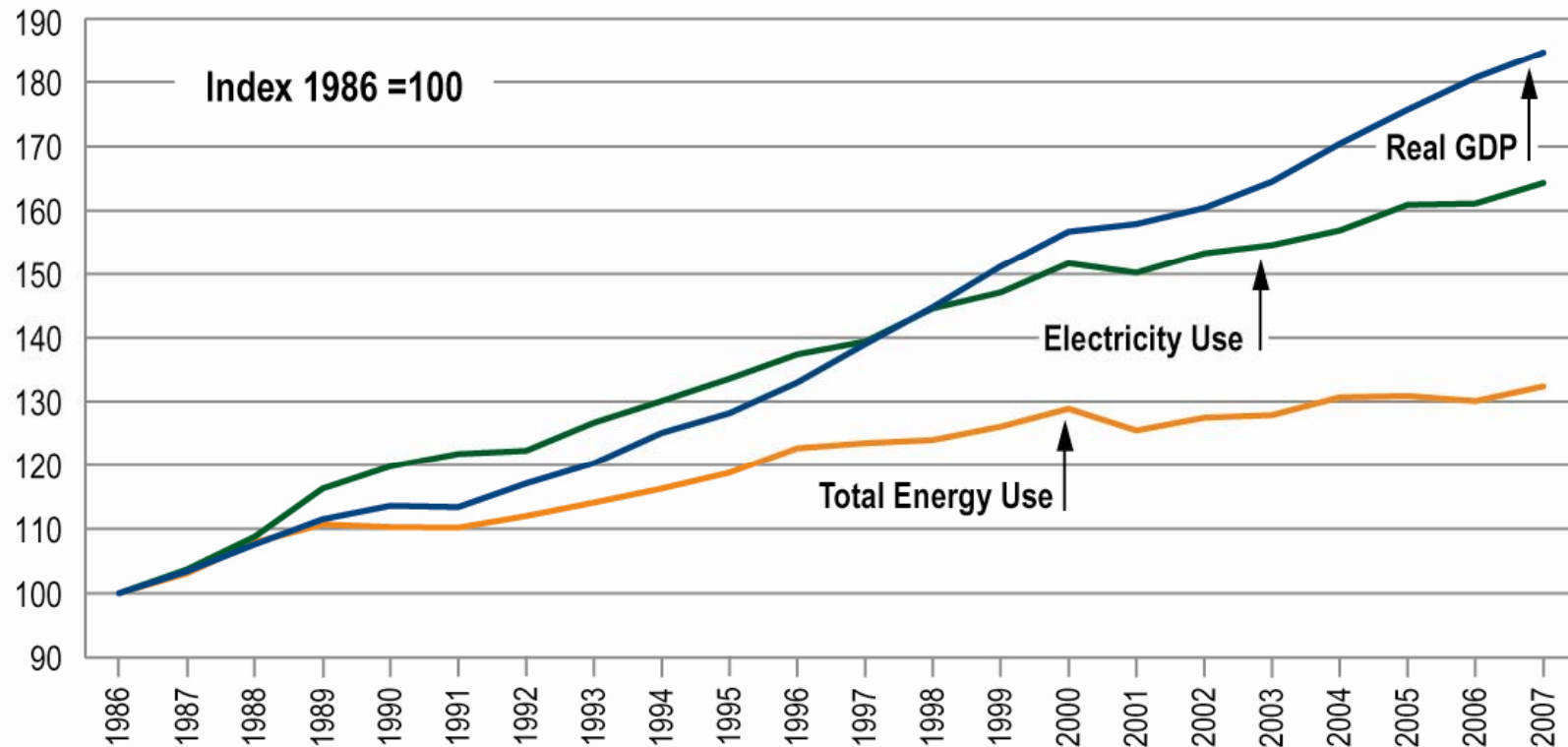


Our Increasing Demand for Electricity



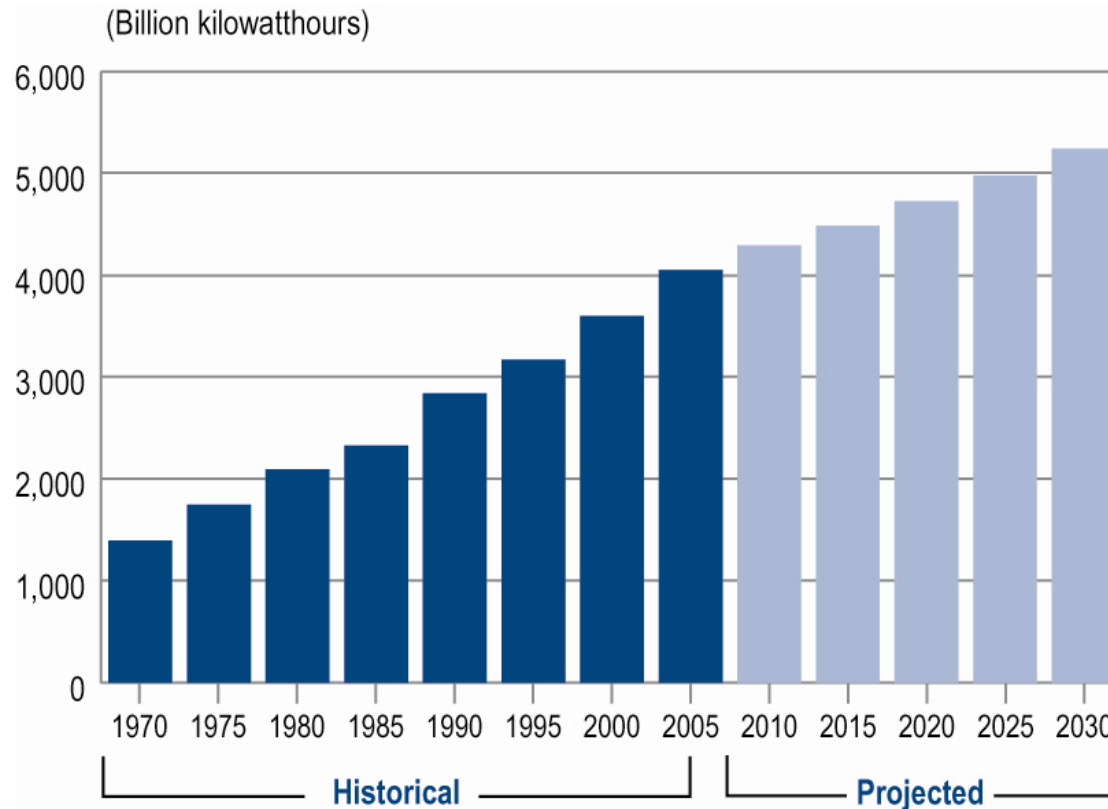
U.S. Economic Growth Is Linked To Electricity Growth



1986 represents the base year. Graph depicts increases or decreases from the base year.

Source: U.S. Department of Energy, Energy Information Administration (EIA).

