NARUC Winter Committee Meetings

Wall Street Turmoil:

Outlook for 2009 and Implications for Utilities and Regulators

February 17, 2009

Bank of America

Merrill Lynch

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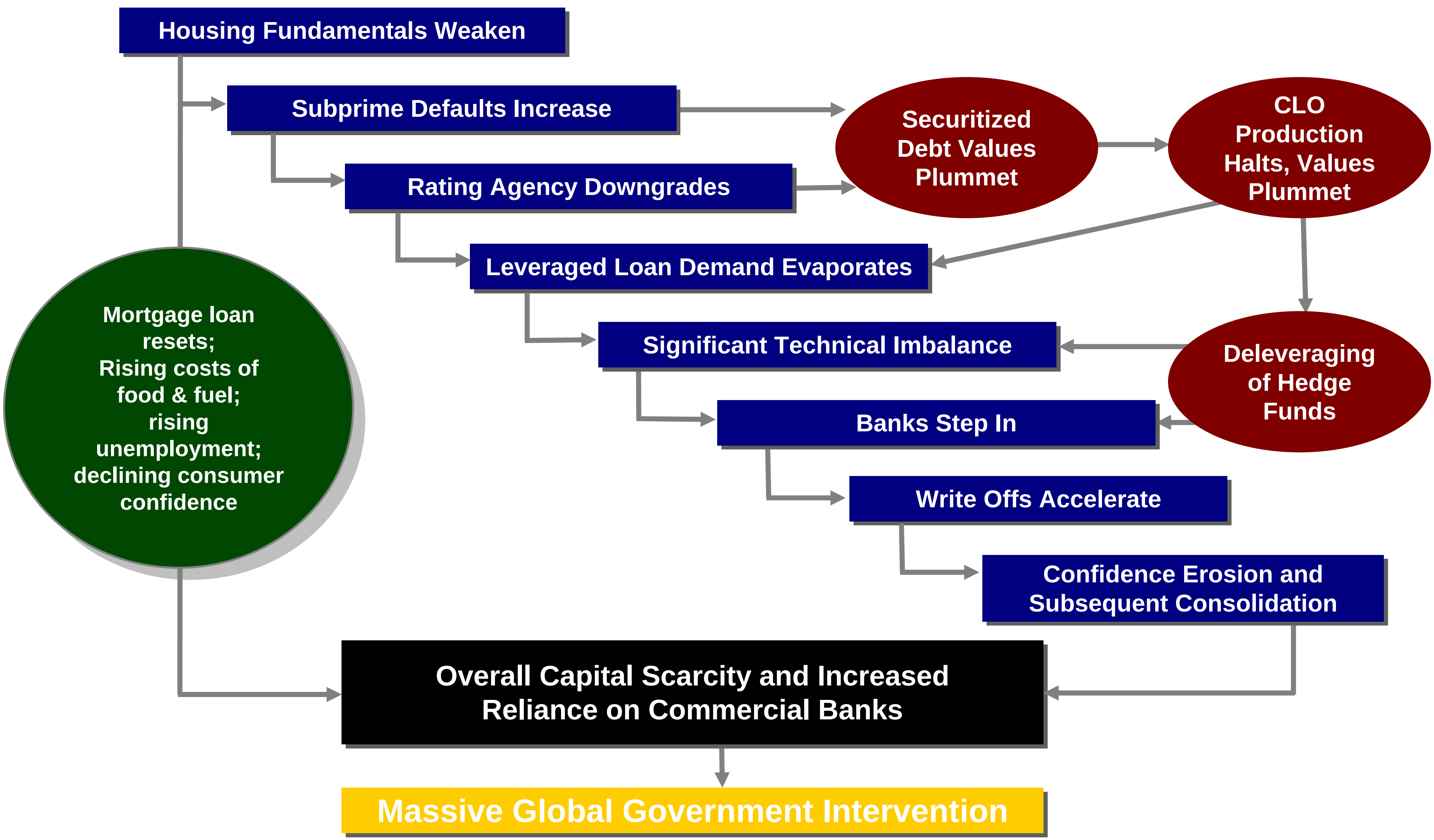
The Domino Effect– How the Credit Market Unraveled



Balance Sheet Stress for Financial Institutions

Structured Credit Write-Downs

- $712 Billion Bank Charges as of Nov 2008
- Uncertain outlook including affect of the TARP
- Asset values have not reached equilibrium

Earnings Pressure

- Business volumes contract and leverage decrease
- Certain business lines no longer viable
- Funding costs increase (see below)

Accelerating Credit Losses

- Consumer losses at record highs (mortgage, credit cards)
- Non-consumer losses rising (commercial real estate, corporate loans)

Banks / Financials Balance Sheet Stress

Increasing Funding Costs

- Availability of overnight funding reduced
- Debt and equity cost increased dramatically
- Securitization/Recycling of Loans has stalled

Balance Sheet Resizing

- Impact of off-balance sheet returning to balance sheet
- Regulators and Credit Agencies seek increased capital strength
- Deleveraging impact on asset values

Fundamental Restructuring of Financial Sector → Fewer banks, Reduced Lending Capacity

Bank Failures

Lehman Brothers
Wachovia
Ameribank Since 1926
IndymacBank℠
First Heritage Bank
WaMu

Government Interventions

AIG
Bank of America
Bear Stearns
Freddie Mac℠
FannieMae®
citi

Mega Mergers

Bank of America + Merrill Lynch

Barclays Capital + Lehman Brothers

PNC + National City

JPMorgan + Bear Stearns + WaMu

Wells Fargo + Wachovia

Balance Sheet: a New Reality (a)

($bn)	Pre-tax writedown	Capital Raising
Wachovia	$97	$50
Citi	65	116
Merrill Lynch	62	58
Washington Mutual	46	11
UBS	44	37
HSBC	33	5
Bank of America	27	56
J.P. Morgan	21	46
Morgan Stanley	16	25
RBS	15	49
Lehman Brothers	14	14
IKB	13	11
Deutsche Bank	12	6
Credit Suisse	10	12
HBOS	9	23
Credit Agricole	9	11
Barclays	7	26
Other	212	179
Total (as of November 2008)	**$712**	**$735**

- **Thru 11/08, banks have taken ~$712bn in write-downs mostly related to losses on mortgage backed securities. In response, banks have raised an extraordinary $735bn of new capital;**
- **As banks reduce balance sheet risk (including investment banks becoming bank holding companies) there is a large, adverse multiplier effect on capital available for lending activities**

(a) Writedowns as of November 2008.

