A Confidential Presentation

Ontario Energy Board

Recent Trends in the Canadian Capital Markets

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Global Energy and Power Group

Investment Banking

TD Securities

Introduction

- The Ontario Power Authority forecasts Ontario's power demand to increase at a CAGR[(1)] of 1.2% per annum between 2010 to 2027[(2)]
  - Coupled with the many planned retirements of aging coal facilities, there will continue to be a significant requirement for new generation capacity in Ontario despite challenging economic conditions
- Ontario's regulated utilities are expected to continue to require considerable infrastructure upgrades given:
  - Growth in installed capacity and the shift towards renewable energy
  - Need to upgrade aging transmission and distribution infrastructure
- The ability of Ontario's regulated utilities to raise capital will be critical to the development of Ontario's infrastructure
  - The regulated returns, as determined by the Ontario Energy Board ("OEB") must be sufficient to allow Ontario's regulated utilities to compete for capital
- The following pages provide a capital markets perspective for the OEB to consider during its review of its policy regarding the cost of capital

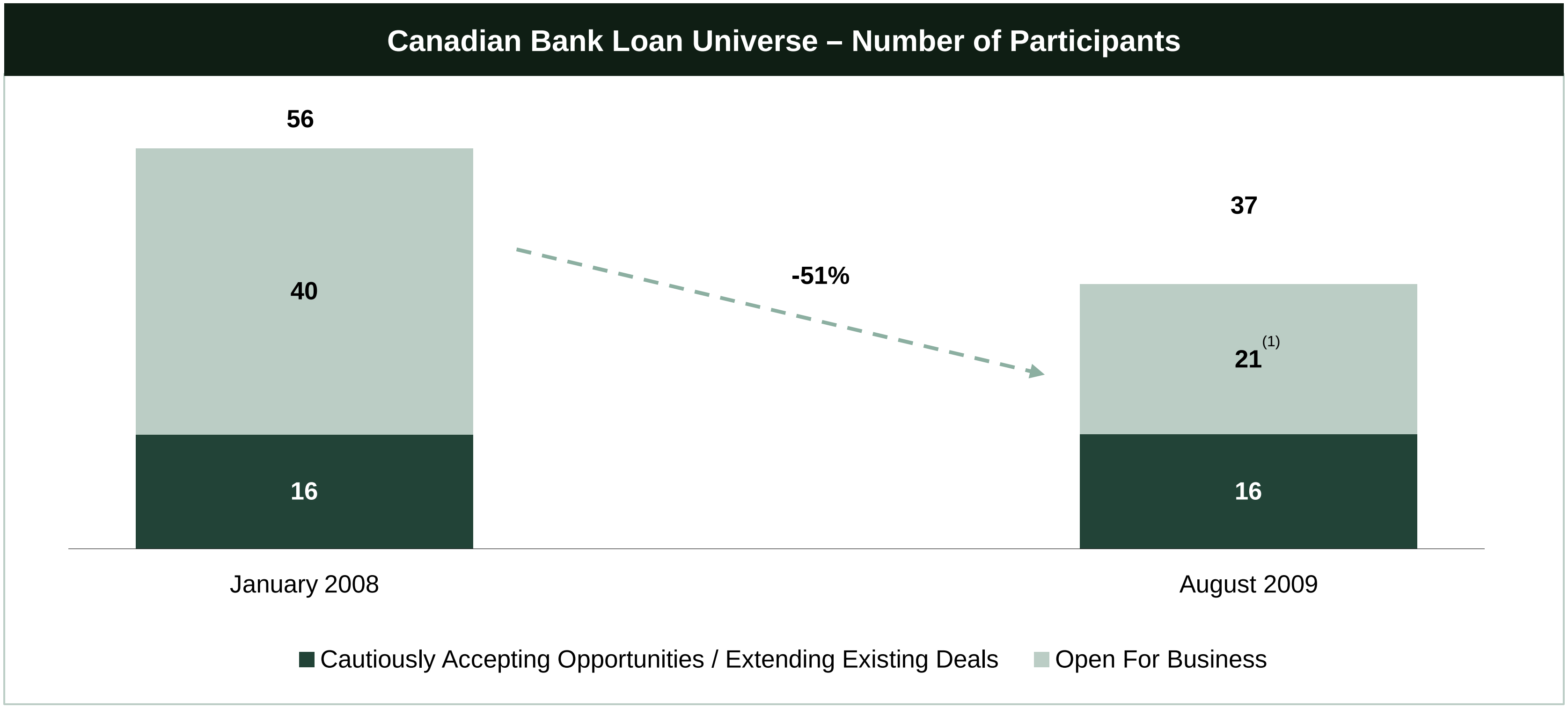
(1) Compound annual growth rate
(2) Ontario Power Authority's Integrated Power System Plan, July 2007

Canadian Credit Market – Recent Trends

- Fewer lenders participating in the credit market
  - Foreign banks that have been struggling with balance sheet and funding issues have withdrawn from the market
- Credit spreads have widened meaningfully
  - Higher funding costs and a lack of liquidity in the Canadian bank market have driven significant pricing increases over the last four quarters
  - However, all-in costs remain low due to the declining the Bankers' Acceptance ("BA") rate
- Deal volume has decreased significantly
  - Volume in the leveraged loan market is limited while investment grade deals are still being completed at market terms
- Transactions have shorter maturities
  - Most recently completed transactions have tenors of 3 years or less
- Investor demand for high leverage deals has decreased significantly
  - Transactions with greater than 3.0x leverage are becoming increasingly difficult to execute

