



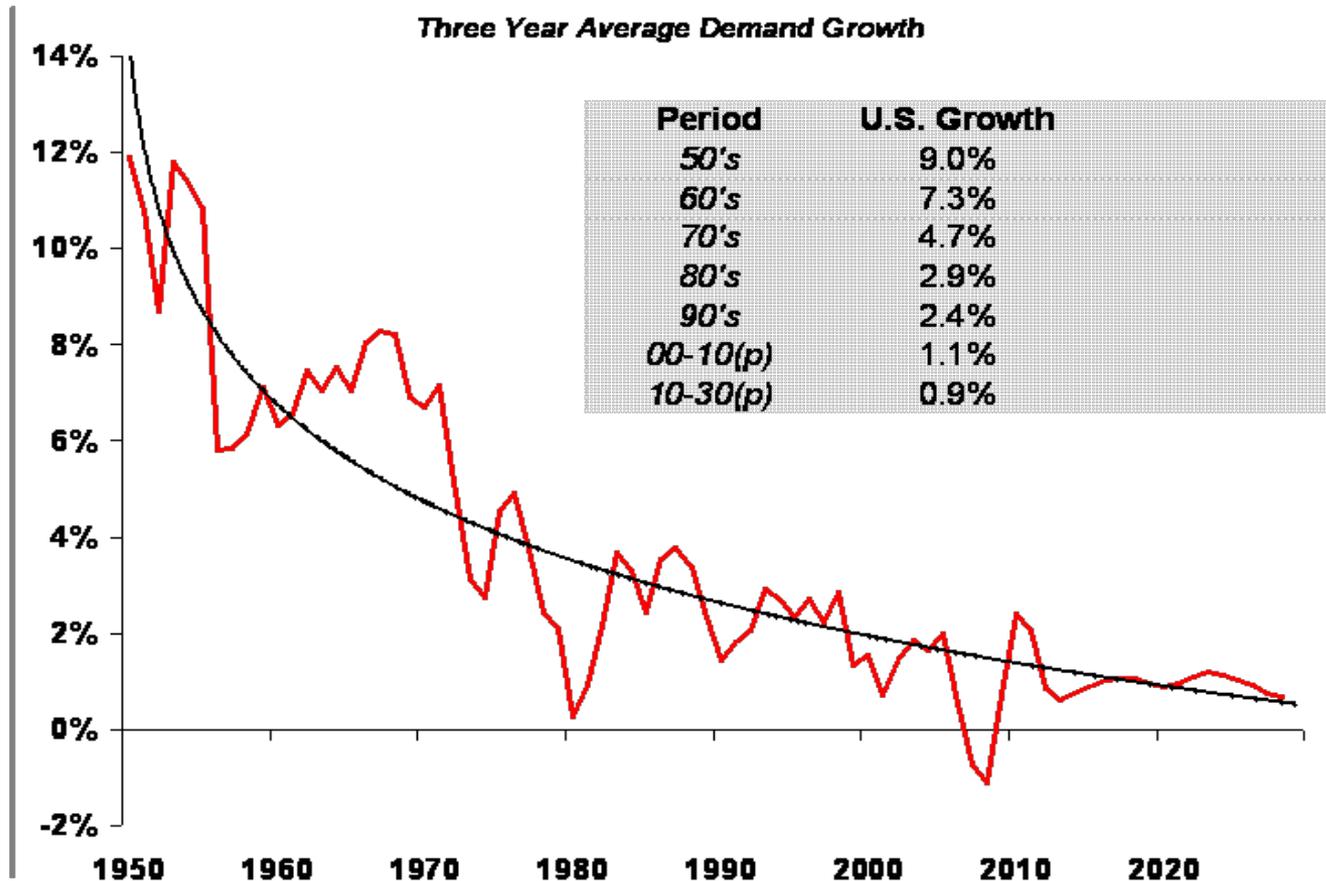
May 23, 2012

## Electric Industry Infrastructure Investment: Challenges and Opportunities

# The Recovery Challenge – Electricity Growth Continues to Slow

**Even with out the effects of the recession, sales growth was sliding.