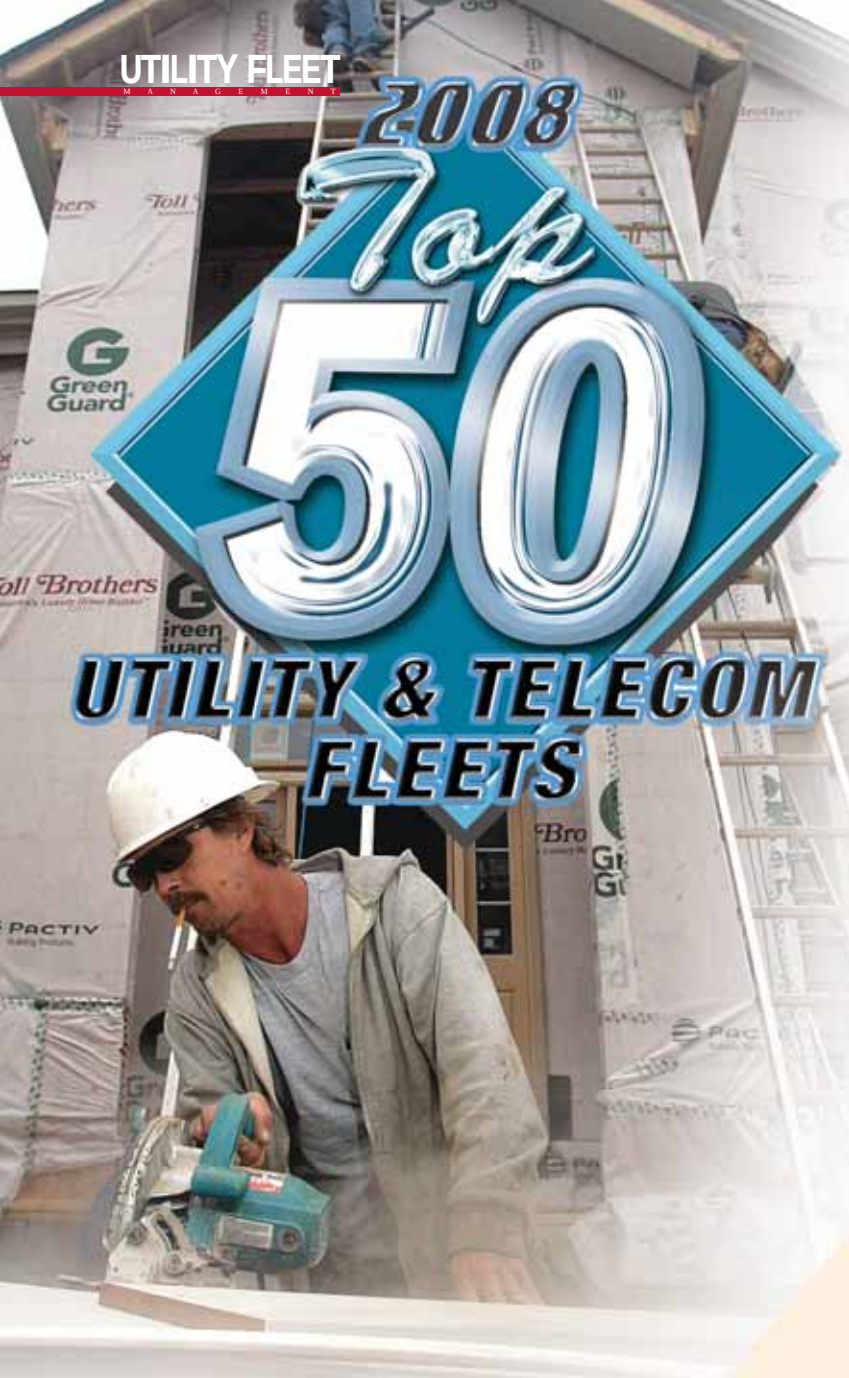

Adjusting to The Market

While the total number of vehicles bought by utility fleets is down from 2007, these types of operations appear to be insulated — at least for now — from the cyclical swings of the economy.

By Dennis Lopez

By some accounts, America is struggling with the worst housing crisis since the Great Depression. Harvard University's Joint Center for Housing Studies recently reported that local real estate markets are dealing with drops in housing starts, new home sales and existing home sales that rival the deepest slowdowns since the World War II era.

