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 **Alliance of
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Mergers & Acquisitions in the Electric Utility Sector

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Overview

- Energy Policy Act of 2005
- Fundamental Drivers
- Future Outlook

Significant Movement Toward Regionalization

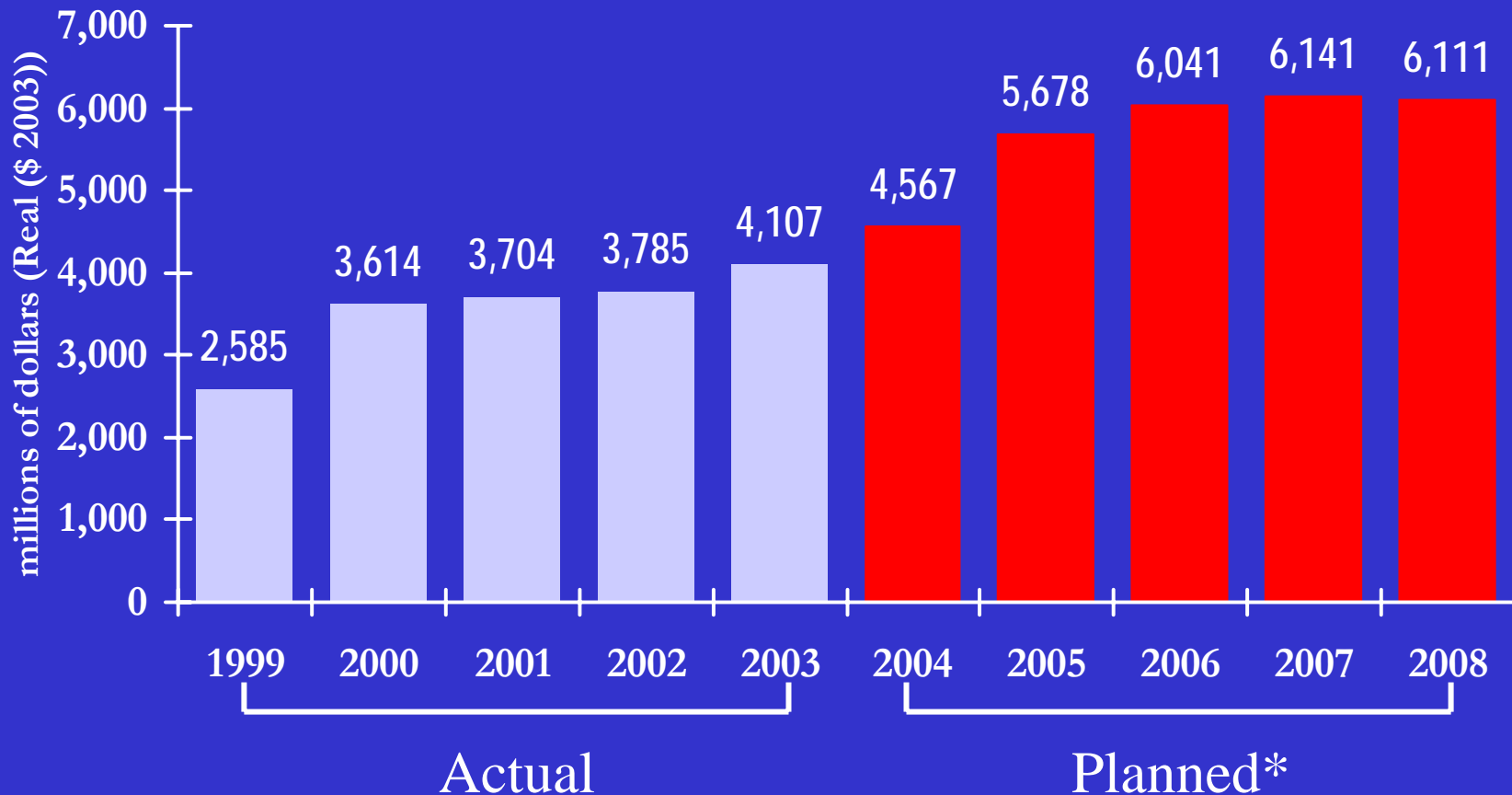
- Removes PUHCA barrier to multi-state holding companies / consolidations
- Establishes Regional Advisory Body (states) / EROs and regional entities
- Authorizes Interstate compacts
- Authorizes Regional Transmission Siting Agencies (states)
- Allows Federal PMA / TVA to join regional transmission entities
- Grants FERC's Regional siting backstop
- Authorizes DOE's designation of National Interest Transmission Corridors
- Promotes regional efficiency / demand response

Significant New Impacts on Utility Businesses ... Some Examples

- Corporate structure and business models – PUHCA Repeal
 - No regional or system integration limitations
 - Greater flexibility - forming TRANSCOs to enhance transmission infrastructure
 - Greater flexibility in core and non-core diversification
 - Broadened access to capital – new players – more mergers

- Opportunities to pursue new generation technologies
 - Investment tax credits for clean coal facilities
 - Production tax credit for new advanced nuclear
 - Extension of renewables production tax credit (2007)
 - New tax credit for fuel cells and DG
 - Repeals PURPA QF ownership restrictions

