



News Release

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Electric Utilities Brace For Next Round of Environmental Regulation, Industry Professionals Discuss at EUCG Fall Workshop

GLENDALE, Ariz. (October 25, 2010) – Two years after the Clean Air Interstate Rule (CAIR) was vacated and remanded by the U.S. Court of Appeals for the District of Columbia, electric utilities find themselves in a brave new world of more regulatory uncertainty and fewer options for compliance, industry professionals discussed at the EUCG fall workshop in Glendale, Ariz. last month.

EUCG, a global association of energy and electric utility professionals, meets semiannually to discuss current and emerging industry issues, share best practices and exchange data for benchmarking purposes. The association is in its 37th year of service to the power generation industry.

On July 11, 2008, the D.C. Circuit struck down CAIR citing the rule had “more than several” fatal flaws and “[n]o amount of tinkering with the rule” could fix these flaws. Almost two years to the day, on July 6 this year, the U.S. Environmental Protection Agency released its long awaited replacement to CAIR, dubbed the “Transport Rule,” which seeks to cap emissions at the state level compared to CAIR’s cap-and-trade approach. The Transport Rule is set to be finalized sometime in 2011, with 2014 as the target date for it to go into effect. This aggressive timeline for compliance – around 24-36 months after final rulemaking – has many in the electric industry concerned, given the average time it takes utilities to plan for and install environmental control equipment on power plants. Some industry consultants contend that a typical environmental control retrofit project takes 42-52 months on average to design, permit, build and install the necessary pollution equipment.

“Our industry will need to install somewhere between 6,000 to 10,000 megawatts of new environmental control infrastructure needed to meet the Transport Rule standards,” said EUCG President Mark Derry of Exelon (NYSE: EXC). “Twenty-four to 36 months is a significantly aggressive planning and construction timeline, with tens of billions of dollars needed to meet the rule’s environmental goals. To say our industry has a huge challenge on its back is an understatement.”

“Our industry has made significant gains in reducing pollutants and improving air quality over the past three decades,” said George W. Sharp, EUCG vice president from American Electric Power (NYSE: AEP). “The U.S. electric utility industry has installed well over 200,000 megawatts of pollution control equipment in a little more than a decade, and we are prepared to do whatever it takes to meet regulatory requirements,” Sharp said. “But we want to work with regulators and other stakeholders to ensure that any new environmental mandate is reasonably conceived, orderly executed, and consistent with the overarching economic as well as environmental concerns of our nation.”

The keynote for the workshop was provided by James R. Hatfield, senior vice president and chief financial officer of Pinnacle West and its principal subsidiary Arizona Public Service (APS). Mr. Hatfield described Pinnacle West’s focus on operational, environmental and sustainability leadership, including APS’s recent strides in installing solar energy throughout Arizona. He also challenged all U.S. utilities to focus on sustainability in their operations. “Utilities who have a business model rooted in sustainability, and an eye on our industry’s collective environmental future, will perform much better for their shareholders and customers in the long run than those who either refuse or choose not to embrace such a model,” concluded Hatfield.

EUCG’s individual committees reported that the benchmarking data collected and analyzed annually from member companies continue to provide a strong strategic benefit to EUCG members. David Ward, EUCG’s Nuclear Committee chair from Duke Energy (NYSE: DUK), said that his committee discussed different approaches to transforming raw benchmarking data into actionable initiatives. “The Nuclear Committee discussed how to best analyze the capital expenditures incurred by our members and that reside in the EUCG database to determine if there are any explanatory variables to support the ability to forecast future capital. We discussed the relevance and predictability of plant

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demographics such as technology, age and cost performance, to name a few, and the multi-factorial nature of these characteristics, in forecasting the need for capital expenditures,” said Ward.

Kelly McNair, EUCG’s Information Technology Committee chair from Oncor Electric Delivery LLC, stated that his committee, among other topics, discussed the merits of using a cost estimation model to predict the economic performance of in-house application development. “Our membership, like most electric utilities, needs to have reliable, robust econometric tools to help direct IT project decisions,” McNair said. “We are fulfilling those needs in a collaborative workshop environment that non-EUCG members are paying consultants to provide, and we are doing it for a fraction of the cost.”

Joe Martucci, chair of EUCG’s Transmission and Distribution Committee from PSEG (NYSE: PEG), stated that his committee members discussed how to best use their database for strategic planning and how to incorporate other industry data to provide a more holistic approach data-driven decision making. “The EUCG T&D group discussed broad data topics such as the year-end results of the North American Electric Reliability Corporation’s Generating Availability Data System (NERC GADS) along with more specific concerns such as substation bill of material and estimation. Taken as a whole, our committee focused on a well-rounded review of industry data, both strategic and tactical.”

Tennessee Valley Authority’s Jim Miller, chair of the Hydro Committee, said that his committee is interested in identifying leading and lagging performance indicators. “We spent a significant amount of our workshop time discussing what constitutes a leading and lagging indicator of hydro plant performance,” Miller said. “We also continue to be interested in human performance indicators. These topics will remain at the top of our agenda for the foreseeable future.”

Robert Dool, Fossil Committee chair from AEP, said that a presentation on industry performance metrics caught the attention of his group. “Along with our continued utilization of our generation plant database, the committee discussed what performance metrics are being used in our industry and why,” explained Dool. “Data are but one element of gauging plant performance; the metrics companies choose to utilize provide insights into what each feels are its critical goals. By performing a periodic review of the industry, we are able to make adjustments to properly reflect what is best in the industry.”

The EUCG Safety Committee continues to build on what Bill Messner, committee chair from Southern California Edison, says is a solid foundation for success. “The Safety and Health Committee held a lot of joint sessions with the other EUCG committees to discuss emerging and continued safety issues of the electric utility industry,” Messner said. “We also made significant progress in the design of our database and our plan to populate it with member data in the near future.”

EUCG will hold its 2011 spring workshop in Charlotte, N.C., April 3-6. All electric utilities are encouraged to send representatives. Interested parties should visit the EUCG website at <http://www.eucg.org> for more information about the organization’s next event.

About EUCG: EUCG is a global non-profit association of energy and electric utility professionals who discuss current and emerging industry issues, share best practices and exchange data for benchmarking purposes. The 37-year-old association is organized into committees that represent specific utility functions: Transmission & Distribution (T&D), Fossil Plants, Hydro Plants, Nuclear Plants, Information Technology (IT) and Safety and Health committees. Members attend semiannual workshops that focus on strategic planning, maintenance practices, operations management, outage management and various other aspects of the electric utility business. Membership is open to all utility companies and professionals worldwide. Interested parties should contact Pat Kovalesky, EUCG Executive Director, at 1-623-572-4140. Email: eucgexec@cox.net . Website: <http://www.eucg.org> .

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