NARUC Winter Committee Meetings

Wall Street Turmoil:
Outlook for 2009 and Implications for Utilities and Regulators

February 17, 2009
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The Domino Effect—How the Credit Market Unraveled

- **Housing Fundamentals Weaken**
  - **Subprime Defaults Increase**
  - **Rating Agency Downgrades**
  - **Leveraged Loan Demand Evaporates**
  - **Significant Technical Imbalance**

- **Banks Step In**
  - **Write Offs Accelerate**

- **Confidence Erosion and Subsequent Consolidation**

- **Overall Capital Scarcity and Increased Reliance on Commercial Banks**

- **Securitized Debt Values Plummet**
  - **CLO Production Halts, Values Plummet**

- **Deleveraging of Hedge Funds**

- **Massive Global Government Intervention**

Mortgage loan resets; Rising costs of food & fuel; rising unemployment; declining consumer confidence.
Balance Sheet Stress for Financial Institutions

**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)

**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

**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

**LEHMANN BROTHERS**

**Wachovia**

**First Heritage Bank**

**Citi**

**Merrill Lynch**

**Washington Mutual**

**UBS**

**HSBC**

**Bank of America**

**J.P. Morgan**

**Morgan Stanley**

**RBS**

**Lehman Brothers**

**IKB**

**Deutsche Bank**

**Credit Suisse**

**HBOS**

**Credit Agricole**

**Barclays**

**Other**

**Total (as of November 2008)** $712 $735

Balance Sheet: a New Reality (a)

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

(a) Writedowns as of November 2008.

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.
## Government Lends a Hand and $1

<table>
<thead>
<tr>
<th>CONGRESS / TREASURY</th>
<th>FEDERAL RESERVE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Housing and Economic Recovery Act (HERA) – 7/30/2008</strong></td>
<td><strong>Term Auction Facility (TAF) – 12/12/2007</strong></td>
</tr>
<tr>
<td>– Homeowners can refinance into FHA loans w principal write-down</td>
<td>– Overnight loan facility that provides funding</td>
</tr>
<tr>
<td><strong>FNM/FRE Conservatorship – 9/7/2008</strong></td>
<td><strong>Term Securities Lending Facility (TSLF) – 3/11/2008</strong></td>
</tr>
<tr>
<td>– Government Sponsored Enterprise (GSE) Credit Facility</td>
<td>– Provides loans over a 1-month term against eligible collateral</td>
</tr>
<tr>
<td>– GSE Senior Preferred Stock &amp; MBS Purchase Agreement</td>
<td><strong>Primary Dealer Credit Facility (PDCF) – 3/16/2008</strong></td>
</tr>
<tr>
<td><strong>Guarantee Program for Money Market Funds – 9/19/2008</strong></td>
<td>– Overnight loan facility funding a range of eligible collateral</td>
</tr>
<tr>
<td>– Guarantees participating money funds from breaking the buck</td>
<td><strong>Foreign Currency Swaps – 9/18/2008</strong></td>
</tr>
<tr>
<td><strong>Troubled Asset Relief Program (TARP) – 9/28/2008</strong></td>
<td>– Unlimited currency swaps w central banks including ECB</td>
</tr>
<tr>
<td>– Capital purchase program to buy troubled assets or preferred shares from U.S banks and thrifts</td>
<td><strong>Asset Backed Commercial Paper Money Market Fund Liquidity Facility (AMLF) – 9/19/2008</strong></td>
</tr>
<tr>
<td><strong>Emergency Economic Stability Act (EESA) – 10/3/2008</strong></td>
<td>– Banks borrow from the Fed to purchase ACP from money market funds at amortized cost and zero risk weighting</td>
</tr>
<tr>
<td>– Creates the troubled asset program (TARP)</td>
<td><strong>Commercial Paper Funding Facility (CPFF) – 10/7/2008</strong></td>
</tr>
<tr>
<td><strong>FDIC Deposit Insurance Limit Increase – 10/3/2008</strong></td>
<td>– The Fed buys 3-month commercial paper from Tier 1 issuers</td>
</tr>
<tr>
<td>– Increases Account Limit to $250,000 from $100,000</td>
<td><strong>Money Market Investor Funding Facility (MMIF) – 10/21/2008</strong></td>
</tr>
<tr>
<td><strong>Temporary Liquidity Guarantee Program (TLGP) – 10/14/2008</strong></td>
<td>– Fed buys CP, bank notes and CDs to 90 days maturity from money market funds</td>
</tr>
<tr>
<td>– FDIC guarantees newly issued Senior Unsecured debt of banks, thrifts and certain holding companies</td>
<td><strong>GSE Debt and MBS Purchase Program – 11/25/2008</strong></td>
</tr>
<tr>
<td><strong>Term-Asset Backed Securities Loan Facility (TALF) – 11/25/2008</strong></td>
<td>– Fed buys Fannie, Freddie &amp; Home Loan Debentures and Agency MBS</td>
</tr>
<tr>
<td>– Fed provides $200 Bn in loans to lend against AAA rated ABS</td>
<td><strong>Expected Fiscal Stimulus Under Discussion</strong></td>
</tr>
<tr>
<td>– Expected to include large infrastructure component</td>
<td><strong>Expected to include large infrastructure component</strong></td>
</tr>
</tbody>
</table>
Stock Market Performance