Government Lends a Hand and $

CONGRESS / TREASURY

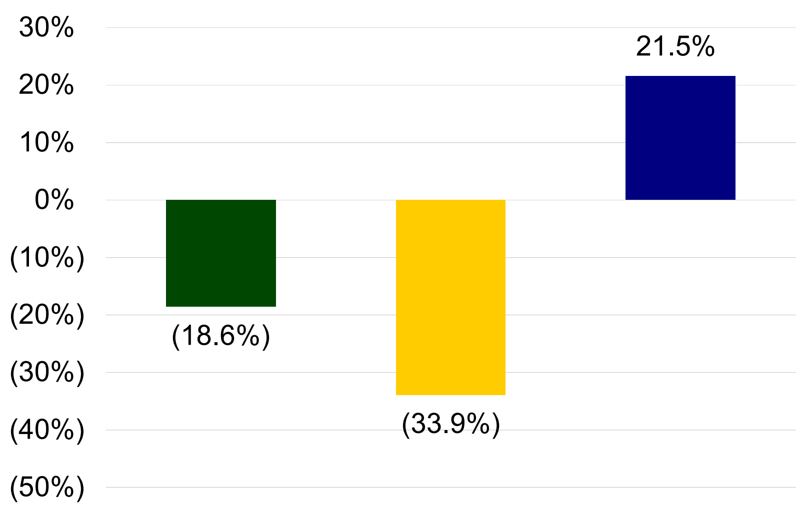
- **Housing and Economic Recovery Act (HERA) – 7/30/2008**
  - Homeowners can refinance into FHA loans w principal write-down
- **FNM/FRE Conservatorship – 9/7/2008**
  - Government Sponsored Enterprise (GSE) Credit Facility
  - GSE Senior Preferred Stock & MBS Purchase Agreement
- **Guarantee Program for Money Market Funds – 9/19/2008**
  - Guarantees participating money funds from breaking the buck
- **Troubled Asset Relief Program (TARP) – 9/28/2008**
  - Capital purchase program to buy troubled assets or preferred shares from U.S banks and thrifts
- **Emergency Economic Stability Act (EESA) – 10/3/2008**
  - Creates the troubled asset program (TARP)
- **FDIC Deposit Insurance Limit Increase – 10/3/2008**
  - Increases Account Limit to $250,000 from $100,000
- **Temporary Liquidity Guarantee Program (TLGP) – 10/14/2008**
  - FDIC guarantees newly issued Senior Unsecured debt of banks, thrifts and certain holding companies
- **Term-Asset Backed Securities Loan Facility (TALF) – 11/25/2008**
  - Fed provides $200 Bn in loans to lend against AAA rated ABS
- **Expected Fiscal Stimulus Under Discussion**
  - Expected to include large infrastructure component

FEDERAL RESERVE

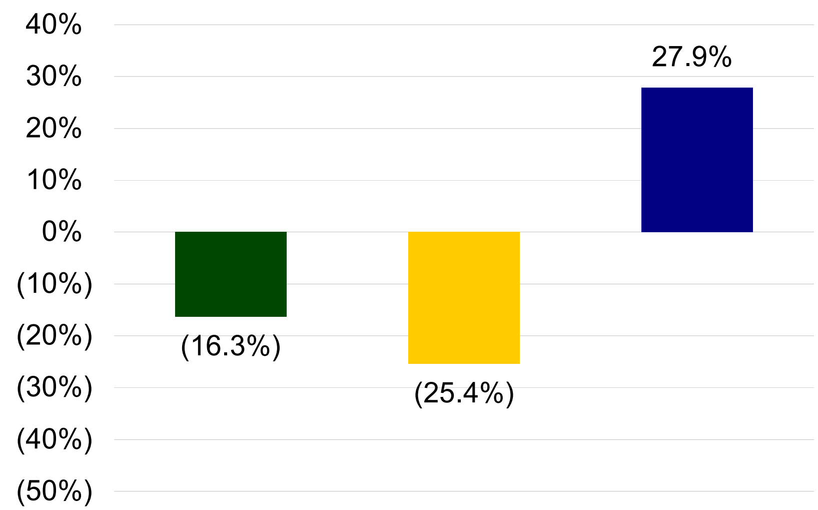
- **Term Auction Facility (TAF) – 12/12/2007**
  - Overnight loan facility that provides funding
- **Term Securities Lending Facility (TSLF) – 3/11/2008**
  - Provides loans over a 1-month term against eligible collateral
- **Primary Dealer Credit Facility (PDCF) – 3/16/2008**
  - Overnight loan facility funding a range of eligible collateral
- **Foreign Currency Swaps – 9/18/2008**
  - Unlimited currency swaps w central banks including ECB
- **Asset Backed Commercial Paper Money Market Fund Liquidity Facility (AMLF) – 9/19/2008**
  - Banks borrow from the Fed to purchase ABCP from money market funds at amortized cost and zero risk weighting
- **Commercial Paper Funding Facility (CPFF) – 10/7/2008**
  - The Fed buys 3-month commercial paper from Tier 1 issuers
- **Money Market Investor Funding Facility (MMIF) – 10/21/2008**
  - Fed buys CP, bank notes and CDs to 90 days maturity from money market funds
- **GSE Debt and MBS Purchase Program – 11/25/2008**
  - Fed buys Fannie, Freddie & Home Loan Debentures and Agency MBS

