

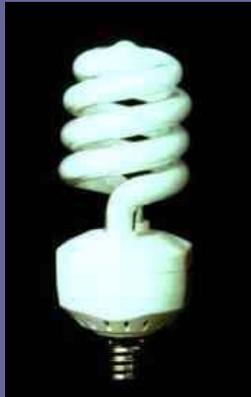
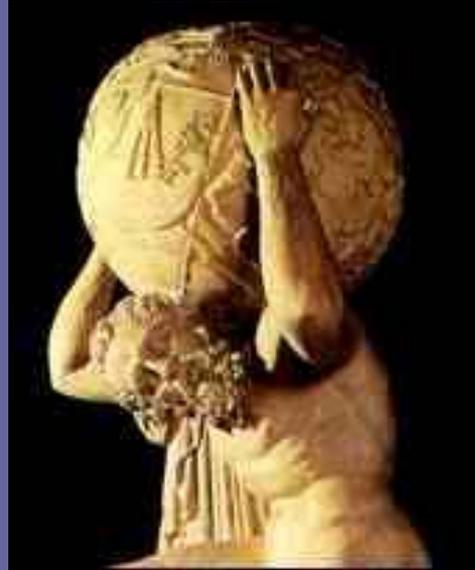


New Investment Needs for the Next Decade and Beyond – The Consumer Perspective

The Santa Fe Conference: Current Issues 2007
New Mexico State University Center for Public Utilities Advisory Council
March 19, 2007