10 YEAR PERFORMANCE

- 30%
- 20%
- 10%
- 0%
- (10%)
- (20%)
- (30%)
- (40%)
- (50%)

21.5%

10 YEAR PERFORMANCE – S&P VS. UTY

1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009

5 YEAR PERFORMANCE

- 40%
- 30%
- 20%
- 10%
- 0%
- (10%)
- (20%)
- (30%)
- (40%)
- (50%)

27.9%

LTM PERFORMANCE

- 0%
- (10%)
- (20%)
- (30%)
- (40%)
- (50%)

(22.4%)

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

- DJ WORLD INDEX
- S&P 500 INDEX
- UTY INDEX
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.

(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.

<table>
<thead>
<tr>
<th>INVESTMENT GRADE YIELDS: 1968 – 2008YTD (a)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current</td>
</tr>
<tr>
<td>High</td>
</tr>
<tr>
<td>Low</td>
</tr>
<tr>
<td>Average</td>
</tr>
<tr>
<td>Current</td>
</tr>
<tr>
<td>High</td>
</tr>
<tr>
<td>Low</td>
</tr>
<tr>
<td>Average</td>
</tr>
</tbody>
</table>

(a) Source: Bloomberg.
VOLATILITY HAS COME DOWN, BUT REMAINS ABOVE HISTORICAL LEVELS

OVERALL U.S EQUITY ISSUANCE AND S&P PERFORMANCE

(1) Projections per BAS.
Utility Sector Equity Market Performance

**POWER AND UTILITIES PRICE PERFORMANCE**

<table>
<thead>
<tr>
<th>T&amp;D</th>
<th>Regulated Utilities</th>
<th>Diversified Utilities</th>
<th>CPG</th>
<th>UTY Index</th>
<th>S&amp;P</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.5%</td>
<td>0.7%</td>
<td>0.8%</td>
<td>4.6%</td>
<td>5.2%</td>
<td>0.9%</td>
</tr>
<tr>
<td>(1.2%)</td>
<td>(0.6%)</td>
<td>(4.9%)</td>
<td>(29.9%)</td>
<td>(6.4%)</td>
<td>(4.1%)</td>
</tr>
<tr>
<td>(10.0%)</td>
<td>(20.4%)</td>
<td>(37.1%)</td>
<td>(54.1%)</td>
<td>(38.5%)</td>
<td></td>
</tr>
</tbody>
</table>

**POWER AND UTILITIES FORWARD EBITDA MULTIPLES**

<table>
<thead>
<tr>
<th>T&amp;D</th>
<th>Regulated Utilities</th>
<th>Diversified Utilities</th>
<th>CPG</th>
<th>S&amp;P</th>
</tr>
</thead>
<tbody>
<tr>
<td>7.8x</td>
<td>6.8x</td>
<td>8.6x</td>
<td>10.0x</td>
<td>8.2x</td>
</tr>
<tr>
<td>6.8x</td>
<td>6.8x</td>
<td>8.6x</td>
<td>8.2x</td>
<td>7.0x</td>
</tr>
<tr>
<td>7.2x</td>
<td>7.2x</td>
<td>8.8x</td>
<td>10.0x</td>
<td>8.2x</td>
</tr>
</tbody>
</table>

**2008 – 2009 POWER & UTILITY EQUITY OFFERINGS (a)**

<table>
<thead>
<tr>
<th>Pricing Date</th>
<th>Issuer Name</th>
<th>Deal Value ($m)</th>
<th>% of Market Cap</th>
<th>% Change Price Initial/Offer</th>
<th>% Change Price Offer/Open</th>
</tr>
</thead>
<tbody>
<tr>
<td>01/07/09</td>
<td>Progress Energy</td>
<td>469</td>
<td>5%</td>
<td>(6.2%)</td>
<td>0.4%</td>
</tr>
<tr>
<td>12/31/08</td>
<td>SCANA Corp</td>
<td>573</td>
<td>5.1%</td>
<td>2.3%</td>
<td>2.5%</td>
</tr>
<tr>
<td>12/02/08</td>
<td>Hawaiian Electric Industries Inc</td>
<td>115</td>
<td>2.1%</td>
<td>(10.3%)</td>
<td>1.1%</td>
</tr>
<tr>
<td>11/18/08</td>
<td>Central Vermont Public Service</td>
<td>125</td>
<td>3.8%</td>
<td>(12.7%)</td>
<td>0.1%</td>
</tr>
<tr>
<td>12/28/08</td>
<td>Pepco Holdings Inc</td>
<td>278</td>
<td>3.4%</td>
<td>(13.8%)</td>
<td>2.5%</td>
</tr>
<tr>
<td>09/18/08</td>
<td>Ottie Tail Corp</td>
<td>155</td>
<td>2.9%</td>
<td>(24.9%)</td>
<td>3.7%</td>
</tr>
<tr>
<td>09/09/08</td>
<td>Xcel Energy Inc (h)</td>
<td>303</td>
<td>3.2%</td>
<td>(3.2%)</td>
<td>0.2%</td>
</tr>
<tr>
<td>09/29/08</td>
<td>Westar Energy Inc</td>
<td>146</td>
<td>4.6%</td>
<td>(3.2%)</td>
<td>0.9%</td>
</tr>
<tr>
<td>01/11/09</td>
<td>ITC Holdings Corp</td>
<td>280</td>
<td>12%</td>
<td>(4.0%)</td>
<td>0.4%</td>
</tr>
</tbody>
</table>