Stock Market Performance

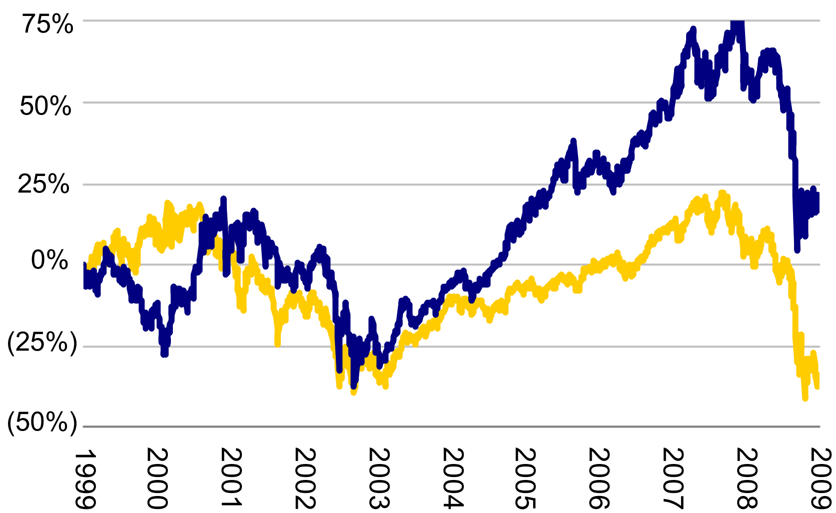
10 YEAR PERFORMANCE



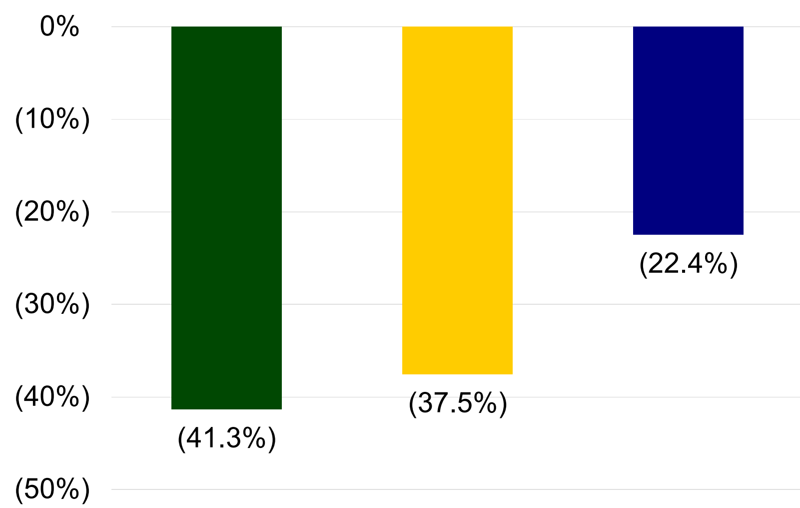
5 YEAR PERFORMANCE



10 YEAR PERFORMANCE – S&P VS. UTY



LTM PERFORMANCE



Note: As of 1/27/2009
Source: FactSet

DJ WORLD INDEX S&P 500 INDEX UTY INDEX

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High Grade Loan Market Overview

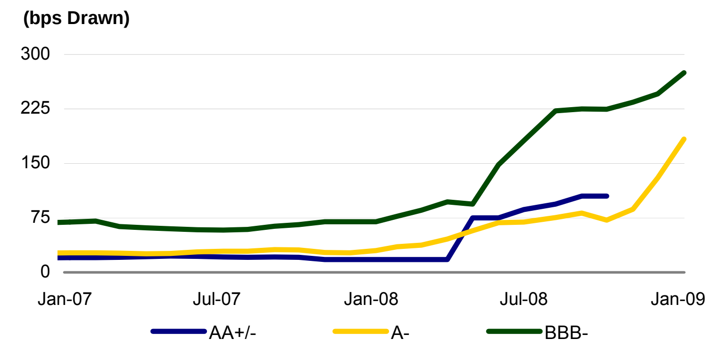
Market Conditions

- High grade demand is severely constrained, with the forward calendar at near a record low of $874 MM
- This has resulted in sharp declines in volume and tenor alongside increasing spreads and structural requirements. Lender friendly conditions are expected to continue in 2009, given economic conditions
- In tandem with the leveraged loan market, an intense focus on risk and return is driving spreads wider, CDS based pricing, which is used to ensure risk appropriate returns, is increasingly common
- Financial sector specific concerns have had particular negative ramifications for these borrowers looking to raise capital
- Shorter dated facilities became the new norm in 2008, reversing the trend of long-term commitments, which were favored from 2004 through 2007

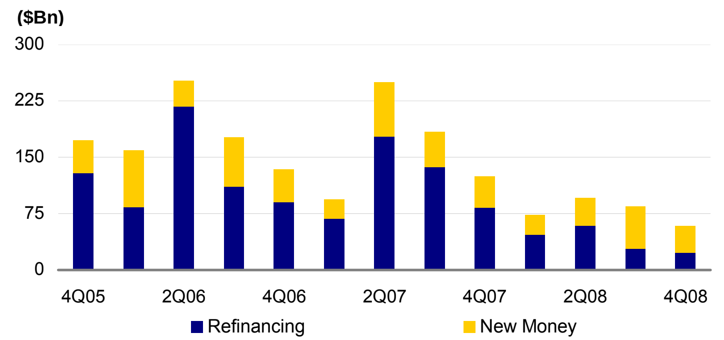
Takeaway

- Market remains weak with lenders focused on capital preservation and risk/return
- In general, pricing is moving up for incremental dollars on all but the highest rated investment grade deals or those with exceptionally strong bank relationships.
- A key factor in determining the market clearing price is the expected usage under the facility, which can significantly boost relationship return. In addition, investors are increasingly vocal with regard to ancillary business opportunities

