



CONSOLIDATED UTILITIES COMPANY ANNUAL REPORT

Management's Letter to Stockholders

Dear Fellow Shareholders:

By now you have heard news reports of ConU's \$6 billion cost overrun on the construction of our nuclear plant. However, that's just part of the good news we have to report. If all goes according to plan, we will be able to overrun another \$2 billion before the project is complete. You are, of course, aware this extra \$8 billion in our capital base will mean higher earnings for decades to come with increased dividends for us all.

This achievement brings with it challenges that your management team is well equipped to handle. While these wonderful cost overruns and the profits associated with them are something we can all be proud of, they come with increased public criticism, an enormous expenditure of political capital and problems for our regulatory allies.

Your management has responded with the aggressive, proactive actions you have come to expect from us. We are building on our strengths and experience with specific measures:

- We have set up a full-time damage control "war room" to take the place of our weekly meetings on stifling critics and manipulating the press.
- We have expanded the scope of services from our outside PR firm. They have been tasked to collect excuses used by other utilities in the past. These excuses will be duly polished and passed to our state regulators where they can be used to provide them with cover.
- Our law firm's energy practice group now has experienced criminal defense attorneys as part of their team. We are ready for the lawsuits that are sure to come.
- We are continuing our practice of ruining the lives of whistle-blowers and making lucrative arrangements for those who help cover-up our mistakes, falsehoods and corruption.
- We have expanded our regulatory affairs group with three new positions. We are already known throughout our industry for having some of the best butt-kissers in the business.
- We are systematically increasing the political contributions to incumbent politicians. This money is extracted from the suppliers and sub-contractors who do business with us.

- We have put two recently retired members of the utility regulatory staff on retainers as consultants. Not that we need their advice, but to show the still active members of the regulatory staff that we watch out for our friends.
- We now have a huge advertising budget to spend with the key news media outlets around the state. We are giving subtle and not-so-subtle hints that criticism of our nuclear project will not be tolerated.

As you can see this is a company that knows how to bring a nuclear plant into its ratebase. We have shifted all risk to our customers but have the highest authorized return on equity among regulated companies. Our achievement is being documented in a case study to be used by business schools in their political capitalism classes.

However, nuclear cost overruns are not the only way we are inflating our ratebase. Due to intense, and expensive, lobbying on the federal level in coordination with other regulated utilities, we have successfully shaped major new environmental regulations to reap a bonanza in new capital expenditures and extraordinary profits. The still existing anti-coal regulations will allow us to shutdown generating assets still operational while we continue collecting the remaining capital with associated profits as if the assets were still performing. On top of that, we get to build new replacement power plants that will also have guaranteed returns of both capital and profits on capital. It's collecting twice for the same amount of generation! Companies in the competitive sector can only dream of such schemes. While our sales volume and customer count is declining, we expect to realize 8% annual growth in capital and profits for the next ten years.

We are also happy to report that our unregulated subsidiary, ConU Power, is again a real profit producer. Once we realized this venture into independent power production could not compete with market oriented companies, we successfully concentrated more fully on making sweetheart deals with the regulated wing of the company. Our compliant, well-trained regulators have allowed us to rig the bids for new generating resources so blatantly in favor of our subsidiary that no real independent generating company will participate in our bids any longer. We have had to develop a new strategy to shift sizable revenues to our unregulated wing. Here is the way it works: we cut a deal with another utility that also has an unregulated generating venture. We rig our bid for new power sources so their subsidiary wins, and they in turn do the same in their territory. This way we still make a bundle and avoid the charge of self-dealing.

This Company would not be where it is today without our focus on gaming the monopoly-regulatory system. When it comes to high guaranteed profits, the pass-thru of any and all costs and the mastery of regulators, we are the envy of regulated utilities everywhere.

Yours for ever higher dividends,
Baul Powers
CEO, Consolidated Utilities Company

Jim Clarkson
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