



What the stock market is saying about utility regulated returns



Presentation to the Ontario Energy Board

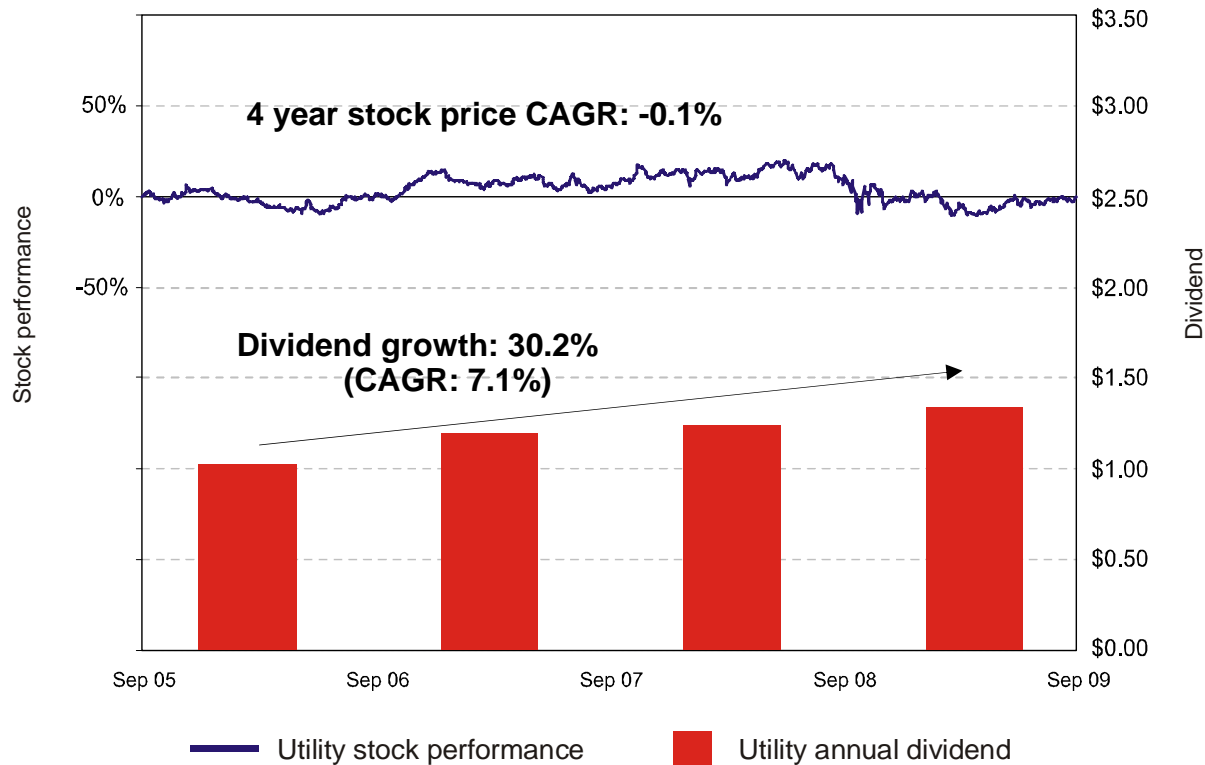
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September 21, 2009