Actual and Planned Transmission Investment by Investor-Owned Electric Utilities (1999-2008)

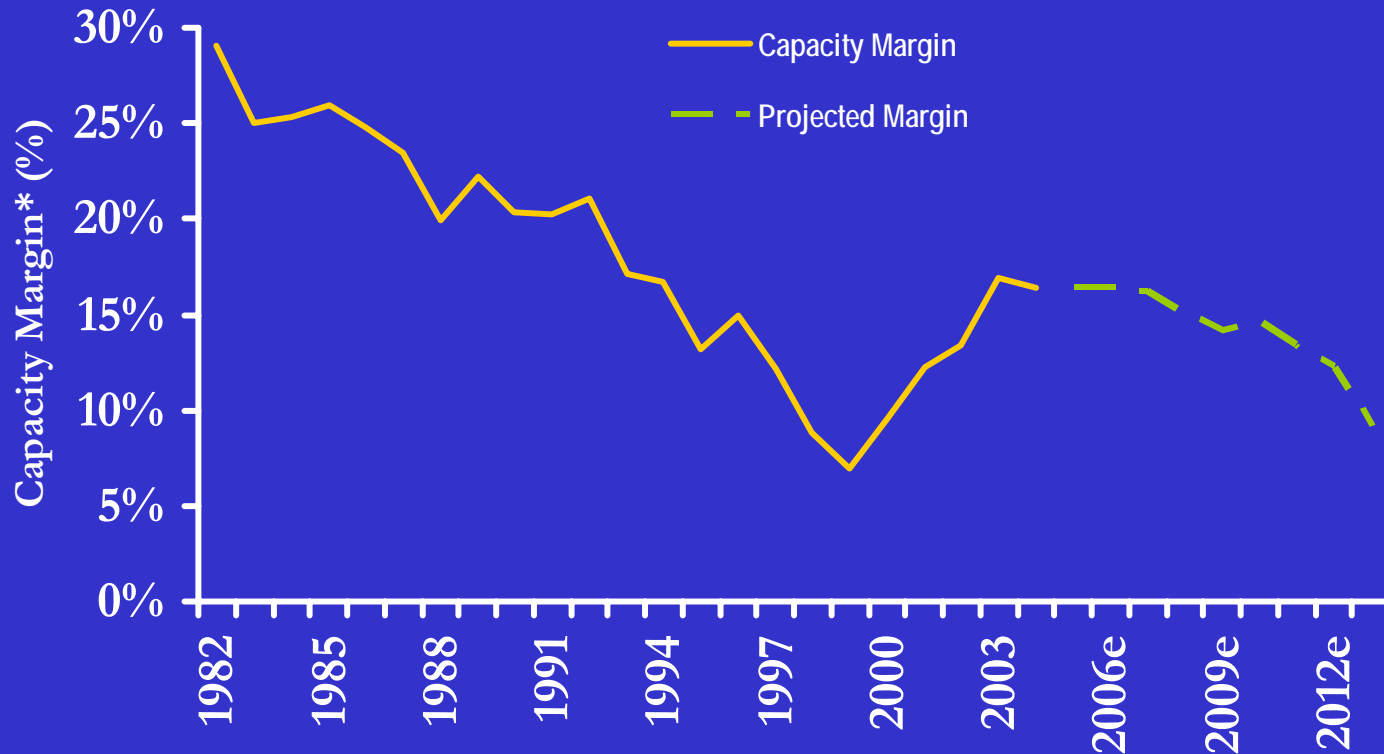


The Handy-Whitman Index of Public Utility Construction Costs used to adjust for inflation from year to year.

Data represents both vertically integrated and stand-alone transmission companies.

*Planned total industry expenditures estimated from 95% response rate to EET's Electric Transmission Capital Budget & Forecast Survey as of 5/12/05. Actual expenditures from EET's Annual Property & Plant Capital Investment Survey and FERC Form 1s.

Capacity Margins (1982-2013e)



*calculated from the difference between peak load (the greatest which occurs in a year) and capability (maximum kilowatt output with all power sources available at the time of peak load), divided by capability.
e Estimated



