

AOBA Utility Committee

Electric Utilities Seek Increased Rates to Fund Large Construction Projects

*In a Weak Economy
Electric Utilities Become the Big Spenders*

Presented By

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Outline of Presentation

- ✳ Status of Utility Rate Increase Requests
 - Dominion Virginia Power - Update
 - Pepco
- ✳ Natural Gas Markets Remain Soft
- ✳ Electric Market Expectations

Slowed Growth Does Not Abate Electric Utilities Capital Spending

*When everyone else is tightening their belts electric
utilities are spending like there is no tomorrow*

And

*They are seeking increased rates of return to aid their
acquisition of capital for new projects*

DVP: *A Utility On A Spending Spree*

- ✧ Virginia Power indicates that it plans to invest \$2.7 billion per year over the next three years in new infrastructure
 - Generation & Transmission \$1.8 Billion per year
 - Distribution \$0.9 Billion per year
 - Total \$2.7 Billion per year
- ✧ Three-Year Total **\$8.1 Billion**
- ✧ Current Rate Base is \$8.6 Billion
- ✧ Virginia Power plans to nearly **double** the size of its rate base in three years
- ✧ And these figures **do not include** the bulk **\$8 - \$10 billion** of the costs for its planned new nuclear generation unit at the North Anna Nuclear Power Station.

Pepco's Capital Spending Plans

✦ New Mid-Atlantic Power Pathway (MAPP) Transmission Project	\$1.2 Billion
✦ Advanced Metering Infrastructure (AMI)	\$0.2 Billion
✦ Other Distribution Investment	\$0.3 Billion
Total	\$1.7 Billion

Dominion Virginia Power (Vepco) Files Five Rate Applications

- ✱ On March 31, 2009 Virginia Power Submitted Five Rate Applications to the Virginia State Corporation Commission (VASCC), including:
 - A Fuel Rate Adjustment
 - A Base Rate Increase
 - A Transmission Rate Surcharge
 - A New Coal-Fired Power Plant Surcharge
 - A New Natural Gas Power Plant Surcharge

- ✱ The Company can also be expected to file requests for at least one, and more likely two, additional rate surcharges within the next year
 - A Demand-Side Management Surcharge (including AMI costs)
 - A Nuclear Power Plant Surcharge (“the **Mother** of all surcharges”)

Dominion Virginia Power Rate Requests - Update

✧ Fuel Factor Adjustment

- A New Fuel Factor of **3.529 cents per kWh** was placed in effect as of **July 01, 2009**;
- As of **October 1, 2009** DVP's fuel factor was further **reduced** to **3.310 cents per kWh**;
- The fuel factor which became effective October 1, 2009 reflects a **reduction** of **0.583** cents per kWh (or **-\$0.00583** per kWh) from fuel factor that was in effect between July 1, 2008 and June 30, 2009;
- One major issue relating to DVP's fuel factor remains unresolved. That issue relates to credits for Financial Transmission Rights the costs for which are recovered through DVP's Fuel Factor and could result in a further \$104 million reduction in DVP's fuel costs.
- Percentage impacts on bills for the period through June 30, 2009 will depend on the customer's energy usage;
 - ✓ Rate impacts for commercial customers will range from **-4.8%** for very small commercial customers to **-9.3%** for Large High Load Factor C&I customers;
 - ✓ Fuel costs for individual accounts are best estimated by multiplying expected kWh usage by the new fuel factor in the per kWh (i.e., **\$0.03310** per kWh)

Dominion Virginia Power Rate Requests - Update

✧ Base Rate Increase Request

- Dominion Virginia Power filed a base rate increase request for \$298 million on March 31, 2009
- The Company revised its initial filing in mid-April 2009 lowering it to \$289 million
- The State Corporation Commission required the Company to re-file its base rate increase request, and on July 24, 2009 the Company submitted a further revised base rate increase request for \$250 million.
- Overall Base Rate Increase **\$250 Million** or **7.91%** on Generation and Distribution Rates
 - ✓ **Distribution Increase** **8.29%**
 - ✓ **Generation Increase** **7.74%**
- Average Increases by Rate Class:

		Base Rate* Increase	Increase In Total Revenue
✓	Residential	7.94%	5.0%
✓	GS-1	7.94%	4.7%
✓	GS-2	7.87%	4.5%
✓	GS-3	7.85%	3.9%
✓	GS-4 (Primary Voltage)	7.79%	3.7%

* Base Rate increase percentage computed with transmission costs removed from both present and proposed rates

Dominion Virginia Power Rate Requests - Update

- ✧ Company indicates it Over-Earned in 2008 by nearly \$113 million. *(Others suggest that actual 2008 over-earnings could be as much as 4-5 times that amount.)*
- ✧ Despite over-earning in 2008, DVP requests that its Return on Equity (ROE) be increased to **13.5%**.
*(No other electric utility in the U.S. has received approval of an ROE of greater than 11.25% over the last two years, and the average ROE granted for other electric utilities over the last two years is less than **10.40%**.)*
- ✧ DVP's Rate Increase Request Includes:
 - \$96.0 million to compensate for the Company loss of a large wholesale power customer (ODEC)
 - \$60.5 million for AMI deployment
 - \$36.5 million for an assumed revenue loss due to DSM

Dominion Virginia Power Rate Requests - Update

* Transmission Rate Surcharge (Rider T)

- State Corporation Commission Approved Transmission Surcharge (Rider T) for implementation as of September 1, 2009.
- As approved, Rider T will provide DVP **\$217.6 million annually**. That is just \$9.9 million less than the Company requested.
- Transmission Surcharge is designed to allow Vepco to pass through changes in transmission costs annually without a full base rate case
- All Transmission costs removed from Base Rates -- \$149.4 million
- Approved Rider T revenue requirement represents an increase of **45.6%** over the transmission costs currently in the Company's base rates
- Revenue Requirement allocated to rate classes using coincident peak demand factor
- The surcharge revenue requirement is allocated to rate classes recovered through either cents/kWh or \$/KW charges

✓	GS-1	0.355 cents per kWh
✓	GS-2 (Non-Demand)	0.842 cents per kWh
✓	GS-2 (Demand)	\$1.143 per kW
✓	GS-2T	\$1.388 per kW
✓	GS-3	\$1.359 per kW
✓	GS-4 (Primary)	\$1.404 per kW

- Increases for Commercial customers range from **1.1% to 3.0%** on Total Electric Charges with Low Load Factor GS-3 customers receiving the largest percentage increases

Dominion Virginia Power Rate Requests - Update

✧ Coal Plant Surcharge (Rider S)

- Intended to provide recovery of costs for new Coal-Fired Power Plant that the Company has named the “Virginia City Hybrid Energy Center” (VCHEC)
- Filing represents an annual update for a previously approved surcharge
- Estimated overall project cost is \$1.8 Billion
- Company is seeking a **14.50% ROE** on its investment in the project
- Surcharge is intended to recover a revenue requirement of \$182.5 million
- The surcharge revenue requirement is allocated to rate classes recovered through either cents/kWh or \$/KW charges
 - ✓ GS-3 and GS-4 customers are billed on a \$/kW (demand) basis
 - ✓ All other classes are billed on a cents per kWh basis
- Increases for Commercial customers range from 1.7% to 3.1% on Total Electric Charges with Low Load Factor GS-4 customers receiving the largest percentage increases

