



# Revisiting Capital Structure Issues in Ratemaking

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Electric Power Supply Association  
*Advancing the power of competition*

## What is EPISA?

- The national trade association of competitive power sector
- Nearly 40% of installed generating capacity
- One-third of net electricity generation
- Competitive sector built almost all new generation since early 1990s
- New generation was largely at supplier's risk, not at ratepayer expense
- Improved operating results at plants acquired through restructuring

# Future Resource Needs

- NERC Long-Term Reliability Assessment:
  - Power demand up 141,000 MW by 2015
  - Today over 50,000 MW of uncommitted resources either do not have firm contracts
  - Over the next ten years, uncommitted resources will more than double with the inclusion of generation currently under construction or in the planning stage, but which is not yet under contract to serve load.

## Future Resource Needs (cont.)

- Crunch starts 2008-2012 – solutions must come now
- How to meet demand is up for grabs
- Clash of Public, Regulatory and Financial policy goals is creating risk
- Who will meet demand is also up for grabs –

# Cost of Business

- Rising cost environment acknowledged by all:
  - Fuel – global market, rail delivery
  - Environment – carbon, CAIR, NSR
  - Labor – benefits, wages, shortage of expertise
  - Land – taxes, land price increases
  - Construction materials – finite supply, everyone ordering at once
  - Etc.

# Who Bears the Risk of Providing Needed Resources?

- Utility cost-over runs – not just nuclear
  - History
  - Regulatory Hedge?
    - Plant announcements – unfolding stories
- Large capital intensive investments
  - Need for a big balance sheet
- Risk management
- New technologies

## Solutions Considered

- Better Planning – Order No. 890
- Credible Solicitations
  - Collaborative Process
  - Independent, Third-party Evaluator
  - Buy versus build decisions need equal evaluation process
  - New Resource Interconnection
  - Demand-side emphasis

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## Credible Solicitations (cont.)

- Fair Process Must:
  - Be free from actual, apparent conflicts of interest
  - Provide all bidders similar access to information
  - Require full public review of the utility decision-making process
- If the utility or affiliated entity participates, additional protections are required
  - Use of an independent evaluator - reports to commission
  - Separation of utility personnel - utility's proposal vs. evaluating bids
  - Utility winner must honor its bid prices

# The Good, The Bad and The Ugly

- Recent progress on competitive procurement:
  - Oregon, Colorado, Oklahoma, etc.
- States must follow-through on their bidding requirements
- RFPs gone bad:
  - PacifiCorp
  - Entergy



# QUESTIONS?

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