**

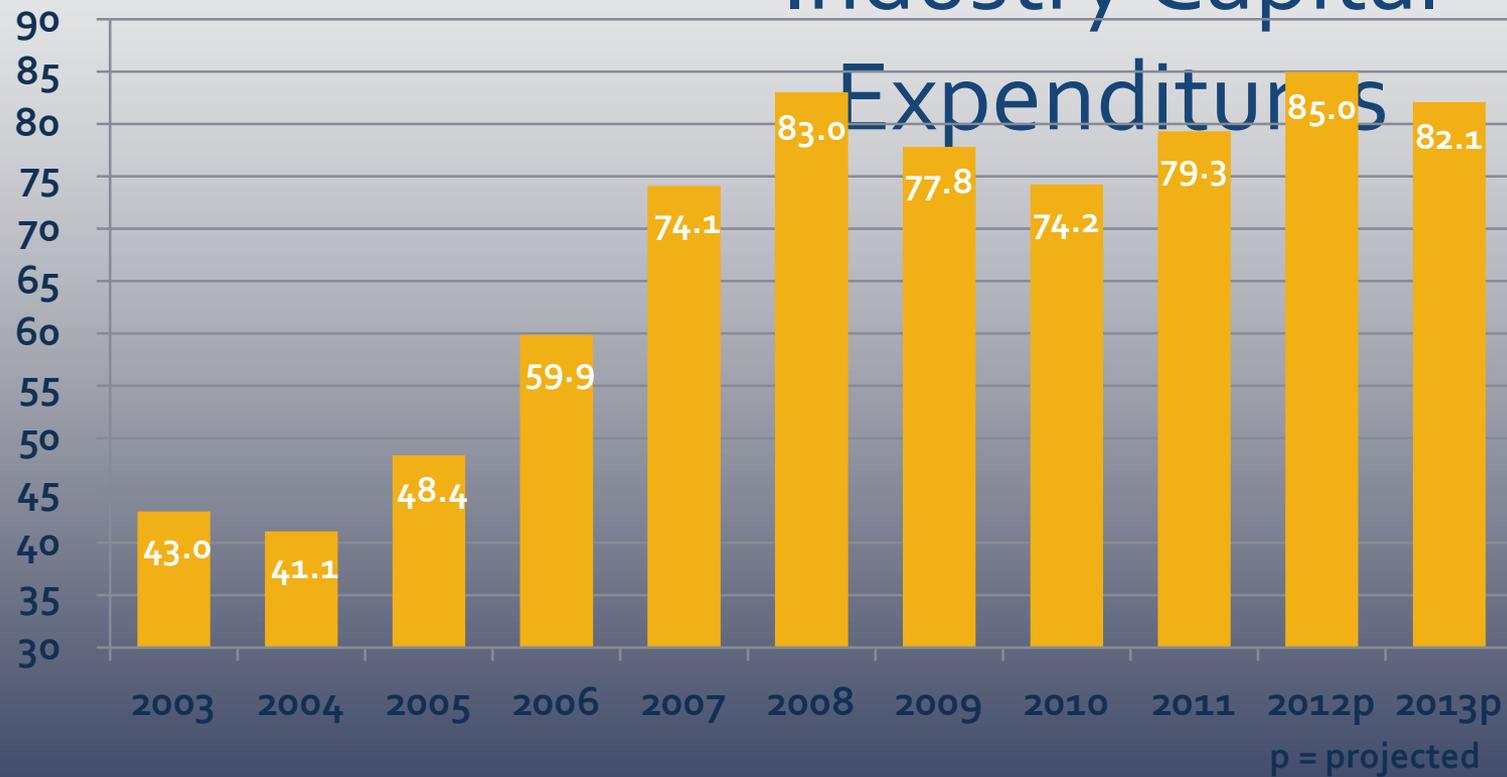
**The Department of Energy's latest assessment incorporates new assumptions on efficiencies and conservation that constrain long-term growth to less than one percent.**