Dominion Virginia Power Rate Requests - Update

✧ Gas Plant Surcharge (Rider R)

- New surcharge is intended to provide recovery of costs for the new **Bear Garden Generating Station**, a gas-fired combined cycle generating plant
- Estimated overall project cost is **\$0.619 Billion**
- Company is seeking a **14.50% ROE** on its investment in the project
- Surcharge would recover a revenue requirement of about **\$100 million** annually
- The surcharge revenue requirement is allocated to rate classes recovered through either cents/kWh or \$/KW charges
 - ✓ **GS-3 and GS-4 customers are billed on a \$/kW (demand) basis**
 - ✓ All other classes are billed on a cents per kWh basis
- Increases for Commercial customers range from **0.9% to 1.6%** on Total Electric Charges with Low Load Factor GS-4 customers receiving the largest percentage increases

Dominion Virginia Power Rate Requests - Update

* Commercial Customer Rate Impact Summary

	Effective Date	Impacts on Total Bill
➤ Base Rate Increase	9/1/2009	3.5% to 5.0%
➤ Transmission Surcharge	9/1/2009	1.1% to 3.2%
➤ Coal Plant Surcharge	1/1/2010	1.7% to 3.1%
➤ Gas Plant Surcharge	1/1/2010	0.9% to 1.6%

Pepco Has **Four** (4) Rate Proceedings Pending In the District of Columbia

- * Base Rate Increase Request of **\$51.7 million**
- * Bill Stabilization Adjustment “BSA” Surcharge Request
- * AMI Regulatory Asset Request
- * Pension Regulatory Asset Request

Pepco DC Rate Requests -Update

✧ **Base Rate Increase Request of \$51.7 Million**

- Filed May 22, 2009; Expected Effective Date - Spring 2010
- Overall Increase in Distribution Rates 13.9%
- Increases for Master-Metered Apartment (MMA) and Commercial Customer Accounts

	Base Rates	Overall
✓ Residential (R) (MMA)	29.3%	6.0%
✓ Residential All Electric (AE) (MMA)	34.7%	6.9%
✓ GS Non-Demand	11.3%	4.0%
✓ GS Demand	10.9%	3.2%
✓ GS Primary (GS-3A)	10.6%	2.5%
✓ GT-LV	12.8%	2.9%
✓ GT-3A	4.6%	0.8%

Pepco DC Rate Requests -Update

- ✧ AOBA finds that Commercial customers are paying more than enough for Pepco to earn its allowed rate of return (ROR), But ...
 - ✧ Residential customers other than Master Metered Apartments* and Residential Time of Use (Rate RTM customer) and Street Lighting have **negative** rates of return
 - ✧ Current subsidies to Residential and Street Lighting Service total to over **\$20 million annually**
 - ✧ Residential customers currently pay **less than 50%** of their costs of service.
- * *Master Meter Apartments, despite being billed on Residential rates, presently provide Pepco a rate of return roughly **equal to the system average**.*

Pepco DC Rate Requests - Update

✦ DC PSC Approves **Bill Stabilization Adjustment** “BSA” Surcharge For Pepco

- Implementation will commence November 1, 2009
- First rate adjustments will be applied to January 2010 bills
- Commission orders 50 basis point (i.e. 0.5%) ROE reduction and that will produce an overall revenue reduction also effective November 1, 2009. However:
 - ✓ DC PSC has decided to allocate rate reduction in a manner that disproportionately benefits residential customers
 - ✓ Actual rate adjustments by class are yet to be calculated, but commercial customer rate reductions are likely to be small
- Monthly rate adjustments will be **Capped at +/-10%** of base rate charges
 - ✓ Several rate classes (e.g. **GS-Non-Demand, GS-Demand, and GS-Primary** customer) can expect to experience **maximum 10%** upward rate adjustments soon after implementation of this surcharge.
 - ✓ Other classes' projected rate adjustments will vary, but could reach maximum levels if DSM programs yield large reductions in energy use and/or weather is more mild than normal.

Pepco DC Rate Requests - Update

* AMI Regulatory Asset

- DC City Council passes emergency legislation granting Pepco a Regulatory Asset for AMI costs:
 - ✓ Costs for “Advanced Metering Infrastructure” (AMI) - **\$61 Million***
 - ✓ Undepreciated Costs of Meters Replaced by AMI - **\$51 million**
- However, the City Council legislation conditions recovery of such costs on Pepco’s receipt of “adequate Federal funding.”
- Pepco has applied to the U.S. Department of Energy for 50% funding of the Company’s planned AMI program.
- Without federal funding assistance, the revenue requirement for Pepco’s planned AMI program would be over **\$11 million** per year for 15 years and would add roughly **5%** to customers’ bills.

* *Pepco indicates that it plans to seek federal funding under the American Reinvestment and Recovery Act (ARRA) for up to half of the costs of its AMI planned system*

Pepco DC Rate Requests - Update

- ✦ DC PSC Consolidates Pepco's Pension Regulatory Asset Request with the Company's Base Rate Case
 - Pepco seeks assured recovery of increases in Pension costs and cost for Other Post-Employment Benefits (OPEBs)
 - AOBA submits that the Company's proposal **would eliminate effective existing incentives** for Pepco to control its Pension and OPEB costs
 - A significant portion of the Company's claimed Pension and OPEB costs reflect amounts billed to Pepco by the PHI Service Company. AOBA believes that it is inappropriate for Service Company costs to be automatically passed through to ratepayers.

Pepco Maryland Rate Request - Update

✳ MD PSC Schedules Hearings on Pepco's AMI Regulatory Asset Request

➤ Pepco seeks assured recovery of:

- ✓ Advanced Metering Infrastructure (AMI) Costs - **\$135 Million***
- ✓ Undepreciated Costs of Meters Replaced by AMI - **\$97.5 Million**

➤ Company has applied to U.S. DOE for Federal matching funds for its proposed AMI investment

➤ Key issues include:

- ✓ Depreciation period for AMI Equipment – Pepco proposes 15 years with no support
- ✓ Appropriate time period for cost-benefit analysis
 - **Pepco's use 15 years, but existing meters have nearly 28 years of average remaining life.**
 - **A longer period of analysis would require Pepco to recognize the costs of replacing AMI equipment when the end of the initial lives of AMI equipment are reached.**
- ✓ Load Reduction Benefits of AMI
 - **Pepco overstates value of AMI for reducing generation supply costs**
 - **Company has no plan for gaining load reductions from customers who use competitive generation services****

* *Pepco indicates that it plans to seek federal funding under the American Recovery and Reinvestment Act (ARRA) for up to half of the costs of its AMI planned system*

Pepco Maryland Rate Request - Update

✧ Uncollectible Expense Surcharge – Denied July 1, 2009

- Pepco claims that its Overall Uncollectible Accounts Expense (DC and Maryland combined) is up more than \$2.0 million 2008
- Pepco's Uncollectible Expense for Maryland is up \$2.5 Million (while its DC expense is down \$0.5 Million)
- Maryland increase in uncollectible accounts expense is due to:
 - ✓ PSC requirement for more favorable payment plans for residential customers with accounts in arrears
 - ✓ Extended moratorium on disconnection of residential customers for non-payment of bills
 - ✓ PSC requirement that utilities buy receivables from third party suppliers
- Company's proposal is for a single rate surcharge to be applicable to all classes (i.e., commercial customers would further subsidize residential customers who don't pay their bills)

Pepco Maryland Rate Requests (Cont.)