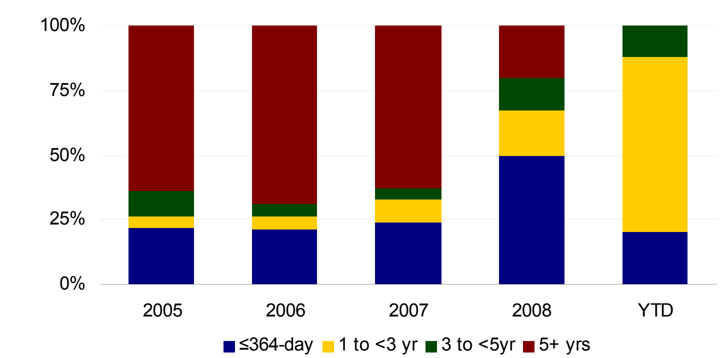
MULTI-YEAR FACILITIES



HIGH GRADE NEW MONEY VOLUME



TENOR BASED DISTRIBUTION (a)

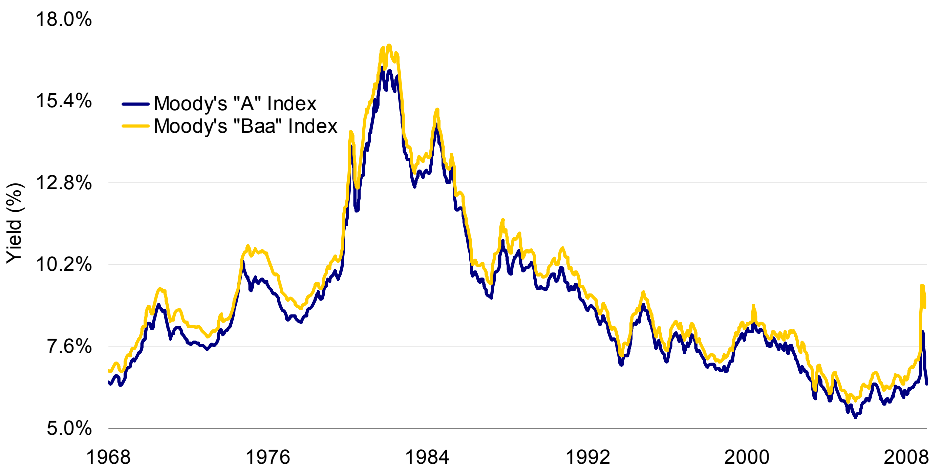


(a) All other volumes other than "YTD" refer to closed

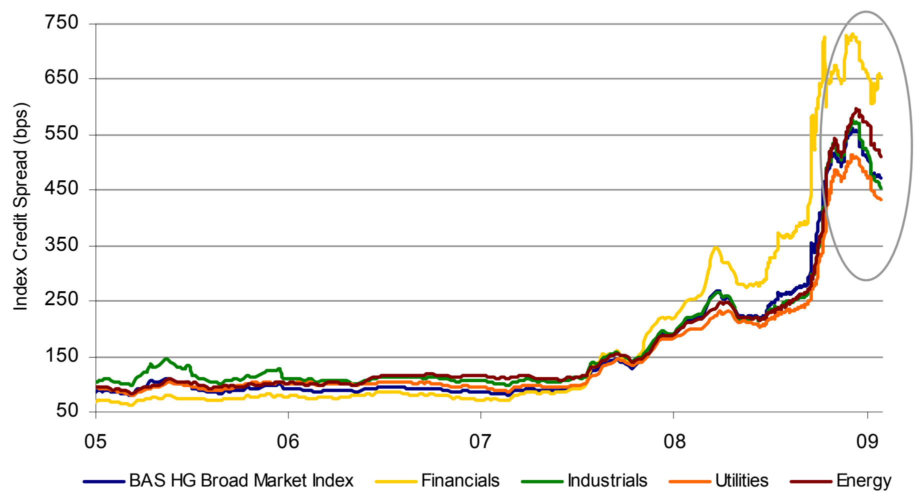
High Grade Debt Market Overview

- The "Golden Age" for investment grade issuers, which peaked in 2005 when credit spreads and financing costs reached a 35-year low, ended with the onset of the credit crisis in July 2007
  - With credit in short supply, liquidity is harder to come by and the cost of funding across the capital structure has increased substantially
- Rapid deterioration in the financial sector and corporate credit markets during 3Q '08 brought a historic wholesale widening of credit spreads, a slowdown in high grade new issue supply and a standstill in secondary trading activity
  - Institutional investors have exhibited a preference for large, liquid transactions from high-quality, defensive industrial issuers. Market depth for BBB names has improved but access still remains credit specific

INVESTMENT GRADE YIELDS: 1968 – 2008 YTD



HIGH GRADE SECONDARY MARKET INDEX CREDIT SPREAD AND TRADING STATISTICS



INVESTMENT GRADE YIELDS: 1968 – 2008YTD [(a)]

"A"-Rated	1968 - 2009	2005 - 2009
Current	6.60%	6.60%
High	16.47%	8.07%
Low	5.33%	5.33%
Average	8.91%	6.12%
"Baa"-Rated	**1968 - 2009**	**2005 - 2009**
Current	8.30%	8.30%
High	17.18%	9.54%
Low	5.82%	5.82%
Average	9.38%	6.69%

(a) Source: Bloomberg.