Demand for Electricity Is Projected to Increase At Least 30% by 2030

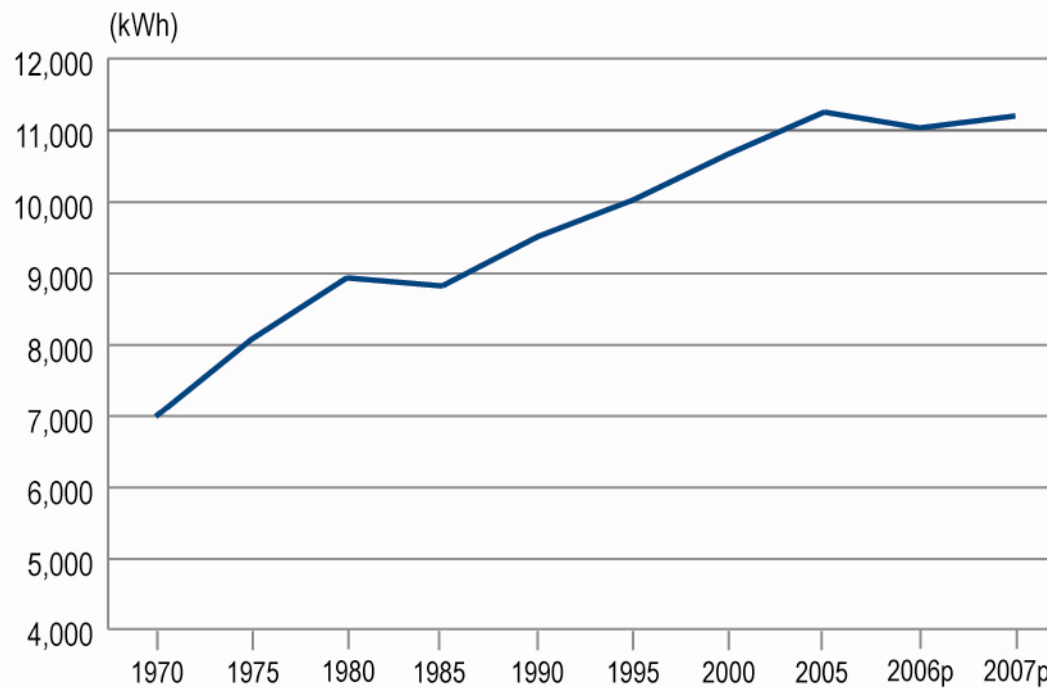


*Electricity demand projections based on expected growth between 2006 and 2030.

Source: U.S. Department of Energy, Energy Information Administration, *Annual Energy Review 2006* and *Annual Energy Outlook 2008* (early release).

Annual Electricity Use in the Typical U.S. Home Has Increased 60% Since 1970

Average Annual Kilowatt-hour Sold Per Residential Customer



p = preliminary

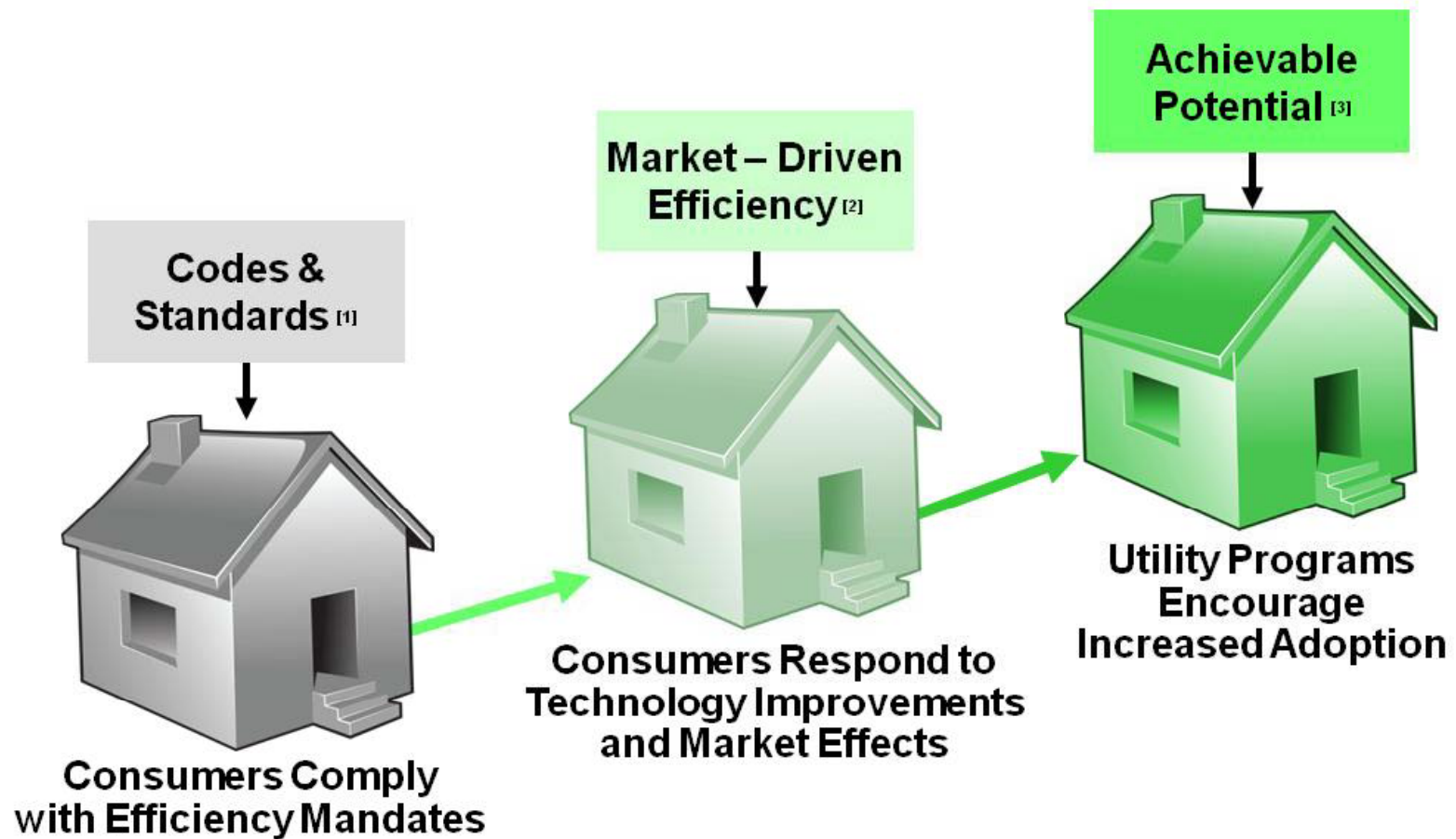
Source: U.S. Department of Energy, Energy Information Administration: Annual Electric Utility Report (EIA-861), and Monthly Electric Utility Sales and Revenues Report with State Distributions (EIA-826).

Examples of Growing Electricity Usage

- Average U.S. household owns 24 consumer electronic products
 - 99% of these products must be plugged in or recharged
 - 42” plasma TV (250W) vs. 27” standard TV (100W)
 - 2 DVRs use as much energy in 1 year as a refrigerator
 - PlayStation and Xbox use more electricity than a PC
 - PCs and TVs now account for 10% of a home’s electricity usage

Sources: Consumer Electronics Association, Electric Power Research Institute, U.S. Energy Information Administration

Steps to Becoming More Energy Efficient...



