EDISON ELECTRIC INSTITUTE

The Financial Crisis and Its Impact On the Electric Utility Industry

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EXECUTIVE SUMMARY

The electric utility industry represents the second most capital-intensive sector in the United States, surpassed only by the railroad industry. Many of the industry's costs stem directly from investments in and maintenance of the power plants, transmission and distribution lines, equipment, and structures that are used to deliver electricity where it's needed.

Today, the electric utility industry faces the greatest challenge in its history. In order to meet the projected growth in electricity demand, major investments are needed to expand and modernize most elements of the electric utility business. At the same time, concerns about global climate change and other environmental issues have created a new industry emphasis on more energy-efficient products and services and low-emission generation sources. By some estimates, the industry will need to make a total infrastructure investment of $1.5 trillion to $2.0 trillion between 2010 and 2030, net of projected savings from aggressive energy efficiency and demand response programs.[1]

As the industry enters this period of historic capital investment, it confronts two separate but inter-related challenges: first, the industry's financial and credit strength is substantially lower than when it last entered such a period in the 1980s; second, the capital markets are in turmoil, with unprecedented volatility negatively impacting the availability, terms, and cost of capital.

The current credit crisis facing the electric utility industry has come about for many reasons, including the general state of the economy, contraction of lending by weakened financial firms, fewer financial firms competing for the industry's financing needs, and the increased risk that many electric industry participants face due to legislative and regulatory uncertainty.

This paper will explore the events leading up to the financial crisis, the character of the crisis itself, the impact on utilities, and the critical role regulators will play in shepherding the industry safely through the turmoil.

[1] See *Transforming America's Power Industry: The Investment Challenge 2010-2030*, Prepared by Marc W. Chupka, Robert Earle, Peter Fox-Penner, and Ryan Hledik of *The Brattle Group*. Prepared for The Edison Foundation. November 2008.

BACKGROUND OF THE FINANCIAL CRISIS

The events leading up to the current economic situation are complex. With stunning speed, the subprime mortgage problem spiraled out of control in late summer 2008. Almost overnight, major financial institutions either failed or were forced into mergers for survival; financial markets froze; and world economies plunged more deeply into recession. Leading governments around the globe joined forces to find solutions to the crisis. Despite various rescue actions taken in recent months, the banking industry and numerous corporations globally remain on very shaky footing.

Subprime Mortgage Underpinning

The subprime mortgage crisis had its genesis in the boom times of the late 1990s. During that era, the economy was strong, interest rates were low, and foreign capital inflows were plentiful. New home construction abounded nationwide. Credit was readily available, both to those building the homes and those desiring to buy them. Indeed, to compete for loan business, banks routinely offered deals that required no down payment and carried an initial mortgage rate in the low single-digits. This made dreams of home ownership a reality for many.

Many of the mortgages written during those robust times were characterized as "subprime," i.e., extended to individuals with low incomes and few assets. As the housing bubble began to deflate, inventories swelled, money was no longer easy to obtain, and home prices declined. Not surprisingly, when the initial low rates adjusted to double-digit rates, legions of homeowners found themselves unable to meet their mortgage payments or to refinance. As delinquencies piled up, banks quickly moved to foreclose, leaving many people without homes.

Rise of Derivative Securities

Beyond the decline in mortgage values and foreclosures, a much larger problem involving financial institutions was evolving. The U.S. housing boom was fueled by global investment in financial instruments called mortgage-backed securities, whose values stemmed from mortgage payments and housing prices. These securities were bundled, repackaged, and sold many times over as derivative securities and structured products (e.g., collateralized debt obligations). Because the ultimate securities and products were so far removed from the original mortgage, it was impossible to determine their actual value, not to mention their level of risk. Importantly, investors in these securities assumed any risk associated with them.

During the boom period, very little consideration was given to the risk of mortgage-related products. There was limited governmental oversight of either the mortgage business specifically or financial institutions in general. In fact, Congress required the mortgage-lending institutions Fannie Mae and Freddie Mac to assume higher levels of subprime mortgages during this time. Additionally, the credit rating agencies accorded investment-grade ratings to mortgage-related securities and products, which served to mask any risk that existed. Indeed, the high ratings encouraged investors to purchase securities underpinned with subprime mortgages. As the housing boom eroded, however, it became apparent that risk was, in fact, present and plentiful.

