



**EDISON ELECTRIC
INSTITUTE**

2008 FINANCIAL REVIEW

Plus 2009 Developments

ANNUAL REPORT
OF THE U.S. SHAREHOLDER-OWNED
ELECTRIC UTILITY INDUSTRY

About EEI and the Financial Review

The Edison Electric Institute (EEI) is the Washington, D.C.-based association of shareholder-owned electric companies, whose members represent approximately 70% of the U.S. electric power industry. The 2008 Financial Review is a comprehensive source for critical financial data covering 59 shareholder-owned electric companies whose stock is publicly traded on major U.S. stock exchanges. The Review also includes data on ten additional companies who provide regulated electric service in the United States but are not listed on U.S. stock exchanges for one of the following reasons—they are subsidiaries of an independent power producer; they are subsidiaries of foreign-owned companies; or they were acquired by other investment firms. These 69 companies are referred to throughout the publication as the U.S. Shareholder-Owned Electric Utilities. Please refer to page 117 for a list of these companies.

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Highlights of 2008

U.S. SHAREHOLDER-OWNED ELECTRIC UTILITIES

FINANCIAL

	2008	2007r	% Change
Total Operating Revenues (\$ Millions)	430,037	401,980	7.0%
Utility Plant (Net) (\$ Millions)	675,951	621,502	8.8%
Total Capitalization (\$ Millions)	652,483	620,867	5.1%
Earnings Excluding Non-Recurring and Extraordinary Items (\$ Millions)	30,367	27,786	9.3%
Dividends Paid, Common Stock	16,511	15,367	7.4%

ELECTRIC OPERATIONS

Electricity Sales (GWh)	2,573,619p	2,603,492	(1.1%)
Installed Generating Capacity (MW)	580,165p	574,126	1.1%
Average Number of Electricity Customers (Thousands)	102,179p	102,052	0.1%

r = revised p = preliminary Note: Percent changes may reflect rounding.

Abbreviations and Acronyms

AFUDC	Allowance for Funds Used During Construction	kWh	Kilowatt-hour
Btu	British Thermal Unit	M&A	Mergers & Acquisitions
CFTC	Commodities Futures Exchange Commission	MW	Megawatt
CPI	Consumer Price Index	MWh	Megawatt-hour
DOE	Department of Energy	NARUC	National Association of Regulatory Utility Commissioners
DOJ	Department of Justice	NERC	North American Electric Reliability Corporation
DPS	Dividends per share	NO _x	Nitrogen Oxide
EI	Edison Electric Institute	NOAA	National Oceanic & Atmospheric Administration
EIA	Energy Information Administration	NRC	Nuclear Regulatory Commission
EITF	Emerging Issues Task Force	O&M	Operations and Maintenance
EPA	Environmental Protection Agency	PSC	Public Service Commission
EPS	Earnings per share	PUC	Public Utility Commission
FASB	Financial Accounting Standards Board	PUHCA	Public Utility Holding Company Act
FERC	Federal Energy Regulatory Commission	PURPA	Public Utility Regulatory Policies Act
GDP	Gross Domestic Product	ROE	Return on Equity
GW	Gigawatt	RTO	Regional Transmission Organization
GWh	Gigawatt-hour	SEC	Securities and Exchange Commission
IPP	Independent Power Producer	SO ₂	Sulfur Dioxide
IRS	Internal Revenue Service	T&D	Transmission & Distribution
ISO	Independent System Operator		
ITC	Independent Transmission Company		

Company Categories

Three categories are used throughout this publication that group companies on their percentage of total assets that are regulated. These categories are used to provide an informative framework for tracking financial trends:

Regulated: Greater than 80% of total assets are regulated

Mostly Regulated: 50% to 80% of total assets are regulated

Diversified: Less than 50% of total assets are regulated

North American Electric Reliability Corporation (NERC) Regions

FRCC	Florida Reliability Coordinating Council
MRO	Midwest Reliability Organization
NPCC	Northeast Power Coordinating Council
RFC	ReliabilityFirst Corporation
SERC	SERC Reliability Corporation
SPP	Southwest Power Pool, RE
TRE	Texas Regional Entity
WECC	Western Electricity Coordinating Council

Source: North American Electric Reliability Corporation

President's Letter

FINANCIAL REVIEW 2008

In looking back on 2008, we can all take pride in the progress we made toward our goal of creating a greener, lower-carbon electricity industry. We expanded our focus on energy efficiency. We broadened and intensified our investments in renewable energy sources. And we furthered the development of advanced technologies for generating, as well as 'smart' grid technologies for transmitting, and distributing electricity.