* Pension Regulatory Asset Request

- Pepco seeks assured recovery of increases in Pension costs and cost for Other Post-Employment Benefits (OPEBs)
 - ✓ Company claims its Pension and OPEB expenses (including allocations of Holding Company costs) for 2009 have increased nearly **200%** or \$9.23 million annually
 - ✓ Company wants increased costs treated as regulatory assets and to recover those costs in future years
 - ✓ AOBA anticipates that, if the requested regulatory asset is approved, Pepco will file for a rate surcharge to recover deferred Pension and OPEB costs
 - ✓ On August 13, 2009 the PSC denied Pepco's surcharge. Pepco has appealed

Washington Gas Light Company

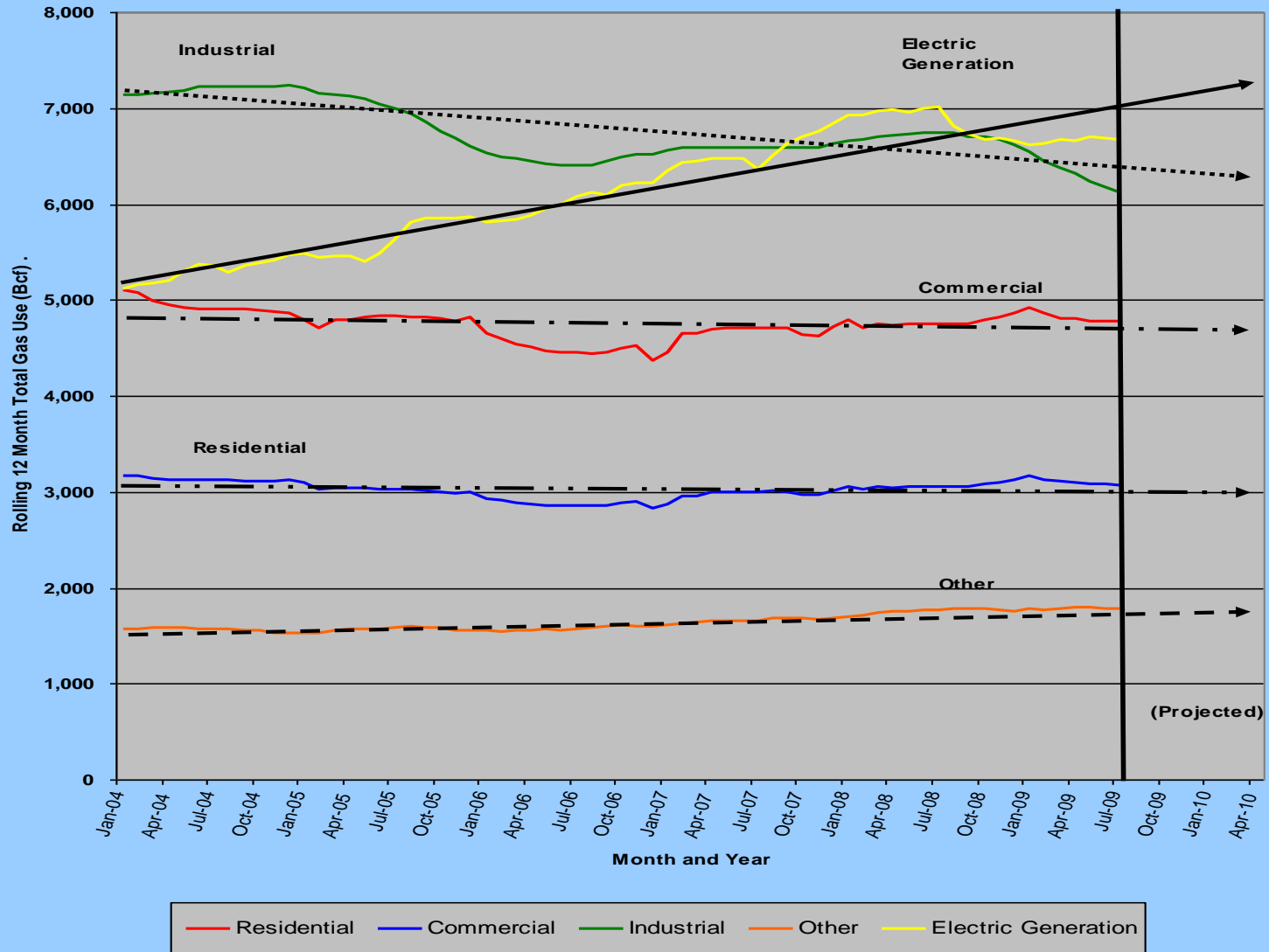
- ✳ No base rate increase requests pending or anticipated within the next year
- ✳ Negotiated **rate freezes** bar any base rate increases for WGL **in** either **DC** or **VA** during the remainder of 2009 and 2010
- ✳ WGL is expected to file **soon** for BSA-type rate adjustment in DC

Energy Market Update

October 7, 2009

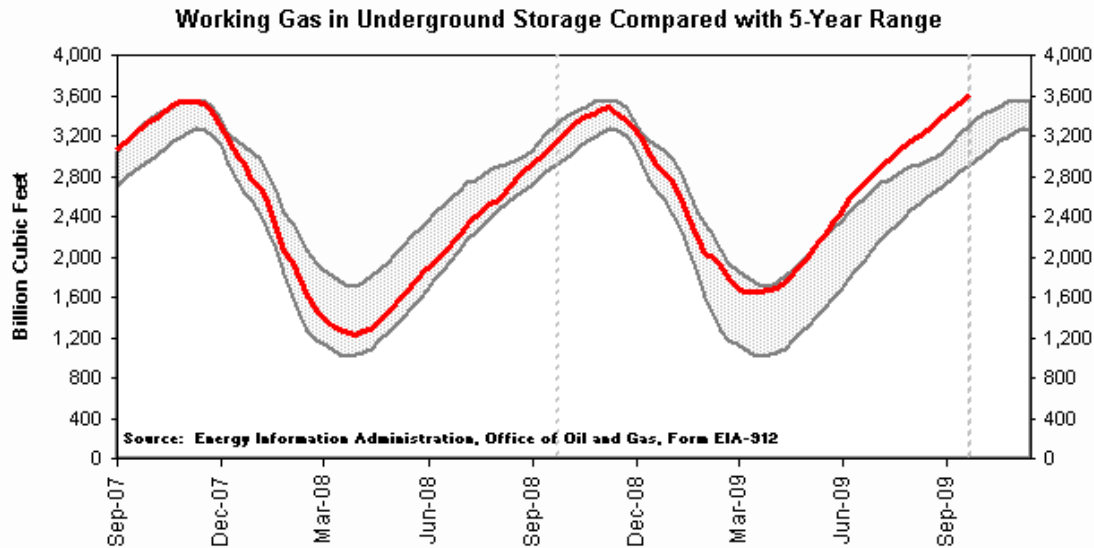
US Natural Gas Use by Sector

(EIA Actuals through July 2009; Linear Trend Lines through March 2010)