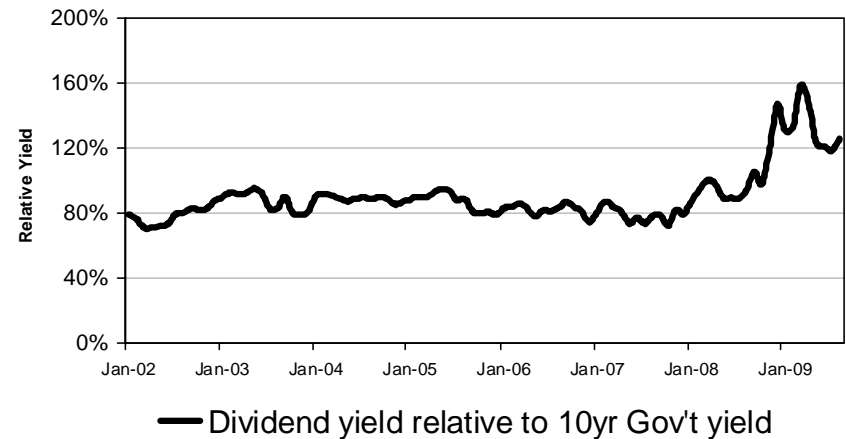
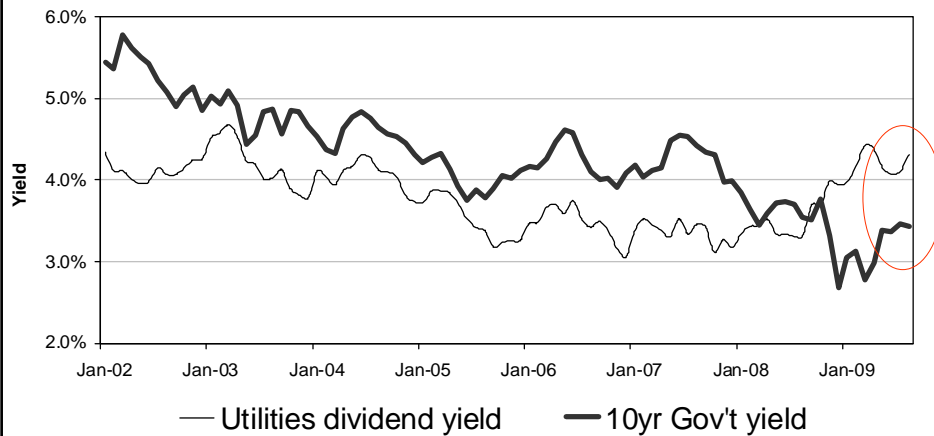
All is not well in utility-land



Note: Utility stocks comprised of a weighted average of TRP, ENB, CU, TA, FTS and EMA
Source: Bloomberg, Macquarie Research, September 2009



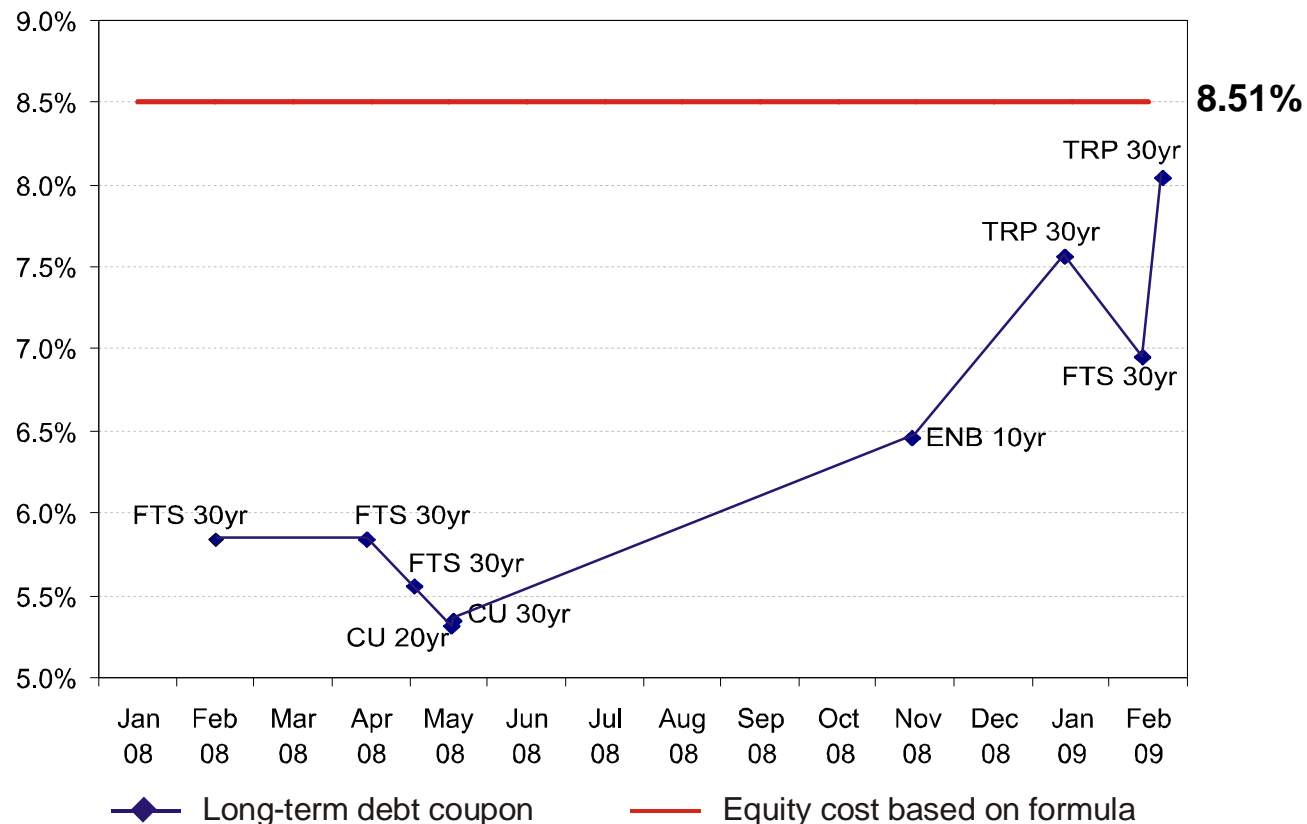
Dividend yield and government bond yield not correlated