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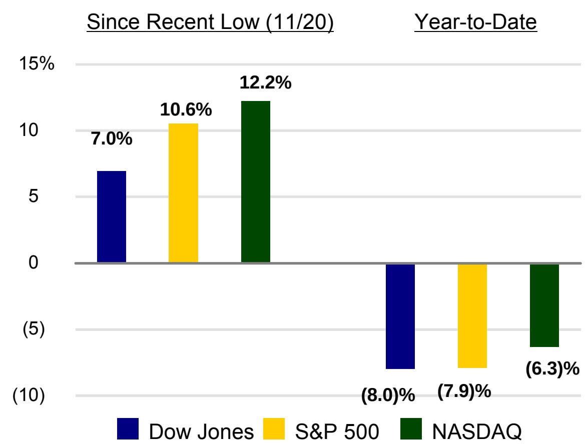
Current Equity Market Conditions

KEY FACTORS IMPACTING EQUITY MARKETS

- Global economic weakness
- Weak corporate earnings outlook
- Sell-off in commodities
- Middle East conflict
- TARP reform / implementation
- Potential Stimulus Plan
- Cash on the sidelines

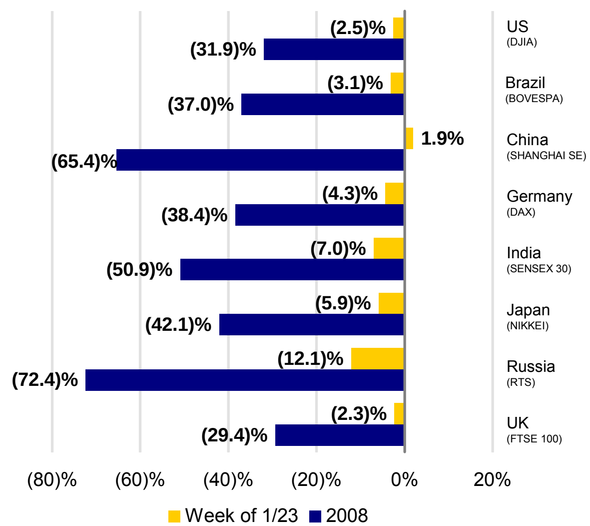
STOCKS REMAIN ABOVE THEIR NOVEMBER LOWS



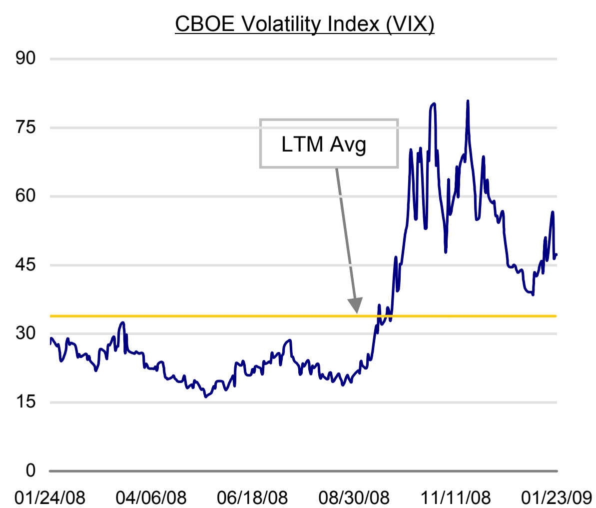
WHILE ALL SECTORS ARE DOWN FOR THE YEAR, THEY ARE WELL ABOVE 2008 LOWS

Sector	Week of 1/23	2008	Since 2008 Low
Telecom	3.1%	(31.7)%	13.6%
Energy	0.8	(33.2)	16.6
Health Care	(0.0)	(22.8)	15.8
Utilities	**(0.4)**	**(30.0)**	**12.6**
Technology	(0.9)	(41.3)	14.1
Materials	(2.1)	(45.0)	19.2
S&P 500	**(2.1)**	**(36.5)**	**10.6**
Staples	(2.2)	(16.2)	3.2
Discretionary	(4.9)	(31.7)	20.2
Real Estate	(5.9)	(46.3)	23.9
Industrials	(5.9)	(39.1)	6.0
Financials	(7.1)	(56.3)	11.6