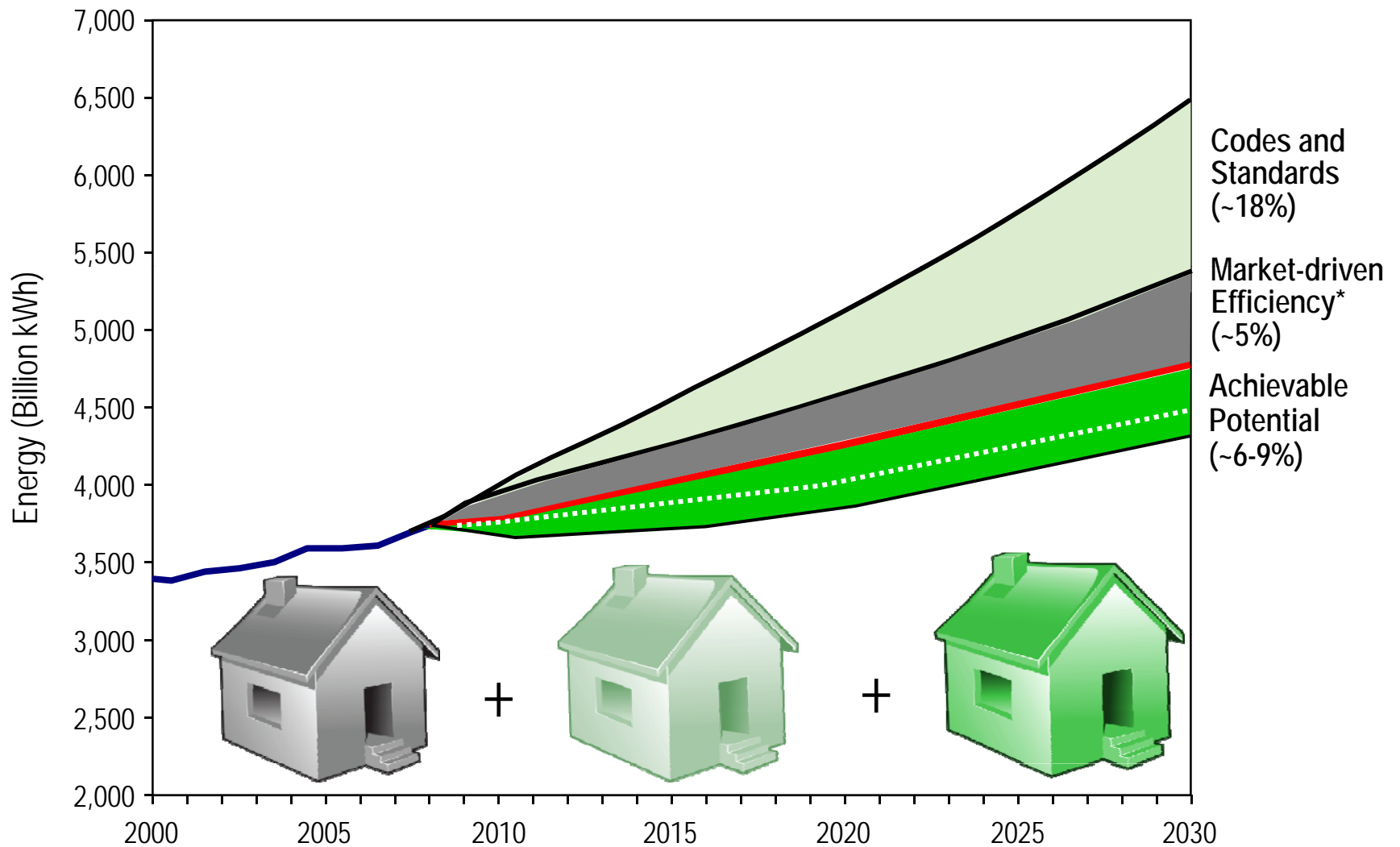
[1] Consumers comply with minimum building codes & equipment efficiency standards mandated by federal or state law

[2] Consumers respond, without intervention of utility programs, to market-driven improvements in technology efficiency, price effects, and other market factors that impact energy consumption

[3] Additional savings through utility energy efficiency programs; range bounded by realistic and maximum achievable potential. Limited to technologies that are economically-feasible, subject to consumer choice.

Electricity Consumption

Potential Electricity Savings

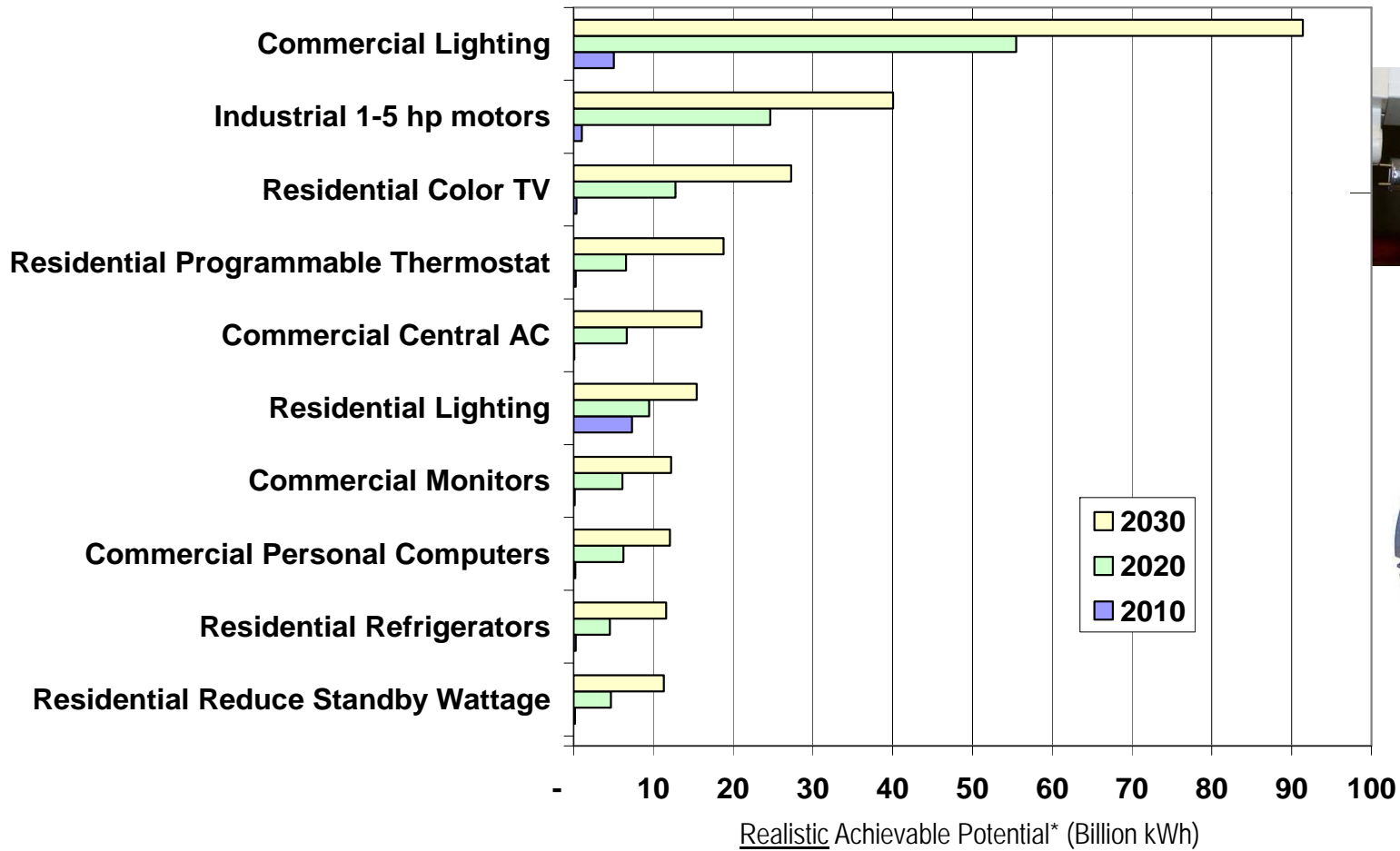


* Includes embedded impact of EE programs implicit in AEO 2008.