Home foreclosures are at record highs, driven by collapsed housing markets in some select metropolitan areas and states. According to the Washington, D.C.-based Mortgage Bankers Association, California and Florida alone represent 30% of foreclosure starts in the United States. The rate of foreclosure starts in Florida more than tripled between the fourth quarter of 2006 and the fourth quarter of 2007, while the rate in California more than doubled.

Sitting in the relatively calm eye of this epic storm are utilities and their vehicle fleets. While not entirely untouched, the industry is, for the most part, driven more by regulatory mandate to serve rather than overall market conditions.

Even though thousands of homes sit idle in countless subdivisions around the country, utility companies — electric, natural gas, phone and cable — must, for the most part, remain connected to these homes, occupied or not. In many cases, they are mandated by law to be ready to provide service regardless of market conditions. As a result, service and, by extension, fleet operations, have not slackened, according to several fleet managers and industry analysts.

Joe Pellisier is fleet manager for Las Vegas-based Nevada Power. To provide perspective, Nevada had the dubious distinction of having the nation's highest foreclosure rate at the end of

Top left: Workers prepare a house under construction in North Carolina. Home foreclosures in some areas are up dramatically, but utility operations still must be ready to serve the markets.

2007, with 66,316 homes headed back to the bank. That's a 215% increase from the previous year.

"We serve southern Nevada as Nevada Power and as Sierra Pacific Power in the Reno and northern Nevada area," Pellisier said. "At the height of the housing boom we were installing about 50,000 meters a year. Right now, we're installing about [15,000] to 20,000 meters statewide. Growth's definitely slowed."

Yet, even with a slowdown in customer growth, he said his fleet operations most likely will not be affected. Part of it has to do with the unique way that regulated utilities conduct business.

Bloomberg News/Duke Energy Corp.

Mobile phones and onboard communications systems are near universal in use among the fleets surveyed for the 2008 Top 50 Utility & Telecom Fleets.

In general, the costs incurred in the generation and delivery of electricity is passed through to customers in the rates they pay for power. Those costs are spread over the utility's various types of customers based upon the volume of energy they use.

Regulated utilities are allowed to receive a specific rate of return on these types of investments, which also is recovered through the rates they charge their customers.

"Regardless of what's going on with economy, there's still utility work to do," Pellisier explained. "The 24-hour a day nature of the utility industry means we still must have trucks and other equipment to do our jobs."

Pellisier said his company most likely would continue to purchase vehicles and equipment according to his company's needs and its business plan.

Nevada Power and Sierra Pacific Power serve about 1.2 million customers in Nevada and a portion of northern California and, combined, have a fleet of approximately 2,000 vehicles, including light- and medium-duty trucks.

Nicor Gas, Aurora, Ill., is in the process of evaluating and perhaps reducing its fleet operation, but that is being driven by high fuel costs and the need to be more efficient. Any slowdown in housing is just one element being factored in to the process, said Jeff Price, manager of fleet operations.

"We're looking to scale back, go smaller because of rising fuel costs," he said. As for the housing 'effect,' Price pointed out that Northern Illinois is a high-growth area in general, "and I expect [housing slowdown] to be short term."

Nicor currently has about 1,900 vehicles, but that number may change as a result of the analysis. Keeping vehicles longer, evaluating vehicle use and opting for smaller trucks are among some of the changes under consideration, Price said.

In the past, Price said, the company often bought trucks with the one-size-fits-all approach. "Now, we're looking at buying equipment that meets the job."

Others familiar with utilities and their purchasing cycles echo these views on utilities and their buying patterns.

"In some ways, utilities are 'immune' from larger business cycles and from the truck equipment industry," said Stephen Latin-Kasper, director of market data and research for the National Truck Equipment Association. "Let's face it. Somebody has to always keep the lights and heat on. Utilities play that role and, as such, they buy the equipment to perform their mission."

"Utility fleet managers are like everyone else; they either have the equipment on hand that their companies need to accomplish their jobs or they don't. It's that simple. They (utility companies) have either put cash away, or they can sell stock to purchase new equipment. That's part of what it is that makes them unique among truck and equipment buyers," Latin-Kasper said

Bloomberg News

A worker for AT&T prepares to work on a fiber optic installation in Los Angeles. AT&T took over the top spot in the 2008 Top 50 Utility & Telecom Fleets after acquiring BellSouth and Cingular Wireless.