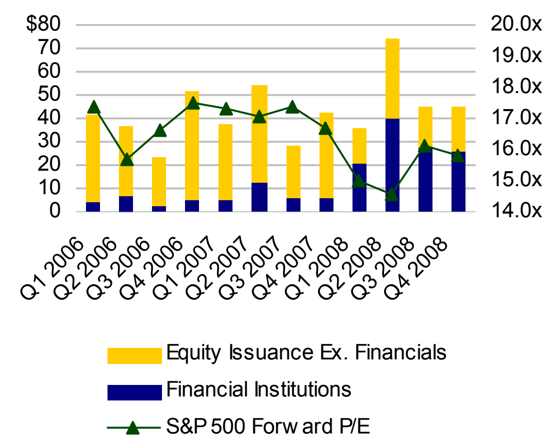
MAJOR EQUITY MARKETS AROUND THE WORLD CONTINUE TO BE VOLATILE



VOLATILITY HAS COME DOWN, BUT REMAINS ABOVE HISTORICAL LEVELS



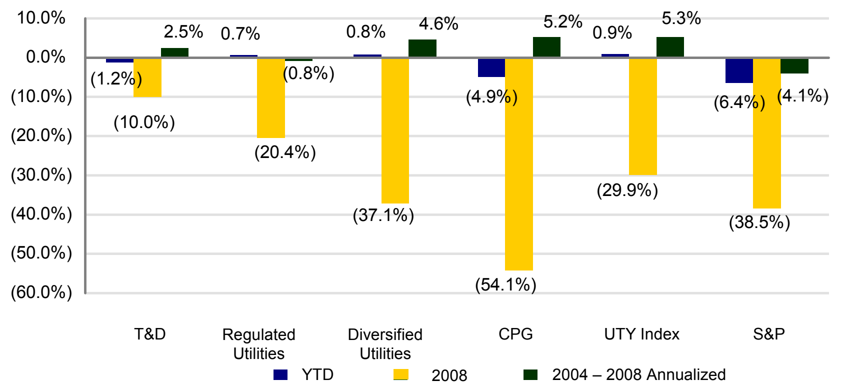
OVERALL U.S EQUITY ISSUANCE AND S&P PERFORMANCE



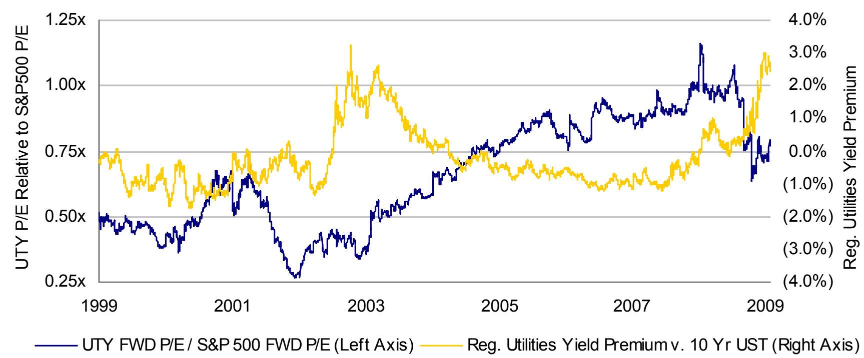
Source: Bloomberg, Factset as of 01/23/09.
(a) Projections per BAS.

Utility Sector Equity Market Performance

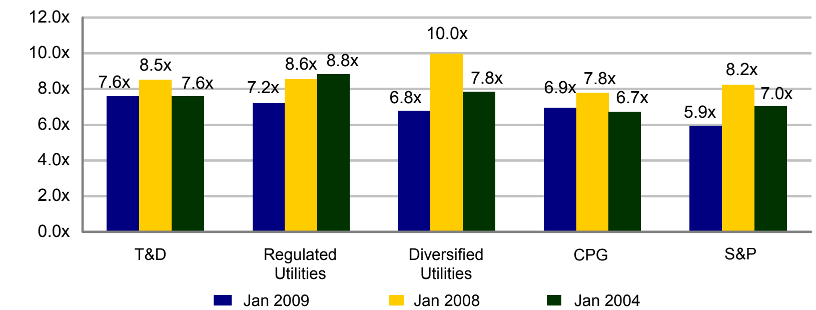
POWER AND UTILITIES PRICE PERFORMANCE



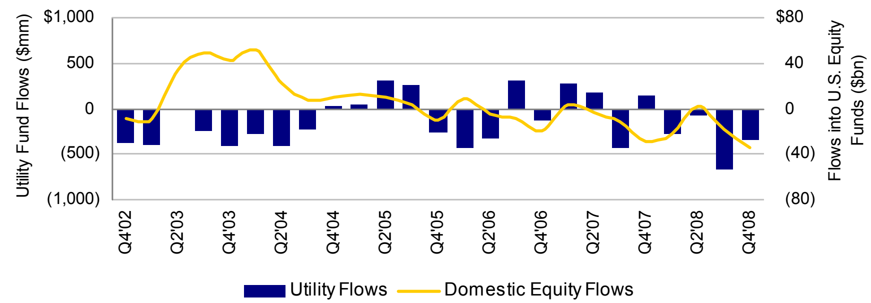
UTY INDEX RELATIVE VALUE



POWER AND UTILITIES FORWARD EBITDA MULTIPLES



EQUITY FUND FLOWS THRU 2008



2008 – 2009 POWER & UTILITY EQUITY OFFERINGS (a)

Pricing Date	Issuer Name	Deal Value $	% of Market Cap	% Change Price Initial/Offer	% Change Price Offer/Open
01/07/09	Progress Energy	469	5%	(6.2%)	0.4%
12/31/08	SCANA Corp	89	2%	0.2%	2.5%
12/02/08	Hawaiian Electric Industries Inc	115	5%	(11.1%)	1.1%
11/18/08	Central Vermont Public Service	23	10%	(12.7%)	0.1%
11/05/08	Pepco Holdings Inc	266	7%	(19.0%)	0.6%
09/18/08	Otter Tail Corp	155	14%	(24.9%)	3.7%
09/09/08	Xcel Energy Inc (b)	303	3%	(3.2%)	0.2%
05/29/08	Westar Energy Inc	146	6%	3.3%	0.9%
01/17/08	ITC Holdings Corp	280	12%	(4.0%)	0.4%
Last 25	**(All Industries) Median**	**213**	**12.0%**	**(14.8%)**	**4.4%**

RELATIVE VALUE (SECTOR MEDIANS)

No. of Companies	Industry Sectors	EMV ($B)	EMV / Net Income 2009E	EMV / Tangible BV	EV / EBITDA 2009E	Dividend Yield	2009E Dividend Payout
6	T&D	$24.9	13.7x	2.0x	7.6x	5.0%	69.0%
12	LDC	21.5	14.6x	1.9x	8.1x	3.8%	61.7%
30	Regulated Utility	151.5	13.4x	1.2x	7.8x	5.1%	67.0%
17	Diversified Utility	184.4	11.9x	1.6x	7.2x	4.2%	50.1%
7	Merchant / Generation	24.0	13.1x	0.8x	7.4x	NA	NA
80		$443.5					
500	S&P 500	$7,610.0	15.3x	-	-	2.9%	54.4%

(a) Unitil Corp, on 12/11/08, priced 2M newly issues shares in a public offering @ $20/share to finance the acquisition of Northern utilities, which closed 12/1/08.
(b) Bought Deal
Source: FactSet and Wall Street research.
Note: Market data as of 1/27/09.