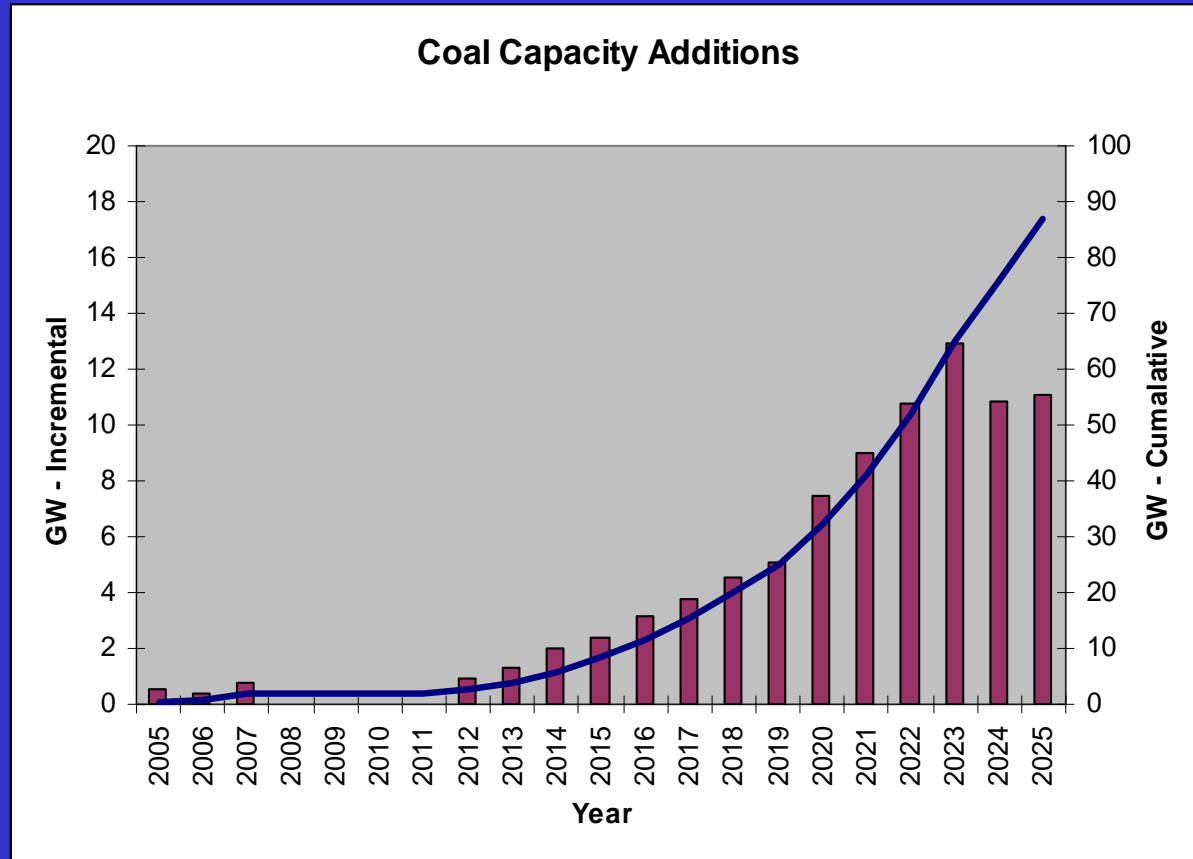
Sources: North American Electric Reliability Council (NERC) and Edison Electric Institute (EEI)

Projections of Baseload Coal

■ 87 GW of coal capacity additions through 2025

- \$100+ billion in investments
- 20 GW of new coal-fired generation has already been announced

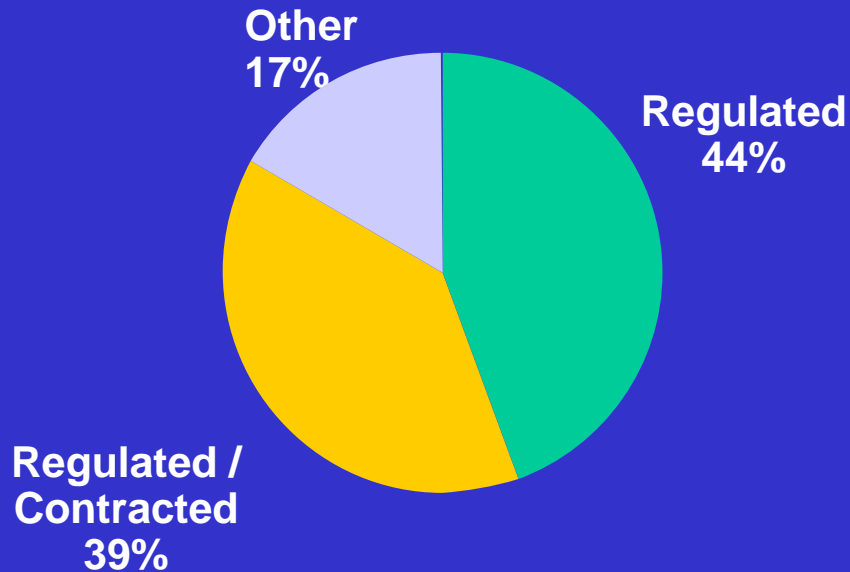
■ \$14 billion in coal plant pollutions control equipment



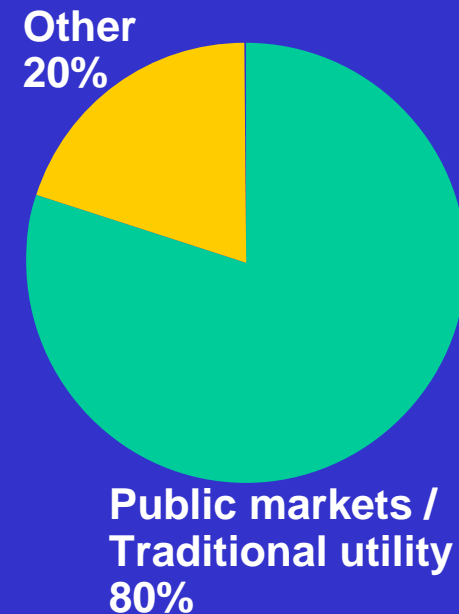
Sources: EIA Annual Energy Outlook 2005 & Morgan Stanley Capex Study