Financial institutions, primarily investment banks—the key investors in mortgage-backed securities and structured products—issued large amounts of debt in the mid-2000s to fund their purchases. When housing prices started to decline, the financial institutions faced large losses on their investments. These firms were forced to raise steadily increasing amounts of additional funds to maintain required capital ratios. The

institutions were operating under a very high degree of leverage, i.e., they had high levels of debt in relation to their underlying assets. This served to increase losses in their holdings of mortgage-related securities, which rapidly overtook the institutions' ability to raise additional capital. With major financial firms suddenly teetering on the edge of failure, government intervention became a necessity.

IMPACT ON FINANCIAL INSTITUTIONS

The Financial Landscape Dramatically Changes, Governments Intervene

The March 2008 rescue of investment bank Bear Stearns was the first of many major interventions related to the subprime mortgage crisis that the U.S. government would make last year. The rescue of Bear Stearns proved to be only a very temporary fix to the mounting subprime mortgage problem. While the Federal Reserve had been pumping money steadily into the system in an effort to ensure market liquidity, it became clear that those efforts were inadequate. In fact, IndyMac Bank, a California-based savings and loan institution and the fourth largest originator of mortgages in the United States, failed in July 2008.

The crisis ballooned to historic proportions by early September 2008. In short order, the government intervened to bail out Freddie Mac and Fannie Mae, as well as American International Group, the insurer that sold credit default swaps (i.e., credit protection against collateralized debt obligations). In addition, investment bank Merrill Lynch was forced into a merger with Bank of America; Lehman Brothers failed before having its banking and trading operations acquired by Barclays Capital; and Wachovia was merged into Wells Fargo. Details of these developments appear in Table A.

Other bank failures occurred, both in the United States and abroad. Due to a total absence of investor confidence, the credit markets literally froze for nearly a two-week period in mid-September 2008. Liquidity dried up completely. Trust evaporated.

As the crisis threatened to collapse the global financial system, the United States and other leading governments sprang into action, devising a variety of remedial measures. These included providing expanded bank depositor insurance, liability guarantee programs, direct equity investments, expanded liquidity programs, and asset purchase initiatives. Congress also passed the Emergency Economic Stabilization Act of 2008, which President Bush signed into law on October 3, 2008. Of particular note in this legislation is the Troubled Asset Relief Program ("TARP"). Currently set at $700 billion, the TARP is the vehicle through which the government is authorized to make direct investment into financial institutions as deemed necessary to promote financial stability. More recently, the Federal Reserve and U.S. Treasury announced programs totaling $800 billion to buy consumer and small business loans and to purchase debt tied to Fannie Mae- and Freddie Mac-guaranteed home loans.

Table A:
Significant Financial Institution Developments

Date	Institution	Action	Comment
03/08	Bear Stearns	Acquisition	Follows emergency loan by Federal Reserve and JP Morgan Chase. Deal price of $2/share ultimately rose to $10/share.
09/07/08	Fannie Mae, Freddie Mac	Bailout	U.S. Treasury receives warrants representing 79.9% ownership. Federal Housing Finance Agency appointed conservator for Fannie and Freddie.
09/15/08	Lehman Brothers	Failure	After merger talks with consortium led by Bank of America and Barclays Capital fail, Lehman files for Chapter 11. Barclays subsequently purchases Lehman's banking and trading operations.
09/15/08	Merrill Lynch	Acquisition	Bank of America agrees to purchase for $50 billion.
09/16/08	American International Group	Bailout	Federal Reserve Bank of NY loans $85 billion to AIG; U.S. government to receive 79.9% equity interest.
09/21/08	Morgan Stanley Goldman Sachs	Altered structure	Granted permission from the Federal Reserve to become bank holding companies, paving the way for additional sources of funding.
09/25/08	Washington Mutual	Acquisition	JP Morgan Chase acquires all of WaMu's tangible assets and assumes some liabilities from the FDIC for $1.9 billion.
10/03/08	Wachovia Corp.	Acquisition	Wells Fargo agrees to purchase for $15.1 billion. Citi on 9/29/08 announced a $2.2 billion offer in connection with FDIC agreement to provide $312 billion loss protection for the bank's mortgage-related and other assets.