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978-283-0897





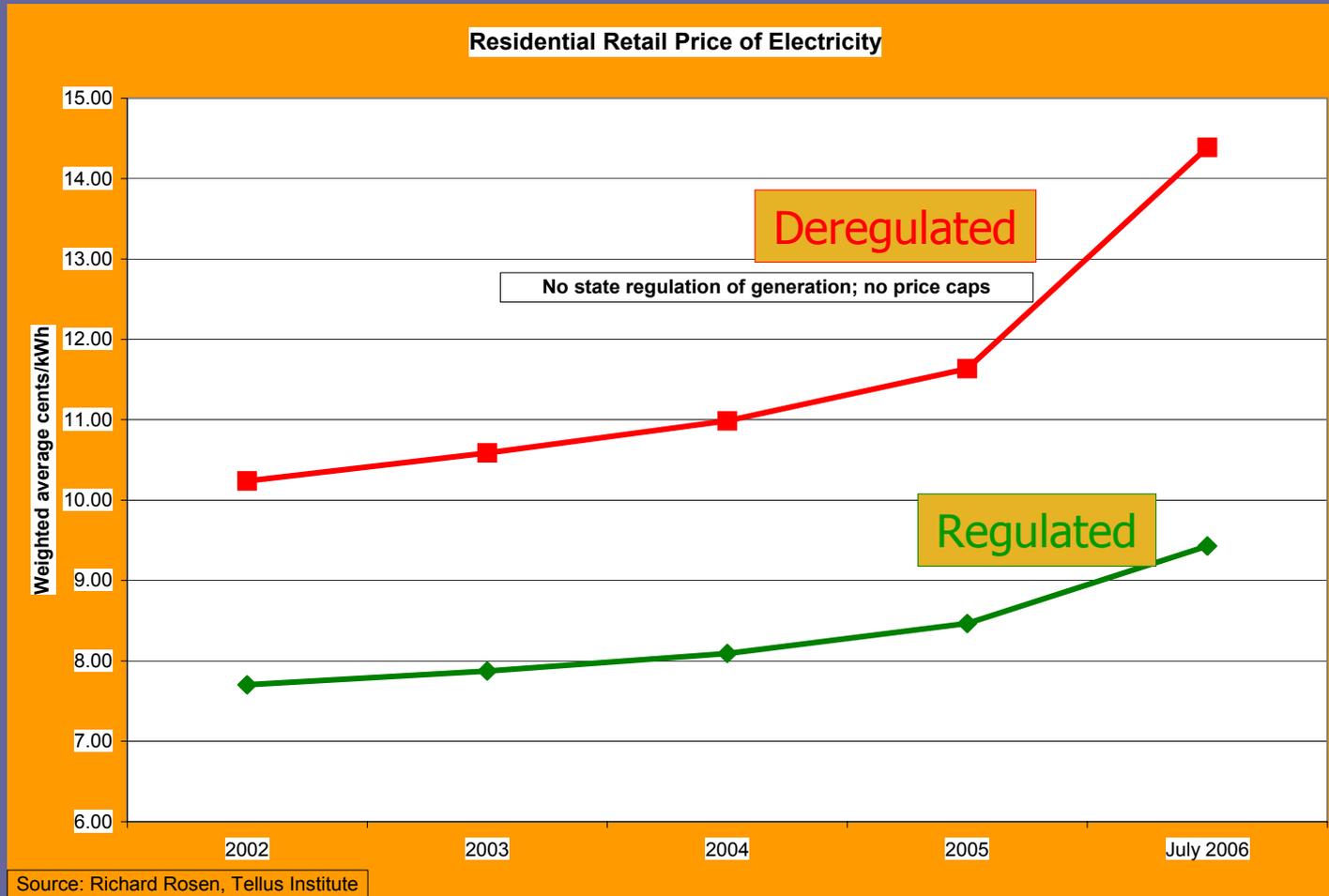
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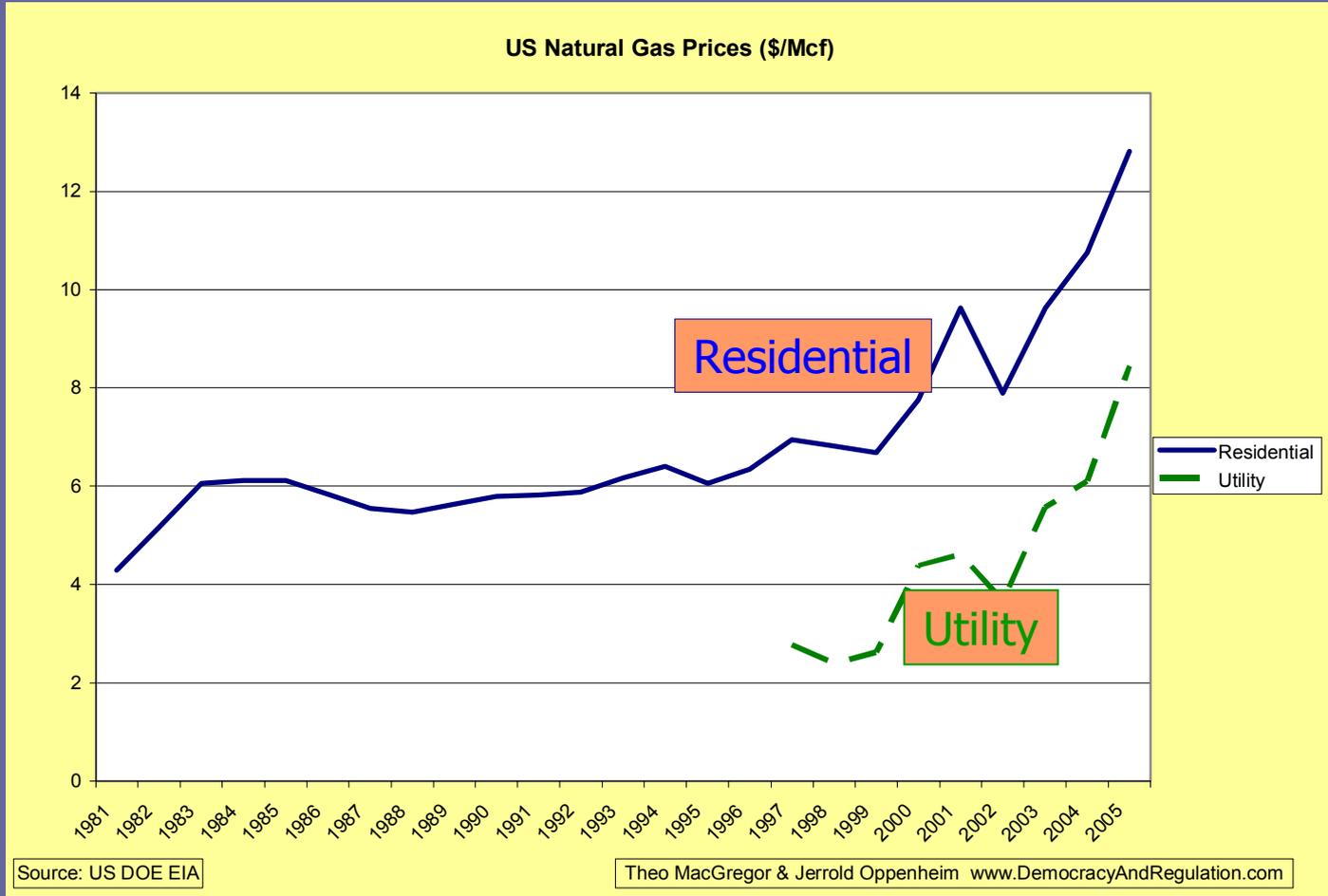