Investors' Views

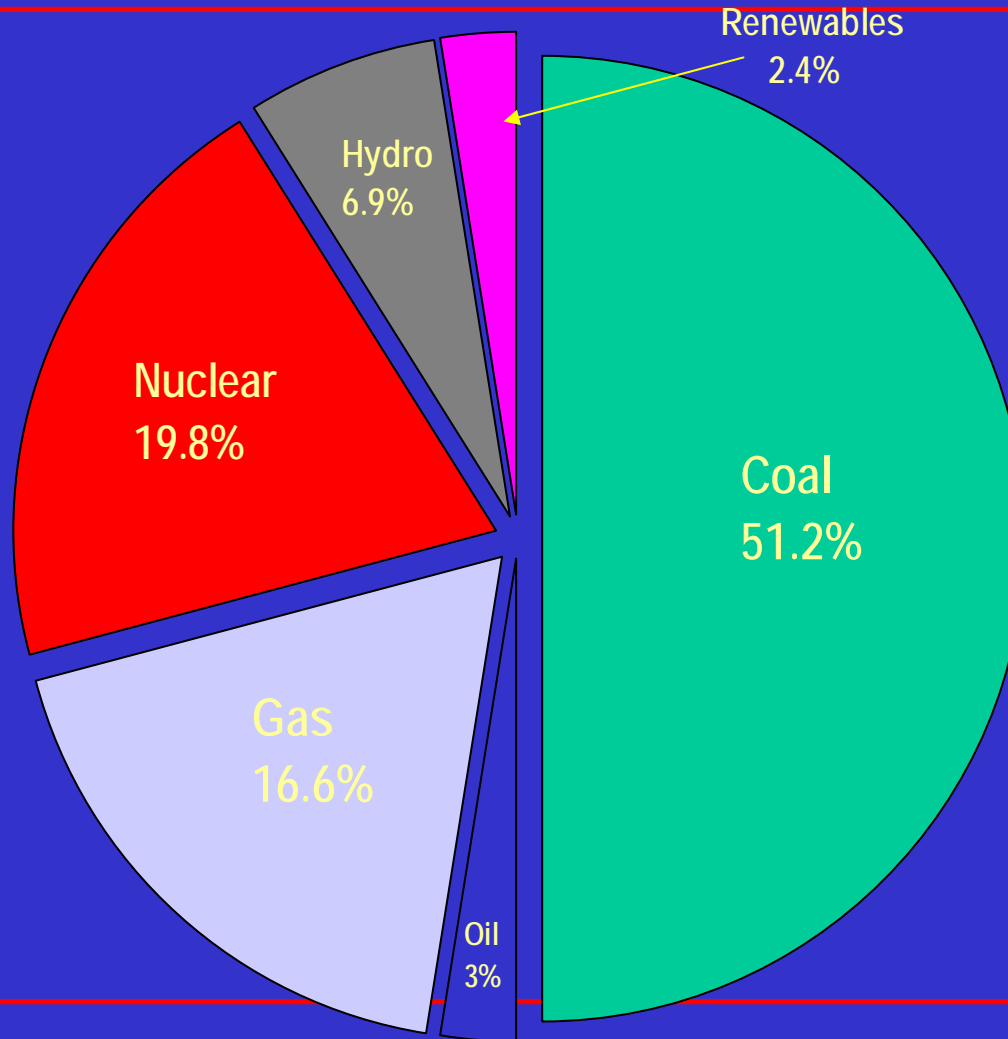
Who will build the next round of generation?



