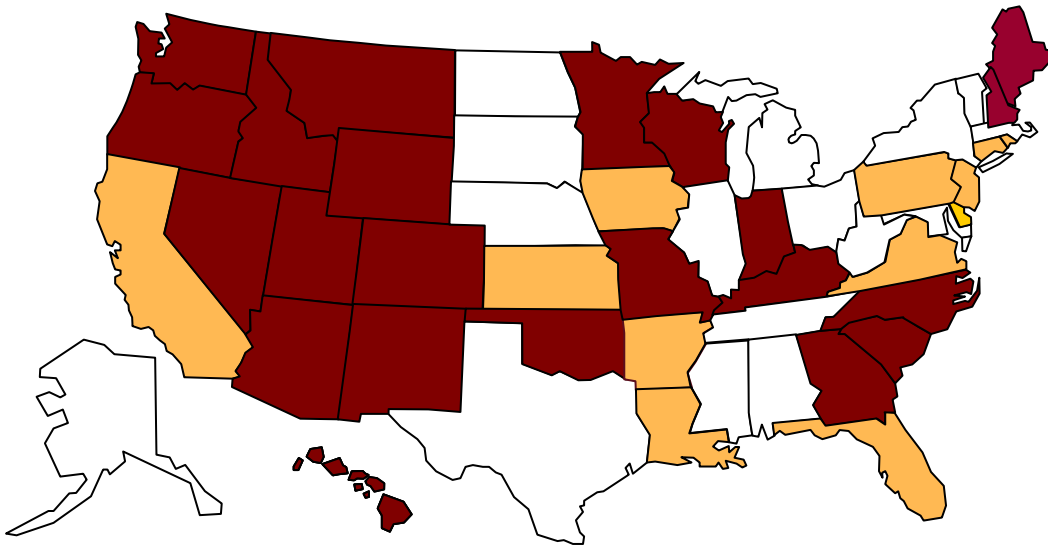
Resource planning includes certain key elements

- **Planning Standards** – Such factors as reserve margin, deliverability, degree day planning, hydro and other plant availability, integration of state-mandated renewable portfolio standards (RPS), distributed generation, consumer risk tolerance thresholds, environmental adders (CO₂, mercury), among others.
- **Regulatory Strategies** – Approaches to align utility interests with those of its customers and regulators, such as risk sharing mechanisms, accelerated cost recovery programs and pre-approval on rate treatment.
- **Financial Issues** – The appropriate discount rate and key financial variables for the evaluation of purchase options and sensitivity testing, and balance sheet effects associated with transaction alternatives.
- **Retail Load Uncertainties** – Impact of DSM on load planning, economic growth, retention and attrition rates, load factor changes from industrial load losses, and any obligations for provider of last resort (POLR).



Many states have IRP filing requirements but they can vary widely, along with their resource approval criteria

States with IRP/LCP Requirements



■ Limited planning requirements

Source: State Commission Profiles, SNL Database

Selected Characteristics

- Specify detailed filing requirements
- Limited guidance on the analytical tools used
- Necessity of competitive bidding processes
- Rate case requirements for cost recovery; pre-approval of rate treatment
- Presence of an approval / acceptance process
- Flexibility on implementation
- Planning for SOS/POLR requirements in deregulated states
- Compliance with DSM and renewable resources targets

As states return to the IRP model, opportunities exist for utilities to co-opt regulators, staff and other stakeholders



What's in the resource planning "windshield"?