New Financial Realities

After the current market crisis resolves, one reality will endure: the Wall Street landscape is and will be forever altered. Venerable institutions, some of whose names have been synonymous with American capitalism for almost a century, have disappeared. Some have been folded into other firms, either in their entirety or in part. Still others simply no longer exist. The net impact of this crisis, though, is that fewer institutions are available to help provide the functions of the capital markets.

Another important aspect of the changes on Wall Street is that the remaining firms do and will have less capital available for potential borrowers. While a merged firm would appear to be the sum of its predecessor institutions, that equation does not hold true in the current environment. A more accurate paradigm is that one plus one equals one, at best. Much work remains to be done in terms of the banks' capital ratios, through further reduction of balance sheets and/or raising of additional capital. The implication of this reality is that less capital will be available in the debt and equity markets.

IMPACT ON THE ELECTRIC UTILITY INDUSTRY

No corner of the economy has been immune from the current financial crisis. This includes the electric utility sector, which, to date, has been impacted most visibly on three fronts: financing, demand, and expansion.

Financing

Due to their capital-intensive nature, electric utilities are a major presence in the financial markets, particularly in terms of short-term borrowing. When the credit markets froze in mid-September 2008, several prominent utilities took proactive steps to secure access to funds by drawing from their bank credit lines. Other companies have taken similar actions and also have extended and expanded existing revolving credit agreements. At present, some financing activity is slowly resuming. Notably, however, the cost to finance has risen significantly, as Figure 1 below and Table B (page 6) illustrate.

In the debt markets, recent yield spreads relative to Treasury securities—normally between 100 to 200 basis points—have ranged between 340 and 679 basis points, depending upon the quality of the credit. Corresponding coupons have been between 5.75 percent and 9.8 percent.

While long-term debt financing has resumed somewhat, activity on the short end remains disrupted. In recent years, electric utilities have been a strong presence in the commercial paper market, utilizing such borrowings to fund everything from working capital to major construction projects. Lehman Brothers had been a major dealer in commercial paper. With the investment bank's demise and attendant total loss of trust and confidence, the commercial paper market literally evaporated.