Prices - Electricity



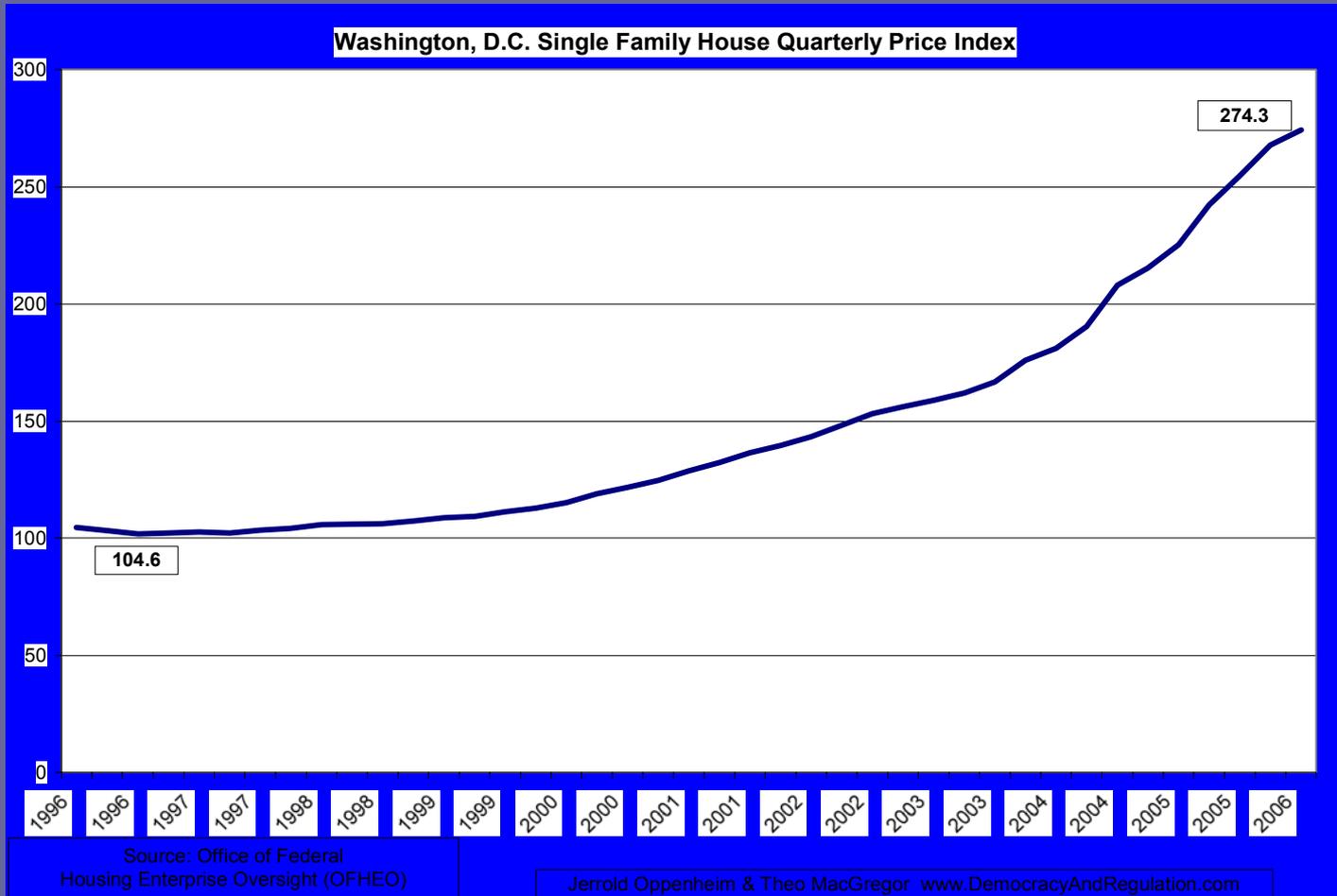


Prices - Gas





Prices – even homes





Headline profits

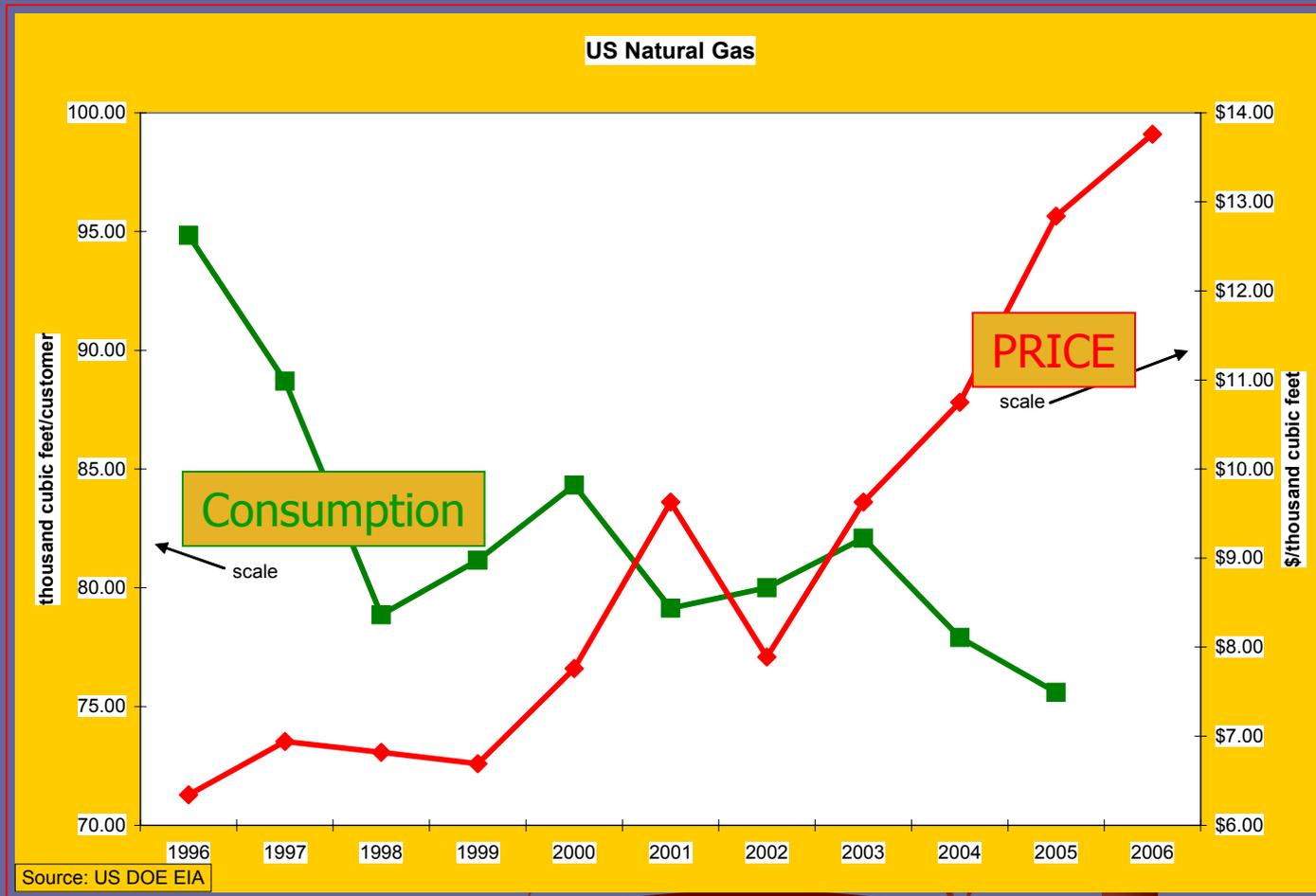
- TXU net +4x 2003-2006, shares +6x, while average res. rate +60%
- KKR et al. flipped Texas plants for \$5B profit in < 1 year on \$900M investment
- Coal and nuclear windfalls - Utilities that earned 10.5% ROE now earn 20% post-restructuring while consumers no longer get benefit of low-cost plant
- Rate increase requests up to 72%
- Yet service and reliability declines
 - Call centers and local offices
 - Northeast Blackout of 2003
 - Reliability crunches looming

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Gas prices way up though consumption way down