Although the recession remains a challenge not only for us but also for our customers, our electric transformation continues to gain strength. The economic stimulus package that passed earlier this year featured many provisions that will reinforce our efforts. These include incentives for energy efficiency and renewable energy, funding for developing advanced coal plants and carbon capture and storage technologies, provisions for training workers, and money for developing the smart grid and plug-in hybrid electric vehicles (PHEVs).

The electricity-related provisions in the economic stimulus package also sharply brought into focus the essential nature of electricity to our nation's economic recovery. Our economy cannot get stronger, nor can our standard of living be raised, without a reliable, affordable, and environmentally sustainable electricity supply.

With Congress now looking at legislation to cap the nation's carbon emissions, we are focused on finding ways to reduce emissions without causing price shocks for our customers. EEI's Board of Directors adopted a climate framework in January that offers a roadmap for achieving both goals.

The framework strongly supports federal legislation to reduce our carbon emissions by 80 percent by 2050. And it recommends allocating emissions allowances to utilities in the early years of a cap-and-trade program, followed by a gradual transition to an auction-based approach.

Our proposal calls for utilities to get a share of the available emissions allowances that is equal to the industry's level of carbon emissions—40 percent. Local electricity distribution companies (LDCs) would in turn get the vast majority of these allowances—based on an even split between emissions in the base period (including emissions associated with purchased power) and retail sales, and merchant electricity generators would get the rest to help keep the price of electricity down.

The LDCs would pass on the value of their emissions allowances to their industrial, commercial, and residential customers under the strict supervision of state utility regulators. This would make the process transparent and accountable. It also would reduce the costs that are passed on to customers. Though utilities would



be paying for the cost to lower their emissions, they would not have to pay again for the allowances.

To protect customers further, as well as the international competitiveness of U.S. industries, the EEI framework also calls for a price collar—one that gives the price of carbon both a firm floor and a firm ceiling. This collar should be narrow at the beginning. As "climate-friendly" technologies become more readily available, it should be allowed to expand. The framework also urges that offsets—both domestic and international—be permitted as well. These are another important means for mitigating costs.

Effective legislation to reduce carbon emissions is crucial. But the real key to achieving those emission reductions—while limiting the potential for energy price spikes—is having the technology we need to make those reductions. Toward that goal, we, in partnership with the government and others, are developing and deploying a full suite of climate-friendly technologies and measures.

Finally, EEI is working with the SEC, the FASB, and our members to ensure complete and accurate financial reporting of the carbon issue.

In the near term, we're doing more with energy efficiency. Today, for instance, consumers can take advantage of a wide variety of electric utility programs that encourage energy efficiency. These can include construction and remodeling programs, such as online energy audits and weatherization programs, and incentive programs that promote the purchase of efficient appliances and technologies.

And we've begun taking steps to expand the impact of these programs. Many utilities are now working with their state regulators to turn energy efficiency into a sustainable business. We're also working with a number of allies to make the nation's building codes and appliance standards more energy efficient.

We're generating more electricity with renewable energy sources as well. Although non-hydro renewables generated three percent of the nation's electricity last year, they accounted for almost two-thirds of all new power plant announcements. And for the first time, the industry added almost as much renewable energy capacity as it did natural gas capacity last year.

Given that areas with great potential for wind generation usually are located far from the population centers that need their energy, reinforcing and expanding the nation's transmission system will help us to expand the use of renewables too. We were delighted, therefore, with the decision earlier this year by the

Bureau of Land Management and the Forest Service to designate more than 6,000 miles of energy transportation corridors on federal lands in 11 Western states. This will help to strengthen the grid. It also will help to minimize the environmental impact on the federal lands.

The controversy continues, however, over state siting of transmission lines, especially if they have regional implications. One issue that we will be working on strenuously is providing additional authority to the Federal Energy Regulatory Commission (FERC or the Commission) for siting of much-needed transmission.

Making the grid smarter can lead to energy—and carbon—savings also. One improvement would be turning the grid into a two-way highway so that information and electricity can travel back and forth between electric utilities and their customers. Another advancement would be putting in place meters and rates that reflect the price of electricity as it changes throughout the day. These tools would enable utilities to narrow their peak demand periods, which would benefit customers, the environment, and utilities.