Issues Facing Load Serving Entities



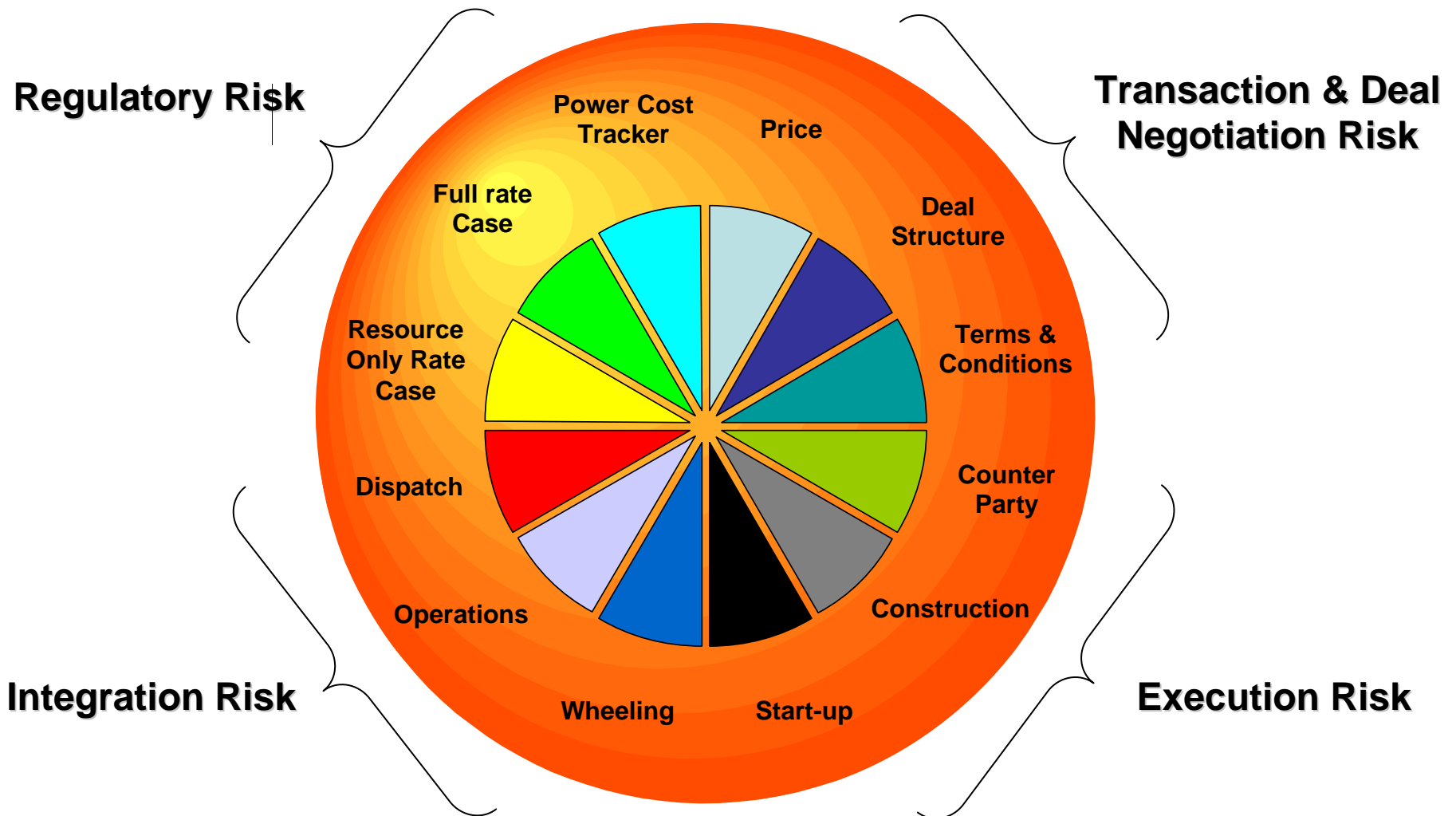
Reactions to Observed Changes/Shifts

- **Regulatory** – FERC not just sitting out anymore ... creation of new Energy Innovations Sector to address legal, regulatory and policy issues related to renewable energy, energy efficiency, distributed generation, greenhouse gas emissions and advanced technologies relevant to the transmission grid and wholesale markets.
- **Financial** – Companies placing much greater emphasis on the impact resource options will have on balance sheet, earnings, risk exposure, etc.
- **Planning** – The Paradox: We will require more energy in the future –while our planet’s health will require less carbon in the air. Utilities are relying on energy efficiency to help span the gap to a more sustainable less carbon-intensive future.
- **Strategic** – Resource optimization is a core capability - potential engine behind earnings growth.

With the global focus on “climate change”, utilities must evaluate how environmental considerations impact resource options and how these options support financial performance.