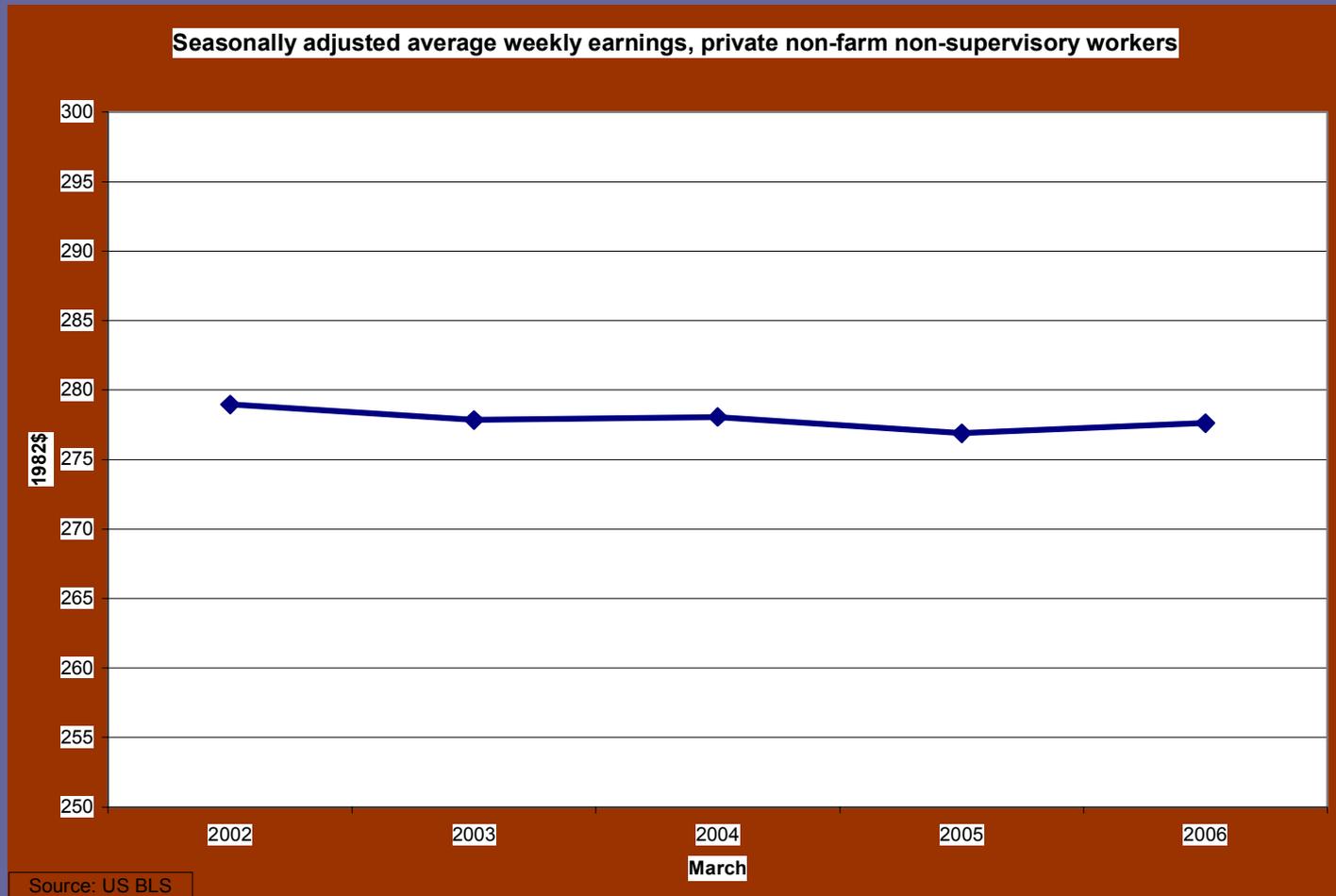


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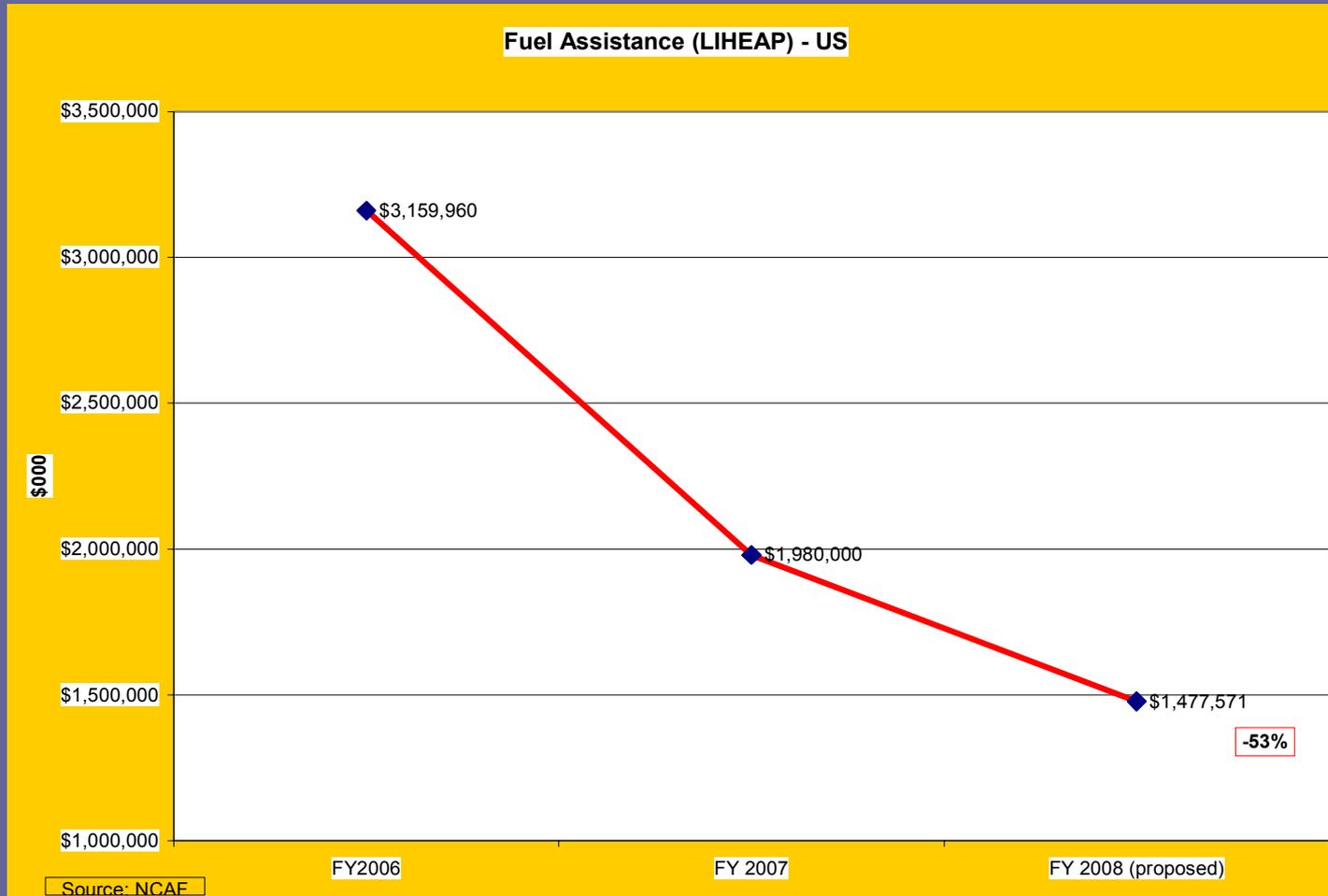