## U.S. Shareholder-Owned Electric Utilities

# Industry Capital Expenditures

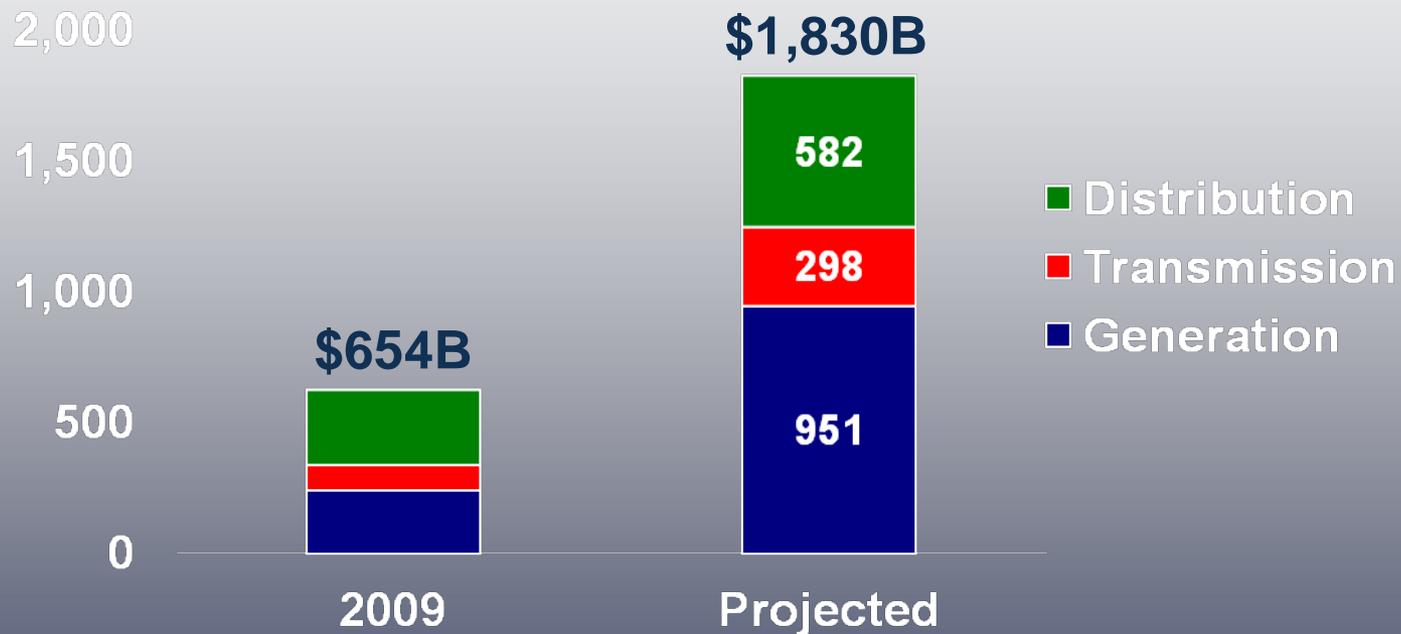
(\$ Billions)



