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HD **Money on the Lines --- Utilities Invest in Transmission**

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LP U.S. utilities are significantly increasing their spending on new electricity-transmission lines, a trend that could ease choke points in the flow of power, enhance reliability and increase the potential for renewable energy.

The spending should put a dent in the chronic problem of underinvestment, a factor in the big 2003 blackout that left 50 million people in the eastern U.S. and Canada in the dark.

TD Abundant capital, strong industry earnings, government prodding and other factors are spurring U.S. utilities to increase spending to nearly \$8 billion this year, up about 16% from last year, according to the Edison **Electric** Institute, a trade group that represents investor-owned utilities. Current spending levels are 65% higher than in 2003, the year of the big blackout.

The nation is in the early stage of a major build-out that will make transmission a more-important part of many companies' earnings, reaping returns of 11% to 14% on equity, said a report by brokerage house A.G. Edwards Inc., of St. Louis. Transmission is appealing as an area of investment because it gets a government-regulated rate of return and energy use is rising, which means more power is sent over wires and generates usage fees for utilities. Federal Energy Regulatory Commission is offering sweetened rates of return on some complicated new projects to encourage investment.

Among the firms expected to benefit from greater transmission profits, according to A.G. Edwards, are Allegheny Energy Inc., American **Electric** Power Co., Edison International, PG&E Corp., Pepco Holdings Inc., Sierra Pacific Resources, Xcel Energy Inc., Wisconsin Energy Corp. and WPS Resources Corp. Power companies typically borrow about half the costs to build such projects.

"We're playing serious catch-up because there's hardly been any significant spending on transmission in 20 to 30 years," said Neil Kalton, A.G. Edwards analyst and co-author of the report.

Utilities also are looking more closely at transmission as a way to get power where it is needed because of the spiraling cost of constructing power plants. "You can do a lot with expanded transmission," said Wayne Leonard, chairman and chief executive of Entergy Corp., of New Orleans.

The projects have different primary motivations, but they all help to increase grid reliability by providing additional paths over which electricity can flow. Some projects primarily get renewable energy to users; others eliminate choke points that frustrate grid operators and result in higher power prices by reducing the size of market areas. Big projects generally take years to complete, putting pressure on utilities to plan far ahead.

The renewable-energy industry should be one big beneficiary. Renewable portfolio standards (requirements that utilities garner more electricity from wind, sun, water, geothermal and other less-polluting sources) in roughly half the states are giving utilities added incentive to buy more renewable power or make it possible for others to invest in areas that appear promising. The wind-power industry expanded its installed base 27% last year and is expected to do about the same this year, according to the American Wind Energy Association, a trade association. Additional power lines are needed to reach remote areas off the grid right now because without that investment, projects won't get built because the output would be stranded.

Edison International expects regulatory approval soon for \$1.8 billion in transmission projects to serve as much as 4,500 megawatts of wind-energy and solar-power generating assets proposed for the Tehachapi Mountains, the range that divides Southern California from Northern California. The state is racing to meet a goal of garnering 20% of its electricity from renewable resources by 2010 and increasing wind power is an essential element.

American **Electric** Power created buzz in November when it announced it will partner with Berkshire Hathaway Inc.'s **utility** unit, MidAmerican Energy Holdings Co., to build more transmission lines in Texas. AEP is budgeting about \$1 billion for Texas projects, some designed to serve wind power developers.

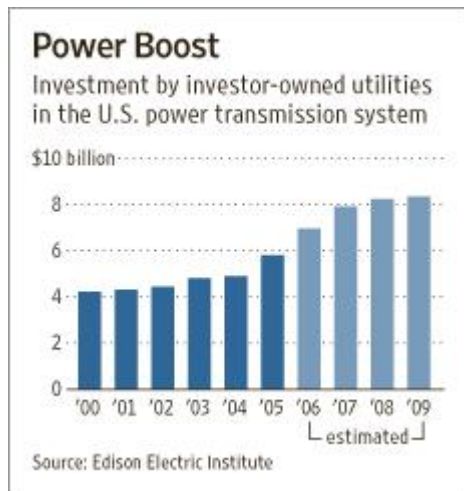
AEP has identified \$9 billion in important transmission projects in its 11-state region, including \$3 billion for a 550-mile line that would bring cheaper power to New Jersey from West Virginia. AEP Chairman Michael Morris said transmission projects "will begin to pay benefits to shareholders as early as 2007."

Financial players are becoming more visible. ITC Holdings Corp., an independent transmission company in Novi, Mich., has created a development subsidiary called ITC Great Plains to build more power lines in Kansas to serve wind-power developers. It is exploring building a 765-kilovolt line in Michigan, in partnership with AEP, that would improve reliability in the lower peninsula area. ITC Holdings is a publicly traded company but private-equity firms including Kohlberg Kravis Roberts & Co. and Trimaran Capital Partners LLC are significant investors.

Northeast Utilities expects to spend \$2.4 billion in 2007-11 on transmission projects, more than double the spending level of the previous five years. At the end of the period, nearly half of its earnings will come from the transmission side of the business, analysts say, versus about 30% today. With added transmission earnings, the Springfield, Mass., firm lifted its projected earnings-per-share growth rate to 10% to 14% from 8% to 10%.

The transmission projects of Northeast Utilities will ease bottlenecks in southwest Connecticut that make electricity especially costly and, perhaps, will create greater access to wind and hydroelectric power in Quebec and Newfoundland.

Some projects pay for themselves, in effect, by eliminating grid choke points that limit power flows. In Connecticut, a new high-voltage line to Norwalk from Danbury, cost \$340 million but will produce immediate savings for consumers by allowing less costly power to flow into the area. That eliminates so-called congestion costs, or the difference between what it would cost to supply the need in the most economical way versus what it actually costs because transmission capacity is limited.



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