



For More Information: David J. Reichman, 845-228-8482

dreichman@rksresearch.com

## **Utility Regulators Lean Toward Nuclear Power, Seek New Ratemaking Methods, Worry about “Sticker Shock” of Battling Climate Change**

Brewster, New York, December 1, 2009—State utility regulators in the U.S. are increasingly viewing nuclear power as a preferred type of electricity generation, according to a just-released national survey from RKS Research & Consulting. The independent marketing research firm also found an increase in regulatory willingness to permit utilities to contract directly with natural gas providers for their fuel. And regulators continue to say that new ratemaking methodologies are needed to better respond to current regulatory realities.

These are some of the top findings of the **2009 Survey of State Utility Regulators**, conducted by RKS Research & Consulting. This year’s study is the sixth time since 1995 that RKS has surveyed state utility regulators and summarized their views about critical electricity and natural gas issues. Topics covered in this year’s survey include: electric and gas ratemaking methodology; energy supply; electric generation preferences; energy efficiency; risk management; sufficiency of electric and gas supply; electric reliability; renewable energy; and environmental protection.

“The **2009 Survey of State Utility Regulators** study finds a willingness among regulators to explore creative solutions to meet U.S. energy and environmental needs,” said RKS chairman and chief executive officer David J. Reichman. “Holistic, creative thinking like this is necessary to optimally balance energy needs, environmental protection, and economic growth.”

“Utilities are and will be facing significant regulatory risks over the next few years as they try to recover and earn a return on their capital investments,” Reichman said. “By surveying regulators and summarizing their views, while protecting their anonymity, results generated from this study can help utilities manage their regulatory risks, safeguard investors from unwelcome surprises, and more effectively protect future returns.”

### **Regulators’ Concerns**

The RKS survey reveals that many state regulators are expressing concern about:

- A nationwide recession leading to declines in utility revenues



- Deteriorating financial profile of some utilities
- Turbulent capital market conditions

“Regulators are keenly aware that the costs of battling climate change, providing incentives for energy efficiency, and making utility assets more secure will have to be shouldered by customers,” Reichman said. “However, regulators also are concerned with the low levels of customer awareness about the costs of these initiatives. Regulators are worried about ‘sticker shock’ setting in and fear that they will be blamed when energy prices and consumer bills increase.”

## **Ratemaking and Cost Recovery**

More than six in ten (62%) regulators continue to strongly support the need for new ratemaking methodologies. These results are consistent with findings from both the 2007 and 2005 RKS regulator surveys.

However, previous RKS regulator surveys have found regulators unable to articulate the “new ratemaking methodologies” that appear most promising. The **2009 Survey of State Utility Regulators** offers some hints that regulatory decoupling might fill that bill.

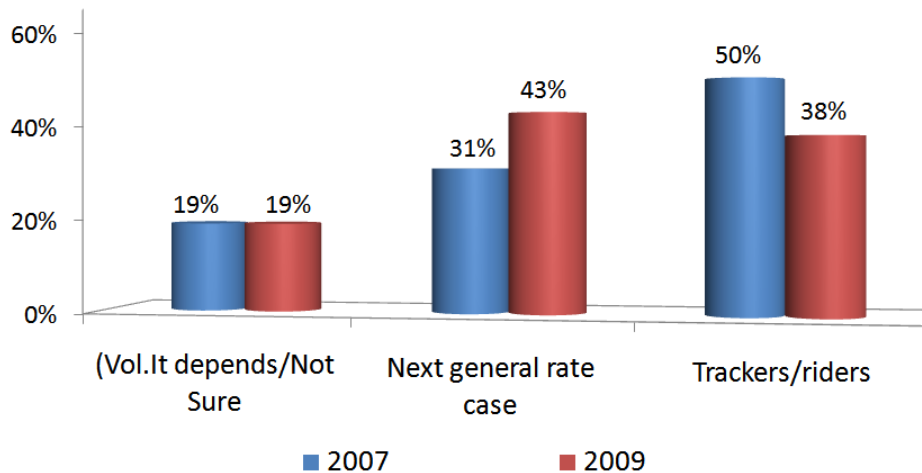
Regulatory decoupling continues to gain acceptance by state utility regulators, although survey results suggest that this tool is not yet regarded as an unqualified success. Decoupling, which separates a utility’s profit from its commodity energy throughput, is more common for gas utilities than electric, and regulators view gas decoupling as more successful than electric decoupling, according to the RKS survey.