Note: Utilities dividend yield comprised of a weighted average of TRP, ENB, CU, TA, FTS and EMA
Source: Bloomberg, Macquarie Research, September 2009



The chaos of '08 – coming together is not always a good thing



Source: Company data, Macquarie Research, September 2009



Utility equity issues are common

Company	Announcement date	Proceeds (\$b)	Issue price	Discount to 52 week high	Premium to 52 week low
TransCanada Corp.	06-Feb-07	\$1.7	\$38.00	-6.9%	22.8%
Fortis Inc.	26-Feb-07	\$1.2	\$26.00	-12.9%	25.3%
Enbridge Inc.	16-Jan-07	\$0.5	\$38.75	-6.0%	21.3%
Inter Pipeline Fund	01-Jun-09	\$0.2	\$8.73	-15.9%	45.5%
Pembina Pipeline	29-Apr-09	\$0.2	\$14.08	-24.6%	19.9%
Fortis Inc.	03-Jan-07	\$0.1	\$29.00	-2.8%	39.8%
Fortis Inc.	10-Feb-05	\$0.1	\$18.66	-1.1%	29.8%
AltaGas Income Trust	29-May-08	\$0.1	\$26.20	-7.1%	13.9%
Average:				-9.7%	27.3%



But at what cost, equity?

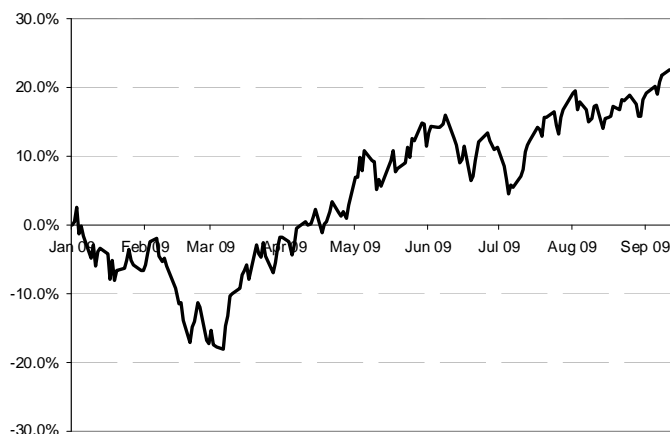
Company	Announcement date	Proceeds (\$b)	Issue price	Discount to 52 week high	Premium to 52 week low
Royal Bank of Canada	08-Dec-08	\$2.3	\$35.25	-33.6%	-1.1%
Manulife Financial Corporation	02-Dec-08	\$2.3	\$19.40	-53.5%	8.6%
Silver Wheaton Corporation	31-Jan-08	\$1.6	\$14.50	-23.1%	36.7%
Canadian Imperial Bank of Commerce	14-Jan-08	\$1.5	\$62.75	-41.2%	-6.3%
Canadian Imperial Bank of Commerce	14-Jan-08	\$1.4	\$67.05	-37.2%	0.1%
The Toronto-Dominion Bank	24-Nov-08	\$1.4	\$39.50	-47.3%	-4.4%
Bank of Montreal	15-Dec-08	\$1.0	\$30.00	-48.4%	-7.4%
Great-West Lifeco Inc.	09-Dec-08	\$0.6	\$20.75	-43.7%	1.0%
Canadian Pacific Railway Limited	27-Jan-09	\$0.5	\$36.75	-50.7%	2.5%
Average:				-42.1%	3.3%

Company	Announcement date	Proceeds (\$b)	Issue price	Discount to 52 week high	Premium to 52 week low
TransCanada Corporation	16-Jun-09	\$1.8	\$31.50	-22.0%	8.1%
TransCanada Corporation	05-May-08	\$1.3	\$36.50	-10.3%	1.9%
TransCanada Corporation	17-Nov-08	\$1.2	\$33.00	-18.9%	6.5%
Fortis Inc.	02-Dec-08	\$0.3	\$25.65	-13.8%	16.2%
AltaGas Income Trust	27-Jan-09	\$0.1	\$16.50	-39.6%	13.1%
Average:				-20.9%	9.1%



Happy days are here again!