Resource planning can aid in managing the variety of risk that accompanies any resource acquisition opportunity



In some states, guidance for addressing resource acquisition is provided by the energy office or similar government agency.*

Guiding Principles

- *Encourage all load-serving entities to adopt and implement resource plans to ensure adequate resources to meet their obligation to serve customers' projected long term energy and capacity needs.*
- *Encourage a balanced, cost-effective and environmentally sound resource portfolio that includes conservation and renewable resources.*
- *Preserve and promote ... cost-based energy system to benefit the end use consumer by providing reliable power and reduce the consumers' vulnerability to supply shortage and price volatility.*

Detailed Annotations

- *"...underscore the continuing obligation that the state's utilities have to serve their customers' load requirements and to acquire the resources necessary to do so."*
- *"...Recognize that current and future electricity markets are likely to experience greater price volatility, and supply risk."*
- *"...Washington continues to be extremely cautious about increasing its reliance on market forces to provide for its electric supply.....the main question for Washington is the extent to which our load-serving utilities rely on market purchases or their own resources to serve their loads."*

Representing a clear message regarding resource adequacy and protection of customers from market price volatility and other risks

* Comments reflect selected excerpts from 3 of the 13 Guiding Principles, Washington State Energy Strategy, February 2003



Regulatory prudence standards for cost recovery are integral components in the resource acquisition process

- Through a number of Decisions, Orders and other pronouncements, the regulator will enunciate its standards concerning prudence of resource acquisition decisions. These include involvement of the utilities' Board of Directors:
 - “[W]e would expect the Board of Directors in the future to be better informed about the resource acquisitions and their costs, and more involved in the decision process.” (Excerpt from a prudence order)
- The utility must first determine **whether new resources are necessary**. Once a need has been identified, **the utility must determine how to fill that need in a cost effective manner**. When a utility is considering purchase of a resource, it must evaluate that resource against the standards of **what other purchases are available**, and against the standard of **what it would cost to build the resource itself**.

Consistency with IRP resource determinations is a necessary but not a sufficient condition for a prudence determination. Demonstration of prudence is typically carried out through the rate case process.



Key procurement process elements must be structured to satisfy ex-post prudence reviews

- **Analysis** – Use the most currently available information. Adjust analysis for such factors as end effects, capital costs, dispatchability, and transmission costs.
- **Documentation** – In addition to making an adequate study at the time of the acquisition decision, keep adequate contemporaneous records of the decision and Board of Directors’ review process, which will allow the regulator subsequently to evaluate the Utility’s decisions.
- **Ongoing Evaluation** – Throughout the acquisition process, revisit the alternatives against evaluation criteria. It is not sufficient to document only the initial decision but as circumstances change, it may be appropriate to update the factors considered to reflect new information.



Establish criteria to guide the consistent evaluation of resource alternatives and review it early with the “Board”

Compatibility with Need	Cost Minimization	Risk Management	Public Benefits	Strategic and Financial
<ul style="list-style-type: none">• Meet short and long term energy and capacity requirements• Balance capacity and energy needs without risk of excess capacity• Provide shaped resource to balance seasonality of load	<ul style="list-style-type: none">• Provide lowest cost alternative to meet energy and capacity needs• Competitive bidding processes• Balance potential future exposure to power sales risk	<ul style="list-style-type: none">• Balance potential future exposure to power purchase risk• Balance potential future exposure to power sales risk• Reasonable exposure to counter party risk	<ul style="list-style-type: none">• Lower portfolio emission levels• Contribute to regional energy adequacy• Support renewable energy development objectives• Promote energy efficiency (conservation and demand response)	<ul style="list-style-type: none">• Reasonable exposure to future environmental regulations• Reasonable exposure to future state wholesale market restructuring trends• Contribute to regional energy need• Limited balance sheet impact of imputed debt from PPA contract



Regulators are being driven in their decision making by a renewed focus on reliability and regulated resources

Drivers

- National concern around adequacy of transmission infrastructure stemming from California Energy Crisis
- Climate change considerations are providing mandate for energy efficiency and renewable portfolio standards
- Interest in achieving the best possible deal for consumers in obtaining the least cost/ least risk alternative to meet load requirements
- Interest in developing regional efficiencies and optimizing state resource options
- Concern about preserving the financial health of the utilities they regulate

Regulatory Expectations

- **Reliability**
Renewed commitment in developing transmission infrastructure including incentives for investment.
- **Adequacy**
Supply adequacy will be pursued with both financial and environmental costs and risks in mind while adhering to explicit reserve margin targets.
- **Prudent Acquisition**
Utilities will be able to demonstrate diligent investigation of alternatives in arriving in resource decisions.
- **Sophisticated Analytical Tools**
Traditional production cost and Monte Carlo modeling tools will be used to identify the preferred portfolios
- **Broad Involvement**
Planning process can allow for collaboration with a range of stakeholders