Natural Gas Storage Inventories Reach Record Levels

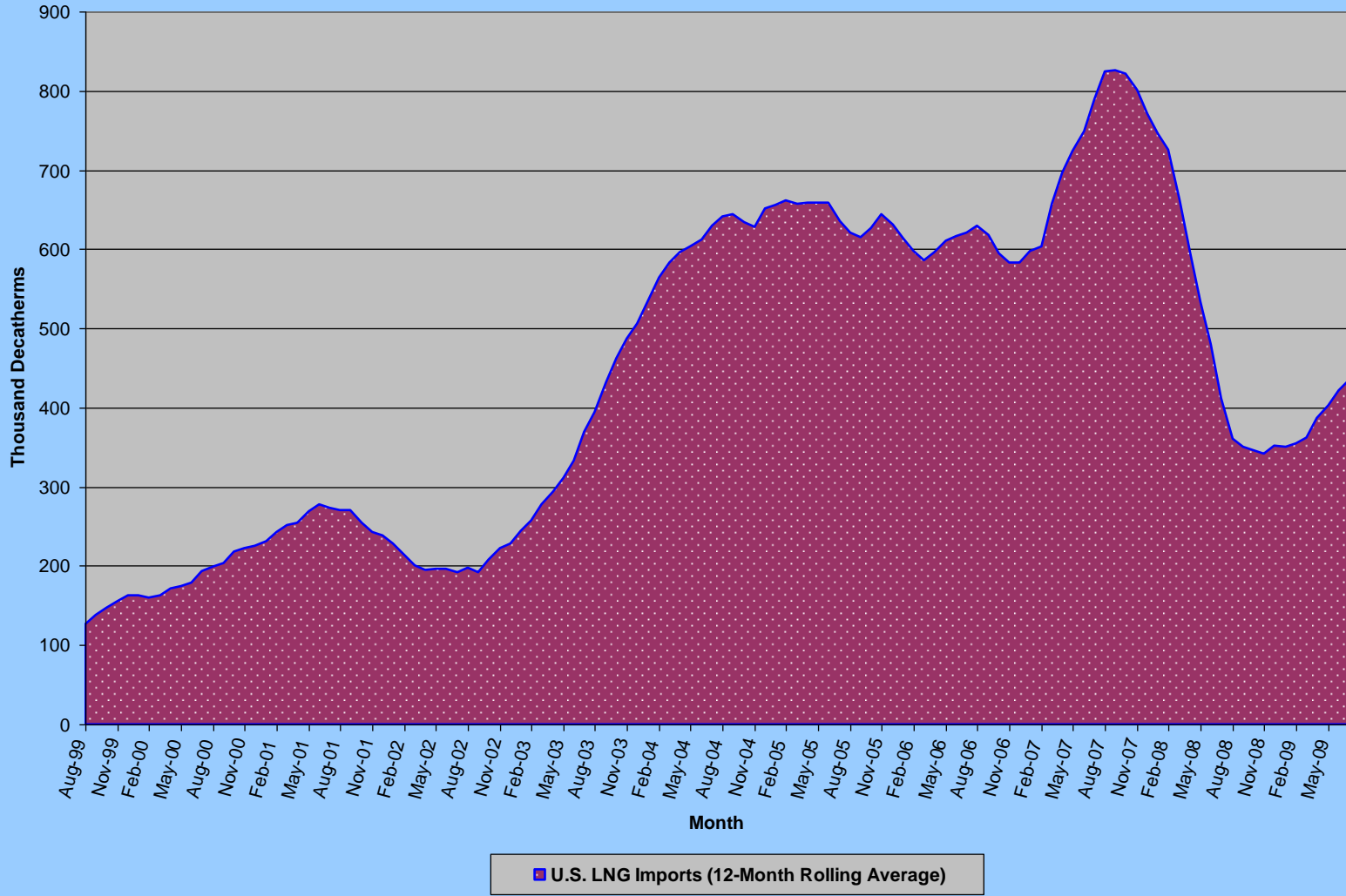
Already Above Five-Year Highs And Rising



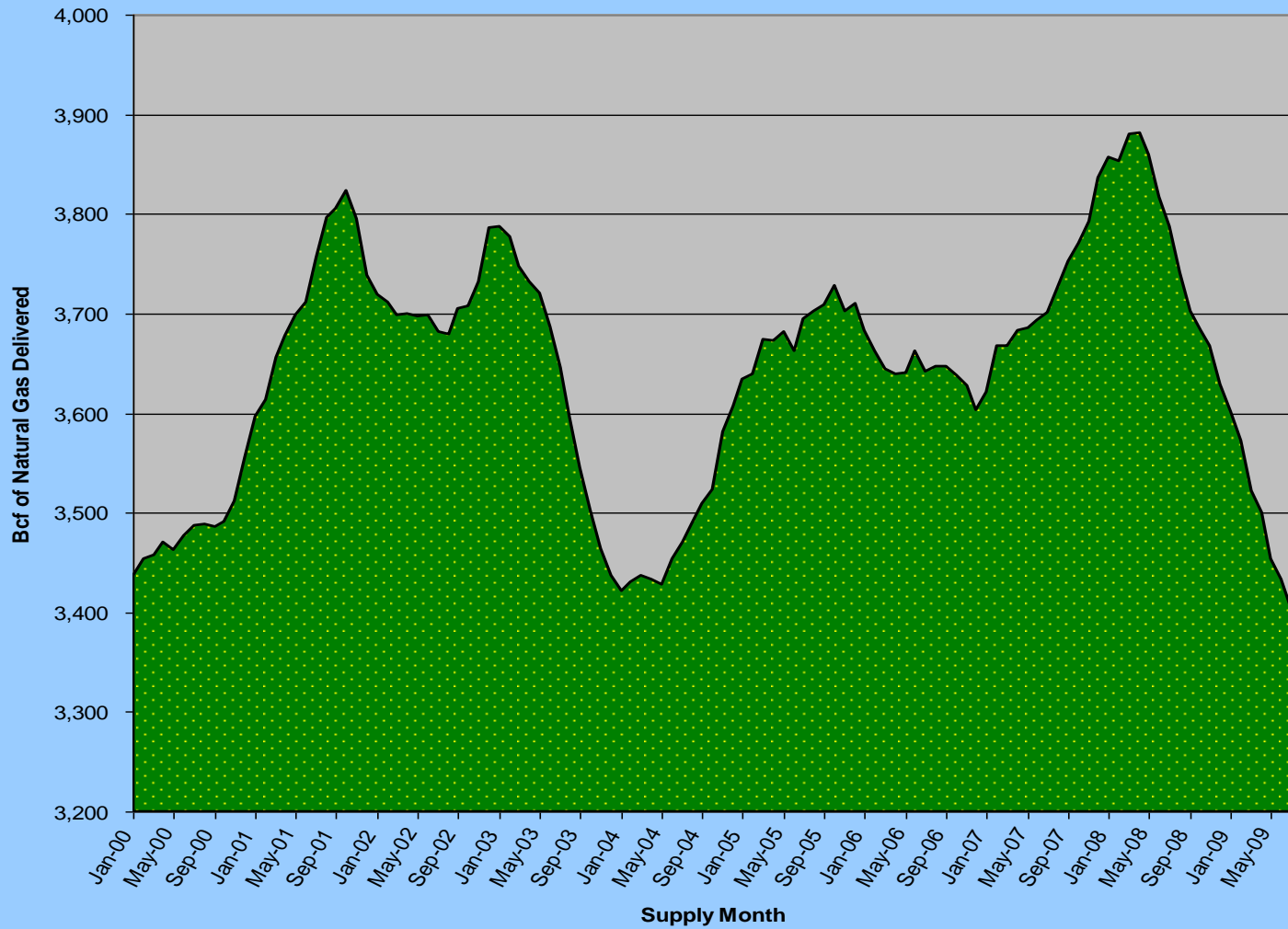
EIA: Working Gas in Underground Storage, Lower 48 States