Source: SNL Financial, company reports and EEI Finance Department

# Looking Out 20 Years

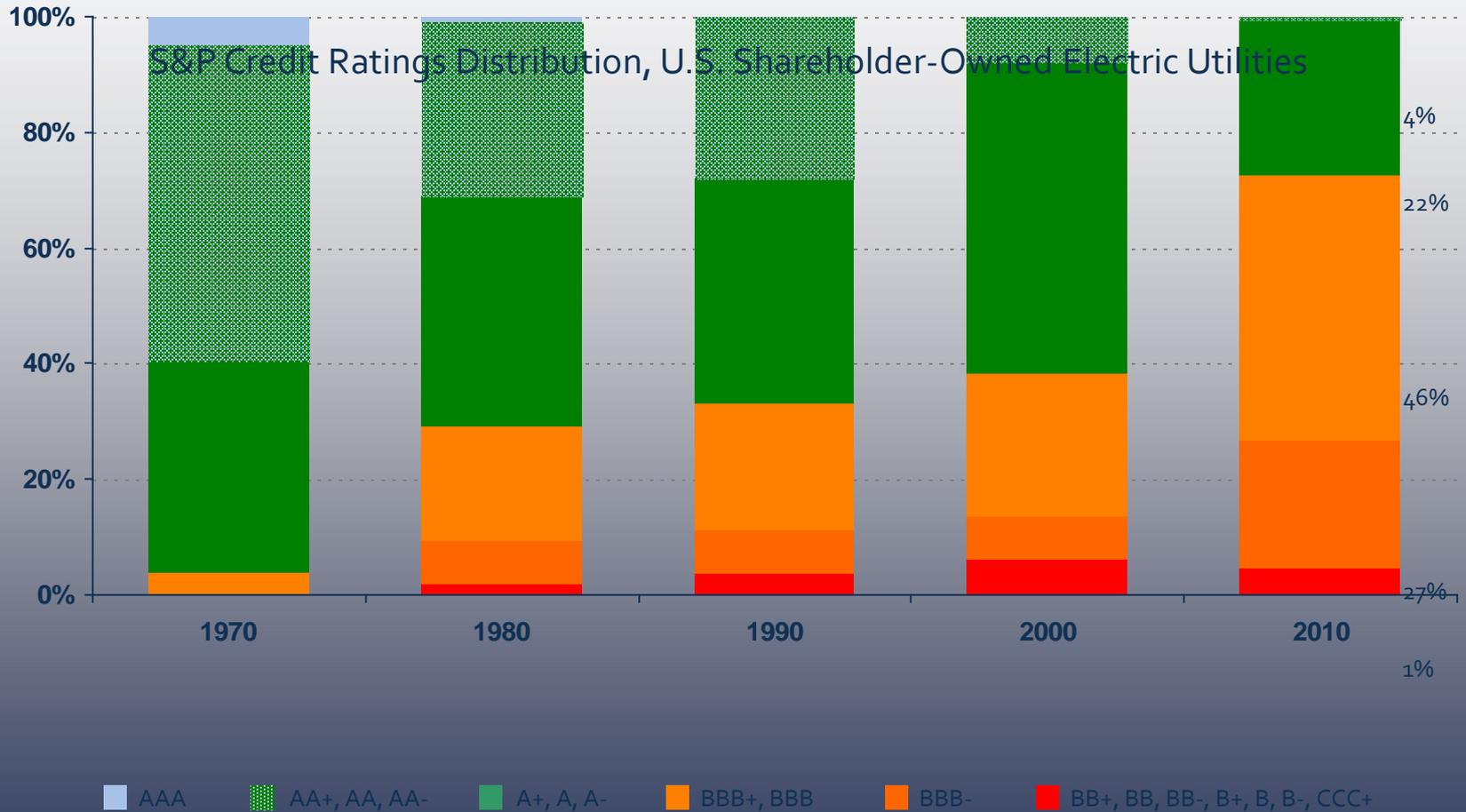
By 2030, the electric utility industry will need to make infrastructure investments of \$1,830 Billion



This level of investment is nearly triple the US Shareholder –Owned Electric Utilities' current net plant value of roughly \$650 billion