Source: EPRI-EEI Joint Energy Efficiency Study

Opportunities for Energy-Efficiency Savings

Top 10 Energy Efficiency Achievable Potentials Include . . .



* Savings reflect total EE program savings potential, inclusive of savings implicit in AEO 2008.

The Costs of Meeting Current and Future Demand



EDISON ELECTRIC
INSTITUTE



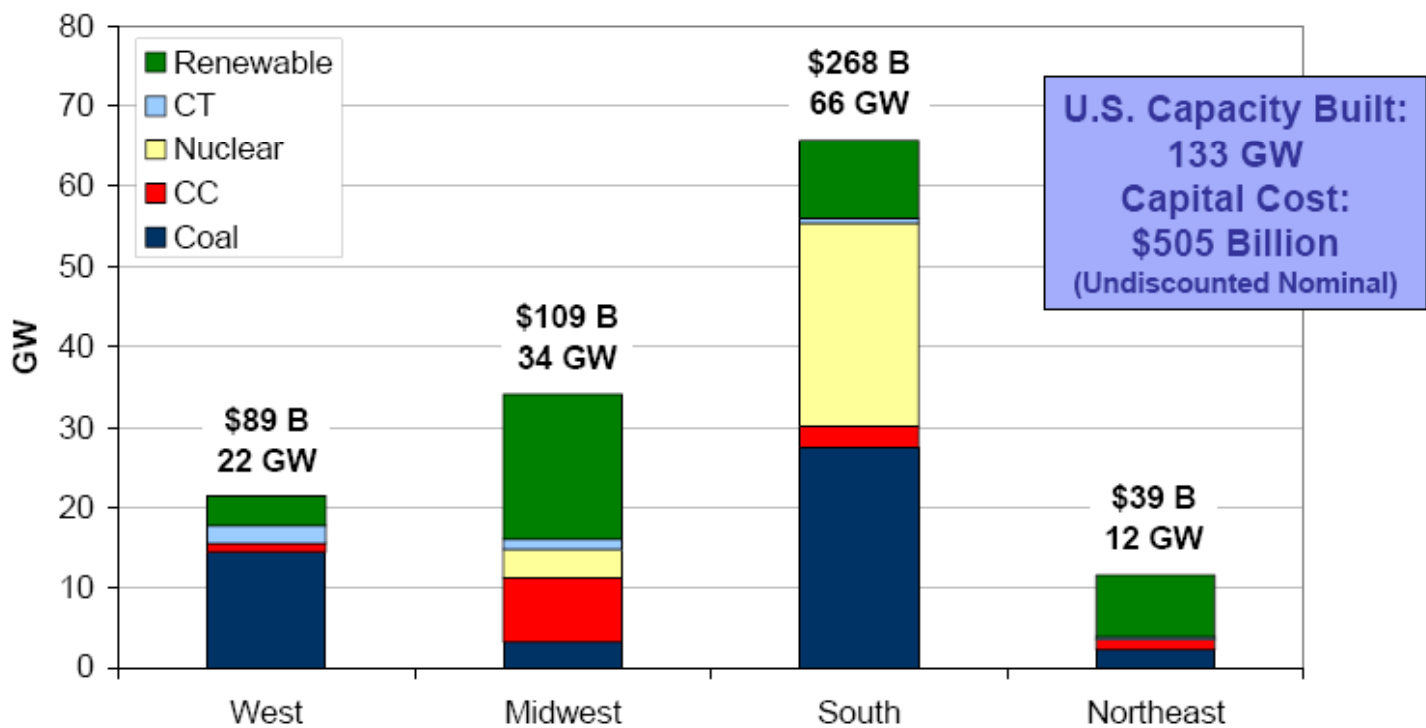
Overall Infrastructure Investment Needs

- According to *The Brattle Group*, investment on the order of \$1.5 trillion will be required from 2010 – 2030
 - **Generation:** \$505 billion, with no changes in carbon policy or long-term price effects
 - **Transmission:** \$287 billion
 - **Distribution:** \$588 billion
 - **Energy Efficiency:** \$85 billion
- While enhanced energy efficiency measures will reduce sales growth and generating capacity needs substantially, overall capital requirements are less affected:
 - Reduced peak demand tends to displace less expensive generation capacity
 - Costs of energy-efficiency measures add back significant cost

Source: Transforming America's Power Industry: The Investment Challenge (Revised Preliminary Findings), *The Brattle Group*, September 2008

Generation Investments Could Reach \$505 Billion From 2010 - 2030

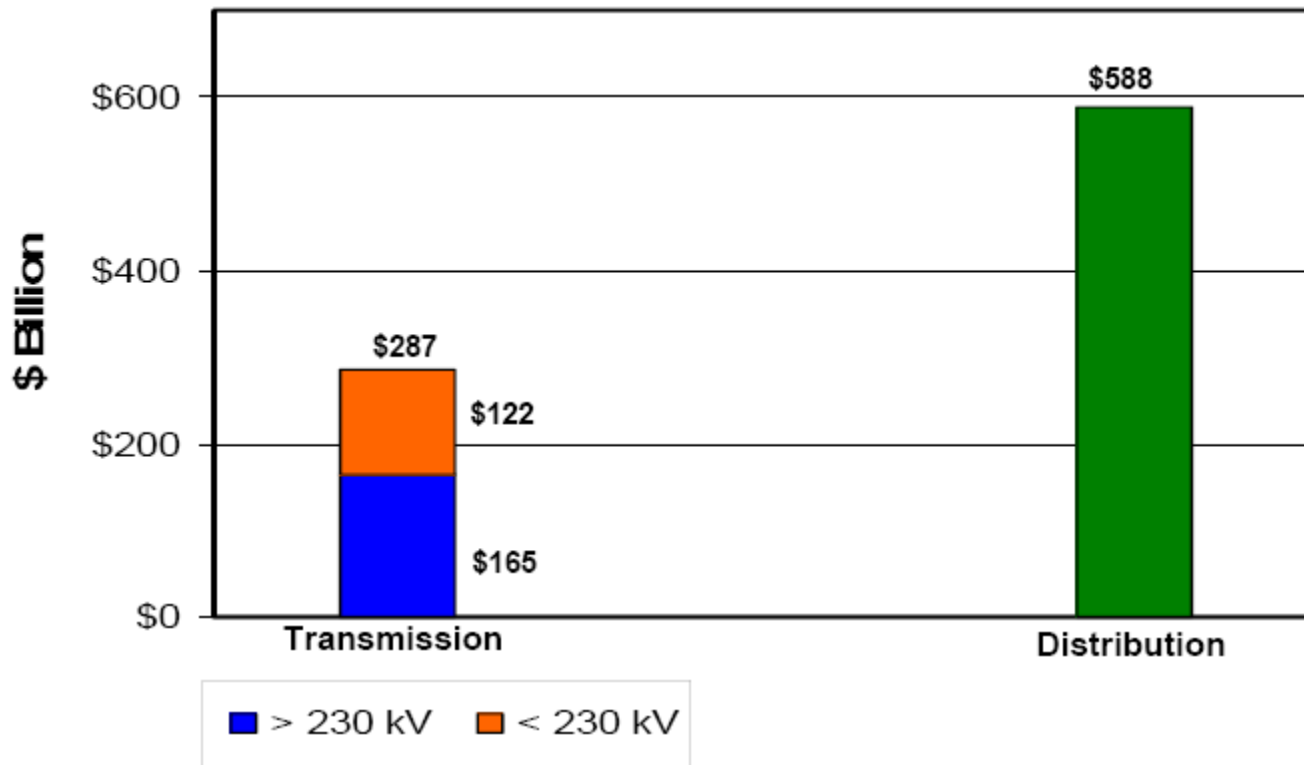
New Capacity Additions in U.S. Census Regions by Type (GW) During 2010-2030