Canadian Credit Market – Shrinking Universe

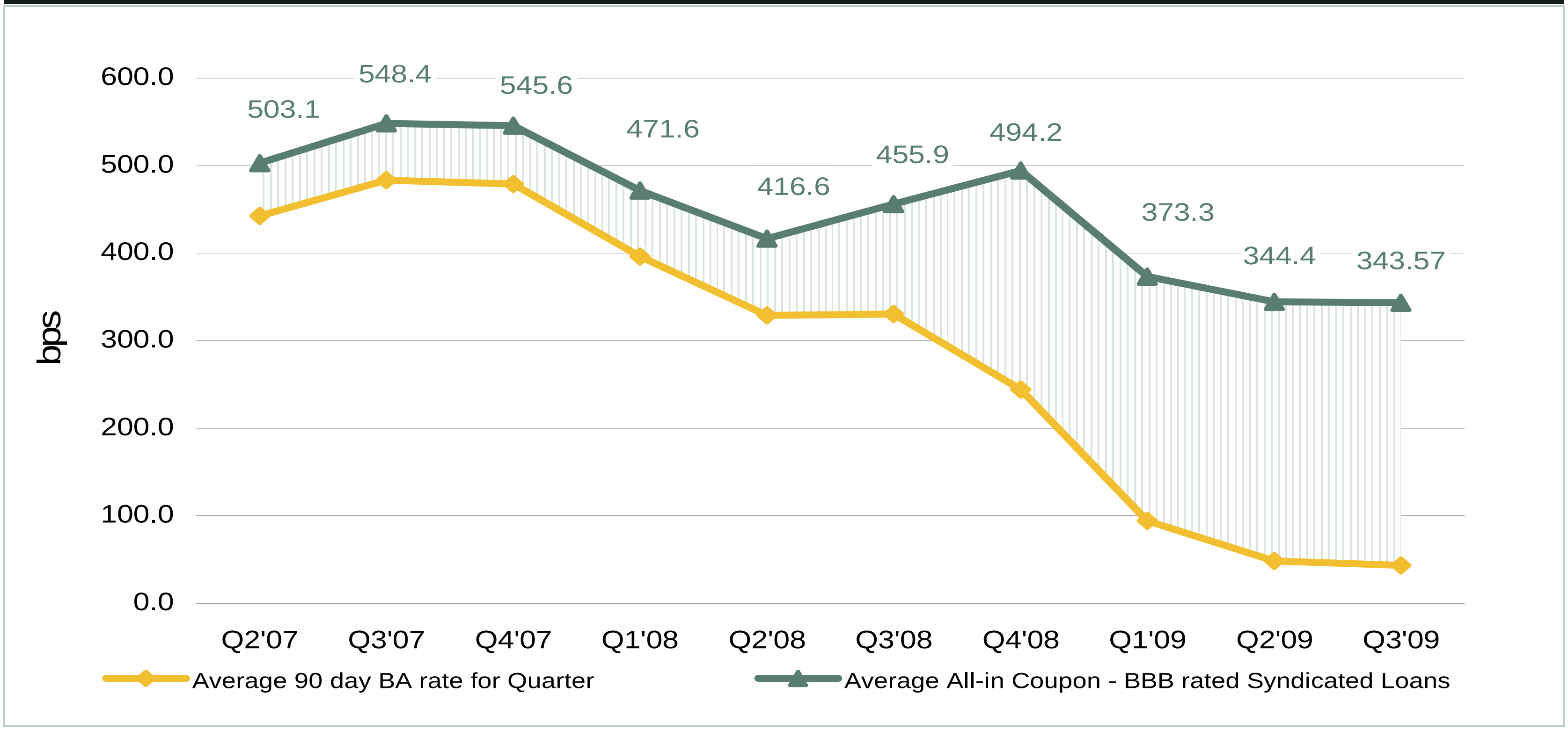
- Over the last 18 months there has been a significant decline in the number of Canadian and foreign lenders participating in the Canadian bank market due to a lack of liquidity, capital constraints and relative value
- Certain lenders are focusing on existing relationships while others have chosen to conserve capital and withdraw from the market completely



Source: TD Securities
(1) Including TD Securities

Canadian Credit Market –
Financing Costs

Average Canadian Bank Loan Pricing(1)



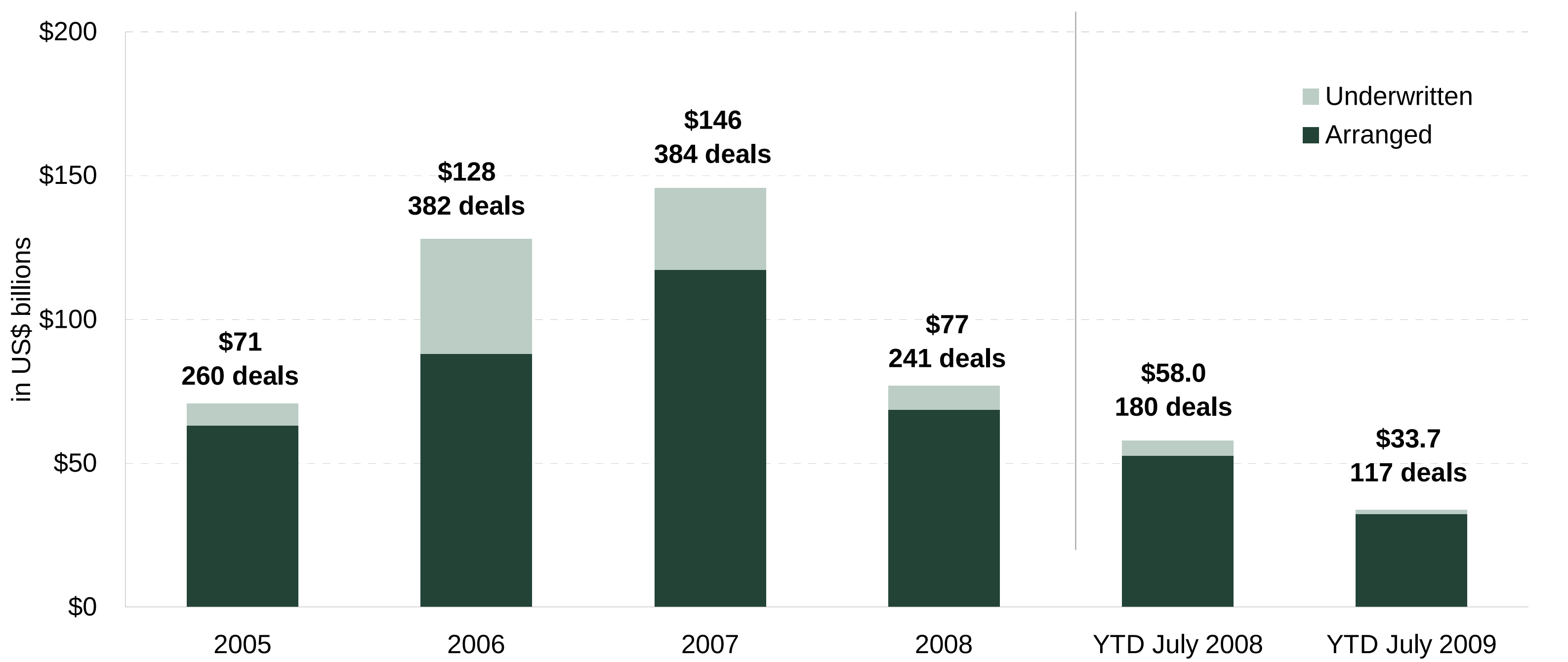
Higher funding costs and a lack of liquidity in the Canadian bank market have driven significant pricing increases over the last four quarters