# US Electric IOUs Rating History

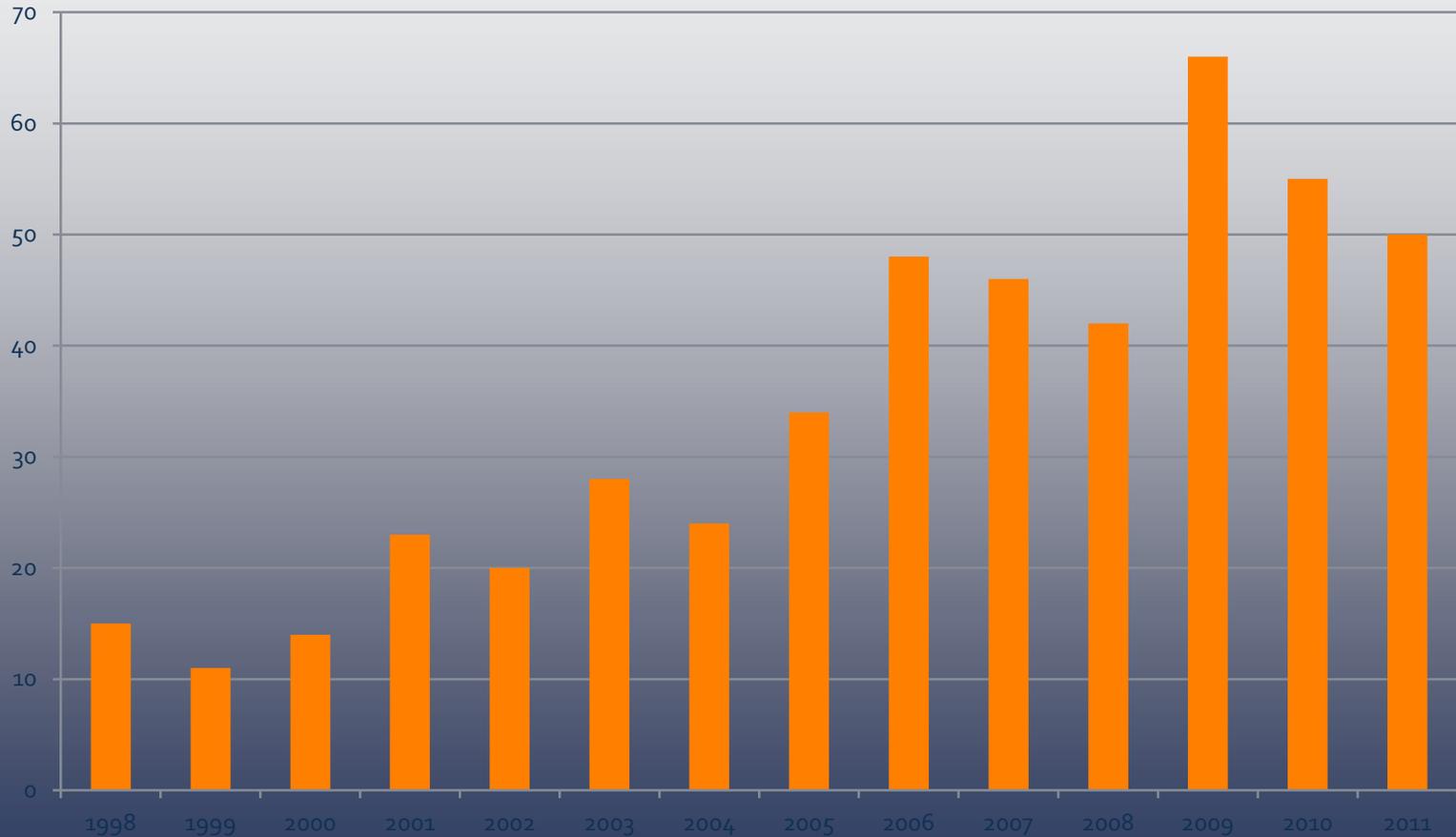
1970 – 2010



Source: Standard & Poor's, Macquarie Capital

# Rate Case Volume Remains High

Number of Rate Cases Filed



# 2011 Rate Case Activity

**50 filed rate cases in 2011**

**2010 = 55, 2009 = 66**

**Higher than any year from 1992-2008**

**Primary driver: Elevated capex**

**Ensure system reliability**

**Environmental compliance**

**Secondary driver:**

**Implement riders/other mechanisms**

**Tracking costs between cases, fight  
regulatory lag**

# 2011 ROE Stats & Trends

- Average Awarded ROE (Q4 2011) = 10.29%
  - 1990 = 12.50%
- Average Requested ROE (Q4 '11) = 10.66%
- Drivers:
  - Historically low interest rates
  - Commissions mitigating increases during tough economic times
- Avg. Regulatory Lag (filing to decision) = 9.62 months
  - About two years if preparation , other delays are factored in

# *Challenges*

## ○ **For Commissions**

- Pan caked rate filings
- Rate pressures - increasingly stressful, contentious relations