Note: Regional figures may not sum to U.S. total due to rounding

Source: Transforming America's Power Industry: The Investment Challenge (Revised Preliminary Findings), The Brattle Group, September 2008

Transmission and Distribution Investments From 2010 – 2030—Including Smart Grid



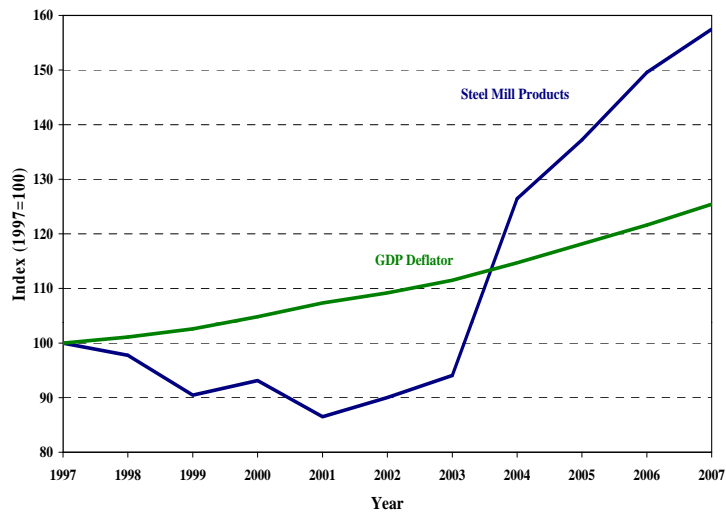
Source: Transforming America's Power Industry: The Investment Challenge (Revised Preliminary Findings), *The Brattle Group*, September 2008

Utility Construction Costs Are Rising

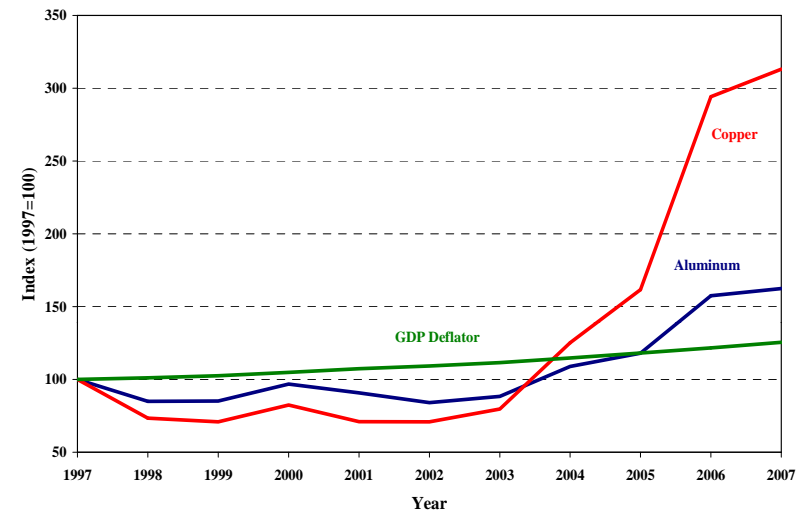
- The recent trend of rising construction costs for utility infrastructure creates additional cost pressures that are not reflected in most infrastructure cost projections.
- Rising construction costs include:
 - raw materials
 - equipment
 - labor