Figure 1: Higher Debt Costs from Financial Crisis

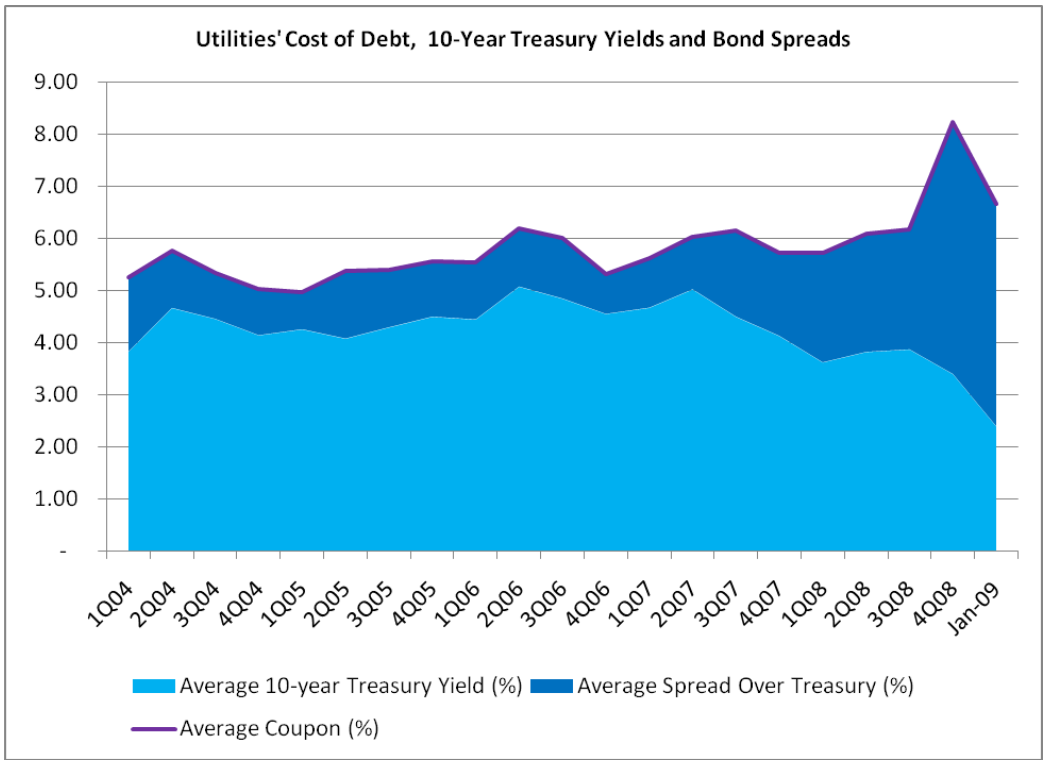


Table B:
Recent Utility Debt Financings

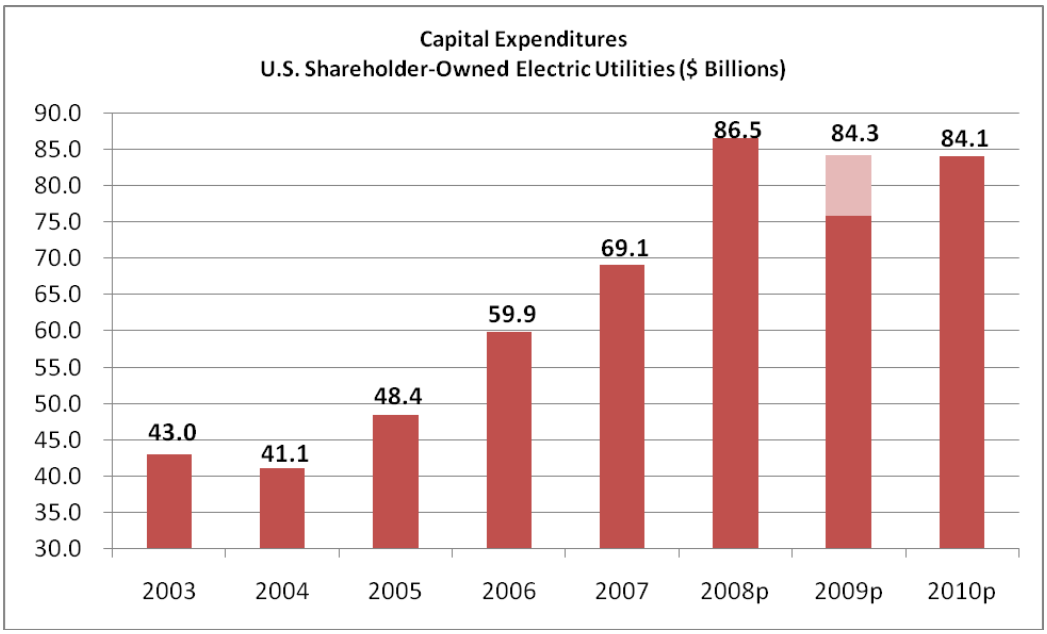
Date	Issuer	Size ($MM)	Tenor (Yrs.)	Structure*	Ratings	Credit Spread (T+)	Coupon (%)
10/15/08	Ohio Edison	$275	30	FMB	Baa1/BBB+	427	8.25
10/16/08	Ohio Edison	$25	10	FMB	Baa/BBB+	456	8.25
10/16/08	Pacific G&E	$600	10	Unsecured Notes	A3/BBB+	609	8.25
10/20/08	Illinois Power	$400	10	FMB	Baa3/BBB	609	9.75
11/3/08	Virginia E&P	$700	30	Unsecured Notes	Baa1/A-	456	8.875
11/6/08	Atlantic City Electric	$250	10	FMB	A3/A-	413	7.75
11/12/08	Georgia Power	$400	5	Unsecured notes	A2/A	360	6.00
11/12/08	Georgia Power	$100	40	Retail Unsecured	A2/A	--	8.20
11/12/08	Duke Energy Carolinas	$400	5	Unsecured Notes	A2/A	345	5.75
11/12/08	Duke Energy Carolinas	$500	10	Unsecured Notes	A2/A	340	7.00
11/13/08	Pacific G&E	$400	5	Unsecured notes	A3/BBB+	410	6.25
11/13/08	Pacific G&E	$200	10	Unsecured notes	A3/BBB+	395	8.25
11/13/08	Cleveland Electric	$300	10	FMB	Baa2/BBB+	514	8.75
11/14/08	Alabama Power	$250	5	Unsecured Notes	A2/A+	355	5.80
11/14/08	Southwestern P.S.	$250	10	Unsecured Notes	Baa1/BBB+	516	8.75
11/14/08	Mississippi Power	$50	5	Unsecured Notes	A1/A	375	6.00
11/17/08	Sempra Energy	$250	5	Unsecured Notes	Baa1/BBB+	670	8.900
11/17/08	Sempra Energy	$500	5	Unsecured Notes	Baa1/BBB+	619	9.80
11/18/08	Delmarva P&L	$250	5	FMB	Baa1/A-	420	6.40
11/18/08	Westar Energy	$300	10	FMB	Baa2/BBB	521	8.625
11/24/08	Public Service E&G	$275	5	FMB	A3/A-	413	6.33
11/25/08	Dominion Resources	$600	10	Senior notes	Baa2/A-	679	8.875
12/1/08	Wisconsin PS	$125	7	FMB	Aa3/A-	435	6.375
12/3	Potomac Electric	$250	30	FMB	Baa1/BBB-	463	7.90
12/4/08	Central Illinois Light	$150	5	Secured notes	Baa2/BBB-	--	8.875
12/8/08	Oklahoma Gas & Electric	$250	10	Senior notes	A2/BBB	549	8.25
12/8/08	Wisconsin Electric	$250	7	Senior notes	A1/A-	425	6.25
12/9/08	FPL Group Capital	$450	7	Senior notes	A2/A-	597	7.875
12/15/08	Monongahela Power	$300	5	FMB	Baa2/BBB+		7.95