(1) Underlying loans comprise senior credit facilities brought to the Canadian bank market in each respective quarter that are: (a) greater >$100 million, and (b) the Borrower is rated either BBB+, BBB or BBB- (or equivalent). Margin is the average of each tier of the grid from BBB+ to BBB-. Each quarter comprises 3 to 6 deals. Upfront fees are not included in the margin.

Source: Bloomberg – Bankers Acceptance rates (CDOR)

Canadian Credit Market – Deal Activity

Total Canadian Market Loan Volumes(1)



For the year ended December 31

Sharp reduction in loan volumes can be attributed to borrowers preserving "in-the-money" loan facilities and to a significant reduction in Canadian M&A activity

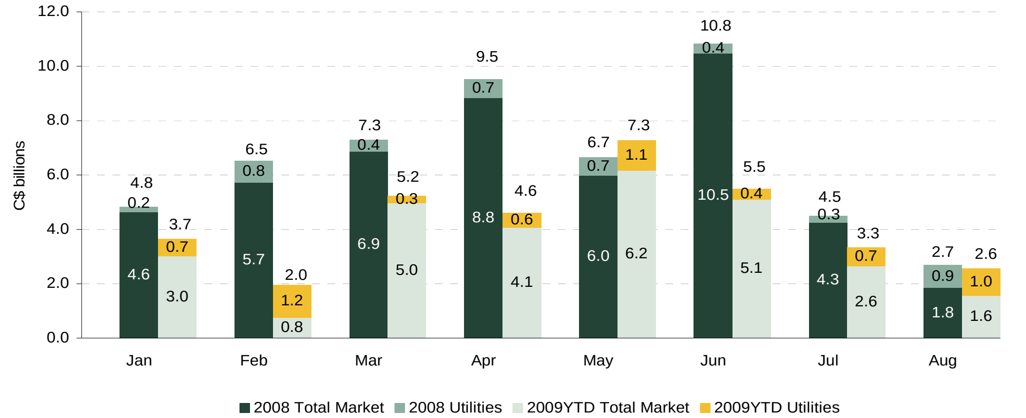
(1) Source: TD Securities

Canadian Bond Market – Recent Trends

- Market tone has improved significantly
  - The all-in cost of debt is currently attractive as increases in Government of Canada yields through 2009 have been more than offset by declining credit spreads
  - Deal volume has been strong so far in 2009, with $37.7 billion of issuance YTD via 116 deals
  - Investor demand in 2009 started primarily in the utility and infrastructure sectors, but in recent months has expanded to a variety of industries and across the credit spectrum, including several high yield deals
- Public bond portfolios are facing rebalancing
  - Demand for shorter maturities and for non-amortizing structures
  - Strong appetite for product that is backed by "infrastructure-like" businesses and projects with stable cash flows
- Covenants have become more strict
  - Tighter leverage limits for lower rated / weaker credits
  - Increasing demand for change of control covenants

Canadian Bond Market – Deal Activity

Monthly Issuance[1]