Pre-approval has been linked to state economic and public policy objectives to spur additional investment

Iowa utilities were able to drive legislation through and have maintained open and supportive environment with regulators

Jurisdictions Allowing/Requiring “Pre-approval”

- *California*
- Florida
- Georgia
- Idaho
- Indiana
- Iowa
- Kansas
- Kentucky
- Maryland
- Michigan
- *Minnesota*
- Mississippi
- *Missouri*
- Montana
- New Mexico
- North Carolina
- Oklahoma
- South Carolina
- Wisconsin

Range of Possibilities

- Certificate or Determination of Need filed with the Commission
- IRP is pre-approved with post-implementation review
- Pre-approval may be optional
- Upfront determination that a plant is “used and useful”
- Fixed financial ratemaking parameters that will apply to the plant over its economic life

Italicized states - Commission approves IRP with post implementation prudence review; (Analysis excludes those deregulated states where commission oversees and approves utility procurement).

Source: SNL Database



Recent state legislative initiatives and regulations have addressed electric resource planning and portfolio issues

- **Indiana's** House of Representatives initiated a bill requiring electric suppliers to procure 10% of the supply used to service Indiana customers from renewable resources by 2018, under a phase in plan that would begin in 2009 (January 2008).
- **Northwest Power and Conservation Council** created by Congress to plan resource use in Idaho, Montana, Oregon and Washington has begun revising its regional power plan and proposes to focus on reducing greenhouse gas emissions and increasing renewable energy use, while maintaining economical and reliable power (January 2008).
- **Florida** Senate adopted legislation in June 2006 allowing utilities to recover planning and pre-construction costs of nuclear power plants before the facilities go into operation. In October 2007, FPL filed a request with the PSC for a “determination of need” to build two new nuclear generating units at the site of the existing Turkey Point generating facility.

“FPL Group realizes the challenges of building new nuclear capacity are significant, but the company fundamentally believes that a serious national response to global climate change has to include new nuclear generation.” - CFO, Moray Dewhurst



Recent state legislative initiatives and regulations have addressed electric resource planning and portfolio issues *(Cont'd)*

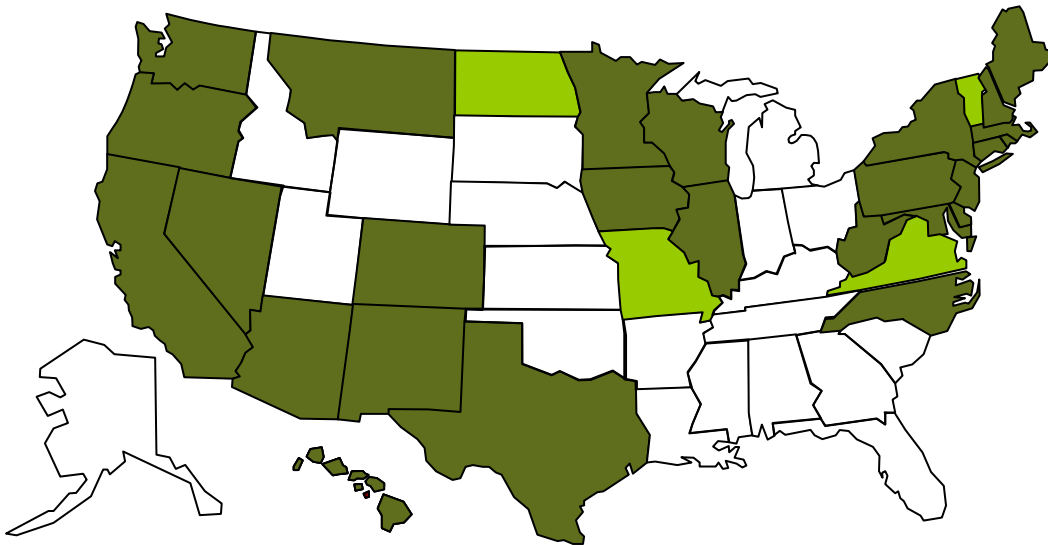
- **Connecticut** enacted H.B. 7432, removes prohibition against utilities owning, operating and constructing generation, and requires electric utilities to provide annual assessments of resource requirements and annual resource plans, which had been previously abandoned with deregulation. In 2008, Connecticut electric utilities will be permitted to submit “self-build” proposals in response to RFPs. (August 2007)