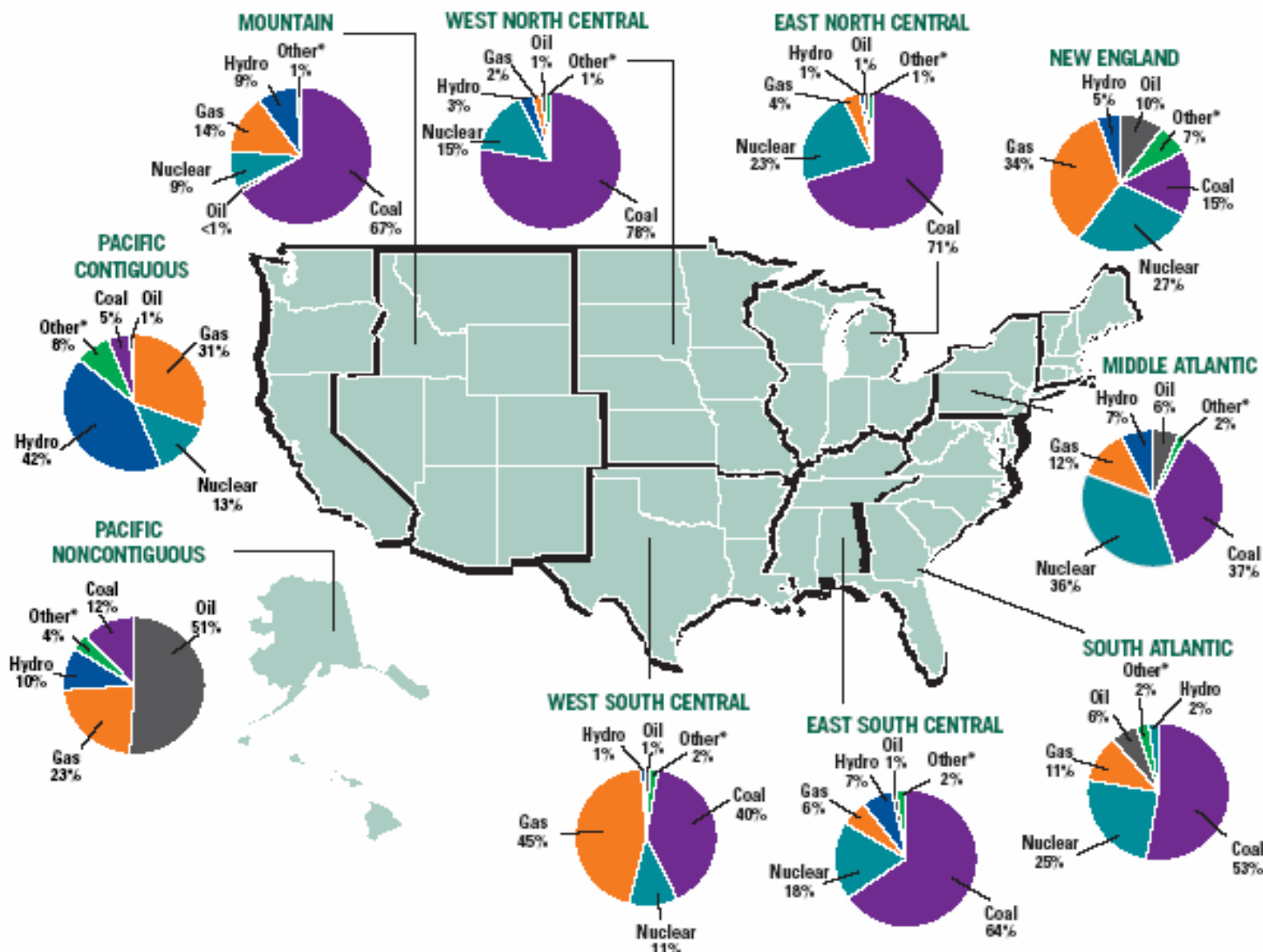
How will the next round of generation be financed?



What Powers Our Plants?



Different Regions of the Country Rely on Different Fuel Mixes to Generate Electricity.



Across the U.S., a diverse mix of fuel is used to generate electricity. Several factors influence an electric company's decision to use particular fuels. These include the price and the availability of supply. This map, arranged by census region, illustrates the diversity of fuel use across the U.S. and shows how the electricity generation mixes in various regions of the country differ. The map further demonstrates that major changes in the generation mix could have economic and reliability impacts, especially on a regional basis.