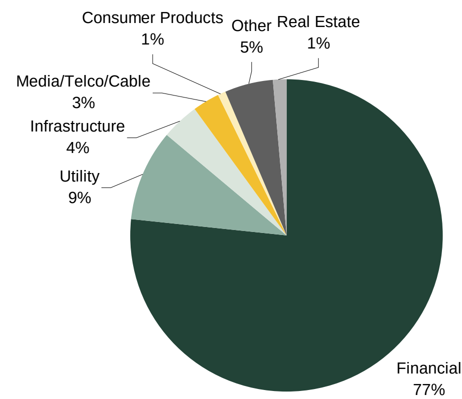


2009 YTD Utility Issuance

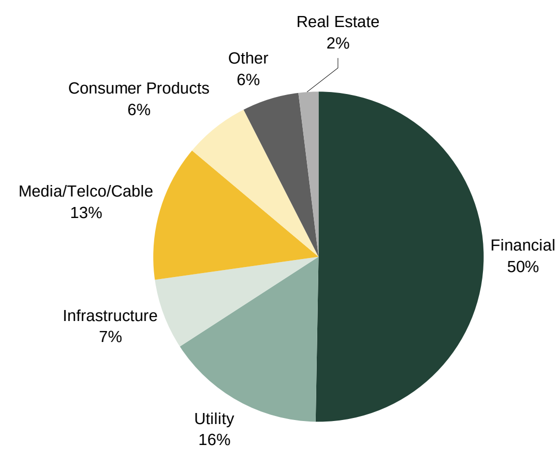
Issuer	Issue Date	Ratings	Size ($MM)	Coupon	Maturity	Spread
Enbridge Inc.	28-Aug-09	A/A-/Baa1	$400.0	4.77%	02-Sep-19	135 bps
Enbridge Inc.	28-Aug-09	A/A-/Baa1	$200.0	5.75%	02-Sep-39	185 bps
Trans Quebec & Maritimes Pipeline	19-Aug-09	A(low)/BBB+	$75.0	4.05%	15-Sep-14	145 bps
Maritimes & Northeast Pipeline Limited Partnership	19-Aug-09	A/A/A3	$180.0	4.34%	30-Nov-19	160 bps
Nova Scotia Power Inc.	22-Jul-09	A(low)/BBB/Baa1	$200.0	5.95%	27-Jul-39	195 bps
Hydro One	13-Jul-09	A(high)/A+/Aa3	$300.0	5.49%	16-Jul-40	162 bps
Fortis Inc.	25-Jun-09	BBB(high)/A-	$200.0	6.51%	04-Jul-39	260 bps
Gaz Metro Inc.	15-Jun-09	A/A	$100.0	4.93%	18-Jun-19	140 bps
FortisBC Inc.	28-May-09	BBB(high)/Baa2	$105.0	6.10%	02-Jun-39	195 bps
Newfoundland Power Inc.	21-May-09	A/Baa1	$65.0	6.61%	25-May-39	260 bps
Enbridge Inc.	13-May-09	A/A-/Baa1	$400.0	5.17%	19-May-16	260 bps
Altalink LP (reopening)	11-May-09	A/A-	$100.0	5.24%	29-May-18	190 bps
Enmax Corp	03-Apr-09	A(low)/BBB+	$250.0	5.85%	08-Apr-14	400 bps
CU Inc.	03-Mar-09	A(high)/A	$120.0	6.22%	06-Mar-24	265 bps
CU Inc.	03-Mar-09	A(high)/A	$150.0	6.50%	07-Mar-39	275 bps
Hydro One	26-Feb-09	A(high)/A+/Aa3	$300.0	6.03%	03-Mar-39	232 bps
Terasen Gas Inc.	19-Feb-09	A/A3	$100.0	6.55%	24-Feb-39	285 bps
TransCanada PipeLines Ltd.	11-Feb-09	A/A-/A3	$300.0	5.05%	14-Feb-14	305 bps
TransCanada PipeLines Ltd.	11-Feb-09	A/A-/A3	$400.0	8.05%	17-Feb-39	430 bps
FortisAlberta Inc.	10-Feb-09	A(low)/A-/Baa1	$100.0	7.06%	14-Feb-39	320 bps
Nova Scotia Power Inc. (reopening)	15-Jan-09	A(low)/BBB/Baa1	$50.0	5.75%	01-Oct-13	390 bps
Hydro One (reopening)	09-Jan-09	A(high)/A+/Aa3	$200.0	5.00%	11-Dec-13	250 bps
Hydro One (reopening)	08-Jan-09	A(high)/A+/Aa3	$100.0	3.89%	19-Nov-10	230 bps

Issuance by Sector [1]

2008



2009 YTD

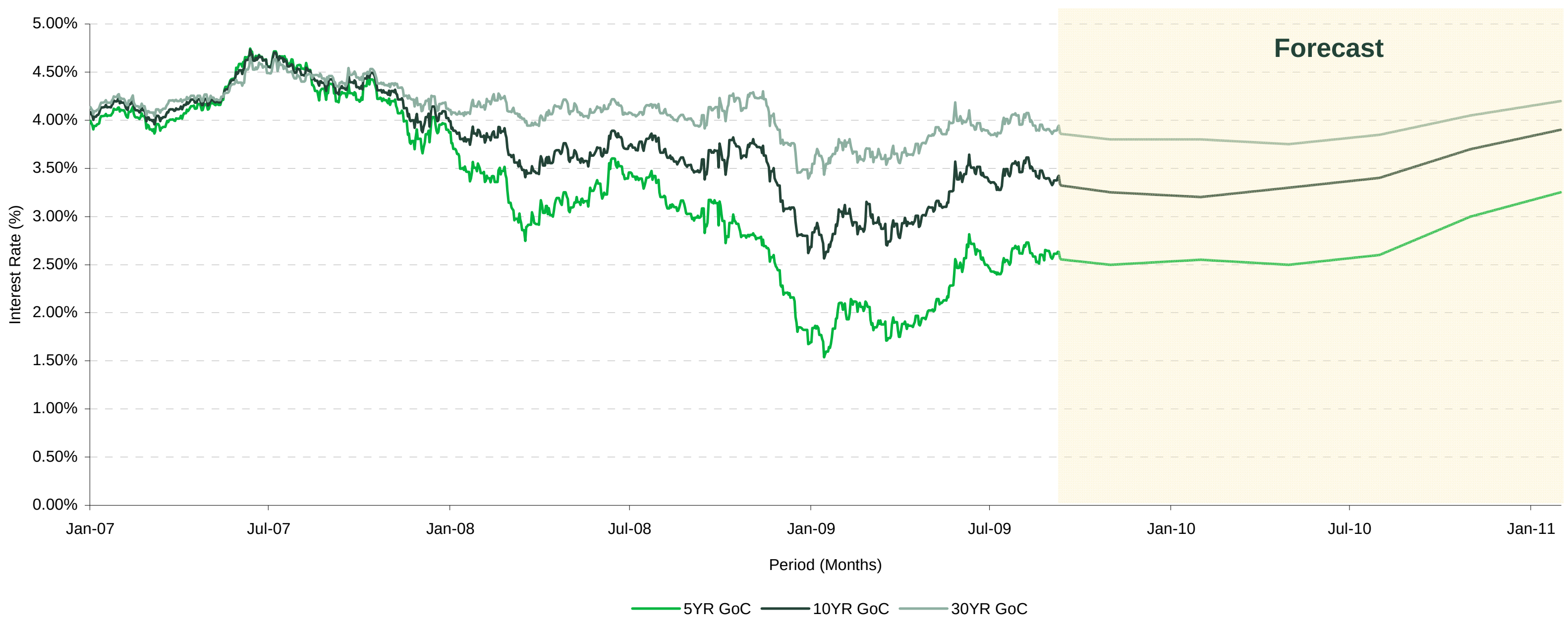


(1) Source: TD Securities

Canadian Bond Market –
Interest Rate Environment

- Rates remain extremely low on a historical basis
- When investors begin to expect rising interest rates, there will be added issuance activity
  - TD Economics forecasts for Government of Canada ("GOC") yields to remain flat over the next year before beginning to increase