2009 Economic Forecast

COMMENTARY

- As long as mortgage credit remains unavailable and the mortgage market dysfunctional, the possibility is that housing markets will "overshoot" to the downside
- The Fed is expected to delay raising rates until the economy is back on sound footing and the economy has turned
- Maturities take center stage in 2009 as credit availability, and thus the ability to refinance, remains constrained
- For financials, issuance under various government programs expected to keep balance sheets liquid
- The biggest challenge is for high yield companies as funding remains extremely limited
- Given the underlying economic recession issuers in cyclical sectors are expected to face the most challenges compared to non-cyclicals even with similar rating
- ***However, for high grade issuers even with record level of spreads, the low absolute level of interest rates keeps the after tax cost of debt attractive meaning issuers will still look to tap debt financing, especially to reduce exposure to the short term debt market***

SIGNS OF MARKET RECOVERY

- Inflation expectations have tumbled, clearing the way for the Fed's ongoing aggressive easing campaign
- CDS levels of financial companies have moderated from recent highs
- LIBOR levels have moderated and commercial paper has begun to follow suit, partially reopening the credit markets
- LBO overhang in the leveraged loan and high yield markets is essentially gone

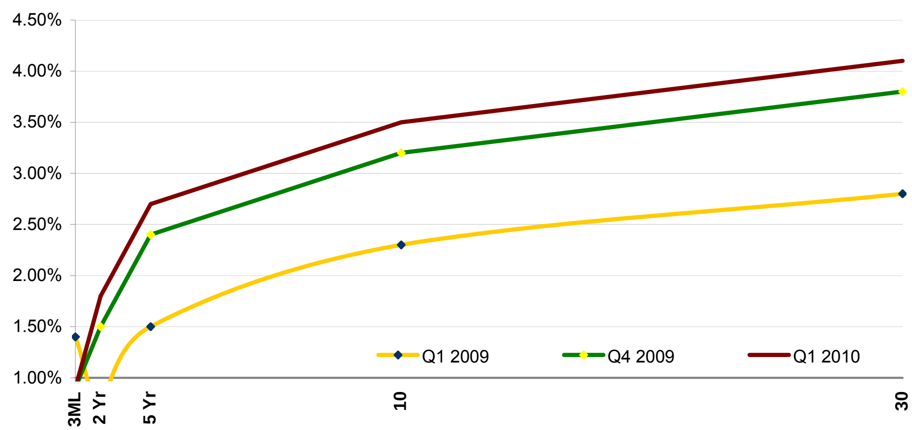
BAS ECONOMIC FORECASTS (a)

	2008	Latest	2009	2010	2011
U.S. Growth (Real GDP - % YOY)	1.2%	(3.8%) (Q4 '08)	(2.1%)	2.6%	3.5%
Inflation (Core CPI - % YOY)	2.3%	2.0% (Q4 '08)	1.7%	1.4%	1.0%
Unemployment Rate	5.8%	6.9% (Q4 '08)	8.2%	8.2%	7.7%
Fed Funds Rate	1.9%	0.25%	0.2%	0.8%	2.7%
10-Year Treasury Yield	3.7%	2.62%	2.8%	4.0%	5.1%
Current Account Deficit (% of GDP)	4.7%		3.9%	4.3%	4.7%
Euro : US Dollar (b)	$1.47	$1.28	$1.34	$1.33	$1.32

S&P 500 FORECAST (c)

	2007	2008	2009	2010
	Actual	*Projected*	*Projected*	*Projected*
S&P 500 Reported EPS	$67.22	$63.60	$58.00	$65.00
	Actual	*Actual*	*Projected*	*Projected*
S&P 500 Index	1468.4	903.3	1029.0	NA
S&P 500 Return	3.7%	(38.5%)	14.0%	NA

PROJECTED U.S. TREASURY YIELD CURVE



(a) Forecasts as of 1/16/09. Current prices/rates as of 1/16/09.
(b) Exchange rates for '08, '09 and '10 represent 1Yr., 2Yr. and 3Yr. forward rates respectively. Source: Bloomberg
(c) Bank of America Merrill Lynch Economic Research, 1/23/09.

Current Utility Themes

Recent financial market volatility forcing reassessment of strategic and financial plans with standalone CPG viability questioned

Industry Dynamics

- Despite tightening reserve margin expectations, environmental issues are limiting new generation development, particularly coal
- RPS in 29 states, plus potential Federal standards will create incremental capital needs and place further pressure on costs to customers
- Nuclear renaissance is a potential alternative, but capital intensity and long construction period precludes many utilities from participating
- Energy efficiency regaining focus given high costs of fuel commodity and rising base utility rates

- Large capital programs given prolonged under-investment in infrastructure
  - Capital programs being delayed due to Economy
- Regulatory challenges due to volatile commodity prices (both fuel and construction materials) and operating costs
  - Increased costs/investment recovery will pressure earned and allowed returns

- Weak credit profiles and turbulent capital markets bring into question long-term viability of standalone CPGs
- 3 of 7 public CPGs have publicly announced they are "reviewing strategic alternatives"

Liquidity / Capital Markets

- Credit crisis has impaired availability of capital to all companies and raised cost of all forms of capital
- Liquidity is current focal point of management and investors
- Utility and CPG stocks have moved significantly lower with overall equities – reflecting global market considerations

- Spreads have widened considerably in high grade debt markets forcing issuers to reconsider spread and coupon targets, however, all in funding costs benefit from new lows for Treasuries

- Non-investment grade markets effectively closed thru 4Q'08, now thawing for best non-investment grade issuers

Strategic Positioning

- Companies continue to focus on regulated activities and rationalize diversified activities
- Large capital programs and need for rate relief expected to mitigate pace of large-scale U.S. utility consolidation

- Sale of non-core assets to bolster liquidity, fund development projects or potentially return cash to investors

M&A

- "Inbound" X-border M&A to continue when dynamics create financial rationale (relative valuations, weak US$) for US acquisitions