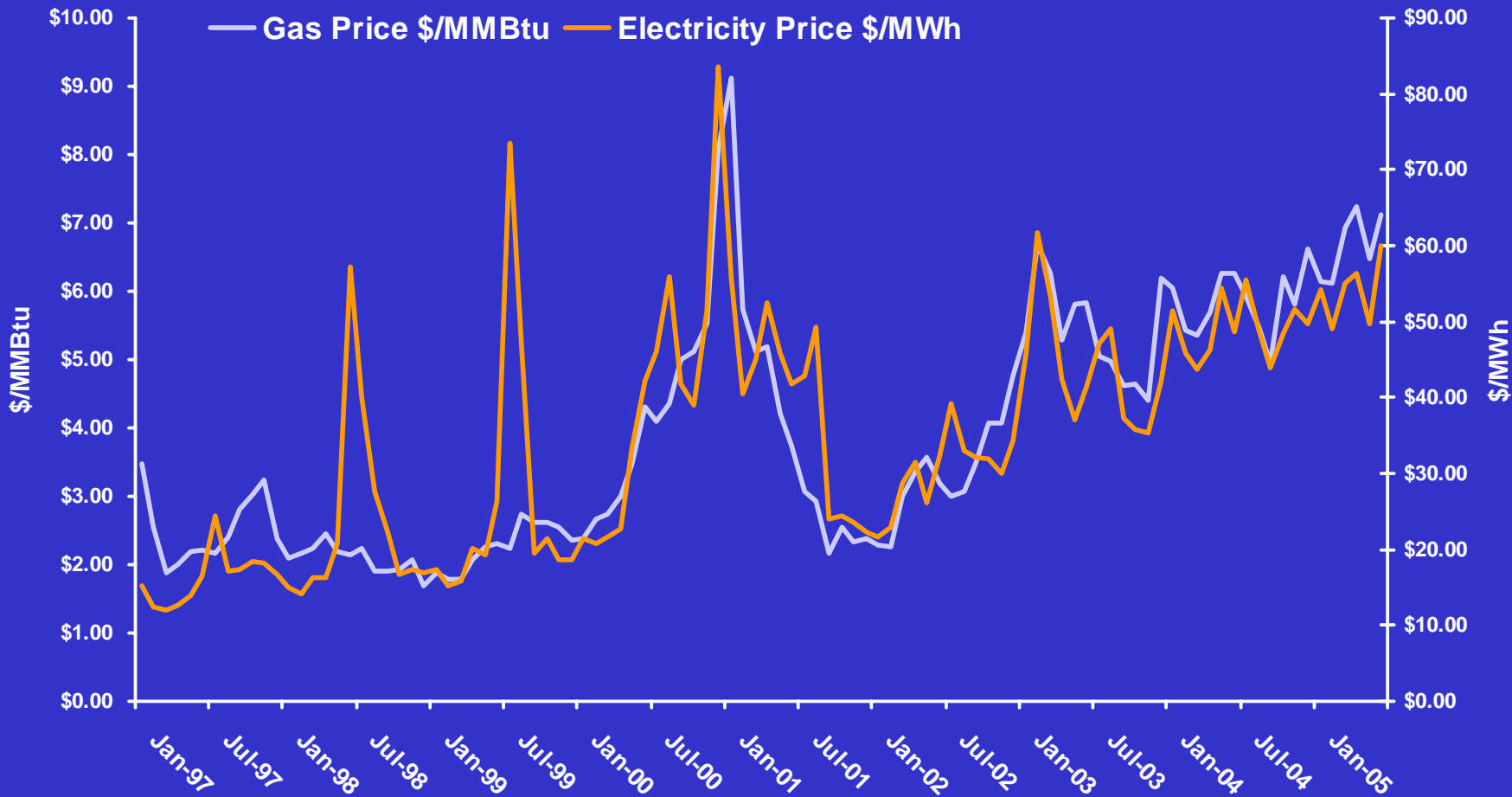
Some numbers may not equal 100% due to rounding.

* "Other" includes generation by agricultural waste, landfill gas recovery, municipal solid waste, wood, geothermal, non-wood waste, wind, and solar.

Source: Energy Information Administration, Annual Electric Generator Report, Utility and Non-Utility Data (2003 Preliminary).
By U.S. Census Division.

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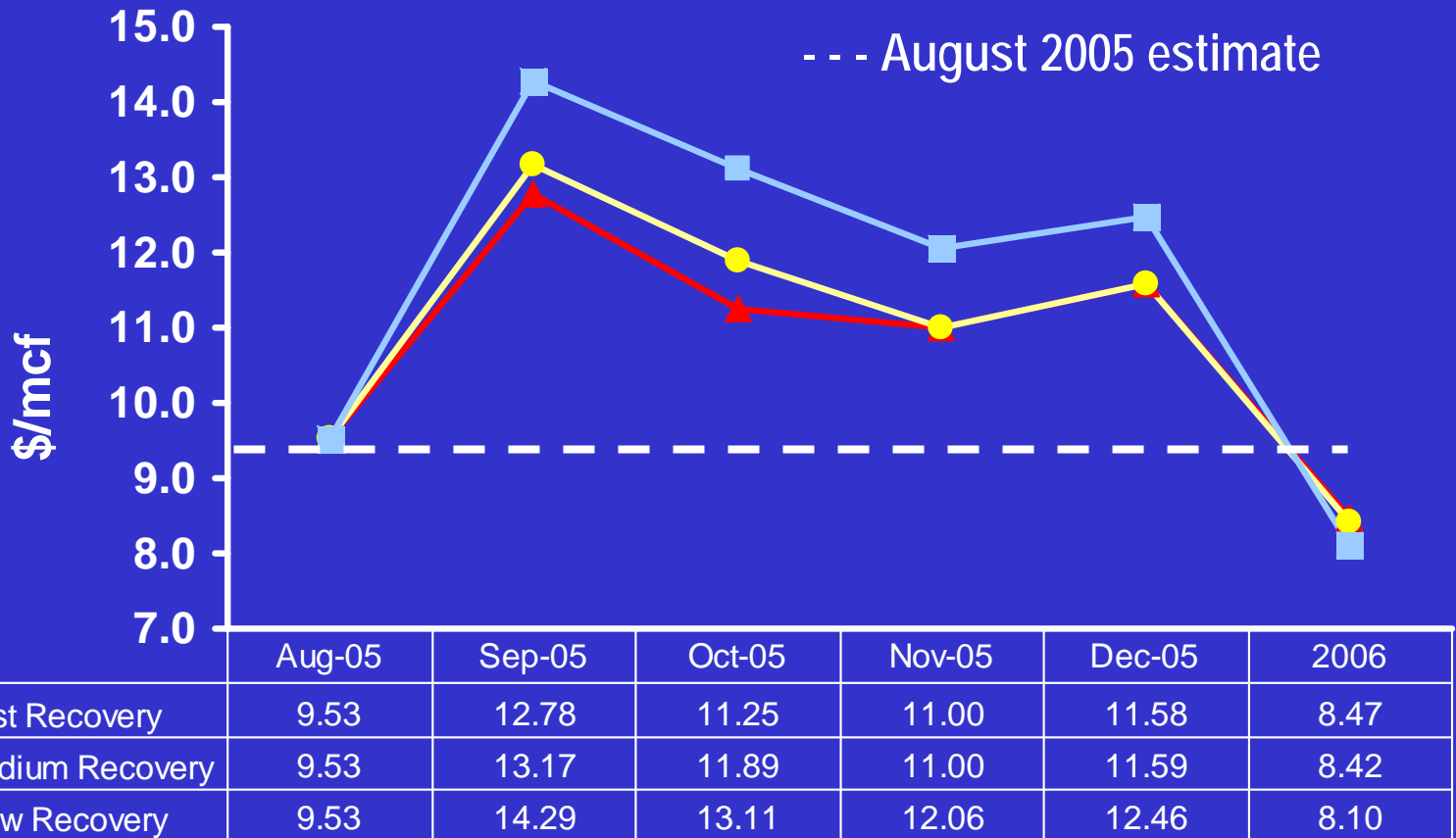
Natural Gas Prices (Henry Hub) vs. Avg. On-Peak Electricity Hub Prices 1997-2005