S&P/TSX Composite Index



Select recent equity issues

Company	Announcement date	Proceeds (\$b)	Issue price	Discount to 52 week high	Premium to 52 week low
Barrick Gold Corporation	08-Sep-09	\$4.4	\$39.30	-1.8%	116.6%
Fairfax Financial Holdings Limited	08-Sep-09	\$0.9	\$377.93	-5.9%	66.8%
Brookfield Properties Corporation	10-Aug-09	\$0.6	\$10.26	-55.5%	77.8%
Silver Wheaton Corp.	08-Sep-09	\$0.3	\$11.59	-9.1%	259.9%
Fairfax Financial Holdings Limited	08-Sep-09	\$0.2	\$377.93	-5.9%	66.8%
Enerplus Resources Fund	19-Aug-09	\$0.2	\$22.59	-50.9%	32.0%
Thompson Creek Metals Company Inc.	25-Aug-09	\$0.2	\$14.99	-11.3%	358.4%
Crescent Point Energy Corp.	24-Aug-09	\$0.2	\$35.90	-8.5%	91.0%
WestJet Airlines Ltd.	09-Sep-09	\$0.1	\$11.70	-20.9%	35.4%
Central Fund of Canada Limited	07-Aug-09	\$0.1	\$12.29	-21.9%	31.6%
Dundee Real Estate Investment Trust	19-Aug-09	\$0.1	\$19.19	-40.6%	162.9%
Silver Standard Resources Inc.	11-Aug-09	\$0.1	\$18.27	-36.5%	135.1%
Transat A.T. Inc.	10-Sep-09	\$0.1	\$14.09	-18.6%	110.3%
Calloway Real Estate Investment Trust	13-Aug-09	\$0.1	\$15.82	-25.8%	89.2%
Average:				-22.4%	116.7%

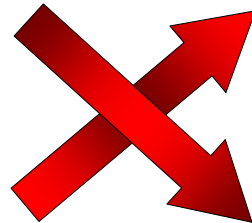


The losers become winners – and vice versa

S&P/TSX 60 performance ranking - 2008

#9 - Enbridge Inc
#17 - Fortis Inc
#20 - TransCanada Corp
27 - TransAlta Corp

#58 - Inmet Mining Corp
#59 - First Quantum Minerals Ltd
#60 - Teck Resources Ltd



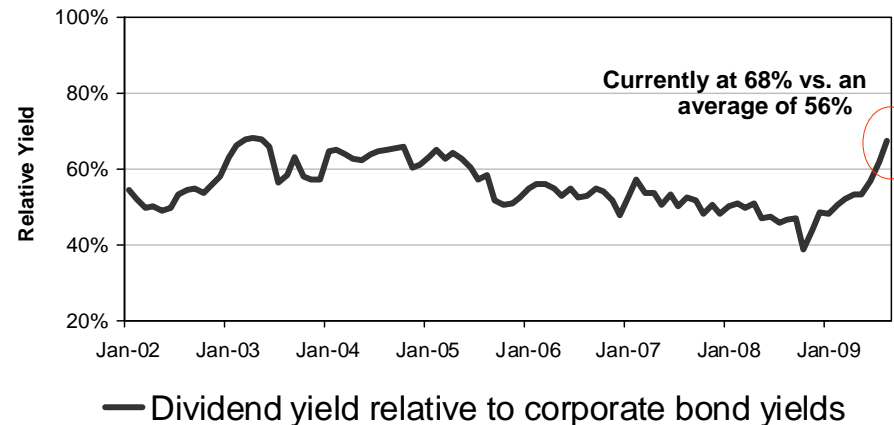
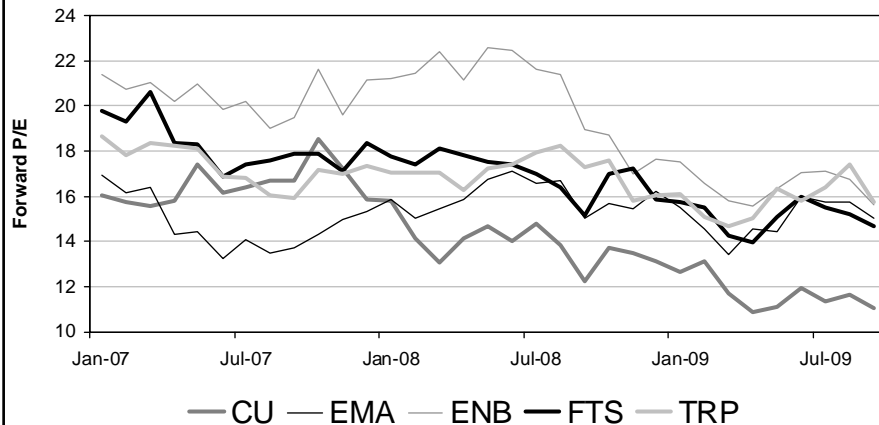
S&P/TSX 60 performance ranking - 2009YTD