Latin-Kasper takes a somewhat contrarian view of the state of the housing market and the economy in general, saying that in many cases it is a situation overstated by the news media.

"The housing slump is over," he said. "Compared to 2007, the trend has stabilized. The economy will begin growing by 2009 and I see us coming out of '09 better than we entered it.

"Companies are coming out of a recessionary phase of a capital expansion spending cycle. Recovery is the next expansion phase," he said. "Inflation is at a 40-year low. Fleet managers, including

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Telecom Fleets Dominate List

A merger of AT&T and BellSouth Communications produced a new leader on the LIGHT & MEDIUM TRUCK 2008 Top 50 Utility & Telecom list with a combined truck fleet of approximately 88,000 vehicles.

Verizon Communications falls to No. 2 with 56,000 vehicles, but that number will almost certainly go up with the planned purchase of Alltel Wireless. Telecommunications companies occupy the top five spots on the annual ranking of the largest utility and telecom fleets in North America.

Information for the 2008 edition of the Top 50 Utility & Telecom list is obtained from interviews with fleet managers and supplemented with data from a variety of sources, including the Truck Fleet Directory published by American Trucking Associations, and other government and private publications.

— Daniel P. Bearth

Rank	Company Name/Location	Services	Total Vehicles 2008	Type of Engine	Maintenance Services
1	**AT&T** San Antonio	Telecommunications	88,000	Gas, Diesel, CNG, Hybrid Electric	PM, EO, HD, CM
2	**Verizon Communications** New York	Telecommunications	56,000	Gas, Diesel, Hybrid Electric	PM, EO, HD, CM, EU
3	**Comcast Corp.**[1] Philadelphia	Telecommunications	36,337	Gas, Diesel, Hybrid Electric, E85	Outsourced
4	**Cox Communications** Atlanta	Telecommunications	14,059	Gas, Diesel, Hybrid, E85	PM, Outsourced
5	**Qwest Communications** Denver	Telecommunications	12,400	Gas, Diesel	PM, HD, EO, CM
6	**Southern Company**[2] Atlanta	Electric	9,475	Gas, Diesel, Hybrid Electric	PM, HD, CM, EU
7	**Pacific Gas & Electric Co.** San Francisco	Natural Gas/Electric	8,500	Gas, Diesel, CNG, LNG, Hybrid Electric	PM, HD, EU
8	**Charter Communications** St. Louis	Telecommunications	8,250	Gas, Diesel	Outsourced
9	**Embarq Inc.** Overland Park, Kan.	Telecommunications	7,814	Gas, E85	PM, EO, HD, CM, EU
10	**American Electric Power** Columbus, Ohio	Electric	7,600	Gas, Diesel, Hybrid Electric	PM, HD, EO
11	**National Grid** Westborough, Mass.	Electric/ Natural Gas	7,527	Gas, Diesel, Hybrid Electric, Biodiesel	PM, HD
12	**Sempra Energy**[3] Los Angeles and San Diego, Calif.	Electric/ Natural Gas	5,807	Gas, Diesel, Biodiesel, CNG, Hybrid Electric	PM, HD
13	**Dominion Resources Inc.** Richmond, Va.	Electric/ Natural Gas	5,312	Gas, Diesel, Biodiesel, CNG, Hybrid Electric	PM, EO, HD, CM, EU
14	**Time Warner Cable Inc.**[4] Stamford, Conn.	Telecommunications	5,000	Gas	
15	**PacificCorp.** Portland, Ore.	Electric	4,976	Gas, Diesel, CNG, Biodiesel, E85, Propane	PM, HD, EU
16	**Consumers Energy** Jackson, Mich.	Electric	4,800	Gas, Diesel, Hybrid Electric, E85	PM, EO, HD, CM, EU
17	**Public Service Electric & Gas Co.** Newark, N.J.	Electric/ Natural Gas	4,498	Gas, Diesel, CNG, Hybrid Electric	PM, HD, EU
18	**DTE Energy Co.** Detroit	Electric/ Natural Gas	4,365	Gas, Diesel, CNG, Biodiesel, Hybrid Electric	PM, EU, HD, EO, CM
19	**FirstEnergy Corp.** Akron, Ohio	Electric	4,115	Gas, Diesel, Biodiesel	PM, EO, HD
20	**Duke Energy Corp.**[4] Charlotte, N.C.	Electric	3,819	Gas, Biodiesel, Natural Gas, Hybrid	PM, HD
21	**Los Angeles Department of Water & Power**[4], Los Angeles	Water/ Electric	3,800	Gas, Diesel	
22	**Cablevision Systems Corp.** Bethpage, N.Y.	Telecommunications	3,769	Gas, Diesel	PM, EO, HD
23	**Frontier Communications Solutions** Stamford, Conn.	Telecommunications	3,500	Gas, Diesel	