...the companies contend that implementation of competitive markets is responsible for recent generation price volatility, and opine that the state should consider a return to a cost-of-service (COS)-based pricing regime, noting that this paradigm “has substantially lower costs than the ‘Market’ regime, across all scenarios and strategies studied.” - *UIL and CL&P upon jointly filing newly required resource plans*



As of January 2008, 27 states & DC have renewable portfolio standards (RPS) or utility renewable energy mandates

States with RPS/RE Mandates



Standards are voluntary at this time

Selected Characteristics

- CA = GHG emissions are reduced by 25% by 2020, and renewable energy provides 20% of electricity by 2010.
- VT = goal of meeting all new generation 2005-2012 with renewables, 10% may be met with own renewable operations.
- AZ = 15% renewable target for retail energy by 2015. For distributed energy, renewable target of 30% by 2012. 60% must be comprised of solar-electric generation.
- CT categorizes renewable resources by class and its targets are per class, requiring 27% renewables by 2020 (20% Class I - Solar, Wind, Biomass, Wave/Tidal, landfill, hydro, fuel cells, 3% Class I or II - waste to energy resources, and 4% Class III - CHP and load efficiency resources).

Source: SNL Database of State Renewable Energy Standards and Initiatives.

RPS standards vary by the size of the requirement, the allowable resources, dates, use of technology multipliers and other factors.



New nuclear – Regulators anticipate surge in new license applications for nuclear power plants, but will obstacles surface to thwart nuclear power plans?

Licensing Process for Nuclear Power

- Dale Klein, chairman of the U.S. Nuclear Regulatory Commission, has overseen the muscling up of his agency to a total of 3,536 employees to deal with a flurry of new license applications. Klein anticipates that there will be 20 reactors by the end of 2008 that he will have license applications for and anticipates that the regulatory process will take from 44 to 54 months from beginning to end.

Main Obstacles

- *Nuclear waste and storage issues.*
- *Training the workforce necessary to build and operate the plants.*
- *Nuclear suppliers for major equipment components are scarce and already at capacity.*
- *Long regulatory and construction lead times.*
- *Staggering capital costs*
- *Consumer and regulatory opposition*

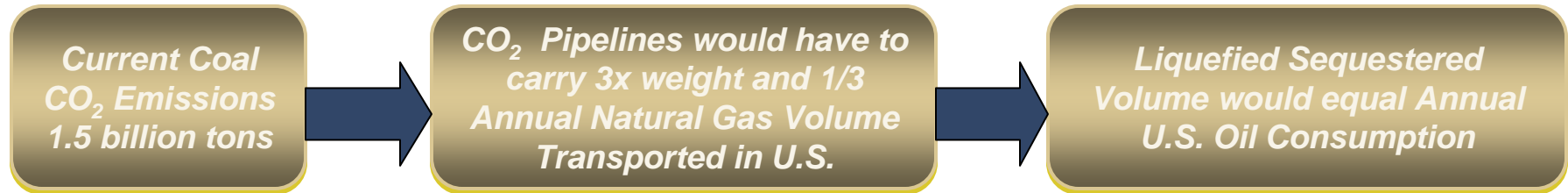
We will need 35 nuclear power plants by 2030 for nuclear energy to retain the same 20% share of all electricity produced in the U.S. as we have today; if we are going to reduce our CO₂ emissions to the 1990 level, we will need 55 to 58 plants built between now and 2030. – James Rogers, CEO Duke Energy

Source: “Nuclear Helmsman - The Feds Gear Up for New Nuclear Era,” *Energy Biz*, Nov/Dec 2007.



Coal – What is the future of coal fired generation in a carbon constrained world?