Region	Stocks in billion cubic feet (Bcf)			Historical Comparisons			
	09/25/09	09/18/09	Change	Year Ago (09/25/08)		5-Year (2004-2008) Avg	
				Stocks (Bcf)	% Change	Stocks (Bcf)	% Change
East	1,955	1,917	38	1,848	5.8	1,062	9.6
West	489	482	7	421	16.2	418	17.0
Producing	1,145	1,126	19	829	38.1	879	30.3
Total	3,589	3,525	64	3,098	15.8	3,108	15.5

U.S. LNG Imports August 1999 Through July 2009 (12-Month Rolling Averages)

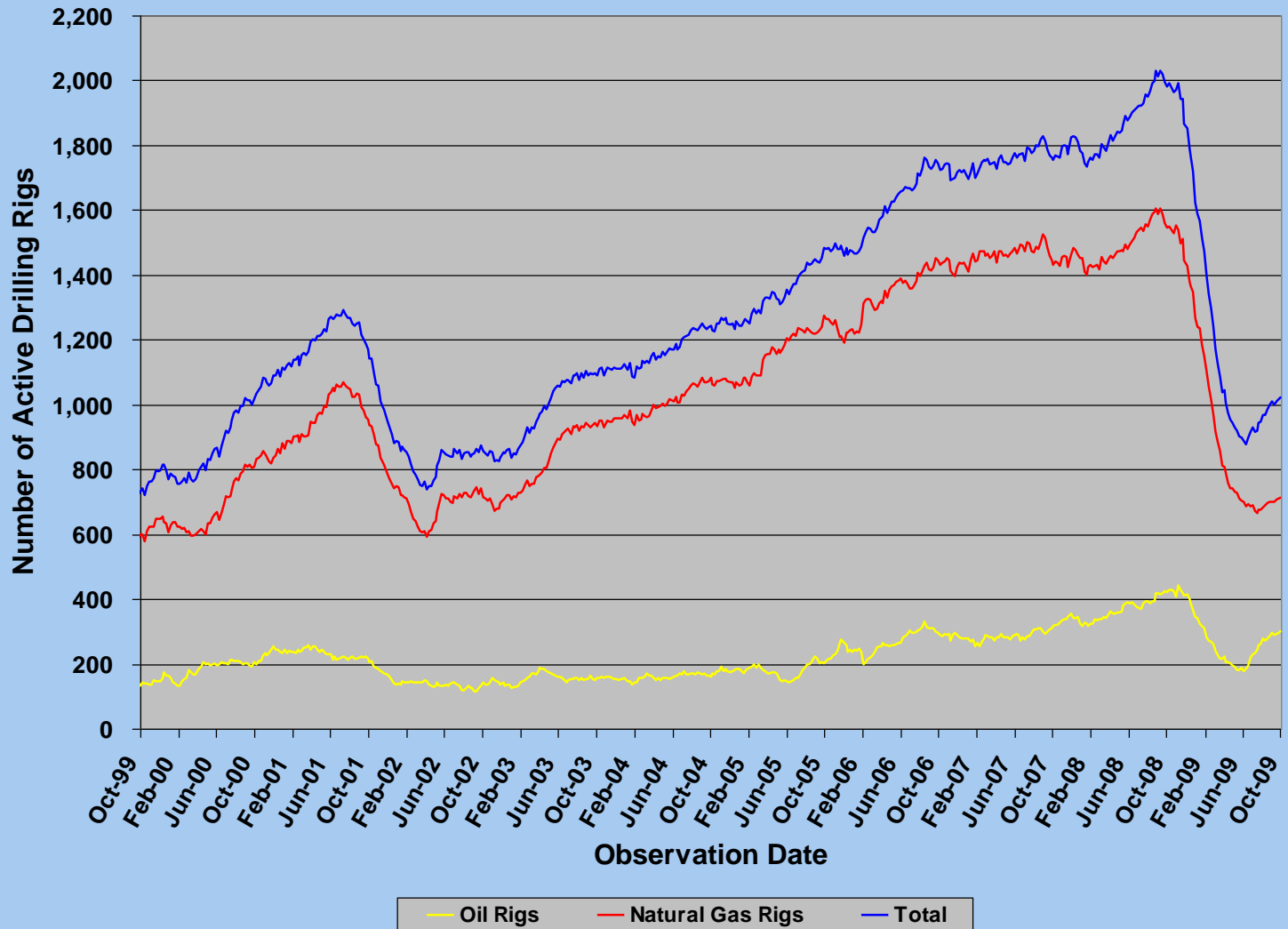


US Pipeline Imports of Natural Gas
January 2000 through July 2009
12-Month Rolling Totals