**UTY INDEX RELATIVE VALUE**

**EQUITY FUND FLOWS THRU 2008**

**RELATIVE VALUE (SECTOR MEDIANS)**

<table>
<thead>
<tr>
<th>No. of Companies</th>
<th>Industry Sectors</th>
<th>EMV ($B)</th>
<th>EMV / Net Income 2008</th>
<th>EMV / Tangible BV</th>
<th>EV / EBITDA</th>
<th>Dividend Yield</th>
<th>Dividend Payout</th>
</tr>
</thead>
<tbody>
<tr>
<td>6</td>
<td>T&amp;D</td>
<td>$24.9</td>
<td>13.7x</td>
<td>2.0x</td>
<td>7.6x</td>
<td>5.0%</td>
<td>69.0%</td>
</tr>
<tr>
<td>12</td>
<td>LDC</td>
<td>21.5</td>
<td>14.6x</td>
<td>1.9x</td>
<td>8.1x</td>
<td>3.8%</td>
<td>61.7%</td>
</tr>
<tr>
<td>30</td>
<td>Regulated Utility</td>
<td>151.5</td>
<td>13.4x</td>
<td>1.2x</td>
<td>7.8x</td>
<td>5.1%</td>
<td>67.0%</td>
</tr>
<tr>
<td>17</td>
<td>Diversified Utility</td>
<td>184.4</td>
<td>11.9x</td>
<td>1.6x</td>
<td>7.2x</td>
<td>4.2%</td>
<td>59.1%</td>
</tr>
<tr>
<td>7</td>
<td>Merchant / Generation</td>
<td>24.0</td>
<td>13.1x</td>
<td>0.8x</td>
<td>7.4x</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>80</td>
<td>Merchant / Generation</td>
<td>443.5</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>500</td>
<td>S&amp;P 500</td>
<td>$7,610.0</td>
<td>15.3x</td>
<td>-</td>
<td>-</td>
<td>2.9%</td>
<td>54.4%</td>
</tr>
</tbody>
</table>

(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-cycicals 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)

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

S&P 500 FORECAST (c)

<table>
<thead>
<tr>
<th></th>
<th>2007 Actual</th>
<th>2008 Projected</th>
<th>2009 Projected</th>
<th>2010 Projected</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P 500 Reported EPS</td>
<td>$67.22</td>
<td>$63.60</td>
<td>$58.00</td>
<td>$65.00</td>
</tr>
<tr>
<td>S&amp;P 500 Index</td>
<td>1468.4</td>
<td>903.3</td>
<td>1029.0</td>
<td>NA</td>
</tr>
<tr>
<td>S&amp;P 500 Return</td>
<td>3.7%</td>
<td>(38.5%)</td>
<td>14.0%</td>
<td>NA</td>
</tr>
</tbody>
</table>

(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
- Foreign buyers and infrastructure funds interested in single state utilities with significant capital investment opportunities (e.g. - Puget)

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
- “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)
- 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”

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

<table>
<thead>
<tr>
<th>Year</th>
<th>AA</th>
<th>A</th>
<th>BBB</th>
<th>BB+</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>11.6%</td>
<td>49.7%</td>
<td>31.2%</td>
<td>7.5%</td>
</tr>
<tr>
<td>2008</td>
<td>0.6%</td>
<td>28.2%</td>
<td>62.4%</td>
<td>8.8%</td>
</tr>
</tbody>
</table>

**EQUITY FUND FLOWS**

- Utility Flows
- Domestic Equity Flows

**FREE CASH FLOW DEFICIT ($BN)**

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<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td></td>
<td>(7.0)</td>
<td>(11.0)</td>
<td>(16.0)</td>
<td>(24.5)</td>
<td>(15.8)</td>
<td>(17.8)</td>
<td>(58.1)</td>
</tr>
</tbody>
</table>
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

**Legend:**  Black = Strategic  Blue = Financial  Green = Operational

Cost of Debt
- Liquidity premium
- New Issue premium
- Credit spread
- Risk-free rate

Cost of Equity
- Political risk premium
- Equity risk premium

**Target Debt to Equity mix**

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