Magnitude of Current Coal Plant Emissions in a Carbon Sequestration Scenario



Foremost Technology

- Efforts focused on integrated gasification combined-cycle (“IGCC”) with carbon capture and sequestration
- Annual planned investment in coal technology is in order of magnitude \$1 billion plus
- Post combustion carbon capture is still in the development phase

Coal on Hold

- PacifiCorp postpones construction of Bridger 5 IGCC unit – says not viable option for 2014 (Dec. 2007)
- Xcel delays IGCC plant in Colorado due to bleak outlook for Commission approval without capture technology– evaluating viability for implementation at a later date (Oct. 2007)

The way we burn coal today is not compatible with a carbon-constrained world... Howard Herzog, MIT

Source: MIT Study, “The Future of Coal – Options for a Carbon Constrained World.”



Regional Greenhouse Gas Initiative (“RGGI”) - *an initiative of Northeastern & Mid-Atlantic States*

Develop a multi-state cap-and-trade program covering greenhouse gas emissions to reduce carbon dioxide from power plants in the participating states, while maintaining energy affordability and reliability, and accommodating the diversity in policies and programs in individual states.

- Participating States - Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Rhode Island, and Vermont
- Observers in the process - Washington DC, Pennsylvania, Eastern Canadian Provinces and New Brunswick
- Commencing January 2009
- Targeting 10% reduction in annual emissions by 2018
- Allowance apportionments based on historical emissions from fossil-fueled generators > 25 MW
- Focus on reducing emissions, while encouraging renewable energy purchases
- Provides for capping and trading allowances from historical emissions levels that gradually decrease to achieve emission reduction targets by 2018.
- Includes incentives for early reduction
- Provides Allowances for Offsets that reduce and/or sequester emissions of greenhouse gasses

Source: <http://www.rggi.org>



What's currently on the Minds of State Regulators?

Most Important Electric Utility Issues Confronting State Regulators at Present (volunteered major mentions)

	2007	2005
Environmental Concerns	34%	12%
Cost of energy	27%	30%
New generating resources	27%	23%
Rates	18%	18%
Power supply adequacy	17%	19%
Alternative sources of energy	15%	25%
Transmission adequacy	12%	17%
General transmission issues	10%	14%
Deregulation, restructuring	5%	6%
Capital Investments	5%	3%

- Environmental concerns are the most important issue facing state utility regulators, with energy efficiency in the forefront.
- Most regulators favor coal-burning plants to generate electricity; however, as 28% encourage coal, 22% discourage coal over concerns about global warming.
- 25% believe their regions have adequate transmission and 56% believe enough is being spent on transmission and distribution.
- 59% of regulators believe new methods of ratemaking are needed.

Regulators' Attitude Toward – **Coal**



Natural Gas



Nuclear



Source: "The Greening of State Regulators," *EnergyBiz*, Nov/Dec, 2007



Industry Views: Top ten reasons why competitive electricity supply procurement makes sense in vertically integrated regions – the “why” and the “how”.

Why:

1. Wholesale power markets offer new procurement choices beyond utility-owned generation.
2. A competitive procurement process ensures regulators that customers get the best possible deal
3. A transparent competitive solicitation process is an important tool for determining prudence.
4. Competitive procurement provides a market test to assess utility self-build option.
5. Competitive suppliers build new plants largely at their own risk, shifting risks away from ratepayers.

How:

6. Use an independent evaluator in concert with state regulators to ensure fairness.
7. Conduct a competitive procurement process on a level playing field - all proposals meeting same requirements and evaluated under the same standards.
8. Use a collaborative process to establish the amount and type of power to be procured and the evaluation criteria.
9. Do not unfairly skew the solicitation process by imposing requirements to achieve desired outcome.
10. When assessing utility "cost-plus" proposals, account for risk imposed on customers.

"The next build out of electricity generation will be the most expensive in the nation's history, and how that generation is procured will have profound economic and environmental consequences for decades." - John E. Sheik, President and CEO of the Electric Power Supply Association

Source: EPSC Releases Policy Paper and 10-Point "Why and How" on Competitive Electricity Procurement (July 2007)



Utility CEOs are planning for change and are embracing flexibility to meet energy requirements in the next 25 years against the backdrop of regulatory ambiguity

“They are being asked to speedily deploy technologies that can address the most complex environmental challenges mankind has ever faced” – from EnergyBiz Executive Summit, “Getting Ready for Change.”