## ○ **For Consumers**

- Rate shock

## ○ **For Utilities**

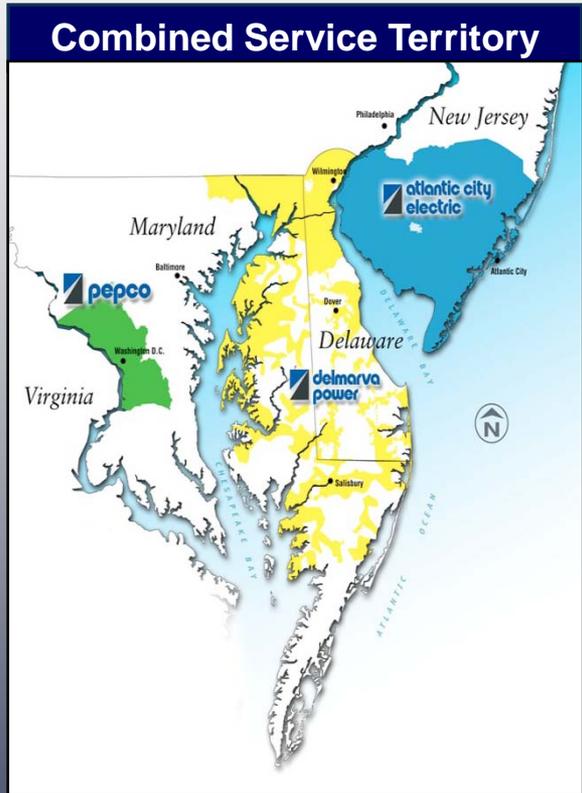
- Increased exposure to regulatory lag
- Downward pressure on credit ratings
- Administrative cost of recurring rate cases

# *Opportunities*

- **Mechanisms to avoid the cost and delay of litigated rate cases:**
  - Construction cost trackers
  - Formula rate plans
  - Rate and revenue caps
  - Revenue decoupling

PHI is an electric and gas utility serving almost 2 million customers in New Jersey, Delaware, Maryland and Washington D.C.

Operating Company	Service	Customers	GWh	Bcf	Service Area
 A PHI Company	Electric	787,000	27,665	N/A	640 square miles – District of Columbia, major portions of Prince George’s and Montgomery Counties in Maryland
 A PHI Company	Electric Gas	500,000 123,000	12,853 N/A	N/A 19	5,000 square miles – Delmarva Peninsula 275 square miles – Northern Delaware
 A PHI Company	Electric	548,000	10,165	N/A	2,700 square miles – Southern one-third of New Jersey
<b>Regulated Utility Totals</b>		<b>1,958,000</b>	<b>50,703</b>	<b>19</b>	<b>8,340 square miles</b>
	Energy Services Business	Various Large Government & Institutional	N/A	N/A	Develops, installs, operates, and maintains energy efficiency, renewable energy, and combined heat and power projects; Business represents 5% - 10% of operating income



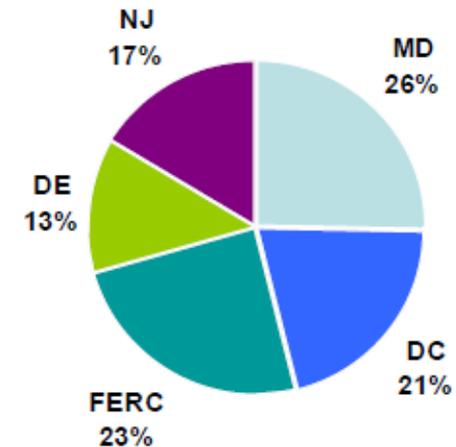
## Strengths

- Recent distribution rate case decisions have generally reflected adherence to key ratemaking precedents
- Regulators have been supportive of cost recovery for AMI, energy efficiency and demand response initiatives
- Regulators have been supportive of decoupling efforts in Maryland, the District of Columbia and Delaware
- Formula rates in place at FERC

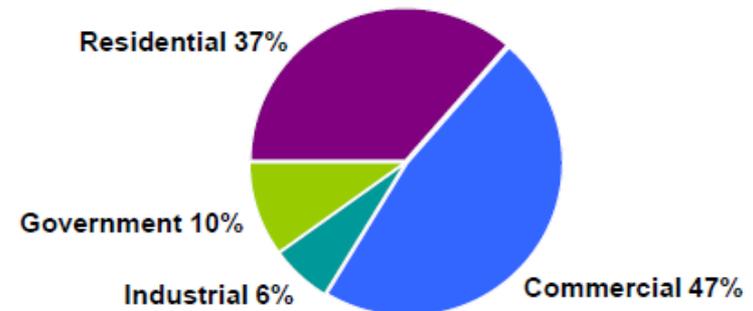
## Challenges

- Regulatory lag in distribution business
- Recent lower ROEs in certain distribution jurisdictions
- Current focus on improving reliability and customer service

### Regulatory Diversity, 2010 Rate Base\*



### Customer Diversity, 2010 MWh Sales



\* Based on year-end 2010 rate base.

# *Conclusion*

Thank you and look forward to Dialogue