Commodity Prices Continue to Rise

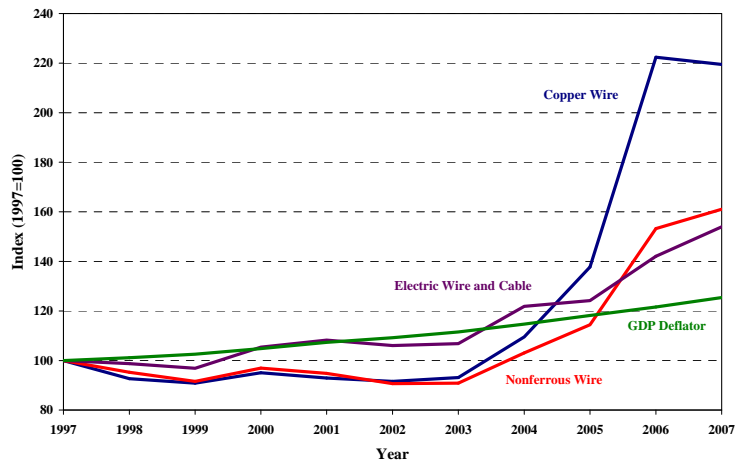
Steel Mill Products Price Index



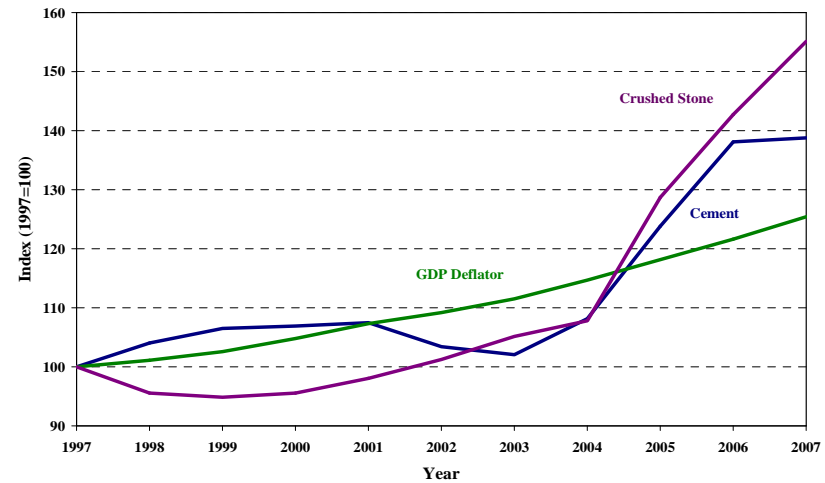
Aluminum and Copper Price Indexes



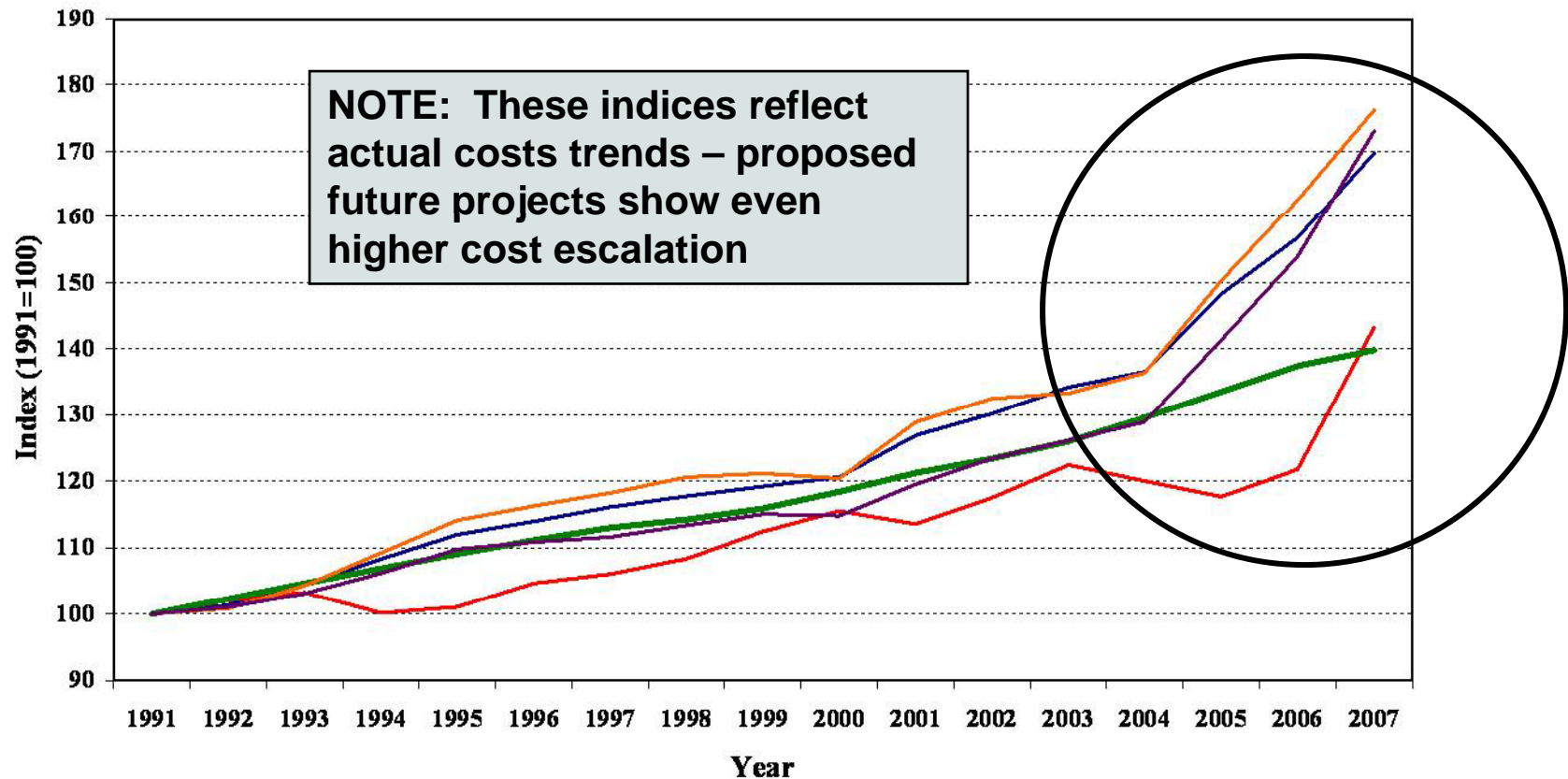
Electric Wire and Cable Price Index



Cement and Crushed Stone Price Indexes



National Average Utility Infrastructure Cost Indices



Source: The Handy-Whitman© Bulletin, No. 165 and the Bureau of Economic Analysis.
Simple average of all regional construction and equipment cost indexes for the specified components.

Environmental Compliance Costs

- From 2002-2005, the electric utility industry as a whole spent at least \$21 billion on compliance with federal environmental laws; state and local rules drive that total even higher.
- EPA estimated that two rulemakings—the Clean Air Interstate Rule and the Clean Air Mercury Rule—would have cost the electric utility industry and their customers almost \$50 billion from 2007 to 2025.
 - These rulemakings were recently overturned. As a result, actual costs will almost certainly be higher since replacement regulatory programs at the federal and state levels will likely be at least as stringent and likely less flexible.
- The research, development, demonstration, and deployment of new technologies needed to reduce greenhouse gas (GHG) emissions will require additional investments.

The Role of Renewables

Benefits and Challenges



Benefits of Renewables

- Help promote fuel diversity
- Produce minimal environmental impact
 - Largely free of carbon dioxide emissions
- Low or no fuel costs



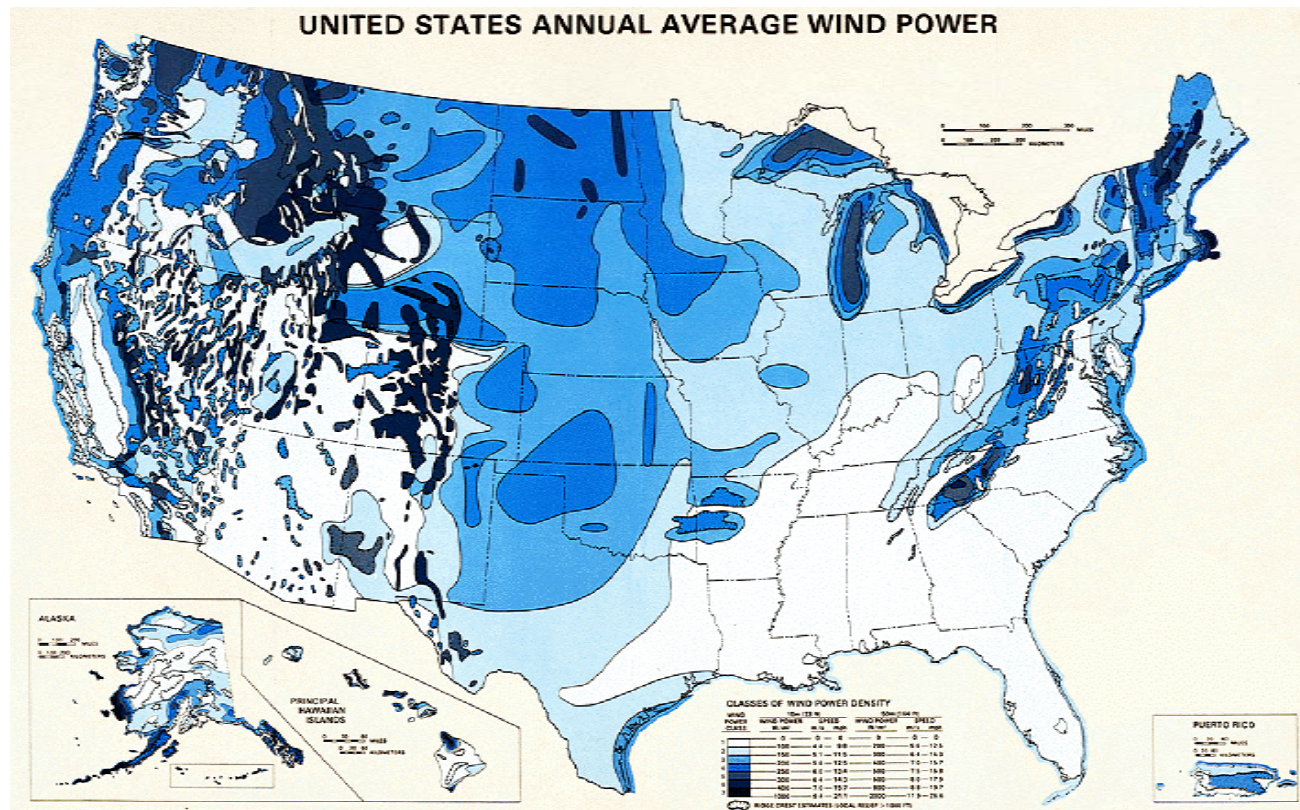
Challenges Facing Renewables

- High initial capital costs
- Geographic limitations
- Variable nature
- Transmission availability and cost
- Frequent expiration of production tax credit
- Environmental and aesthetic challenges (NIMBY)