When asked, “What is the biggest challenge facing utilities?” nine utility CEOs, comprising 25% of the U.S. investor-owned utility market capitalization, responded:

- Climate Change. “It is the defining issue for our industry for the next decade or two and maybe longer. It’s the one issue out there that can change the way that we do things fundamentally.” *Gary Rainwater, Ameren CEO*
- Addressing the evolving needs of utility customers with advanced metering, “giving customers more control over use of energy”. *Kevin Burke, Con Ed CEO*
- Educating the country and its citizens on the enormous cost increases associated with new energy alternatives; and balancing the interests of customers, the shareholders and the environment.
- Maintaining reliable and affordable electricity
- “The environment is affecting all of our decisions going forward, we need to be nimble and flexible.” *William Moore, Westar Energy CEO*

Source: Findings from an *EnergyBiz* Executive Summit September/October (2007).



Industry views on energy efficiency's role in planning and procurement provide some consensus for resource portfolio managers and regulators

National Action Plan for Energy Efficiency

- Recognizing that energy efficiency remains a critically underutilized resource in the nation's energy portfolio, more than 50 leading electric and gas utilities, state utility commissioners, state energy agencies, and energy efficiency and consumer advocates have formed a Leadership Group, together with the U.S. Dept. of Energy and the Environmental Protection Agency, to address the issue.

Recommendations

- *Recognize energy efficiency as a high-priority resource.*
- *Make a strong, long-term commitment to implement cost-effective energy efficiency as a resource.*
- *Broadly communicate the benefits of and opportunities for energy efficiency.*
- *Provide sufficient, timely, and stable program funding to deliver energy efficiency where cost-effective.*

“Needed technology options include energy efficiency, demand-side management and renewable energy sources, increased nuclear capacity, advanced clean coal technologies, and carbon capture and storage.” – EEI Principles on Global Climate Change Policy, February 2007

Source: National Action Plan for Energy Efficiency, July 2006.



Concluding observations

- The resource planning process provides an opportune setting for the continuing efforts of utilities to interact with regulators and other stakeholders outside the rate case environment to communicate, educate and build trust.
- Successful regulatory outcomes for new generation resource acquisition requires not only consistency with IRP guidance, following prescribed evaluation and selection processes but also justifying that the best alternative was ultimately selected, including explaining the basis for rejecting each of the alternatives not chosen.
- Uncertainty regarding future market and regulatory outcomes for specific resource technologies points toward a diversified, flexible resource strategy.
 - Utilities are finding many renewable energy technologies are cost competitive today and assessing RE bundles in a portfolio often provides potential portfolio risk benefits



Concluding observations – continued

- Regulatory culture will continue to play a pivotal role in determining what is perceived as acceptable.
- Managing regulatory uncertainty must involve finding ways to promote:
 - Greater clarity in the energy policies of the state and federal governments; and
 - More specificity and consistency in how regulators implement such policies and in the related decisions
- Confronted with the staggering costs of large-scale, environmentally sound power generation technologies and projected load growth, all stakeholders in the regulated energy sector must:
 - Collaborate to arrive at creative and flexible resource plan solutions that promote energy efficiency measures,
 - Reduce the emissions impact on the environment, and
 - Continue to provide customers with reasonably priced and reliable electricity.
- As greenhouse gas regulation on a federal, regional and state level evolves, utilities must allow flexibility in long term resource plans to account for changing regulation related to fossil fuel generation.



APPENDIX

Case Study: Multi-track process aligned with IRP



Stated interest in acquiring either long-term contracted resources or a distressed merchant asset in the Northwest – Now focus shifts to energy efficiency and environmental compliance

Situation

- PSE identified significant growing need for energy and capacity in its IRP process and modeled EE/DSM as supply resources
- Simultaneously developed a short list of asset owners with whom to negotiate as well as issuing a 20 year term RFP for PPAs
- Customer base is expected to grow by 28% over next 20 years
- Customer growth and expiration of large PPAs driving capacity needs to 1,600 MW in next decade and 2,600 MW by 2025
- Must acquire 1,000 MW of renewable power by 2020

Corporate Drivers

- Interest in rebalancing the debt to equity structure of the Company
- Strong interest in reducing structural and financial risks
- Strategic and financial interest in adding physical generating capacity to the regulated portfolio
- Return to a “back to basics” operational philosophy
- No initial interest in getting into the generation development business
- Open to long-term PPAs but were concerned about balance sheet and credit implications

Results

- PSE acquired a 49.85% share of combined cycle plant from EPCOR (249 MW facility)
- Filed first resource only rate case and Frederickson acquisition was uncontested+
- Subsequently added two wind projects (Hopkins Ridge – Nov. '05 and Wild Horse – Jan. '07)
- PSE recently issued a resource and a PPA solicitation for 1,340 MW with all source solicitation
- Issued RFP to vendors to help customers cut electricity usage by 314 MW

Source: Company and WUTC press releases and Orders, CEA analysis, SNL Database



APPENDIX

Case Study: IRP with multi-state jurisdictional issues



Approached their multi-state service territory in an open and interactive manner to establish broad understanding and support for their IRP and the subsequent resource acquisition.