*First Mortgage Bonds

Equity financing also has been difficult to secure, and utility deals have been scarce. The equity markets have been characterized by unprecedented and sustained volatility, driven in part by hedge funds being forced to undo billions of dollars worth of investments due to investor withdrawals. In the current environment, few companies have been eager to try to price a stock offering. At the same time, stock prices hovering near 52-week lows have made selling new common stock unattractive, if not unpalatable. Issuing stock at prices below book value—where some electric utilities are currently trading—is not a financially astute course of action, as it serves to undermine shareholder value.

Most electric utilities have had some latitude in determining when to access the public markets in recent months. However, at some point, utilities will need to seek financing. The industry is facing an estimated $150 billion of capital expenditures (capex) over the next two years, after factoring in recent downward revisions of approximately 10 percent for both 2009 and 2010 (Figure 2). This level of capex spending is needed for the major transmission and distribution system upgrades, environmental and energy-efficiency improvements, and new capacity needs the industry is facing.

Figure 2: 10%+ Reduction for '09, but Capex Remains High



P = projected

Many utilities are lowering their near-term capital needs modestly to reflect the current financial crisis and recession, but this trend is not expected to be sustainable. Indeed, coincident with downward capex revisions is a declining pattern in construction-related commodity prices. A continuation of easing commodity prices could serve to revive projects that previously had been deemed too expensive to pursue. While there may be some imprecision in the capex projections, what remains certain is that the majority of the spending will have to be financed in the capital markets.

One factor that could prove significant in terms of equity financing is that the stocks of other industries may overshadow the attractiveness of utility common stocks. Electric utilities currently are yielding close to 5 percent. That appealing yield explains to some extent why the industry's stocks held up relatively better than other industries during the recent market downturn. However, that performance advantage will not

sustain indefinitely. At some point, stocks in other industries with higher growth rates and higher yields may hold more appeal to investors. For example, General Electric, whose growth rate is in the double digits and whose stock currently yields more than 10 percent, is one company that could entice equity funds away from electric utilities, whose own growth is in the low single-digits.

Demand

In reporting their Third Quarter 2008 (3Q08) results, the majority of electric utilities guided down earnings expectations. One of the key factors behind the reduced forecasts was declining demand from customers. Lower industrial usage during an economic downturn is not surprising. The degree to which residential and commercial demand has weakened in some regions, however, presents a new twist. With many consumers overextended on their mortgage payments, customers likely are viewing their electric usage as an area in which they can save. This translates into reduced revenues for many utilities.