Consumers stressed: wages





LIHEAP ↓ 53% 2 years





Inequality gap wider

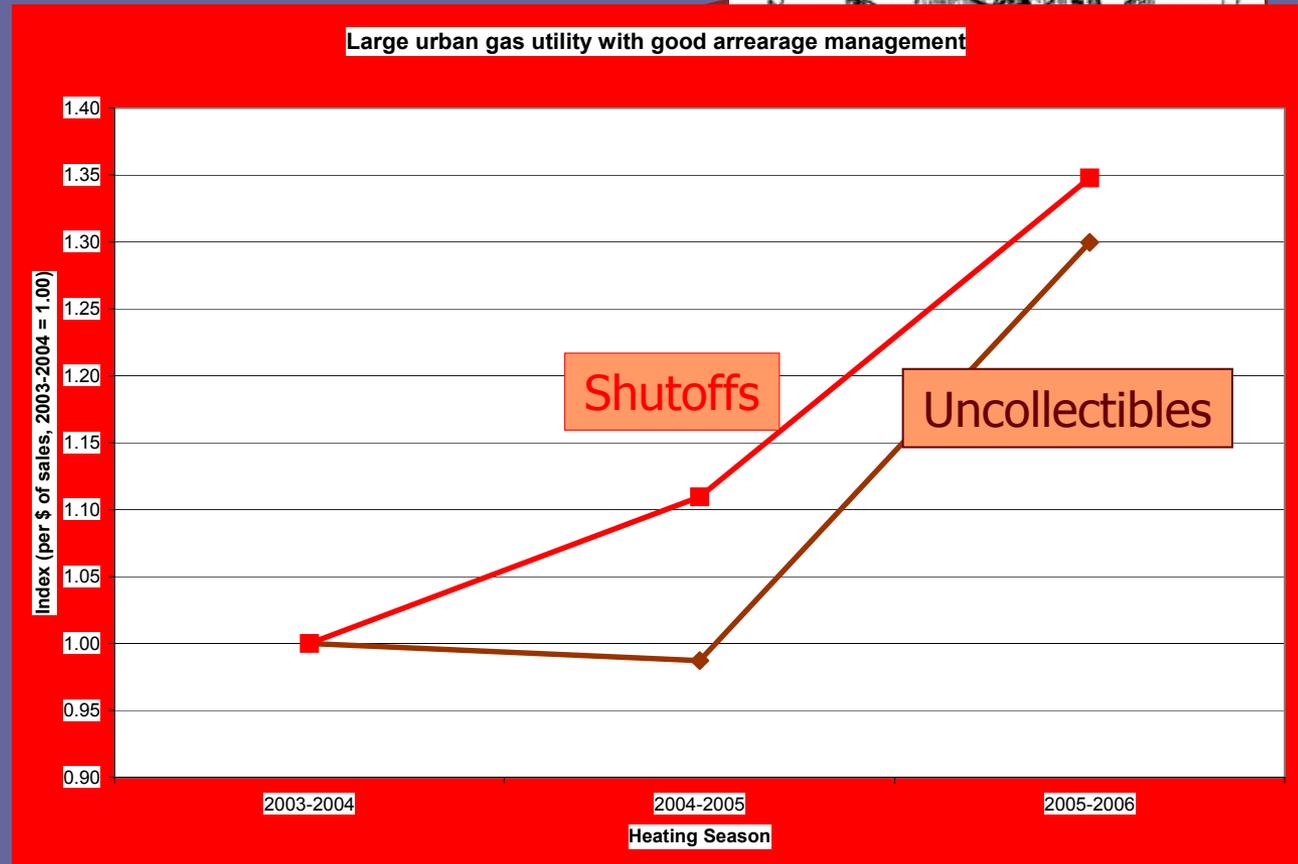
AVERAGE AFTER-TAX INCOME (2003\$)