#1 - Teck Resources Ltd
#2 - First Quantum Minerals Ltd
#3 - Inmet Mining Corp

#34 - Enbridge Inc
#36 - Fortis Inc
#40 - TransCanada Corp
53 - TransAlta Corp



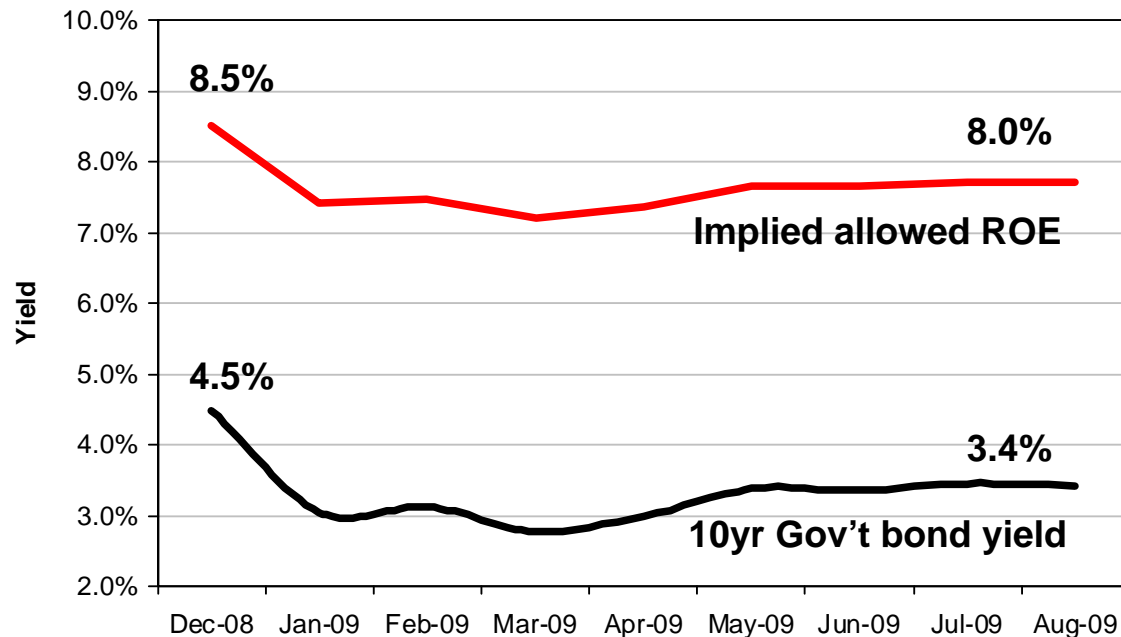
Utilities are still getting cheaper



Note: Utilities dividend yield comprised of a weighted average of TRP, ENB, CU, TA, FTS and EMA
Source: Bloomberg, Macquarie Research, September 2009



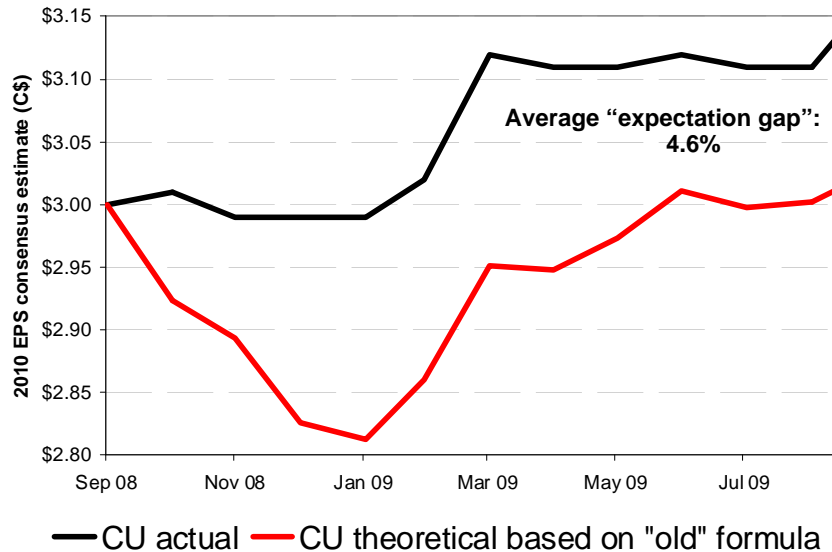
And things could get worse if regulators maintain status quo