Electric Utility Challenges with Wind Power

- Studies indicate that operational wind capacity ranges from 10% to 40% of installed capacity—generally at the lower end of this range.
- Timing of peak wind generation generally does not match peak load levels.
- Due to intermittent nature of wind, the Utility Wind Integration Group estimates that wind plants will increase system operating costs by up to \$5/MWh of wind energy, generated at wind penetration levels up to 20%.
- Utilities are working with state commissions to improve grid integration, streamline the transmission siting process, and provide timely recovery of transmission costs.

U.S. Wind Resources



Other Challenges

- Dividend Tax Rate Campaign
 - Global Climate Change



Extension of the Current Dividend Tax Rate Reduction



Current Dividend Tax Rate Set to Expire

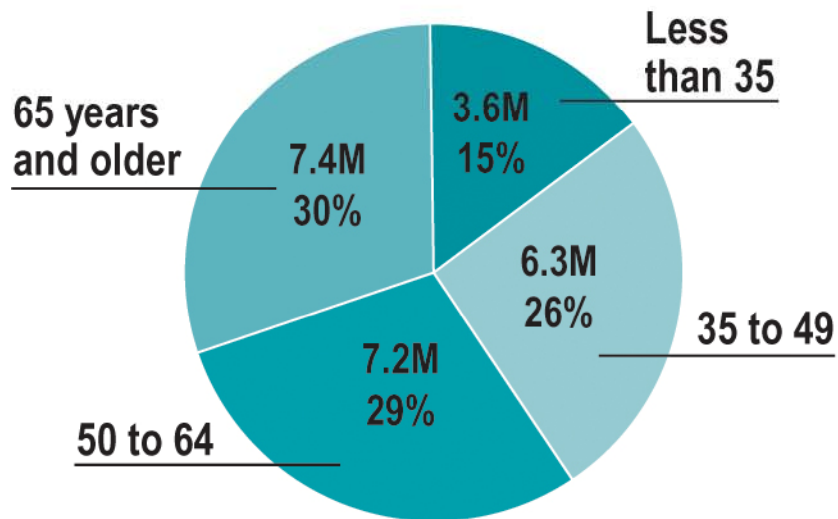
- The current 15-percent federal tax rate on dividends is set to expire at the end of 2010.
- The 15-percent tax rate contributes to the electric power industry's ability to attract capital for infrastructure and environmental expenditures and helps to offset other forces, such as rising fuel costs, that help to drive up prices.
- With a dividend payout ratio of 62.1 percent for the twelve-month period ending December 31, 2007, the electric utility industry continues to pay out a higher percentage of earnings than does any other business sector.

Dividend Tax Rate Reduction Campaign

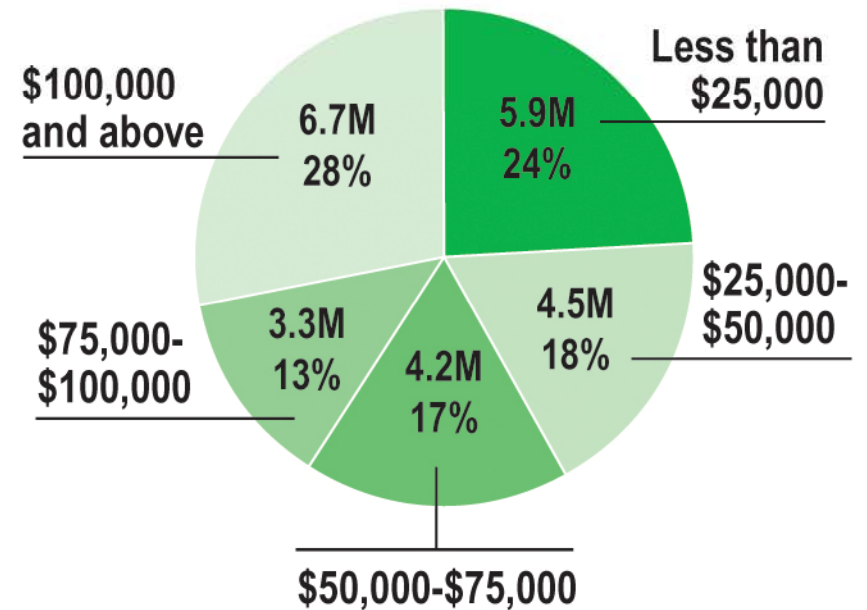
- EEI is engaged in a multi-year campaign to secure an additional extension of the current 15-percent federal tax rate on dividends.
- EEI and the American Gas Association commissioned a study by Ernst & Young that principally uses IRS data to document the age and income demographics of the average utility shareholder, showing that the benefits of the dividend tax rate reduction are broad-based and significantly benefit the middle-class and seniors.
- The study was released April 15, 2008, at a press conference in Washington, DC.

Tax Returns with Qualified Dividends by Age & Income, 2004 (Millions of Returns)

