

# **LERA: Utilities Industry Council**

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# Utilities Industry Council Topic for 2006

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- ▶ The state of the utility business in a post-Public Utility Holding Company Act (PUHCA) environment
  - ⇒ Expected increase in mergers and acquisitions
  - ⇒ Regulatory changes



# Utilities Industry Council Topic for 2006

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- ▶ PUHCA became Law in 1935 and was Repealed Effective February 2006
  - ⇒ Initially, PUHCA was passed to curtail utility holding company abuses
  - ⇒ However, with the passage of new legislation and the expansion of the free market, PUHCA has become obsolete



# Utilities Industry Council Topic for 2006

- ▶ Post-PUHCA Merger and Acquisition Activities Amongst Utilities to Date
  - ⇒ Duke Energy Corp. and Cinergy Corp.
  - ⇒ MidAmerican Energy Holdings Company and PacifiCorp Holdings Inc.
  - ⇒ Exelon Corporation and Public Service Enterprise Group
  - ⇒ Constellation Energy and Florida Power and Light
  - ⇒ National Grid PLC and KeySpan Corp.
  - ⇒ WPS Resources Corp. and Peoples Energy Corp.



# Utilities Industry Council Topic for 20

- ▶ Regulatory Hurdles to Post-PUHCA Utility Mergers and Acquisitions...The Shift in Balance of Power from FERC to State Regulation
  - ⇒ Customer Rates
  - ⇒ Service Reliability
  - ⇒ Impact on Employees
  - ⇒ Division of Merger Savings



# Utilities Industry Council Topic for 2006

- ▶ Mixed Results for Utility Mergers and Acquisitions to Date
  - ⇒ Two successful mergers
  - ⇒ Two failed mergers
  - ⇒ Two mergers pending regulatory approval



# Utilities Industry Council Topic for 2006

- ▶ Now Tom Schneider will report on...
  - ⇒ What steps, if any, utility companies are taking to preserve their independence in response to the repeal of PUCHA
  - ⇒ Union reaction to mergers and acquisitions amongst utilities
  - ⇒ His perspective about the future of the utility industry in a post-PUHCA world



# LERA Utilities Council Survey

- ▶ Questionnaire to assess impact of PUHCA repeal, June-July 2006
- ▶ Sent to 25 companies; 28% response rate
- ▶ Only one under 10,000 employees
- ▶ 3 electric only, four mixed
- ▶ All unionized
- ▶ Feeling that may be too early to understand impact



# Survey Results

- ▶ All saw consolidation as probable
- ▶ Consolidation was seen as the main impact of repeal although nonutility ownership was mentioned
- ▶ Either unaware or unclear state regulatory response to repeal



# Survey Results cont.

- ▶ Three companies indicated performance improvement initiatives undertaken in part in reaction and to “maintain independence”
- ▶ In companies undertaking performance improvement initiatives, all three are significantly involving union & employees, and discussing need for change with union



# Union Reactions

- ▶ IBEW President Edwin Hill:

“Mergers in the utility industry are a fact of life and can be beneficial if conducted with transparency and regard for the public interest. ... We will continue to work...with forward thinking utilities to address the enormous problems caused by deregulation and move the industry forward in a productive and stable manner.”



# Union Reactions cont.

- ▶ Legal intervention with state commissions
- ▶ Public relations campaigns
- ▶ Political lobbying and activity
- ▶ Primary concerns
  - ⇒ Job security
  - ⇒ Benefit protection
  - ⇒ Relationship (trust and problem-solving)



# The Future

- ▶ Sorting, testing, trial and error, clarification
- ▶ Serious union, public and regulatory skepticism and distrust
- ▶ Acquisition & consolidation, no question
- ▶ High performance matters: efficiency, costs, customer service, quality
- ▶ Union/employee relationships matter: trust, openness, collaboration, engagement



# Utilities Industry Council Topic for 2007

- ▶ The repeal of the Public Utility Holding Company Act has the potential to transform the utility industry over the next decade.
- ▶ During 2007, the Utilities Industry Council will study the extent to which utility companies are working with their employees to improve their organizations' competitive positions and the potential impact of the introduction of new technologies, work processes and systems.