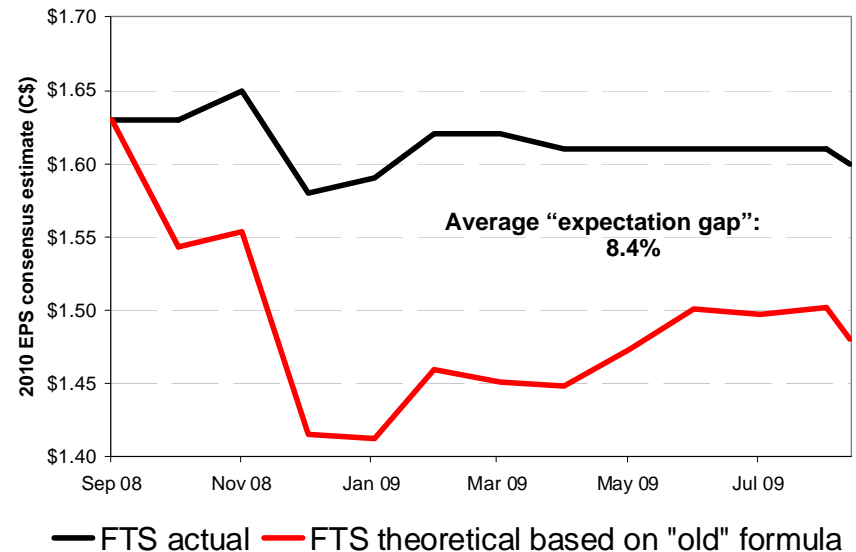


Status quo ROE would disappoint market

**Canadian Utilities 2010E EPS
"expectation gap"**



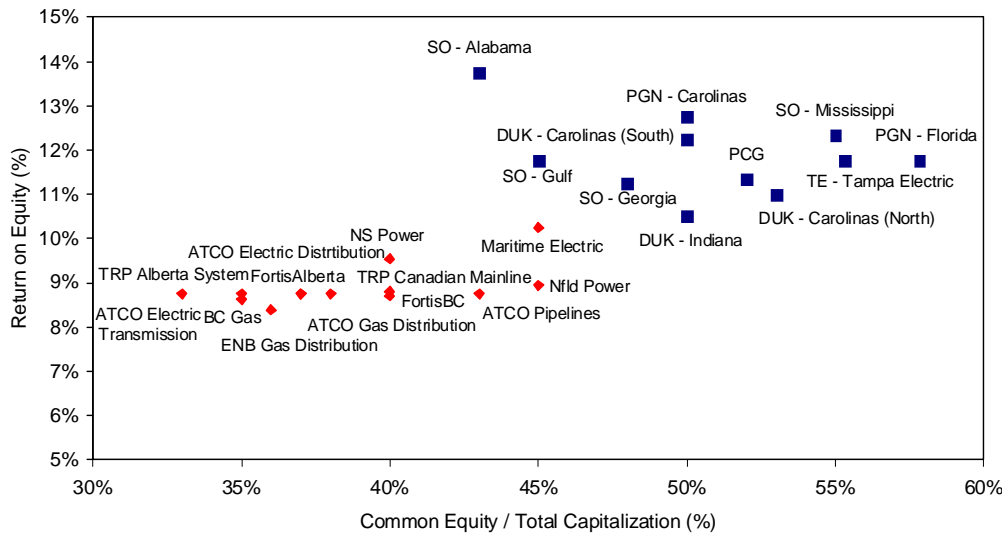
Fortis 2010E EPS "expectation gap"



Source: Bloomberg, Macquarie Research, September 2009

US returns remain above Canadian...

Allowed returns in Canada vs. U.S.