Age

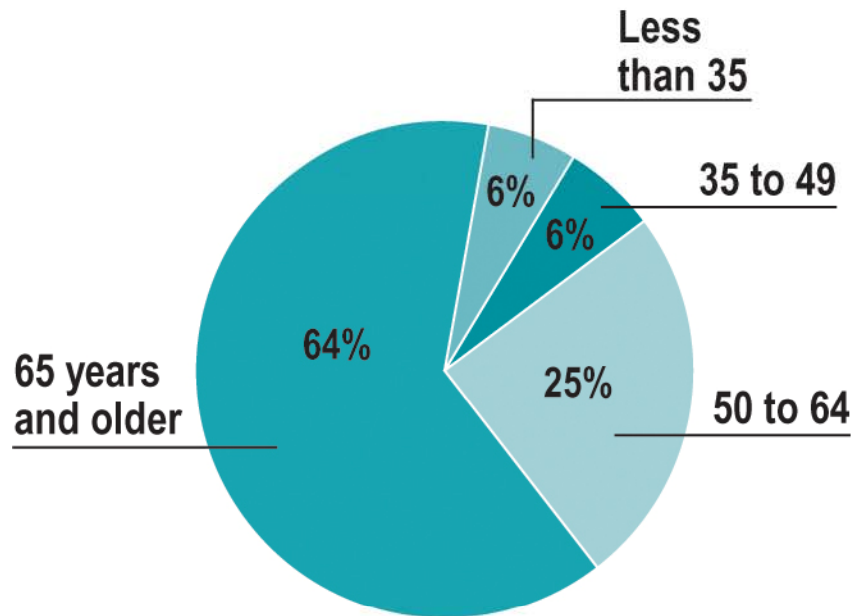


Income

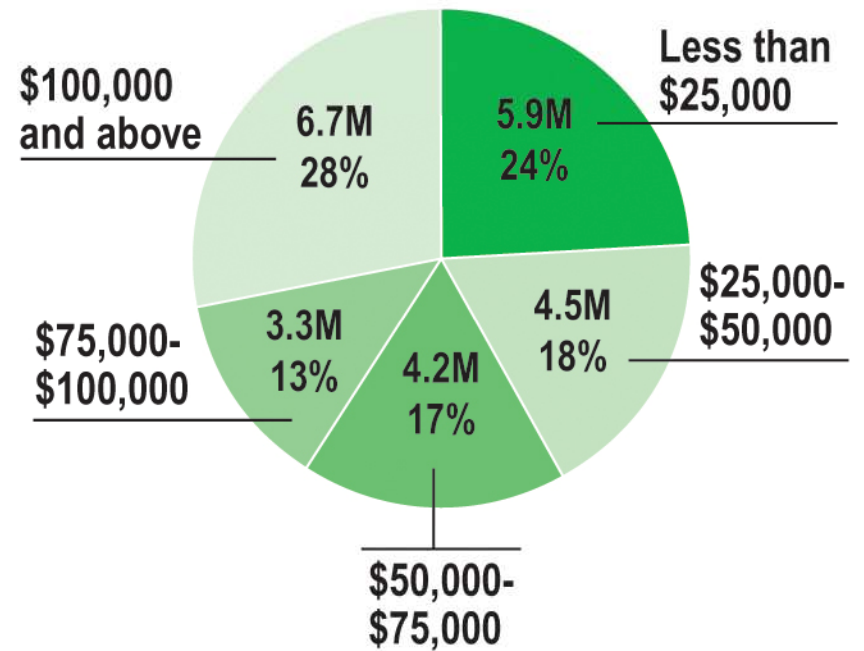


Tax Returns with Qualified Dividends From Direct Utility Stocks, 2004

Age



Income



Global Climate Change



EDISON ELECTRIC
INSTITUTE

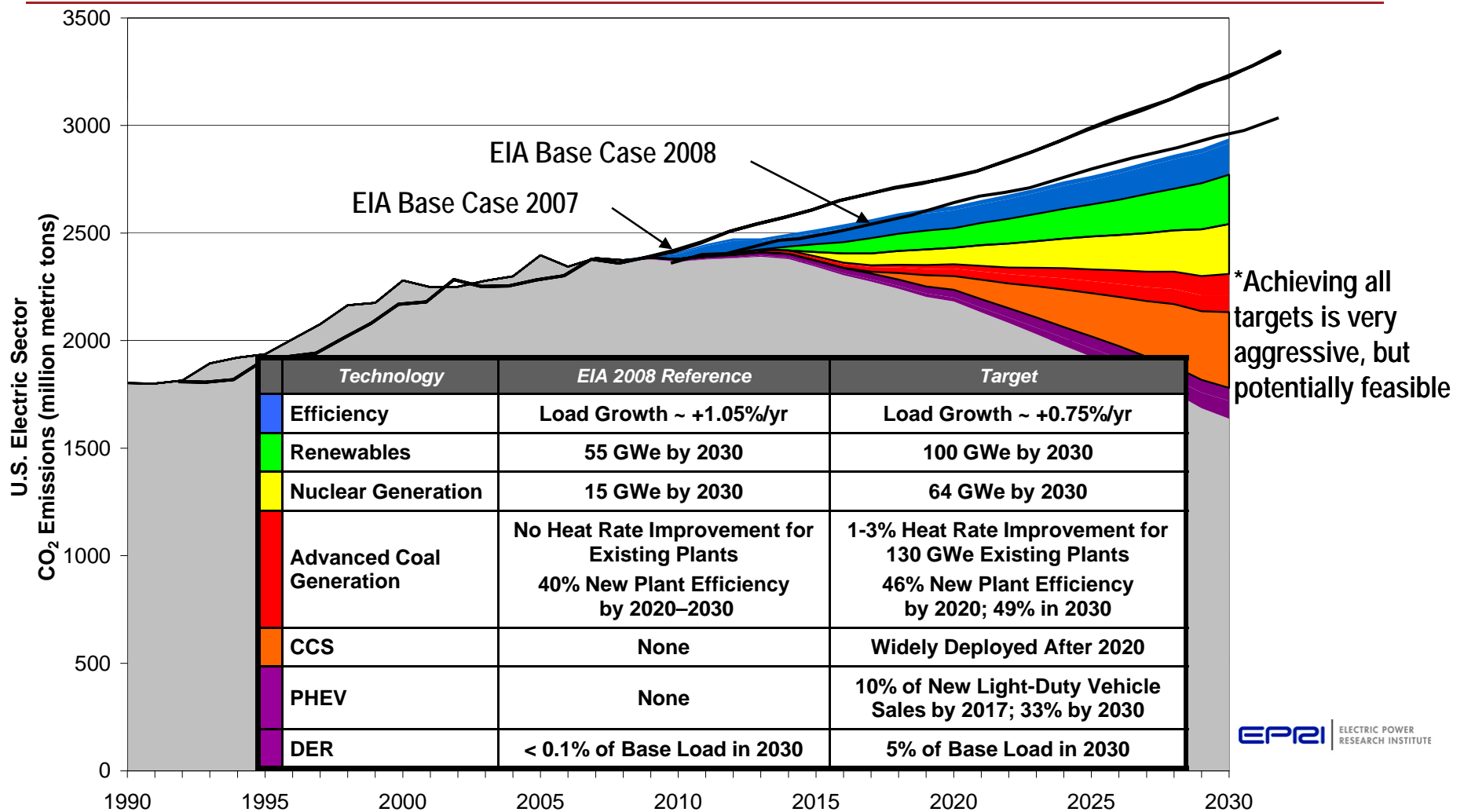


What Will It Take?

- Addressing climate change requires an aggressive and sustained commitment to a full set of technologies, including:
 - Efficiency
 - Renewables
 - Clean coal technologies
 - Carbon capture and storage
 - Nuclear
 - Plug-in hybrid electric vehicles

CO₂ Reductions...

What's Technically Feasible?*



EPRI | ELECTRIC POWER RESEARCH INSTITUTE

Key Technology Challenges

According to EPRI, the U.S. electricity sector will need ALL of the following technology advancements to significantly reduce CO₂ emissions over the coming decades:

1. Smart grids and communications infrastructures to enable end-use efficiency and demand response, distributed generation, and PHEVs .
2. A grid infrastructure with the capacity and reliability to operate with up to 30% intermittent renewable generation.
3. Significant expansion of nuclear energy enabled by continued safe and economic operation of existing nuclear fleet; and a viable strategy for managing spent fuel.
4. New commercial-scale coal-based generation units operating with 90+% CO₂ capture and storage in a variety of geologies.

Source: Electric Power Research Institute

Key Funding Challenges

- According to EPRI, it will cost up to \$1.8 trillion to dramatically reduce CO₂ emissions by 2050.
- Investing now in research and development could reduce overall costs.
 - Under EPRI's aggressive, best-case scenario, public-private investment of about \$1.4 billion per year, through 2030, could decrease the cost to \$900 billion.
- After technology reaches commercialization phase, continued investment is needed to operate and maintain technologies.

Source: "The Power to Reduce CO₂ Emissions," Discussion Paper, August 2007, EPRI.