Historical / Forecast GoC Rates (1)

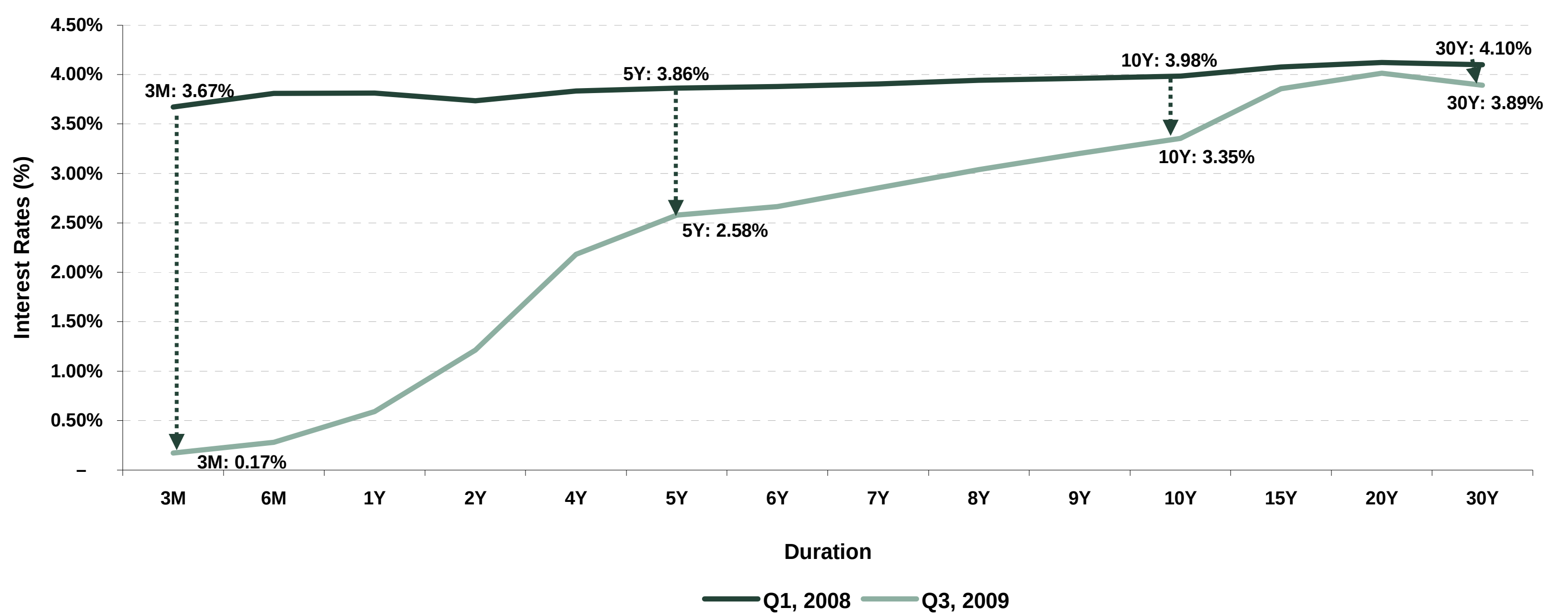


(1) Source: Historical Rates from Bloomberg; Forecasted Rates from TD Economics (September 11, 2009)

Canadian Bond Market –
Yield Curve Trends

- Aggressive short-term rate cuts by the Bank of Canada since Q1, 2008 resulted in a rapid steepening of the curve
  - The steepening trend has been exacerbated by inflation concerns which have caused yields in the long end of the curve to increase since the beginning of Q2, 2009

The Government of Canada Yield Curve Yield Curve (1)