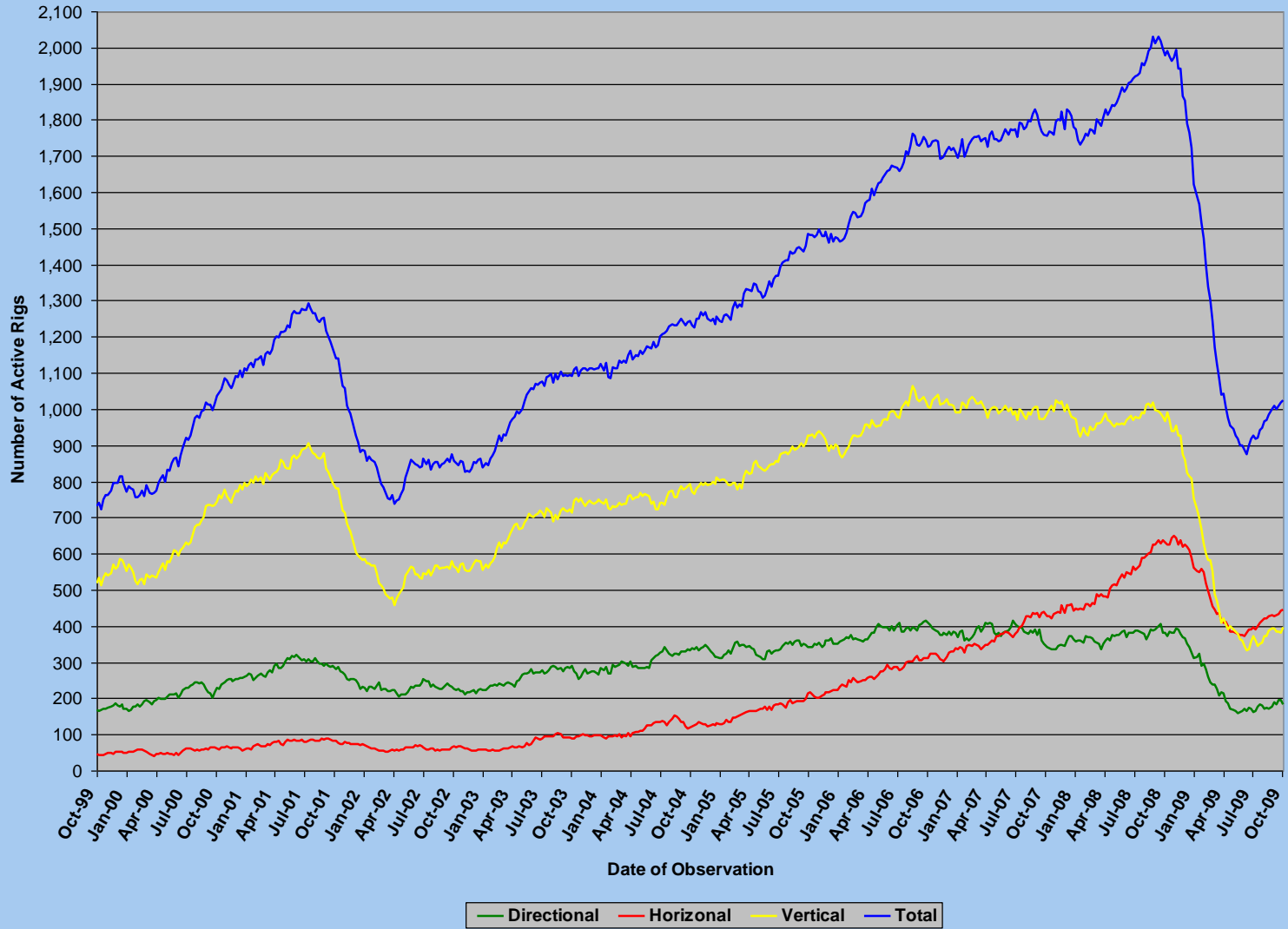
U.S. Oil and Natural Gas Drilling Activity