US/international ownership in Canadian regulated utility companies

Fortis Inc.	5%
Canadian Utilities Ltd.	3%
ATCO Ltd.	2%
Emera Inc.	1%

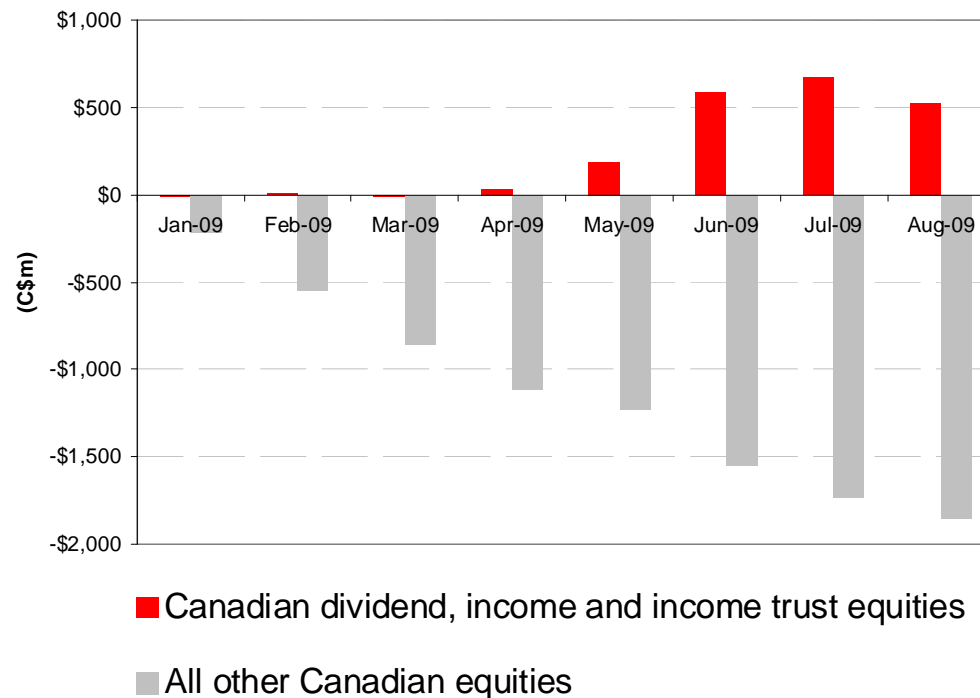
◆ Canadian utilities ■ U.S. utilities

...so getting international investors interested in Canada is a major challenge



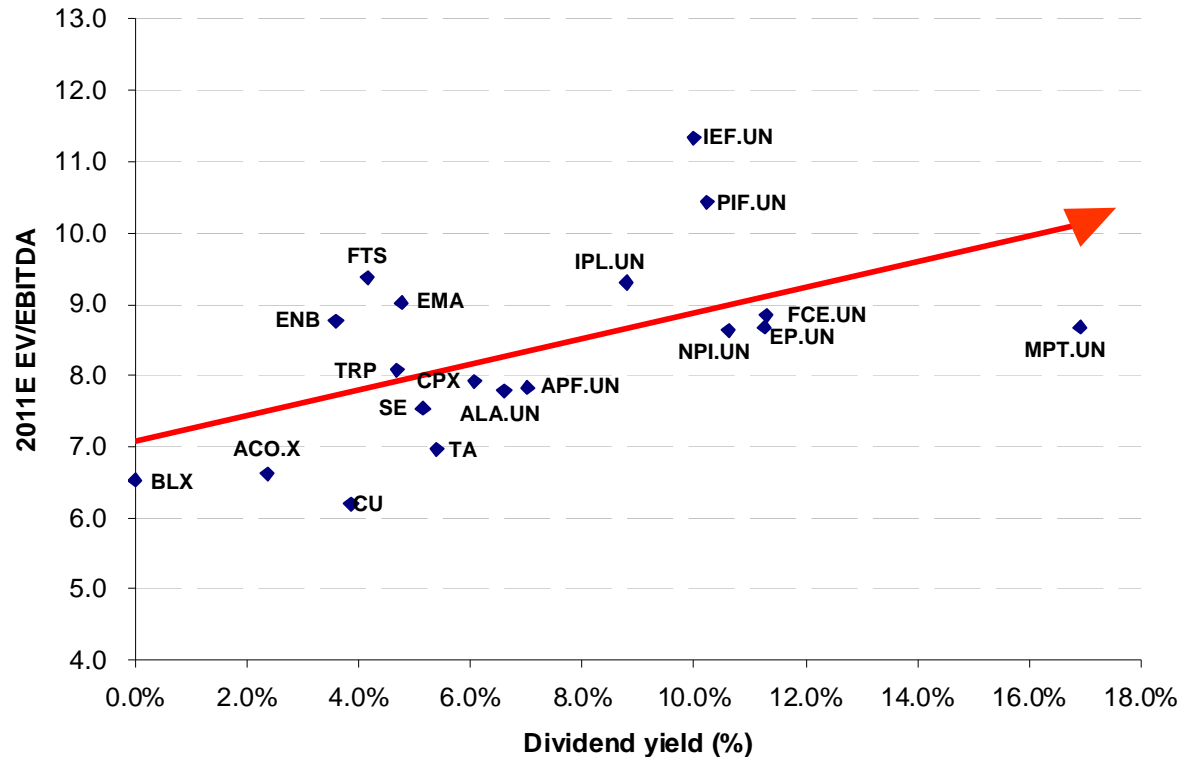
Canadian dividend crowd on its own has potential to support the stocks