One other technology that can help reduce carbon emissions in the near term are electric vehicles, including PHEVs and 'pure' electric vehicles. These technologies can also reduce the country's dependence on foreign oil, improve air quality, and save consumers money at the pump. EEI and many of its member companies now are working with the auto industry to get PHEVs on the road.

For the mid-to-longer term, we are developing advanced nuclear

and coal plants. Nuclear energy now generates about 20 percent of the nation's electricity, making it a significant source of on-demand, zero-emissions electricity. I am happy to say that the nuclear power industry is experiencing a re-birth, with a number of applications filed last year for new units.

Coal, because of its low cost and abundance, generates about half the country's electricity today. The industry is developing more efficient and environmentally friendly advanced coal-fueled power

We, in partnership with the government and others, also are developing technologies that can capture, transport, and store carbon emissions from coal-based power plants. These technologies, while still years away from large-scale deployment, hold great promise, and will be essential to meeting global environmental goals. Coal is a major source of electricity generation not only in the US, but in other parts of the world as well, including China and India.

The transformation we've embarked upon underscores how capital intensive our industry is. Over the next two years, we face an estimated \$150 billion worth of capital improvements. And these capital expenditures are not discretionary; they involve transmission and distribution investments, without which reliability becomes an issue. They also include environmental expenditures of \$25 billion.

Looking out even further, our total infrastructure investment needs could reach \$2.0 trillion during the next 20 years. Note that these figures include projected savings from aggressively

expanding our energy efficiency and demand response programs.

In light of the current credit crisis, the industry is taking a number of steps to ensure that we have the capital we need for these expenditures. For example, when the credit markets froze last September, many companies took the proactive steps of extending and expanding their existing bank credit lines. We're also working to preserve our credit ratings by striving to achieve stable, predictable, and sufficient revenues, earnings, and cash flows. Our Wall Street Advisory Group is playing a key role in this effort.

We are facilitating outreach between Wall Street and the state regulatory community to strengthen relationships between our industry and the financial community on which it depends. The Group, working with utility chief financial officers, participates in dialogues with state commissioners and Wall Street to discuss key financial issues confronting the industry and the capital markets.

We are pursuing a frank and open discussion as well with the Federal Energy Regulatory Commission to help them understand our challenges on Wall Street, along with the importance of utilities being able to access capital for needed infrastructure projects. And we are maintaining a constructive and transparent dialogue with regulators at both the federal and state levels to keep them apprised of the challenges in the capital markets and the impacts on our capital investment plans.

But just as our industry is facing challenging economic circumstances, we recognize that many of our customers need help as well. In fact, the number of households falling behind in their utility payments has increased almost 10 percent from 2007 to 2008. This number includes many families who have never fallen behind before.


To assist them, we've played an active role in gaining full funding for this year's federal Low Income Home Energy Assistance Program (LIHEAP). Applications have already reached record levels and are projected to increase by about 25 percent over last year. We're now trying to maintain these same high funding levels for next year's LIHEAP program. Electric companies are taking proactive measures as well to encourage their customers to improve their home's energy efficiency. And we're expanding our community-based efforts to assist low-income customers.

Importantly, we're also working to preserve our customers' dividend income. The electric power industry typically pays out a higher percentage of earnings than does any other business sector. In 2008, nearly two-thirds of electric companies increased their dividend, resulting in a fifth straight year of substantial increases and reflecting, in part, the lower dividend tax rates passed in 2003.

A broad range of utility shareholders, especially senior citizens, depends on utility dividends for steady income. In fact, a recent study found that of those filing federal tax returns with dividend income, 64 percent of those were filed by taxpayers age 65 or older.

To preserve our dividends in the future, we, along with the American Gas Association and a number of utility shareholder associations, have launched a national grassroots advocacy campaign, *Defend My Dividend*, to make the current 15-percent dividend tax rate permanent. The campaign is reaching a broad-based audience, including utility employees, shareholders, retirees, and, importantly, senior citizens.

The electric power industry is moving forward to transform itself for the future. We are developing and deploying innovative ways to generate, transmit, distribute, and use electricity more efficiently. And we are confident that by continuing to work with all of the stakeholders and policymakers involved in our issues, we will not only succeed, but we will also help to move the nation forward as well.



Thomas R. Kuhn
President
Edison Electric Institute