Rank	Company Name/Location	Services	Total Vehicles 2008	Type of Engine	Maintenance Services
24	**Sprint Nextel Corp.** Reston, Va.	Telecommunications	3,481	Gas, Diesel	
25	**Southern California Edison**[4] Rosemead, Calif.	Electric	3,420	Gas, Diesel, Electric	PM, HD
26	**PPL Corp.** Allentown, Pa.	Electric/ Natural Gas	3,400	Gas, Diesel	PM, EO, HD
26	**Exelon Corp.** Chicago	Electric	3,400	Gas, Diesel, Biodiesel, LPG, Hybrid Electric	
28	**Xcel Energy**[4] Minneapolis	Electric	3,342	Diesel, Gas, Biodiesel	PM, EU
29	**CenturyTel Inc.** Monroe, La.	Telecommunications	3,244	Gas, Diesel, Propane, CNG	PM
30	**Oncor Electric Delivery** Dallas	Electric	3,200	Gas, Diesel, Hybrid Electric, Biodiesel	Outsourced
30	**American Water** Voorhees, N.J.	Water	3,200	Gas, Diesel	Outsourced
32	**Ameren Corp.** St. Louis	Electric/ Natural Gas	2,998	Gas, Diesel, Biodiesel, E85, Hybrid Electric	PM, HD, CM
33	**Progress Energy** Raleigh, N.C.	Electric	2,648	Gas, Diesel, E85, Hybrid Electric, Hydrogen	PM, EO, HD, EU
33	**Northeast Utilities** Hartford, Conn.	Electric	2,648	Gas, Diesel, Biodiesel	PM, HD
35	**Florida Power & Light Co.** Juno Beach, Fla.	Electric	2,488	Gas, Diesel, Hybrid Electric	PM, EO, EU
36	**Entergy Corp.** New Orleans	Electric	2,457	Gas, Diesel	
37	**Arizona Public Service Co.** Phoenix	Electric	2,400	Gas, Diesel, Natural Gas, Biodiesel	
38	**Atmos Energy Corp.**[4] Dallas	Natural Gas	2,200	Gas, Diesel, Hybrid Electric	Outsourced
39	**Nicor Gas**[4] Naperville, Ill.	Natural Gas	1,966	Gas, Diesel, CNG, E85	
40	**Alliant Energy** Madison, Wis.	Electric/ Natural Gas	1,864	Gas, Diesel, Biodiesel, E85	PM, HD, CM, EU
41	**NiSource Inc.** Merrillville, Ind.	Electric/ Natural Gas	1,859	Gas, Diesel	
42	**Sierra Pacific Resources,** Las Vegas	Electric/ Natural Gas	1,850	Gas, Diesel, Hybrid Electric	PM, HD, EU
43	**Allegheny Energy Inc.** Greensburg, Pa.	Electric	1,700	Gas, Diesel	
44	**Wisconsin Electric Power Co.** and **Wisconsin Gas LLC**, Milwaukee	Electric/ Natural Gas	1,647	Gas, Diesel	
45	**Southwest Gas Corp.** Las Vegas	Natural Gas	1,641	Gas, Diesel, Hybrid Electric, CNG, LNG	PM, HD CM, EU
46	**Salt River Project** Tempe, Ariz.	Electric/ Water	1,623	Gas, Diesel, CNG, LPG, Biodiesel	PM, EU
47	**TDS Telecom** Madison, Wis.	Telecommunications	1,250	Gas, Diesel	Outsourced
48	**Consolidated Edison Co. of New York**	Electric	1,201	Gas, Diesel, Biodiesel, CNG	PM
49	**Questar Gas/Questar Pipeline** Salt Lake City	Natural Gas	1,200	Gas, Diesel, CNG	PM, HD, EU
50	**Idaho Power** Boise, Idaho	Electric	1,130	Gas, Diesel, Biodiesel	PM, HD EO, EU

FOOTNOTES

1. Data from Automotive Fleet magazine.
2. Data includes Alabama Power, Georgia Power and Gulf Power.
3. Data includes S. Calif. Gas and San Diego Gas & Electric.
4. Data from Transportation Technical Services.
Research: Wenting Li, Amy McMahon and Andrew Chido

KEY

PM: Preventive Maintenance
HD: Hydraulics
EO: Engine Overhauls
EU: Equipment Upfitting
CM: Contract Maintenance

Adjusting to Market

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utility fleet managers, can see that it is time to buy now and most likely have cash set aside for capital expansion."