Expansion

Another characteristic of the 3Q08 earnings were announcements by many utilities of a curtailment in their construction programs. Primarily, the pullbacks were in planned expenditures for the remainder of 2008 and for 2009. In disclosing the reduced spending, electric utilities were careful to explain that the ability to pare construction budgets was limited. Some monies, admittedly, are earmarked for generating plants planned for a number of years out. Most expenditures, however, will be required to upgrade existing infrastructure, meet known service territory demand, and comply with environmental or renewable mandates. It also will be critical to have sufficient generating capacity in place to meet renewed demand as the economy begins its recovery.

MOVING BEYOND THE FINANCIAL CRISIS

While there is no way to determine the duration of the current economic downturn, all signs indicate that it will last for a sustained period. To weather the negative effects of this financial disruption and prevent them from becoming crippling to the electric utility industry, a cohesive partnership between utilities and regulators is necessary. Utilities must plan carefully and take responsible action, particularly in regard to financing. Likewise, thoughtful and supportive decisions are needed from state regulators to ensure that the electric utility industry's financial health is solidly maintained.

Steps for Utilities

Financial Acuity

Perhaps the most critical area for utilities' attention is the financial realm. Liquidity has become a valued commodity, and one on which investors place a high premium. Utilities will need to work diligently to increase their liquidity levels, along with having capital at their disposal and credit capacity.

Capital is now scarcer and more expensive. Given the large degree to which the industry is dependent upon the capital markets, this new reality will require much more forethought from utilities. In contrast to even a few months ago, attempts to tap the markets on an as-needed basis now could result in funds being unavailable or, if access exists, cost-prohibitive. Either circumstance would hurt a utility's financial condition. Eventually, this could culminate in the need for rate relief and place pressure on consumers.

Electric utilities, therefore, need to consider securing funds beyond their current requirements to help ensure continued liquidity.

In short, today's environment requires prospective borrowers to be agile in their financing approaches and responsive to market conditions. Being prepared to move when market conditions are hospitable, even if such an available window appears earlier than previously planned, will help utilities preserve their financial integrity.

The market's current limitations also will require electric utilities to consider utilizing a variety of financing vehicles. While debt might previously have been the primary instrument of choice, it now may be necessary to employ other types of financing, including common equity, convertible securities, hybrid vehicles, or securitization options. The optimal selection will be governed by trade-offs against other vehicles, along with market receptiveness to the instrument of choice.

Adapting to Changing Dynamics

With access to financing now increasingly difficult and expensive, it will be imperative that utilities carefully monitor the changing dynamics within their own business environments. For instance, declining demand may be a temporary phenomenon or could prove to be an enduring component of a recessionary trend. Understanding the difference between the two will be essential in terms of long-range asset planning. While some electric utilities already have signaled cutbacks in construction spending, more announcements are expected; beyond these disclosures, further pullbacks may be needed.

Cost-Cutting

Finally, while much of what currently is impacting the electric utility industry remains beyond utilities' control, there still are elements that can be utility-influenced and directed. Maintaining a particularly sharp focus on internal costs, including the operations and maintenance (O&M) budget, is a prudent course of action to follow.

Steps for Regulators

Electric utilities already are taking significant actions with regard to financing, capital expenditures, and internal cost controls to ensure continuation of their financial integrity. However, support from state regulators—in terms of fostering stable revenues, earnings, and cash flows—will be critical for the industry to endure the challenges of the current environment. Maintaining and improving credit standing and financial health always have been important to utilities. Now, they are essential. A working partnership between utilities and regulators will help to ensure the industry's continued financial strength and reasonable access to capital.

Understanding and Taking Action Consistent With the New Market Realities

One of the most important characteristics of the current environment is a dramatic rise in risk levels. Bond yields and spreads clearly reflect that reality in terms of debt securities. Declining stock prices and attendant rising yields convey the same message relative to equities. The impact on debt and equity financing from mounting risk is that it is now more difficult and costly to access the public markets. Because the ratemaking process is intended to help foster capital attraction for utilities, this new risk paradigm needs to be incorporated accurately into regulatory deliberations.