October 1999 to October 2009

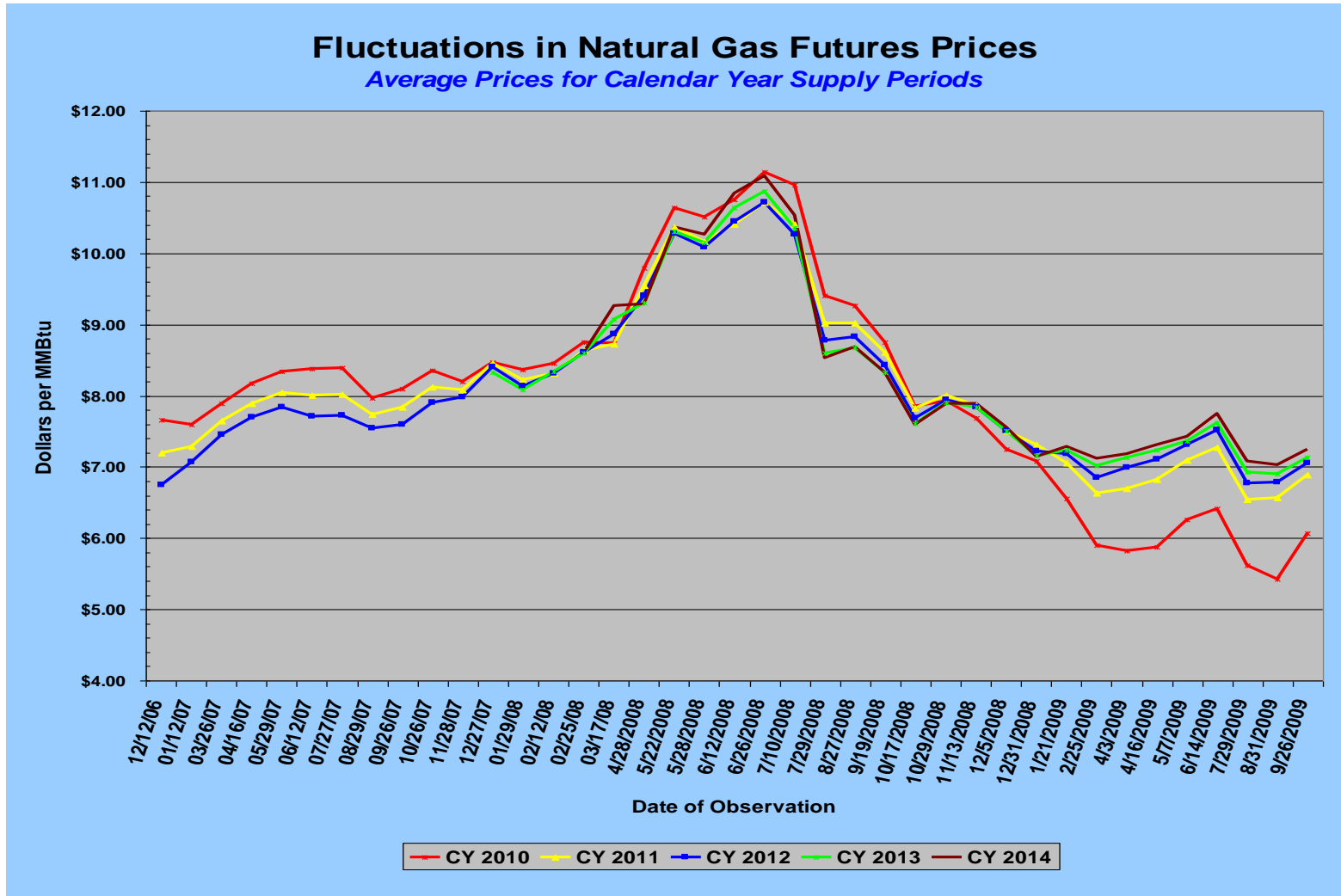


US. Active Drilling Rigs By Type

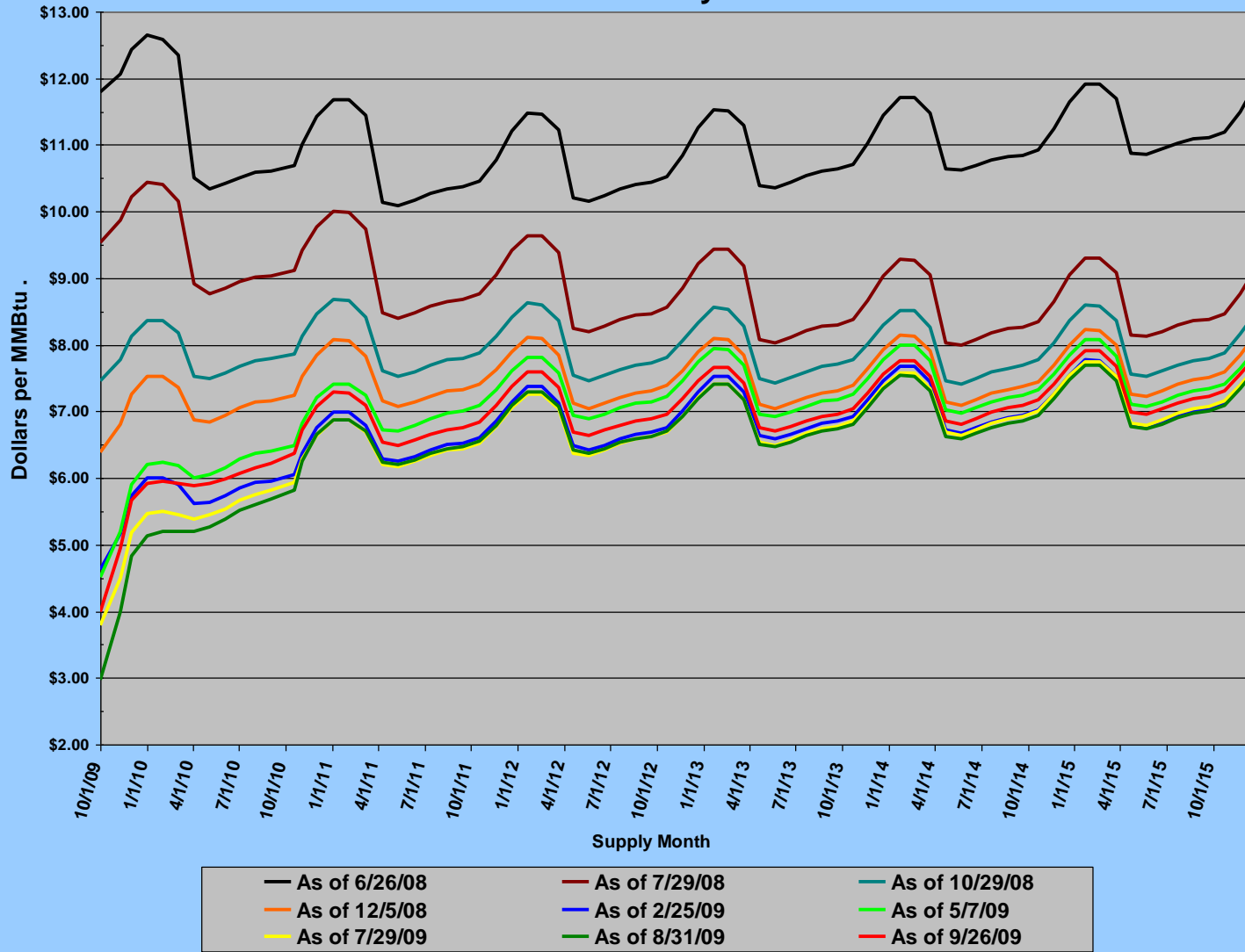
October 1999 to October 2009



Natural Gas Commodity Prices Reflect Continued *Weakness* Into 2010

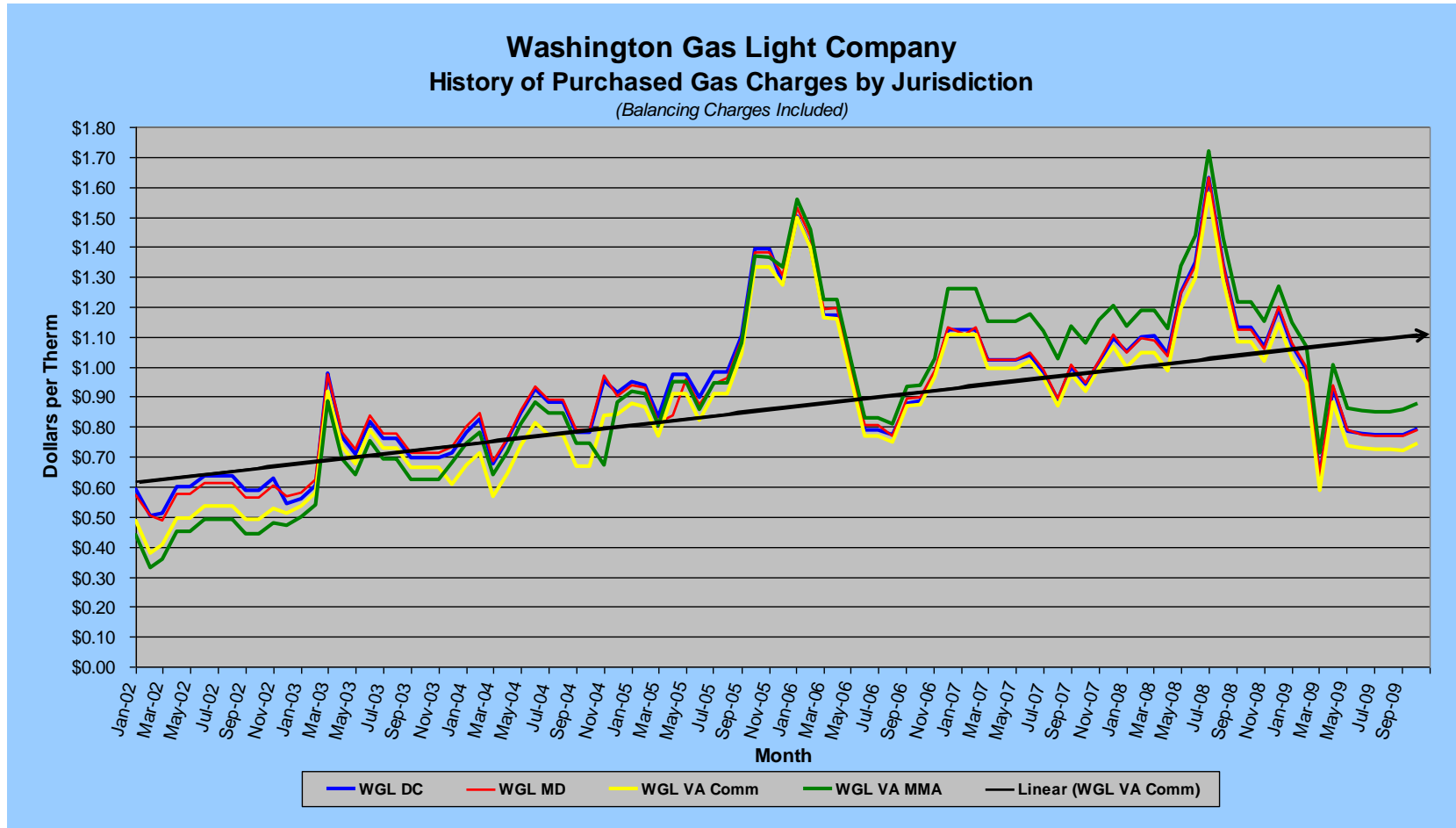


Natural Gas Commodity Futures Prices



WGL's Purchase Gas Charges

Remain Well Below Trend Line

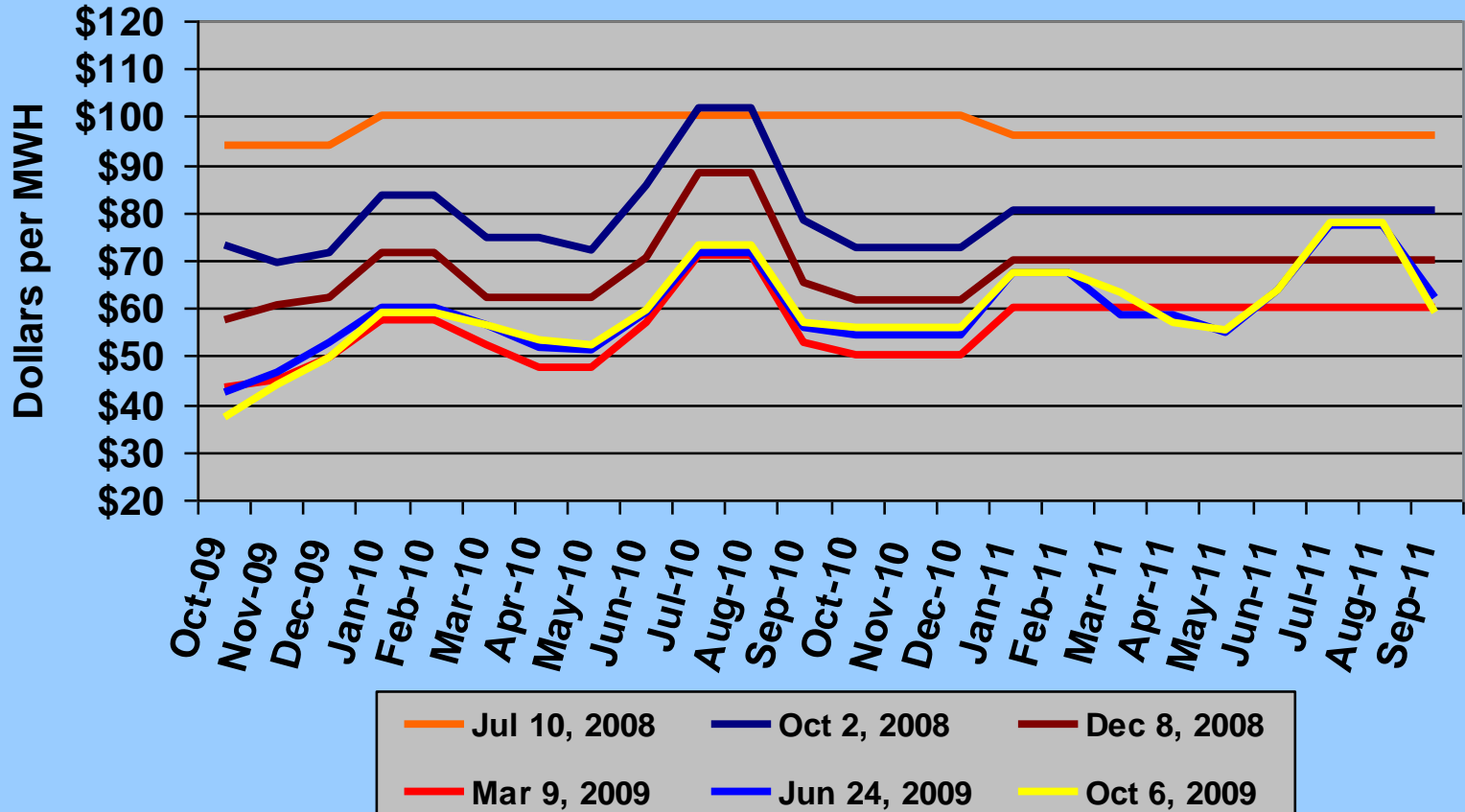


Electric Markets

October 7, 2009

PJM Monthly Electric LMP Futures - Peak

For Oct 2009 Through September 2011



Reliability Pricing Model (RPM)

Locational Generation Capacity Costs

For Pepco & BGE Service Territories

2007-08 2008-09 2009-10 2010-11 2011-12 2012-13

(Dollars per Megawatt Day)

* Clearing Price	\$188.54	\$210.11	\$237.33	\$174.29	\$110.00	\$133.46
* Capacity Transfer Credit	\$ 48.38	\$ 29.53	\$ 19.21	\$ 0.00*	\$ 0.00*	\$ 3.83
* Net Load Price	\$140.16	\$180.58	\$218.12	\$174.29	\$110.00	\$129.63

(Cents per Kilowatt-Hour)

* Clearing Price	1.571	1.751	1.978	1.453	0.917	1.113
* Capacity Transfer Credit	0.403	0.246	0.160	0.000*	0.000	0.032
* Net Load Price	1.168	1.505	1.818	1.453	0.917	1.081

Illustrative Forward Looking Retail Electricity Supply Prices by Cost Component

(for DC Electric Market)

	06/10 – 5/11 As of Jun 2009	06/10 – 5/12 As of Jun 2009
	Cents per kWh	
* Estimated Electric Energy Cost	5.50	5.82
* Locational Capacity Costs	1.52	1.26
* Congestion Charges	0.73	0.72
* Transmission Costs	0.37	0.38
* Ancillaries	0.19	0.22
* Marketer Costs ¹	1.22	1.20
* Distribution Losses	<u>0.49</u>	<u>0.50</u>
* Estimated Total Retail Supply Cost	10.02	10.10

1 *Includes administrative, marketing, collateral and billing costs as well as marketer risk and profit.*