Situation

- PacifiCorp must file its IRP every 2 years in a consolidated manner across all 5 states
- MidAmerican has enjoyed pre-construction approval in Iowa, Kansas and Missouri
- On-going concerns with cost recovery across its multi-state service area
- Required to use a self-build alternative as the benchmark against solicited offers
- Initial need was identified for eastern portion of its system, which is transmission constrained and not liquid
- Selected its own alternative based on economics and ability to meet timeline

Corporate Drivers

- Demonstrating to the multiple commissions a concerted effort at being open and accommodating of various viewpoints
- Ensuring that a resource would be available to meet need
- Strong interest in minimizing market and political risks
- Strategic and financial interest in adding physical generating capacity to the regulated portfolio – linchpin for future earnings growth

Results

- PacifiCorp issued a supply solicitation for baseload, intermediate and peaking resources for 1,700 MW across all six states in Nov. 2006
- IRP process remains contentious. In Jan. 2007, Oregon PUC rejected RFP for two coal plants as inconsistent with its prior IRP
- PacifiCorp recently dropped two coal plants in Utah from its resource plan due to stakeholder opposition and the unknown risk of emissions regulation.
- As a result the Company intends to issue a new system wide all source incremental request for proposal. Dec. 2007

Source: Company & OPUC press releases and Order, CEA analysis, SNL database



Case Study: PSC adopts pre-construction regulatory framework for new generation facilities



Wisconsin Electric had a stated interest in building up a portfolio of generation that would replace older, less-efficient units and which would result in generation being physically located within Wisconsin

Situation

- Constrained transmission
- Protectionist regulatory climate; cautious approach to electric restructuring
- Favorable ROEs (> 12%)
- Strong and actively supportive municipal utility association
- Perennial regulatory focus on supply and delivery reliability
- IPPs had just gone through the first of several tumultuous and uncertain years
- First installment of “Power the Future” (PTF) was displacing old coal units

Corporate Drivers

- Poor stock performance
- Disappointing growth initiatives (e.g., UI capacity acquisition)
- Strong corporate preference for owning and operating generation
- Regulatory restrictions on unregulated investments
- Attractive allowed ROE to earn under
- Strong risk aversion to counterparty credit risk
- WE was sent strong signals by the financial markets that new owned generation would be well received in the long-term

Results

- Wisconsin Electric obtained approval from the PSCW to move forward with Port Washington
- The 1,050 MW of combined cycle capacity on-line in 2005
- 12.7% ROE was approved and included the costs for Port Washington
- PSC order in PTF II authorized 2,615 MW coal units to be placed in service in 2009 and 2010, approving a total cost of \$2.15 billion.
- Received 10% bump in valuation within 3 months of ruling and has been up over 30% since

Source: Company press releases, Regulatory Research Assoc., CEA analysis



Contact information

Ron Amen is a Vice President at Concentric Energy Advisors, Inc. With over twenty-nine years of combined experience in utility management and consulting, Mr. Amen has particular expertise in the following areas: regulatory strategy; cost allocation and pricing issues; rate and service unbundling; resource strategy, planning and financial analysis; and expert witness testimony.

Concentric Energy Advisors, Inc. is a management consulting and economic advisory firm focused on the North American energy and water industries. Based in Marlborough, Massachusetts, Concentric specializes in regulatory and litigation support (including integrated resource filings), energy contracting and procurement, market assessments and transaction-related financial advisory services. The firm's staff and affiliates have held executive positions with management consulting firms, utility companies, regulatory agencies, competitive energy suppliers and investment banks. Prior to Concentric, the majority of Concentric's staff were members of Reed Consulting Group (which subsequently was acquired by Navigant Consulting, Inc.).

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