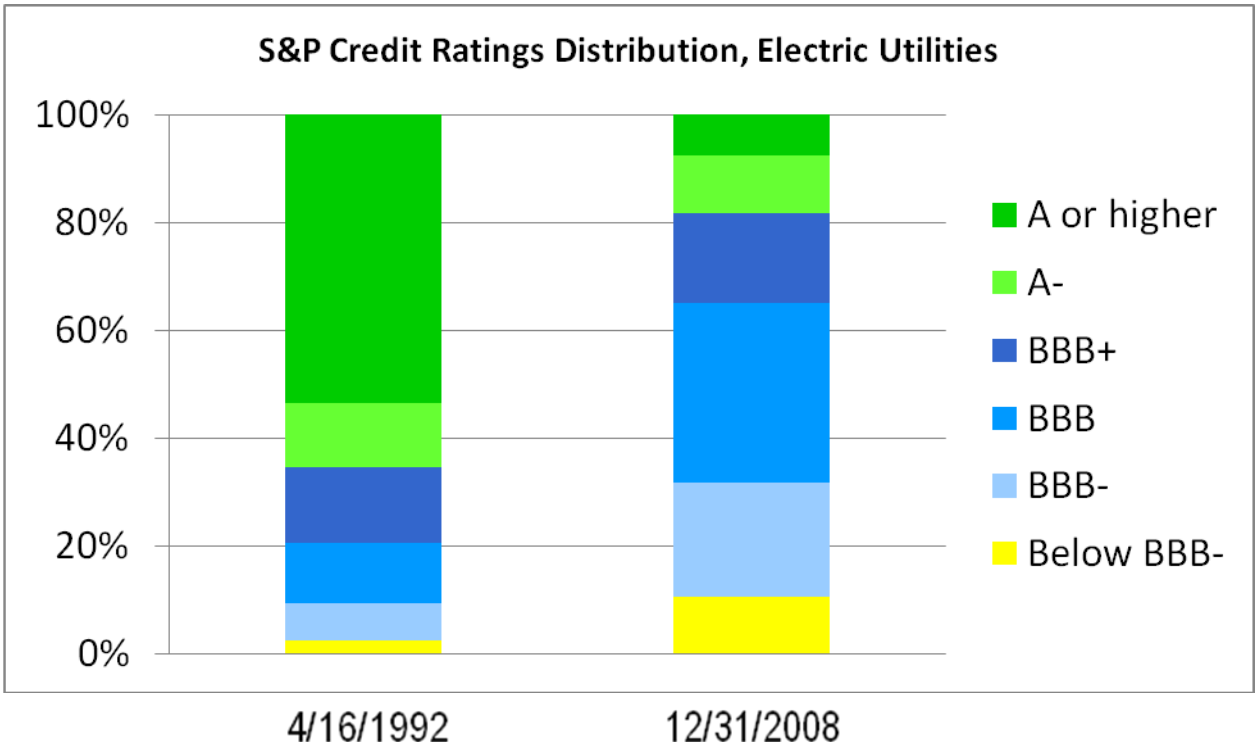
- **Debt and Credit Ratings**

  In their analysis of utility debt, credit rating agencies place considerable emphasis on the regulatory environment in which companies operate. History suggests that the current heightened risk levels in the financial markets will bring even greater scrutiny from the agencies with regard to regulatory supportiveness, to ensure that utilities' financial strength is maintained.

  In the wake of the California energy crisis, Enron bankruptcy, and collapse of the merchant power sector in 2001-2002—and after considerable criticism of their failure to have anticipated the severe problems—the rating agencies moved swiftly to alter credit ratings for merchant generation and utility companies. However, those events were industry-specific and today's circumstances impact the entire global economy. Yet, the credit agencies—which once again are the object of public censure due to insufficient or inaccurate action in relation to the subprime mortgage situation—are more likely than not to err on the side of caution in their rating activities.

  It is important to note that at the onset of the last major utility capex cycle in the 1970s and 1980s, the industry's senior debt was largely rated "A" and "AA." As of December 31, 2008, with companies poised to embark on a significant new construction initiative in the context of a major financial crisis, the average senior debt rating was "BBB," as illustrated in Figure 3. The implications for credit downgrades are very serious.