Latin-Kasper said that coming higher interest rates also may be a driver for additional truck and other equipment purchases.

Jerry Olsen, manager of fleet services for Boise, Idaho-based Idaho Power, the largest investor-owned utility in the state, agrees with Latin-Kasper's view of utilities using a cyclical model to make purchasing decisions for vehicles.

Progress Energy

Progress Energy, Raleigh, N.C., uses a Ford Focus hydrogen fuel cell car to make home visits to advise customers on energy efficiency methods.

"We use standardized criteria for all of our vehicles, on a 10-year forecast model," he said. "We see a tipping point at about 150,000 miles or 18 service years for our vehicles. Get much beyond that and the costs of keeping older, failing systems going gets to the point where operating and maintenance costs catch up with capital cost components. We're committed to this schedule regardless of externalities, including changes in the housing market."

Olsen said that the housing boom in his company's southern Idaho service area was so great that it nearly outstripped his company's ability to keep up. However, Idaho wasn't immune to negative change. In 2006, the state's gross domestic product national ranking nosedived from first in the nation to 28th.

"Our company never really grew to meet the boom so, conversely, we haven't felt much in the way of retraction," he explained. "In fact, we are still going about the business of the utility, purchasing vehicles and equipment as the needs are identified."

Idaho Power has approximately 1,500 vehicles in its fleet that serves nearly 500,000 customers in a 24,000-square-mile service area in southern Idaho and eastern Oregon.

But Still . . .

"Today's market condition is siphoning away resources, regardless of the business you are in," said Ken Kremar, a principal in the Industries Practices Group for economic and industry think-tank Global Insight. "No one is going to get through this unscathed. Fewer actual paying customers mean higher costs of service delivery.

"Yes, utilities can pass their costs on to their customer base, and even though utilities spend in cycles, they eventually may see some restraints. But, they still need the equipment to do what's needed for their specific customers."

The first public utility in America dates back to around 1711. For nearly 300 years, utilities and their managers have worked to meet the demands of their customers for water, power, natural gas and communications. As they have done so, utility companies have developed a reputation for overcoming adversity to ensure their customers receive the services they want and need.

It would appear that utility fleet managers, too, have risen to and have overcome the challenges that the nation's collapsing housing market has presented them.

More Maintenance for Fewer Units

Telecom fleets are powerhouses in terms of equipment maintenance, based on responses from a representative group of 25 fleet managers surveyed by LIGHT & MEDIUM TRUCK for the 2008 Top 50 Utility & Telecom Fleets list. Their responses reflect the broader medium- and heavy-duty commercial truck market as a whole.

On average, fleet managers said they would buy 373 vehicles in the next 12 months, compared with 585 vehicles purchased in the prior year, a decline of 36.2%.

A group of four telecom fleets surveyed said they would buy an average of 460 vehicles in the next 12 months, while a group of 19 utility fleets surveyed said they would buy an average of 393 vehicles in the next year.

Six telecom fleets operated a total of 973 maintenance shops and employed 1,775 technicians, while 19 utility fleets operated 588 shops and employed 2,166 technicians.

In terms of fuel, all of the respondents said they use gasoline, 92% use diesel and 52% use natural gas.

Nearly all respondents said they perform preventative maintenance and tire repairs on their vehicles, while 52% do body work and 44% do engine overhauls. About 16% of respondents said they do contract maintenance and/or other tasks, such as equipment inspections, aerial-lift repairs and warranty services.

Mobile phones and onboard communications systems are near universal in use among the fleets surveyed. Nearly two-thirds (64%) of fleets surveyed use dispatch and routing software and 48% use navigation aids.

Ford and General Motors were the most popular brands of vehicles used by utility and telecom fleets with representation in more than 80% of the fleets. Navistar's International trucks claimed a 60% usage rate, followed by Chrysler/Dodge and Freightliner/Sterling with 52% each, Kenworth/Peterbilt with 28% and Volvo/Mack with 12%. *— Daniel P. Bearth*