Sources: Electricity price data, Platts PowerDAT (1997-2000),
 ICE/10x Power Index (2001-2005).
 Gas price data, Natural Gas Weekly 1997-2000,
 ICE/10x Gas Index (2001-2005)

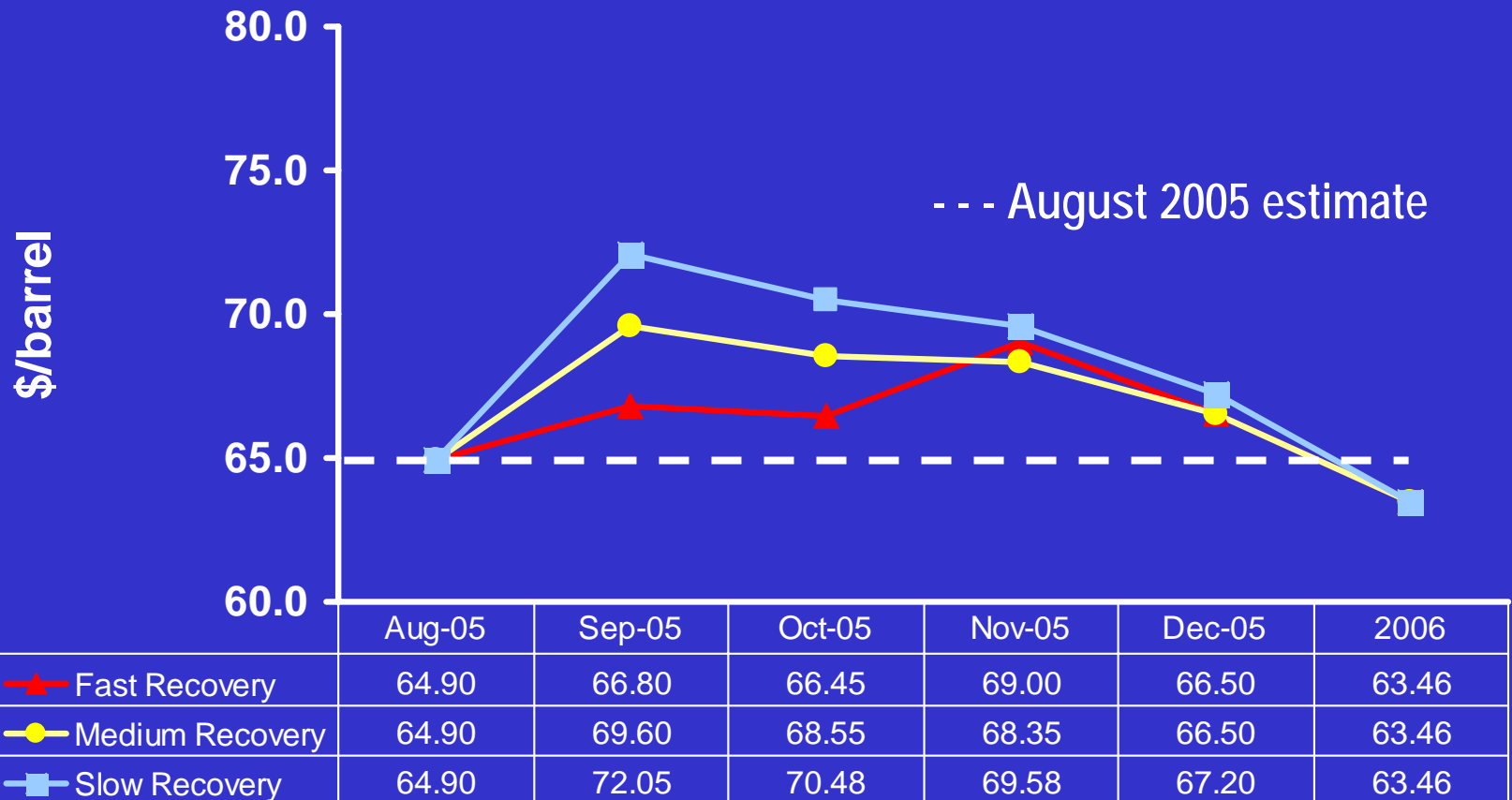


Post-Katrina Henry Hub Spot Price: *Recovery Scenarios*



Source: Energy Information Administration (EIA), September 2005 Short Term Energy Outlook (STEO)