- Regulated utility M&A will be challenged by regulatory and financial factors
  - Multi-state deals will continue to be difficult to transact
  - Regulators will aggressively seek to retain synergies in transactions to offset rate increases
- Foreign buyers and infrastructure funds interested in single state utilities with significant capital investment opportunities (e.g. - Puget)

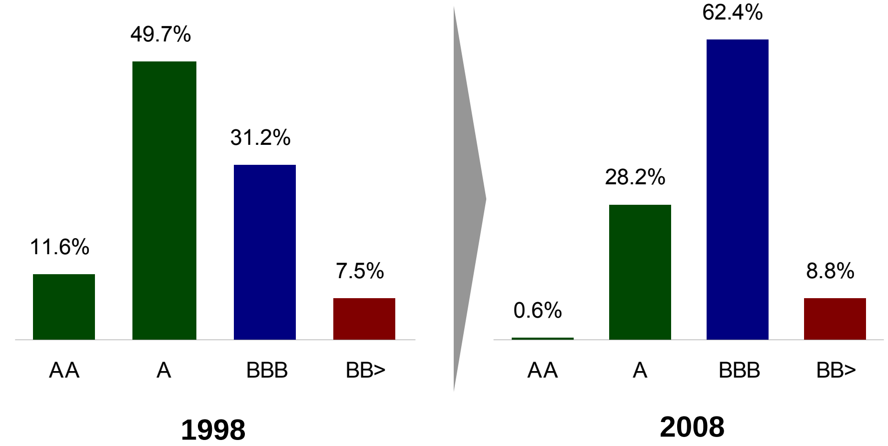
- Consolidation of CPGs accelerating as distress in capital markets threatens viability
- Significant cost and operating synergies in large-scale CPG consolidation
- Financial owners will sell as assets approach equilibrium value

Legend: Black = General Sector Themes / Blue = Utilities Specific / Green = CPG Specific

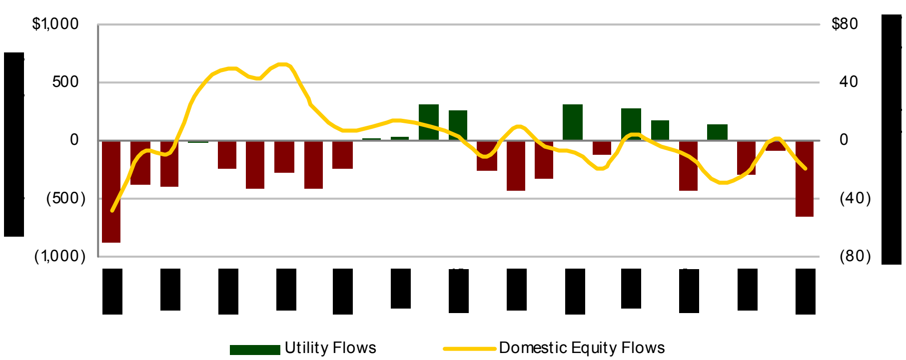
What are the Primary Issues on Minds of Utility Investors

- Liquidity profile of Utilities
- Impact of financial crisis on utility fundamentals
  - Will regulators increase allowed returns to reflect increased capital costs (particularly during period of increasing operating costs)?
  - Will Utilities be able to access capital required to support operations and investment plans?
- Impact of volatility of commodity cost on utilities?
- Potential for demand destruction given economic weakness?

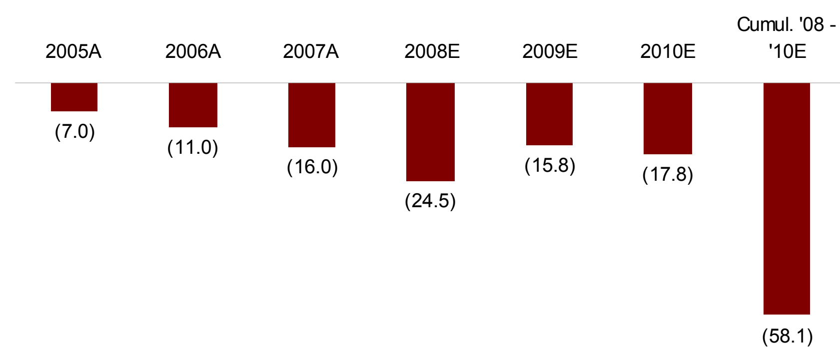
POWER & UTILITIES INDUSTRY: RELATIVE CREDIT PROFILE 1998 - 2008



EQUITY FUND FLOWS



FREE CASH FLOW DEFICIT ($BN)



Implications of Challenged Capital Raising Environment

Recent financial market volatility has created a challenging capital raising environment: Access to capital will be dependant on taking a proactive and flexible approach to managing financial objectives and accepting the increased cost of doing business

Liquidity / Capital Planning Playbook

- Review adequacy of liquidity position under various scenarios
- Scale back/defer capital investment programs
- Drive value through consolidation and asset sales
- Adjust cost of capital and internal hurdle rates to reflect higher cost of capital
- Accessing market in "just-in-time" fashion is a recipe for trouble – liquidity and access to markets can quickly disappear
  - Extend debt maturity profile through early refinancing, extension trades and pre-fundings whenever there are windows of opportunity
  - Consider multiple sources of capital (e.g. non- traditional)
- Strengthen core bank group relationships while reducing reliance on banks
  - Maintain multiple contacts within each financial partner
  - Understand the requirements for credit extension
- Assess counterparty risk
- Review capital structure in light of increased volatility and cost of capital
- Proactively anticipate rating agency concerns
- Review cash management and treasury operations

Cost of Capital Impact

- Market risk premiums have increased for both debt and equity (Increasing the cost of capital)
  - Cost of debt has increased
  - Cost of equity derived under various methodologies has increased, although CAPM is not representative of current market conditions (risk free rate, beta and equity risk premium challenges)
  - Overall cost of funding (WACC) has increased