Year-to-date fund flow – Net sales





But all Canadian investors seem to care about these days is yield





You know you are in trouble when...

- A) Your stock stagnates while the market rallies hard.
- B) Consensus estimates and your stock along with them are likely to fall further unless you get an increase in your allowed return.
- C) Your US peers get a much higher return than you.
- D) US investors don't care about your stock even though you have significant US investments.
- E) Your core Canadian investors seem to want you to pay out all your cash instead of reinvesting it in the business.
- F) All of the above.

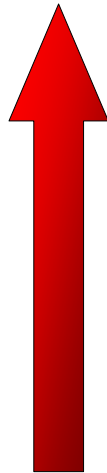


Recommendation



Time for a change – introducing the “minimum guaranteed ROE”

Adjusters



- Bond yield baskets
- Credit spreads
- Business environment changes
- Special policy incentives (conservation)
- Competition incentives (storage)

Minimum (floor)
ROE

10%

CREDIT BUBBLES



Top 5 reasons for recommendation

- 1) Simplicity avoids prolonged and resource-intensive regulatory process.
- 2) Investor certainty over multi-year periods should contain the cost of capital.
- 3) The comparable US utility group ROE never seems to go below 10%, even in an extremely low interest rate environment.
- 4) At a 70% payout ratio, a 10% ROE drives only 3% organic growth rates, which are already lower than market expectations.
- 5) There is a psychological attraction for investors in knowing the returns are “double-digits”.



Important disclosures:

Recommendation definitions

Macquarie - Australia/New Zealand

Outperform – return >5% in excess of benchmark return (>2.5% in excess for listed property trusts)
 Neutral – return within 5% of benchmark return (within 2.5% for listed property trusts)
 Underperform – return >5% below benchmark return (>2.5% below for listed property trusts)

Macquarie – Asia/Europe

Outperform – expected return >+10%
 Neutral – expected return from -10% to +10%
 Underperform – expected <-10%

Macquarie First South - South Africa

Outperform – return > 10% in excess of benchmark return
 Neutral – return within 10% of benchmark return
 Underperform – return > 10% below benchmark return

Macquarie - Canada

Outperform – return > 5% in excess of benchmark return
 Neutral – return within 5% of benchmark return
 Underperform – return > 5% below benchmark return

Macquarie - USA

Outperform – return > 5% in excess of benchmark return
 Neutral – return within 5% of benchmark return
 Underperform – return > 5% below benchmark return

Recommendation – 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

Volatility index definition*

This is calculated from the volatility of historic price movements.

Very high–highest risk – Stock should be expected to move up or down 60-100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40-60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30-40% in a year.

Low–medium – stock should be expected to move up or down at least 25-30% in a year.

Low – stock should be expected to move up or down at least 15-25% in a year.

* Applicable to Australian/NZ stocks only

Financial definitions

All "Adjusted" data items have had the following adjustments made:

Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense

Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit /efpowa*

ROA = adjusted ebit / average total assets

ROA Banks/Insurance = adjusted net profit /average total assets

ROE = adjusted net profit / average shareholders funds

Gross cashflow = adjusted net profit + depreciation

*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation definitions – For quarter ending 30 June 2009

	AU/NZ	Asia	RSA	USA	CA	EUR
Outperform	40.38%	48.53%	40.00%	44.02%	57.42%	40.20%
Neutral	39.25%	17.08%	45.00%	37.45%	32.90%	39.21%
Underperform	20.38%	34.40%	15.00%	18.53%	9.68%	20.59%



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