

# Intermountain Power Agency Annual Meeting

December 7, 2010  
Salt Lake City, UT

# APPA 2011 Priorities

- Climate Change/EPA Emissions Regulation
- New infrastructure
- Reliability/Cyber-security
- Demand-side initiatives
- Restructured Power Markets
- Work Force Issues

# Tackling the Priorities: Climate Change

- APPA supports balanced federal legislation
- Last year comprehensive legislation passed House and Senate EPW Committee
- APPA concerns about Cap and Trade: cost control, adequate allowances, revenue use, market manipulation, and targets/timelines
- During 2010 support eroded for “cap and tax”
- Comprehensive legislation very unlikely in the foreseeable future

# Tackling the Priorities: Increased EPA Regulation

- 2007 Supreme Court ruling gives EPA authority to regulate GHGs under the Clean Air Act
- CAA not designed to regulate GHGs
- Relies on BACT standard, which can be redefined over time
- BACT guidance issued this month: hand off to states, emphasizes efficiency (not fuel switching)
- EPA claims implementation will go smoothly

# So what's next for climate change?

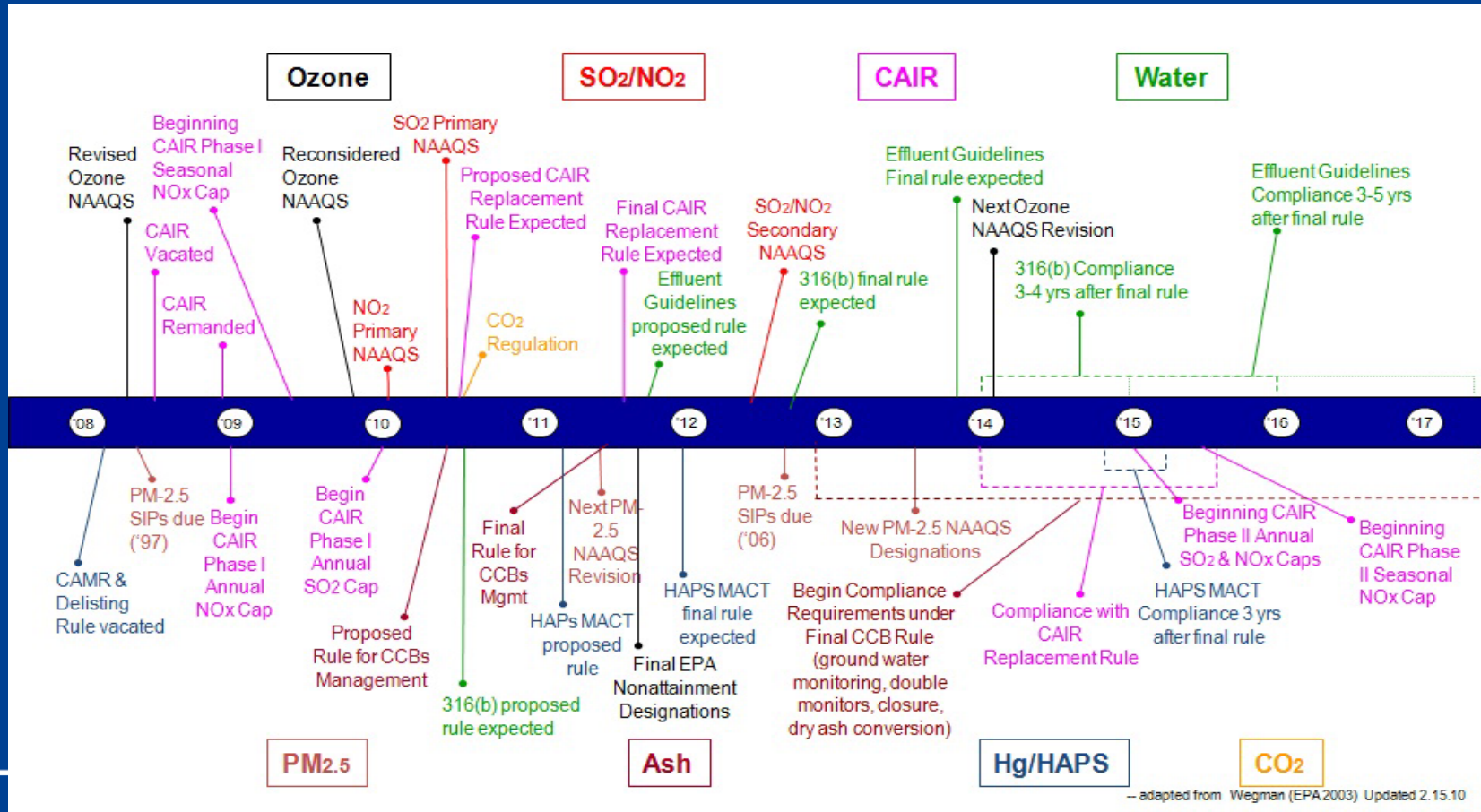
- Congressional EPA oversight hearings
- Implementation of GHG regs scrutinized
- May be attempts in both houses to delay GHG regulation and/or cut funding
- Debate on some issues: RES, incentives
- Potential for incremental measures?
- APPA continues to discuss legislative alternatives