Figure 3: Long-term Decline in Credit Quality
1992 vs. 2008



At a minimum, a debt downgrade results in rising financing costs. That causal effect certainly would prove true in the current environment. However, a more draconian outcome also could transpire: being shut out of the financial markets. Investors are acutely risk-averse in the current environment, as reflected in yields for U.S. Treasury securities ranging from the low-single digits to zero. The appetite for lower quality debt is much reduced. The small amount of low-quality utility debt that has been brought to market in recent months has carried with it a hefty premium. Additionally, such debt had no market at all for a number of weeks, and such a circumstance could return again.

- **Equity and Allowed Returns on Equity**

  Equity investors also scrutinize a utility's regulatory environment carefully. A key determinant of a supportive climate is an allowed return on equity (ROE) that provides adequate compensation for the risk such investors must assume in buying the common stock of a company. In light of the changes in the financial markets in recent months, the current level of ROEs in many jurisdictions likely is to be considered an inadequate recompense for the significant degree of additional risk that now exists in the capital markets.

  As profiled in Table B, recent utility debt offerings have required a median coupon rate of 8.2 percent. According to statistics provided by Regulatory Research Associates, the average allowed ROE in electric rate decisions through 3Q08 was 10.51percent, with the third quarter average at 10.47 percent. While coupon rates in January 2009 have come off these highs, this modest 230 basis point spread between bond yields and allowed ROEs strongly suggests that equity investors need additional compensation to encourage their investment in utility common stocks. And, electric utilities will not be able to rely solely on debt issuance to finance the infrastructure projects that lie ahead for the industry.

- **Regulatory Mechanisms and Characteristics**

  In addition to the level of allowed ROE, investors focus on measures that enable a company to earn that return, which fosters liquidity and cash flow. These include various regulatory mechanisms, such as pre-approval of construction projects, construction work in progress (CWIP) in rate base, use of future rate case test years or other forward-looking measures, and automatic recovery of prudently incurred fuel and non-fuel expenses. Of particular importance in the present market environment will be regulatory approval of financing costs. While a number of state commissions already utilize some of these mechanisms in their ratemaking, adoption by more jurisdictions would be a constructive step forward.

  Beyond having structures and mechanisms in place, investors place value on other factors pertaining to regulation. Key among them is commission action that is predictable and fair. Uncertainty translates into added risk for investors, and thus into higher required returns. Another desirable commission attribute is timely decision-making—both in standard rate cases as well as issue-specific proceedings such as corporate reorganizations or financing approvals. That factor is likely to take on added prominence in the present environment, as time (delays, protracted cases) means money (more required). Indeed, the frequency and size of rate cases are expected to increase due to the industry's large capital expenditure program, further contributing to the need for timely regulatory actions.

In addition to reassuring investors, constructive regulation has a salutary impact on ratepayers. Higher financing costs or limited financing capability serves to raise prices for customers. This circumstance, while never desirable, is particularly unpalatable at the present time.

Cooperation Is Key

The current financial crisis has spared few in its devastating impacts. Business conditions are greatly stressed. Unemployment is at record high levels. Some individuals have lost their homes. Life savings and retirement accounts have been seriously eroded. In short, it is an extremely difficult time for the nation. It is also not an ideal time to consider raising customer electricity rates.

The reality, though, is that utilities need to remain financially healthy to ensure the continuation of safe and reliable service to their customers. Electric utilities need the ability to recover the cost of providing this critical service. They also need recovery of the expenditures necessary to maintain, expand, and meet environmental mandates for electric infrastructure. While this may be difficult for customers to understand, regulators are in an especially powerful position to help educate them about the importance of having a utility with a strong financial condition, and how that financial strength can actually lead to lower rates.

Research conducted by Barclays Capital has demonstrated the link between utility customer satisfaction (as determined by a J.D. Power Survey) and market valuations. Companies with the highest levels of customer satisfaction also enjoy the best relative market values, which translate into lower financing costs and, thus, to lower customer rates.

Now more than ever, electric utilities and regulators need to communicate effectively and work together to find the right balance in satisfying the needs of all constituencies in this challenging environment. Maintaining a solid regulatory compact is critical; finding creative ways to do so will help. Financially healthy utilities will be able to meet the requirements of investors. That, in turn, will enable companies to access the financial markets and provide the electricity their customers rely on and, indeed, to help power a recovery in the U.S. economy.

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