Quintile	1979	2003	% change	% per yr	\$ change
Lowest	\$13,500	\$14,100	4.4%	0.2%	\$600
Second	\$27,300	\$30,800	12.8%	0.5%	\$3,500
Middle	\$38,900	\$44,800	15.2%	0.6%	\$5,900
Fourth	\$50,900	\$63,600	25.0%	0.9%	\$12,700
Top	\$89,700	\$138,500	54.4%	1.8%	\$48,800
Top one percent	\$305,800	\$701,500	129.4%	3.5%	\$395,700

Source: Center on Budget and Policy Priorities



Would you lend \$100B to this creditor?





66% rate increase: mostly (54%) for investment

Projected Rate Increases⁽¹⁾

(\$ in millions)

	2005	2006	2007	2008	2009	2010
Due to Fuel Costs	\$6,929	\$11,227	\$9,254	\$8,238	\$4,056	\$2,467
Due to Rate Base Investment	\$1,078	\$3,220	\$11,047	\$12,872	\$20,207	\$11,488
Total Rate Increases	\$8,007	\$14,447	\$20,301	\$21,110	\$24,263	\$13,955
Y/Y Increase	6.0%	10.1%	12.9%	11.9%	12.2%	6.3%
Cumulative vs. 2005		10.1%	24.4%	39.2%	56.2%	66.0%
% Increase Related to Fuel	86.5%	77.7%	45.6%	39.0%	16.7%	17.7%
% Increase Related to Rate Base Investment	13.5%	22.3%	54.4%	61.0%	83.3%	82.3%

(1) Lehman Brothers' regulated coverage universe.

Source: Lehman Brothers Survey, FactSet.

