

grid, would likely benefit the sector as a whole, as would support for renewable energy initiatives, which President Obama has promised. Although the impact of increased transmission spending may be delayed, Abramson thinks stocks could begin to respond positively by the middle of 2009, because the market would then be trading on 2010 expectations. At the same time, support for carbon cap-and-trade schemes, which were implemented at the beginning of the year and are similar to the Regional Greenhouse Gas Initiative (RGGI), could put pressure on those utilities that are heavily dependent on coal-fired plants. And since any large moves in oil and gas prices are unlikely until there's a substantial pickup in manufacturing activity, companies invested in the midstream sector and those dependent on selling excess power into the grid are unlikely to do well next year.

As long as credit remains tight, companies facing big capital expenditures could be under pressure going forward. On the other hand, utilities in regulated markets that can pass through capital costs could actually benefit from the economic slowdown. Commodity costs are down and labor is readily available. Metz believes that for a utility in a regulated state with a strong relationship with its regulator, this could be an opportune time to expand nuclear capacity, especially if an existing site is ripe for expansion. For investors with an appetite for speculation, even in today's market, he thinks basically solid smaller utilities, with a need for capacity expansion but with limited access to credit, could become attractive takeover candidates for larger firms. And for any investor queasy from the market's breakneck plunge, the sector as a whole, with an average dividend yield of 4.5 percent, remains an attractive defensive play.

# Setting Standards

RENEWABLE MANDATES GOING NATIONAL

BY WILLIAM OPALKA

➤ A FEDERAL MANDATE REQUIRING UTILITIES TO ACQUIRE increasing amounts of renewable energy could be enacted as soon as this year. President Barack Obama had it as one of his energy campaign planks and in recent years both houses of Congress have passed a version, though not at the same time and never as part of a final bill to reach the president's desk.

That is changing this year, renewable energy advocates and a key Senate committee spokesman say. A bill is expected to be passed by Congress this year and signed by Obama, though action will be deferred until legislation dealing with an economic stimulus package reaches the president's desk. In recent years, either the House or the Senate has passed a mandate in deliberations of energy legislation, only to have it stripped from the final bill before it reached the White House. Some type of mandate is the law in at least 28 states, so there's widespread support for that measure.

Now, with Democrats in control of Congress with even-larger majorities, along with a president who advocates green energy and green jobs, a recession, environmental advocates in ascendancy, and the renewable energy industry seeing the requirement as a "down payment" on energy independence, passage seems more than likely.

"There will be a law passed this year to create a national renewable energy standard," said Bill Wicker, spokesman for the Democratic majority of the U.S. Senate Committee on Energy and Natural Resources. "A Democratic president and seven new senators were elected last year and all were promoting an increase in renewable energy as a part of their campaigns." Wicker said the remaining questions involve timing and strategy, whether the bill is combined with other energy proposals, added to other legislation or brought along as a stand-alone bill.

Obama endorsed a national standard in the presidential campaign in his New Energy for America plan, which included a call for 10 percent of the country's electricity to be derived from renewable sources by 2012 and 25 percent by 2025. The investor-owned utility organization Edison Electric Institute has long opposed a national standard, citing the uneven availability of different renewable energy resources across the country. "We believe a national standard won't take account of the different states and regions, where there may not be abundant renewable resources, like in the Northwest and Southeast," said spokesman Jim Owen. "A lot will depend on how it's structured because there could be a lot of cost pressures without available resources." EEI believes the standards issues are better addressed at the state level and worries that a federal mandate might pre-empt policies and timetables already in place.

Patricia Deese Stanton, vice president of Conservation Services Group, which secures renewable energy resources for clients across

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the United States, including utilities like National Grid, is waiting for the specifics. "A lot will depend on how it's structured. I hope there isn't one-size-fits-all because there really is value to having state-specific regulations," she said. Wind energy, the renewable source that has benefited the most from state requirements, is poised to grow even faster from a national mandate.

Gregory Wetstone, the senior director for government and public affairs for the American Wind Energy Association, said the shortcomings have been overstated by opponents. "There are more available resources than many people say, and where there aren't, there are ample provisions to acquire renewable energy credits," he said. Even without federal action, the list of states that require renewable energy procurement – sometimes called a renewable portfolio standard or renewable energy standard – has been steadily growing throughout the decade. The most recent state to add a requirement is Missouri, which passed a ballot initiative in November. By 2021, the state must acquire 15 percent of its electricity from renewable sources. Legislative proposals had been placed before elected officials for eight years running, with only a voluntary standard passed in 2007 to show for it. That law required utilities to make a "good-faith effort" to reach 11 percent by 2021.

"Some thought a voluntary standard was better than nothing, but I would argue it really made no difference," said P.J. Wilson, co-founder of Renew Missouri. The initiative won with 66 percent of the vote in the affirmative.

States with existing mandates, most notably California, have made their requirements even more aggressive. Gov. Arnold Schwarzenegger's climate-change legislation, AB 32 from 2006, mandates a reduction in greenhouse-gas emissions by 2020 to 1990 levels. His executive order last November now mandates a 33 percent standard by 2020 and orders a streamlining of siting provisions for renewable energy projects. "To meet the targets of AB 32 requires more aggressive action and increasing renewable energy is one way to do that," said Karen Douglas, a member of the California Energy Commission. California has again upped the ante, as more states follow suit with renewable energy mandates and the federal government appears ready to act.