ELECTRIC DISTRIBUTION RATES ARE ABOUT TO SOAR

What consumer advocates must know, and how to fight back

Utilities are planning to invest billions in their grids. What are the real goals of this spending?

Investor-owned utilities (IOUs) throughout the US are announcing multi-billion-dollar grid investment plans with increasing frequency. In many cases, IOUs are requesting state regulatory approval to begin implementing these plans. While utilities claim the investments are immediately required for safe and reliable service, other utility motivations exist.

After decades of IOU lobbying to build ever more plants, there is now excess generation capacity in most of the US. Little new plant investment is needed, and transmission lines require more than a decade to plan, site, and build. This leaves distribution grid investment as the only avenue for IOUs to achieve aggressive earnings per share growth promised to Wall Street, and IOUs are seizing the opportunity with gusto:

- DTE Energy (MI): $4.2 billion
- Ameren Missouri: $5.3 billion
- Southern California Edison: $2.0 billion
- Dominion (VA): $3.1 billion
- Duke Energy (NC & SC): $13.5 billion
- ConEd (NY): $1.4 billion
- Consumers' Energy (MI): $3.0 billion

The Wired Group offers the technical expertise required to effectively fight unnecessary grid investment and rate increases

Most proposed grid investment is unnecessary, and unlikely to deliver meaningful benefits.

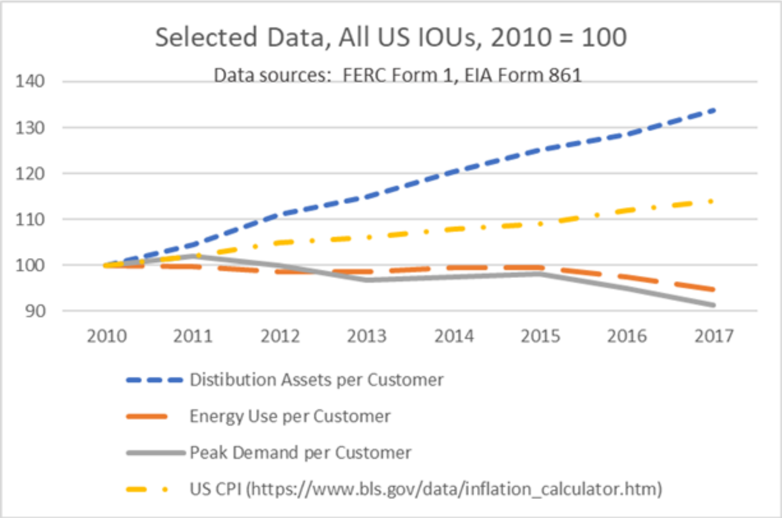
Utilities are wooing state legislators with campaign cash, and promising legislators and regulators improved safety and reliability, reduced exposure to storms, the ability to reliably accommodate greater amounts of distributed generation, reduced operating costs, and jobs. While these are laudable goals, the level of benefits the proposed investments will actually deliver are highly variable, and in most cases very small.

The law of diminishing returns applies to grid modernization. Each incremental dollar in grid investment delivers fewer benefits than the dollar most recently spent. The question for stakeholders ultimately becomes "How much benefit do we really want, and how much are we willing to pay for it?" Furthermore, utility job growth claims must be considered in light of the job reductions which will result from utility rate increases.

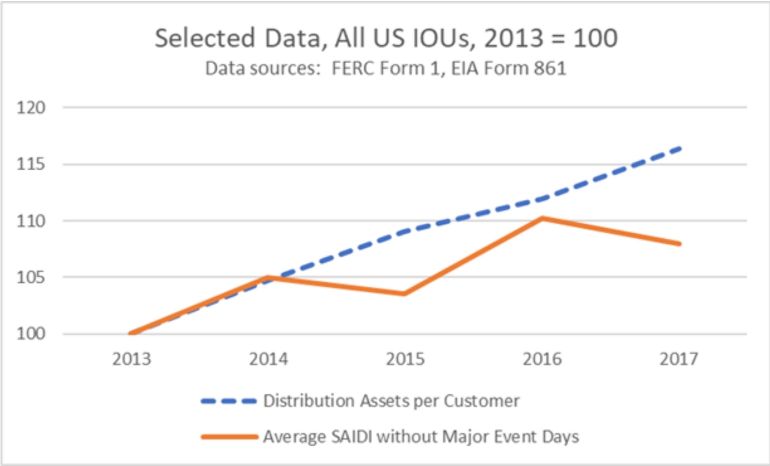
(Electric distribution rates are about to soar, continued)

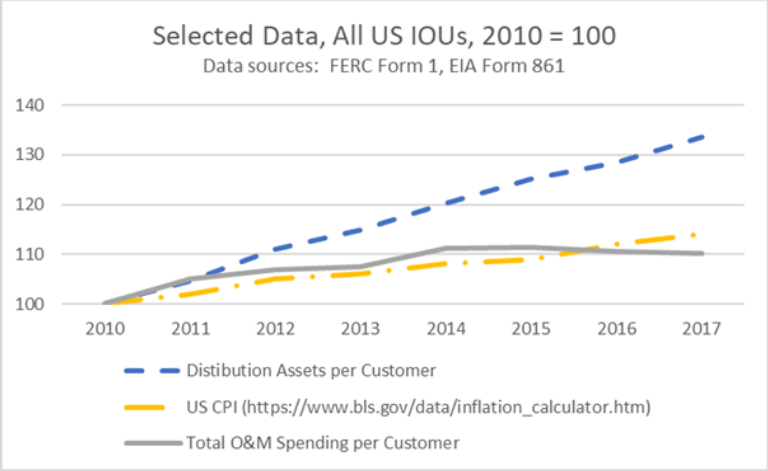
IOUs' track record in delivering value from grid investments is very poor.

IOU financial and operating performance data published by the Federal Energy Regulatory Commission and the Energy Information Administration indicate that recent distribution investments have not been effective. Despite falling electric usage and demand, IOU investments in distribution have outpaced inflation by more than 3X:



The reason electric electric bills have remained stable is that distribution price increases have been offset by reductions in the price of generation fuel (natural gas). As natural gas prices are unlikely to fall further, a reckoning is coming. Combined with the impact of unnecessary grid investment, electric bills are about to soar. Yet past experience indicates that reliability has not improved, nor have operating costs fallen, as a result of recent IOU grid investments. In short, IOUs are committing customers to decades of higher-than-necessary bills, and customers have nothing to show for it so far.





What can consumer advocates do?

Fearing an increase in capital costs, regulators will be unable to disallow cost recovery on massive grid investments once made. Advocates must therefore stop cost-ineffective grid investment in advance. They should pursue, and prepare to participate in, transparent grid planning processes reminiscent of resource planning. They should hire unbiased experts, avoiding engineering firms which work for IOUs. With the right processes and resources, advocates can fight abuses of monopoly power and win!

About the Wired Group

The Wired Group is the leading US expert for consumer, business, and environmental advocates fighting cost-ineffective IOU grid investments. For more information visit www.wiredgroup.net or contact Paul Alvarez, President, at 303-997-0317.