# EPA Regulations for Coal Plants

- Significant additional CAA regulations to be issued by EPA
- More stringent SO<sub>x</sub> and NO<sub>x</sub>, effluent guidelines, ozone, mercury, coal ash
- Pose serious economic viability issues for many coal plants, particularly older, smaller units

# Power Plant Regulations Proposed or Planned by EPA

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-- adapted from Wegman (EPA 2003) Updated 2.15.10

# New Infrastructure: Study Identifies Challenges of Large Switch to Gas

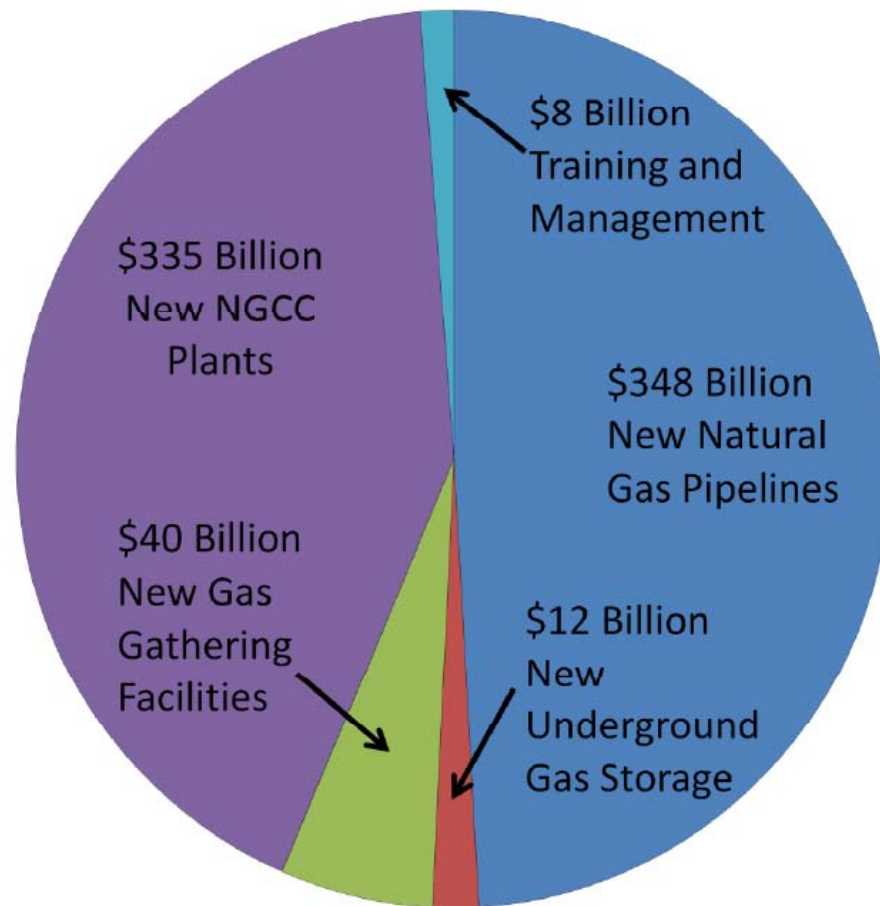
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- NG Demand & Supply Level Unprecedented
- Infrastructure Requirements: Interregional Pipeline & Underground Gas Storage
- Operational Challenges
- Retrofitting Means Replacement
  - Permitting challenges
- What's It All Cost?
- Download Complete Study at:

<https://appanet.cms-plus.com/files/PDFs/ImplicationsOfGreaterRelianceOnNGforElectricityGeneration.pdf>

# Total Cost Close to \$750 Billion: “Bookend Scenario”

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*Excludes higher commodity costs to expand gas supply, or local pipeline and LDC expansion or higher MDQ costs.*

# Tackling the Priorities: New Infrastructure

- Renewable Resources: need comparable incentives for public power
- Need to uncap the volume limit on CREBs- bills introduced in both House and Senate
- Nuclear: broad industry support for sharing production tax credits for new nuclear plants with public power partners

# Tackling the Priorities: New Infrastructure

- Financial Regulation legislation creates potential for CFTC jurisdiction over financial products in RTOs/ISOs.
- End user exemption for clearing and margin requirements at risk
- Would severely constrain the benefits of hedging utility fuel supply

# Tackling the Priorities: Reliability/Cybersecurity

- APPA active in developing NERC standards and compliance policy: 330+ members in registry
- New NERC leadership: results-based standards; streamline process; prioritize based on reliability
- Industry coalition on cybersecurity supports additional FERC authority for cyber threats only
- House Grid Act problematic: interferes in NERC-FERC process, could include distribution

# Tackling the Priorities: Cybersecurity

- In Senate DHS Committee and others propose a broader, less intrusive approach
- Cyber threats to grid rising, e.g. Stuxnet virus
- Congress very concerned: “top priority” for Senate DHS Committee Chair Lieberman
- CIP-002-4 (bright line criteria for CIP identification) and CIP-005-4 (secure access to critical cyber assets) out to ballot early 2011
- Approval important to show industry resolve

# Tackling the Priorities: Demand Side “Power Plant”

- Cost-effective EE and DR programs are a “no regrets” resource strategy for your IRP
- Resource planning shows significant savings over time in avoided cost of generation
- Helps offset rising power costs, benefits the environment, boosts economic development, and strengthens customer relationships
- Public power systems don’t need to “decouple” EE investments: customers = owners

# Smart Grid: Revolution or Evolution?

- Transmission grid vs. distribution/customer
- Creating broad grid interactivity takes time
- Customers wary: technology confusing, smart meter=rate increase, stimulus issue
- Customer backlash in several states
- Develop a plan that is a good fit for your system- consider customer pilot programs

# Outlook for the Future

- Upward pressure on energy costs as fuel reserves more expensive to extract
- Transition to a low carbon economy, more regulation pressures power costs
- Technology plays expanded role to improve reliability, control costs, and enhance customer service
- Customer involvement and support critical

# Tackling the Priorities Public Power's Advantages

- Not for profit, locally owned and controlled
- Business model complements an aggressive energy efficiency program
- Strong customers relationships: key for successful EE and DR, implementation of smart grid, support for rate increases
- Ability to develop infrastructure: 100% debt financing capability and strong credit

# Strong Public Power Financial Performance

Public Power S&P credit ratings (1/2010):

- 264 credits rated: 100% investment grade
- Median rating: A+/ 98+% stable or positive
- 92% rated “A-” or higher/27% AA- or higher

IOU Sector S&P credit ratings:

- 96% investment grade, median rating BBB, 82% stable or positive

# Recent Developments in Municipal Bond Markets

- Very few insured issues: 2006- 50% insured, 2010- 7% insured
- In weak economy, spread between G.O. and revenue bonds has narrowed to about 3 basis points: G.O.= Revenue Bond
- More volatility in thinly traded markets, and less correlation with Treasuries- 91% in 2008, today about 1%.

# Public Power's Tradition: Service, Reliability and Financial Integrity

- Strong track record of maintaining both reliability and financial integrity
- Governed by citizens that put consumer and community well-being first
- Led by managers that are far sighted yet grounded in the realities of our business
- Run by dedicated, skilled employees

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