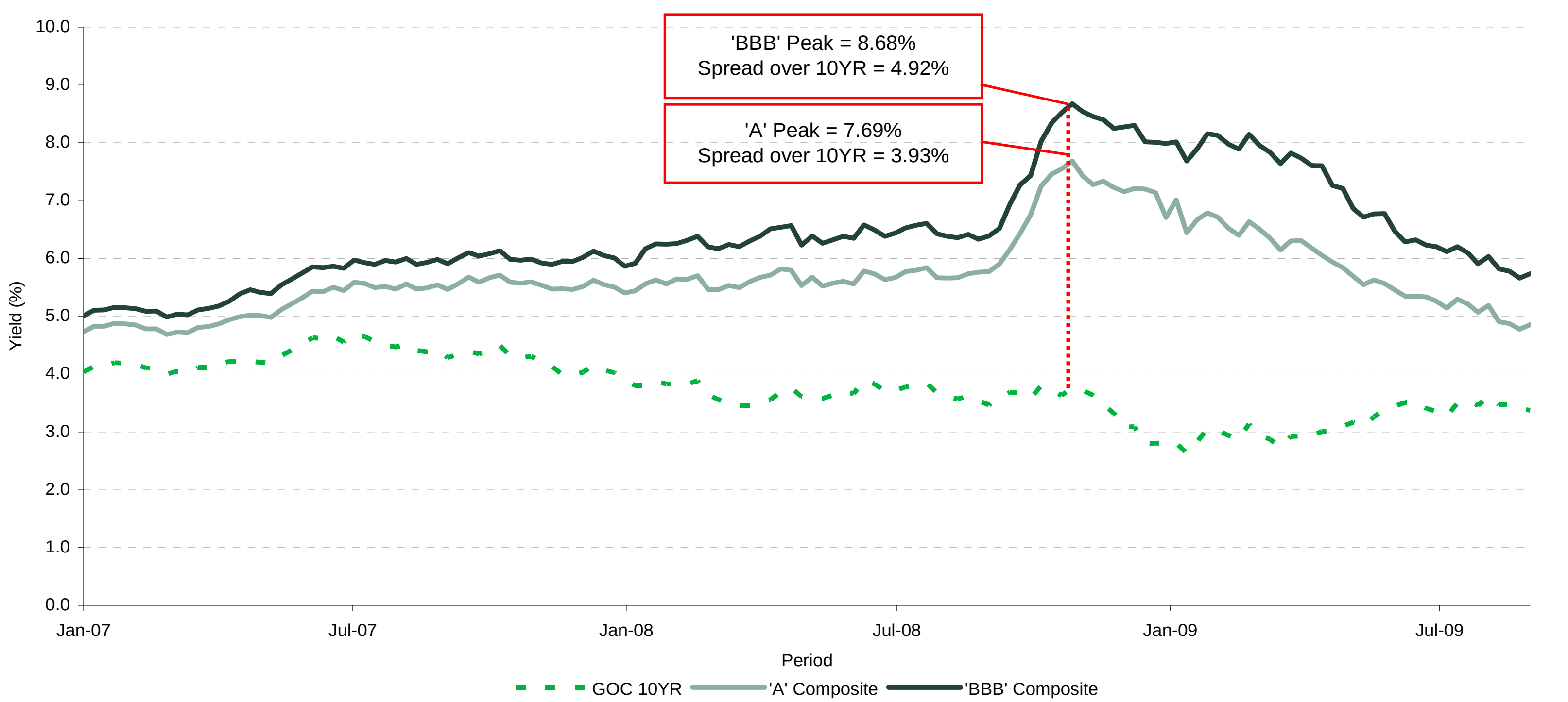


Given the steepening of the yield curve, most borrowers are issuing debt with shorter term maturities

(1) Source: Historical Rates from Bloomberg

Canadian Bond Market – Historical All-In Cost of Debt

GOC Yield and Credit Spreads[1]



Spreads for Canadian corporations have contracted after moving from historical lows in 2007 to a historical peak in 2008

(1) Source: Historical Rates from Bloomberg

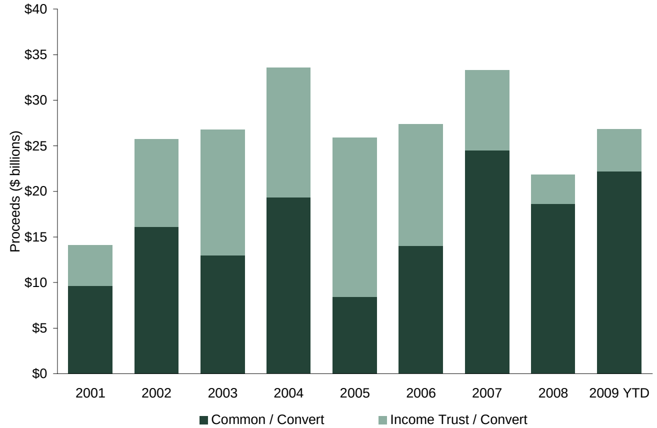
Canadian Equity Market – Recent Trends

- The credit crisis and ensuing recession put severe strain on equity markets
  - De-leveraging of the financial system resulted in an increase in market volatility and indiscriminate selling across all sectors
    - The range of daily volatility increased from 1.78% in 2007 to 8.10% in Q4, 2008
  - There was significant outflows from equity mutual funds as many investors outperformed by keeping cash on the sidelines
  - Investors rotated out of riskier stocks and into defensive sectors such as gold and utilities
    - Premium placed on stable cash flow, dividend paying companies such as utilities
- As a result of the strain on equity markets, cost of equity rose dramatically as demonstrated by contracting trading multiples and increasing issuance discounts
- Since the beginning Q2, 2009 the TSX has staged a 29% rally
  - Following better than expected economic and earning numbers, investors have begun to redeploy cash into equities
    - The range of daily volatility improved to 3.16% in 2009 YTD
  - Fund flows into equity markets have been positive since May 2009 (on a monthly basis)
  - Defensive sectors such as utilities began to underperform as the market rebounded
  - Strong interest in dividend / interest paying offerings including preferred shares and convertible debentures
- Despite the recent market rally, valuations remain depressed by historical standards, and risk appetite is considerably lower than 2007
  - The TSX is still down 18% since Q1, 2008 and trading multiples are still depressed by historical standards
  - The amount of cash sitting on the sidelines is still above historical average

Canadian Equity Capital Markets – Issuance Trends

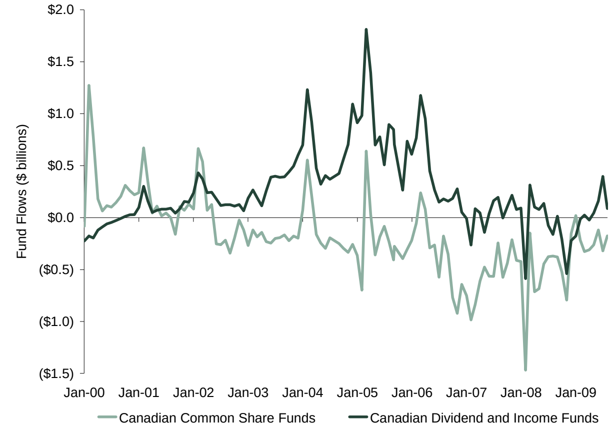
Historical New Issue Mix

Equity new issue volumes in 2009 have already surpassed 2008 levels



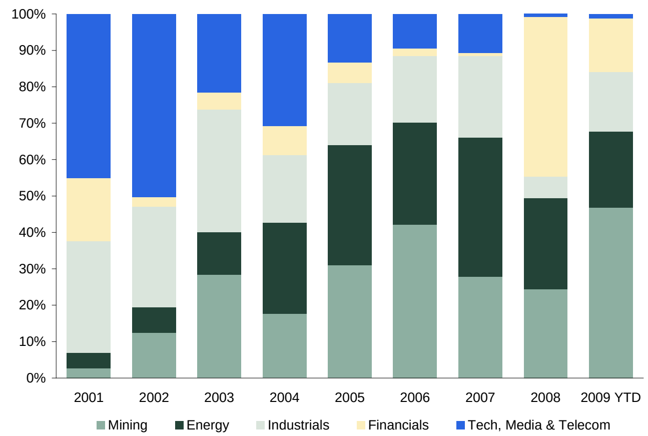
Equity Fund Flows

Dividend/income funds have returned to inflows while growth/value funds continue to experience small outflows