Nearly six in ten regulators (58%) say their jurisdiction presently permits decoupling for natural gas utilities, while only 39% respond their jurisdiction allows decoupling for electric utilities. Three in ten regulators (29%) regard natural gas decoupling as successful, but only 7% expressed that same view regarding electric decoupling. For regulators with no decoupling programs in their jurisdictions, about one in six report they are “very likely” to initiate decoupling for either electricity, natural gas, or both.

On cost recovery, state utility regulators express concern over the volume of regulatory trackers and riders that exist. This concern may help explain why regulators taking part in the survey are shifting their preferred mechanism for recovering future capital costs away from trackers and toward the utility’s next general rate case. Forty-three percent of state regulators now respond that they

favor recovering capital costs in the next general rate case, a 12-percentage-point increase from what was found in 2007. By contrast, 38% of regulators say they favored recovering capital costs through tracker or rider mechanisms, also a 12-percentage-point change from 2007 (see graph, “Best Method to Recover Future Capital Costs”).

## Best Method to Recover Future Capital Costs

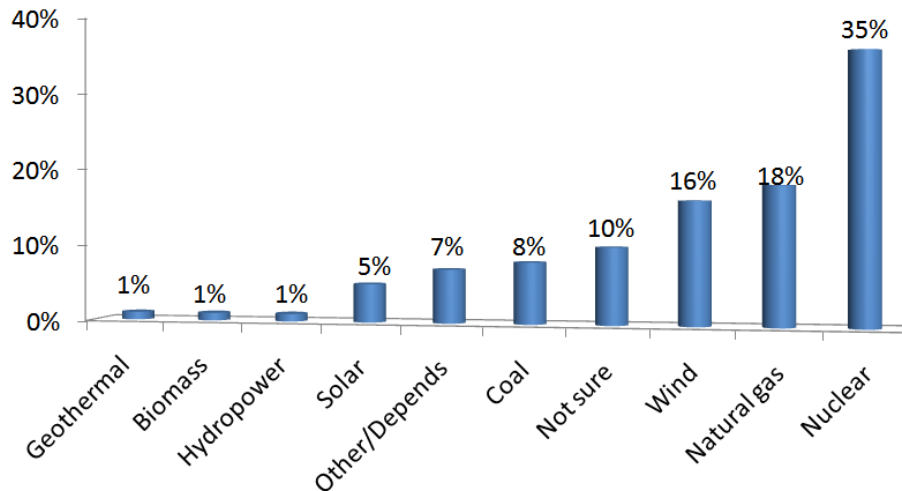


Note: Base is 107 interviews in 2009.

## Preferred Types of Electric Generation

Asked about which types of future electric power generation most effectively balances consumer’s need for low-cost energy with having a minimal environmental impact, 35% of regulators said they preferred nuclear power, followed by natural gas (18%), wind (16%), and coal (8%). One in ten (10%) said they are simply not sure (see graph, “Preferred Electric Generation Plant”).

## Preferred Electric Generation Plant



“One of the notable findings from the 2009 survey is that when state utility regulators consider both the cost to the consumer and the environmental impact of future electric generation, a clear preference emerges: Nuclear plants receive twice the number of mentions as natural gas and wind, their second and third place choices,” Reichman said.

### About the Survey

Between August and October of 2009 RKS Research conducted telephone interviews with 97 state utility commissioners and 10 regulatory commission professional staffers representing a total of 52 separate jurisdictions. The survey, conducted for the 6<sup>th</sup> time since 1995, asked regulators to identify the issues that are most important to them. The survey asked specific questions about financial issues, ratemaking and cost recovery, power and gas supply, electric transmission, environmental and efficiency initiatives, mergers & acquisitions, and commissions’ relationship with utilities and political leaders in their jurisdiction.

The complete survey results, which include customized data sorts, are available for purchase by contacting RKS at 845-228-8482 or by e-mailing RKS’ Marketing Director, Ray Tricarico, at [rtricarico@rksresearch.com](mailto:rtricarico@rksresearch.com).



## **About RKS Research & Consulting**

RKS Research & Consulting is a national leader in marketing research and public opinion polling. Since 1974, RKS has helped clients achieve strategic business advantage through sampling customer opinions, quantifying trends, analyzing the implications, and delivering actionable findings. RKS' research and modeling methods help clients set meaningful measures for customer satisfaction, product and service enhancements, and brand positioning.

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