Dan Ford, Managing Director, Electric Utility Research, PURC, Feb. 2007

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Shared infrastructure goals

- Reliability
- Safety
- Pollution control

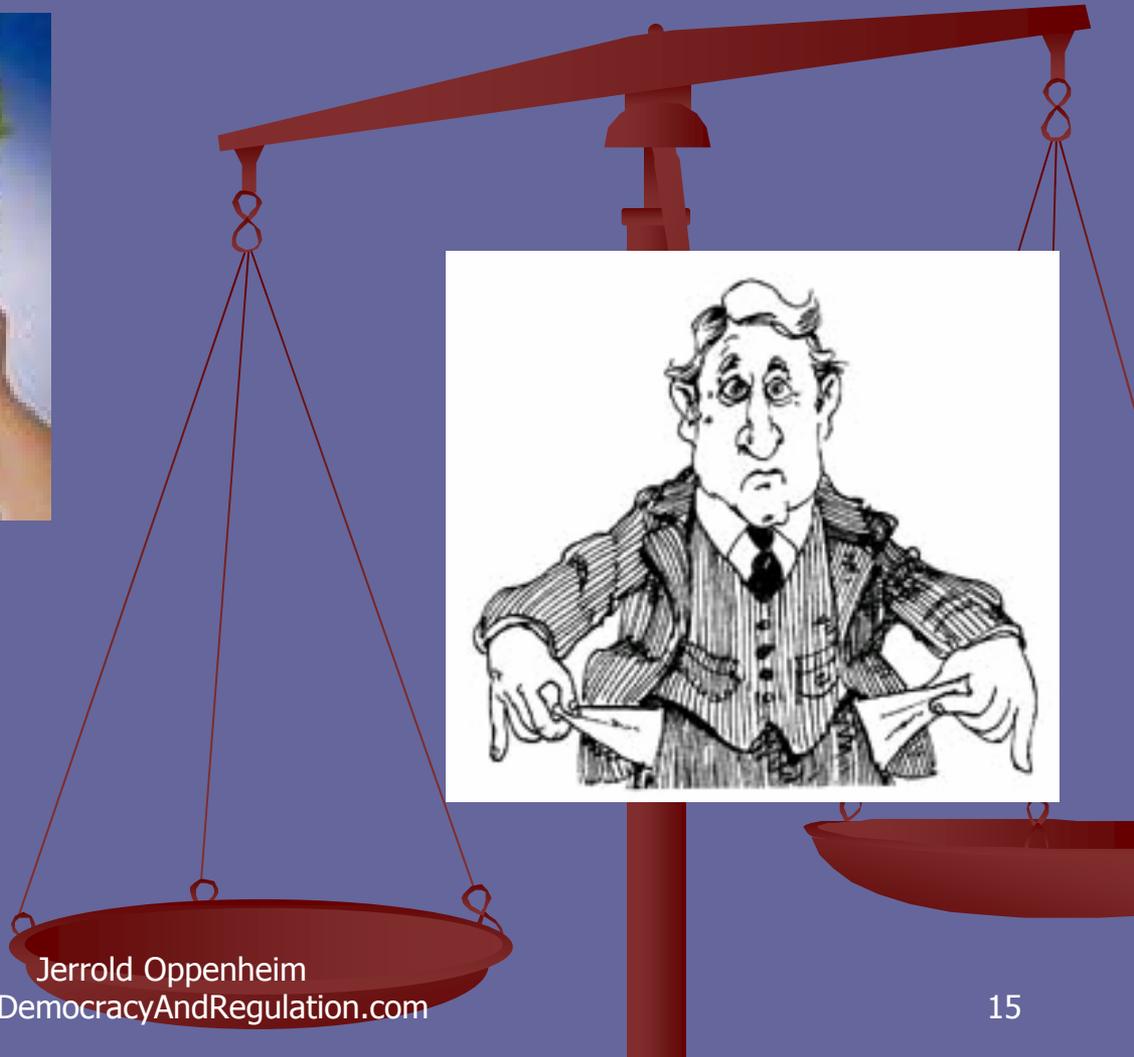


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Consumers are tapped out





First:



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Reduce risk

- Prior review (pre-approval)
- Portfolio management (risk management)
- Front-end loading of rate recovery
 - Analogous to home mortgage constant payment
- Efficiency
- Review capital structure

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Handle with care

- “Decoupling”
- Smart meters, demand response, real-time pricing
 - Cost-effective for small residential?
 - Low-income concerns
- Single issue rate increases
 - CWIP pre-payment
 - Infrastructure adjustment clauses
- Securitization



Decoupling

- OK for substantial efficiency investment
- Reduce return to and ratio of equity (risk reduced)
- Keep some regulatory lag incentive: transfer less than 100% of risk, maintain rate stability with max. 3%/year rate increase
- Line extension economics to reflect actual revenue
- Periodic rate cases



Low-income

- LIHEAP and state supplements
- Low-income rates
- Charitable contributions
- Arrearage management
- Credit and collection policies
- Weatherization and efficiency
- Percentage of income payments

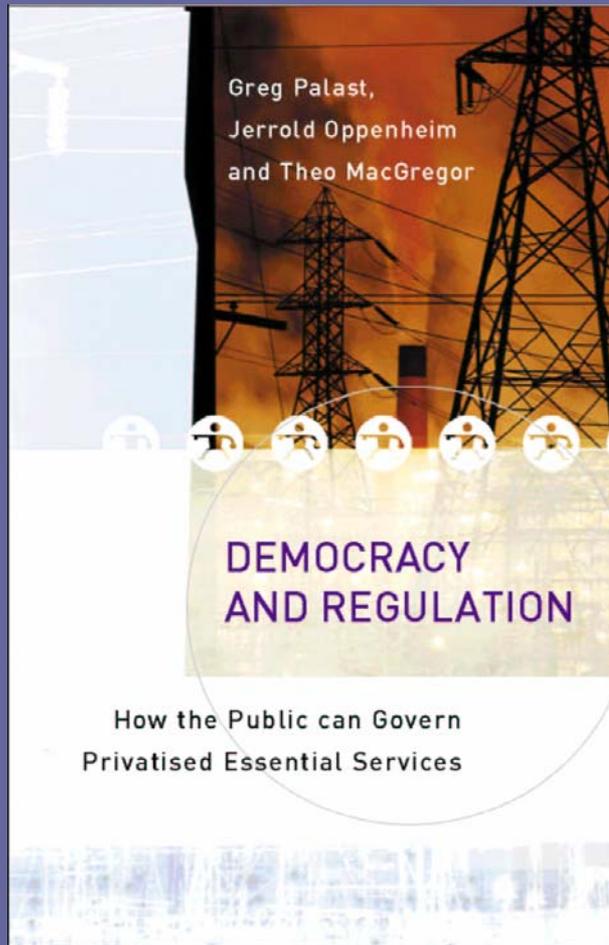


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Conference Price \$20



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About the Speaker

Jerrold Oppenheim is an independent consultant and attorney who has advised and represented low-income and other utility consumer advocates, labor unions, government agencies, and utilities across the country for more than 35 years. A graduate of Harvard College and Boston College Law School, he led utility litigation and argued precedent-setting cases for four Attorneys General in New York State and Massachusetts and for Legal Services in Boston, Chicago and New York City. He is a member of the Center for Public Utilities Advisory Council, New Mexico State University and has spoken and published on four continents, including *Democracy And Regulation* with Theo MacGregor and Greg Palast, published by Pluto Press (London) and winner of the ACLU Upton Sinclair Award.

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