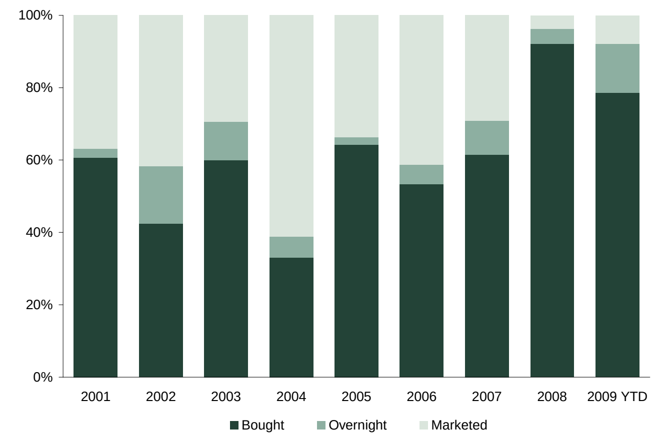
Common / Convert Issuance by Sector

Financials dominated 2008 issuance as banks and lifecos bolstered their capital positions



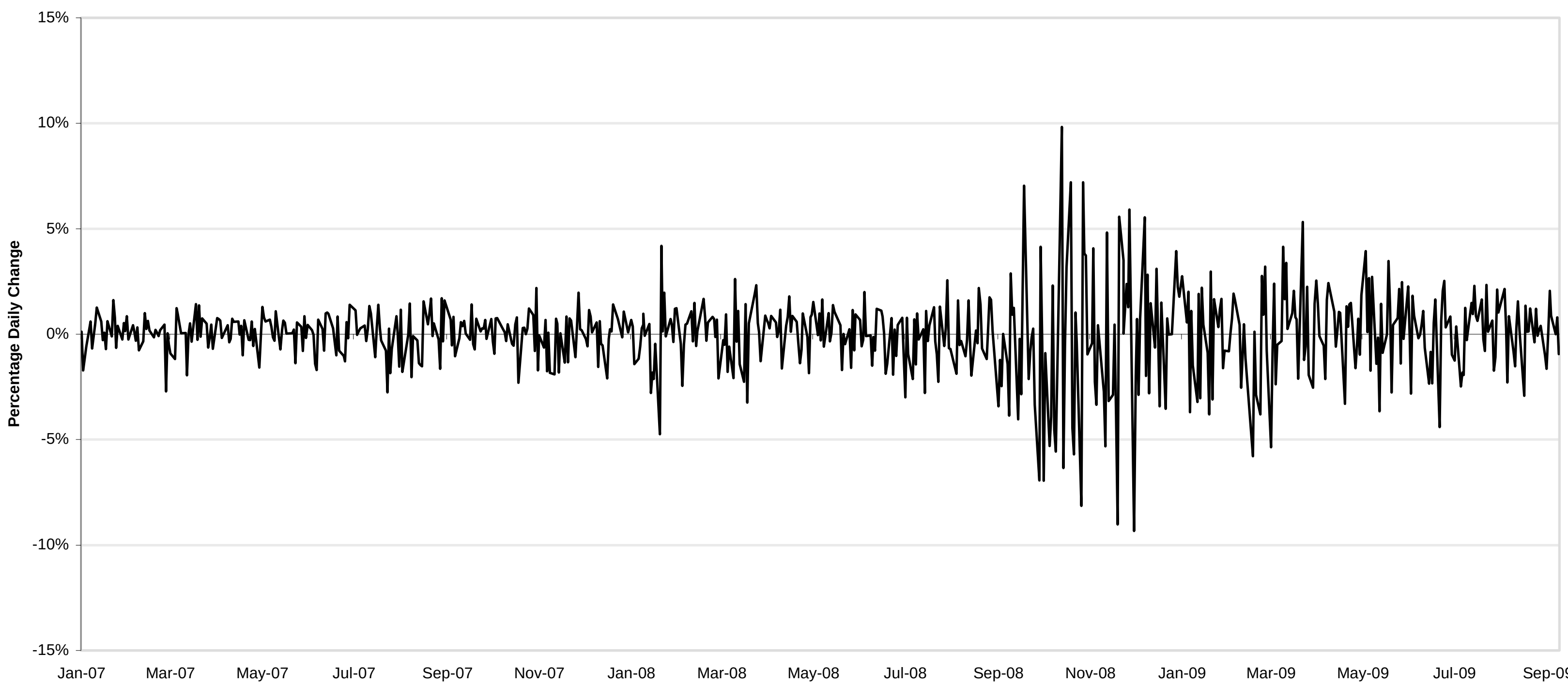
Follow-on Common / Convert Issuance by Execution

Most equity offerings in 2008 and 2009 have been bought given the volatility in equity markets