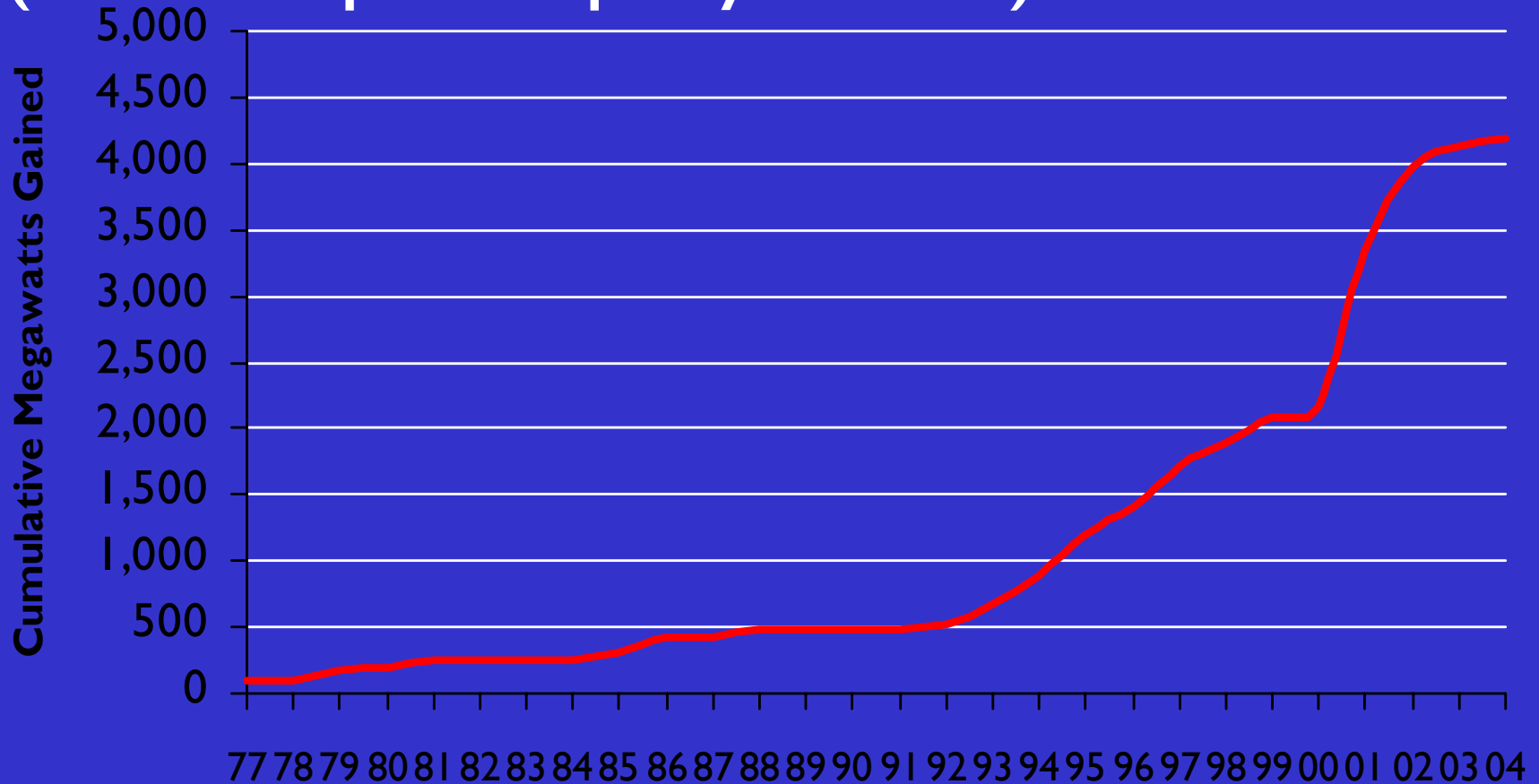
Post-Katrina West Texas Intermediate (WTI) Crude Oil Price: *Recovery Scenarios*



Source: Energy Information Administration (EIA), September 2005 Short Term Energy Outlook (STEO)

Nuclear Industry Power Uprates: 1977-2004

(cumulative power capacity increases)



Source: NRC (SECY-04-104 Power Status Report on Power Uprates, June 2004. Last updated - July 2004 by NEI)



Future Outlook

- Companies looking to enhance synergies
- External competing capital taking a greater interest in the sector
 - e.g. Buffet
 - Oil Majors
 - Overseas – Japanese & European
- Greater ability to absorb/manage risks through diversification

For More Information

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