Canadian Equity Capital Markets – Volatility

S&P/TSX Composite Index

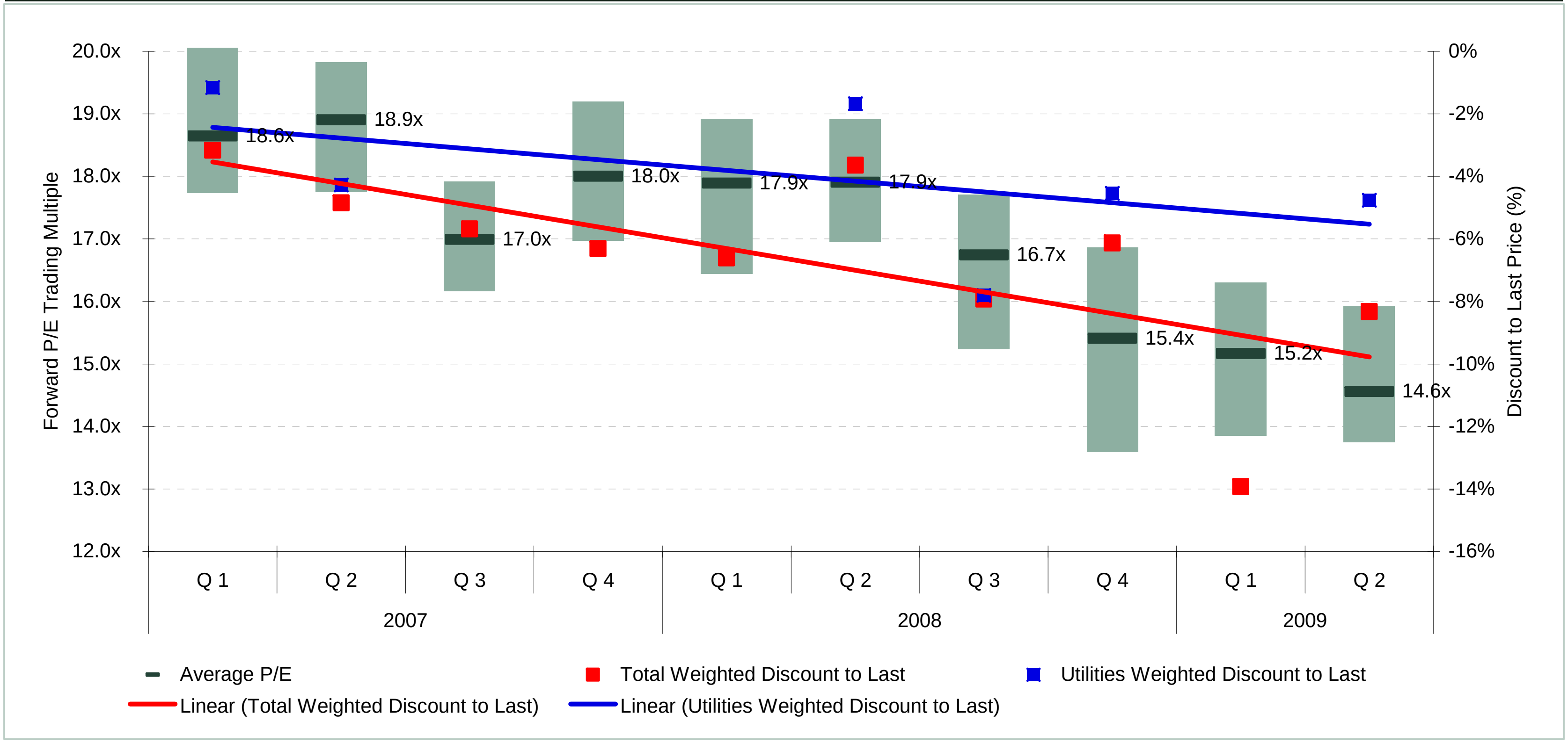


Although daily price volatility on the S&P/TSX has moderated from the significant spikes evident in Q4/08, it remains elevated compared to the range in 2007

Source: Bloomberg, from January 1, 2007 to September 17, 2009

Canadian Equity Capital Markets – Costs of Equity

1 Year Forward P/E Trading Multiple Ranges of Canadian Utilities[(1)]



Cost of equity financing has increased as forward trading multiples have contracted 4.0x (22%) from Q1, 2007 and as issuance discounts have increased

(1) The Canadian Utilities Sector is comprised of Canadian Utilities Corp., Emera Inc., Enbridge Corp., Fortis Inc., TransCanada Corp.

Summary of Financial Conditions

<table>
<tr><th>From Q1, 2008 to Q2 2009 Global Financial Markets Experienced a Severe Financial Crisis …</th><th>… Since Q2, 2009 the Capital Markets and the Economy Have Stabilized</th></tr>
<tr><td colspan="2">CREDIT MARKETS</td></tr>
<tr><td>▪ Credit supply dropped dramatically as global financial institutions announced massive credit related losses
▪ Cost of funds increased as banks began to hoard cash to shore up their balance sheets</td><td>▪ Credit spreads remain high by historical standards, but have narrowed since Q4, 2008
• However, all-in cost of borrowing is low given a steep drop in BA rates (from ~4.50% to ~0.50%) since Q1, 2008
▪ Access to capital has improved, although new deal volumes remains low</td></tr>
<tr><td colspan="2">BOND MARKETS</td></tr>
<tr><td>▪ 10 Year “A” and “BBB” credit spreads widened ~390 bps and ~490 bps, respectively
▪ Demand for longer dated maturities decreased substantially
▪ Corporate debt issuance volumes dropped off substantially as investors chose to increase their cash holdings to record highs
• The high yield debt market was effectively frozen</td><td>▪ 10 Year “A” and “BBB” credit spreads have narrowed to ~150 bps and ~240 bps, respectively
• However, they respectively remain 80 bps and 140 bps higher than their Q1, 2007 levels
▪ Debt issuance volumes have increased steadily in 2009 including considerable issuance by Canadian utilities</td></tr>
<tr><td colspan="2">EQUITY MARKETS</td></tr>
<tr><td>▪ The TSX declined 35%(1)
▪ The range of daily equity volatility rose from 1.78% to 8.10%
▪ Fund flows into the equity markets were negative for 17 of 18 months
▪ Equity issuance and volumes dropped as public market values contracted</td><td>▪ The TSX has rallied 29% (2) and equity volatility has subsided
▪ The range of daily equity volatility has declined and stabilized around 3.16%
▪ Rate of equity fund outflows have turned positive since May but remain negative on a quarterly basis
▪ Equity issuance volumes and pricing have improved steadily</td></tr>
</table>

(1) From January 1, 2008 to March 31, 2009
(2) From April 1, 2009 to September 17, 2009

Disclaimer