

Attracting Capital for Energy & Water Projects in an Uncertain Market

Heike M. Doerr
Janney Montgomery Scott LLC

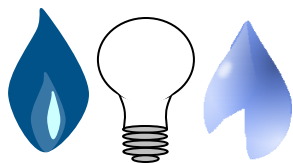
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1801 Market Street Philadelphia, PA 19103 (215) 665-6000

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Research Analyst Certification and Important Disclosures are located on page 2

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Individual disclosures for the companies mentioned in this report can be obtained by calling or writing Janney Montgomery Scott LLC as provided on the first page of this report.

Definition of Ratings

BUY Janney expects that the subject company will appreciate in value. Additionally, we expect that the subject company will outperform comparable companies within its sector.

NEUTRAL Janney believes that the subject company is fairly valued and will perform in line with comparable companies within its sector. Investors may add to current positions on short-term weakness and sell on strength as the valuations or fundamentals become more or less attractive.

SELL Janney expects that the subject company will likely decline in value and will underperform comparable companies within its sector.

Price Charts

Contact Janney Montgomery Scott LLC for the charts containing rating and price target information of covered companies.

Janney Montgomery Scott Ratings Distribution as of March 31, 2009*

<u>BUY</u>	<u>NEUTRAL</u>	<u>SELL</u>
45%	53%	3%

*As a percent of total coverage. See ratings definition above.

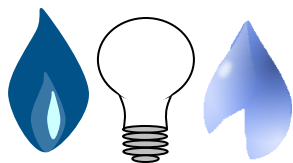
Janney Montgomery Scott Ratings of Investment Banking Relationships as of March 31, 2009**

<u>BUY</u>	<u>NEUTRAL</u>	<u>SELL</u>
6%	4%	0%

**Percentages of each rating category where JMS has performed Investment Banking services over the past 12 months.

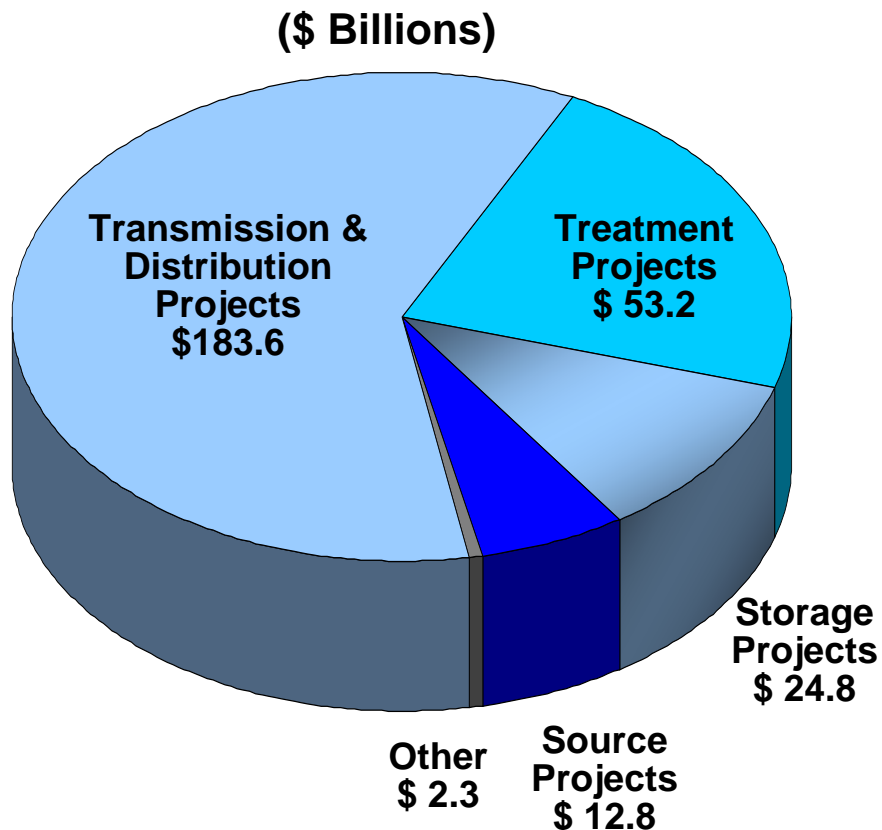
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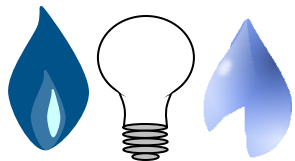


Drinking Water Investment Needs Remain High

\$335 Billion needed for U.S. drinking water utilities over the next 20 years to ensure compliance with existing and future water regulations



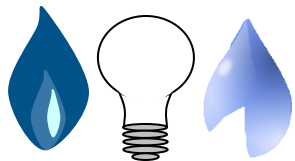
- Emphasis on transmission & distribution projects
- Pipe replacement cycles are not keeping up with increasing deterioration
- Replacement costs continue to rise, dramatically outpacing the book value of assets in the ground
- Water infrastructure has a long asset life, with long depreciation schedules



Source: EPA's 2007 Drinking Water Infrastructure Needs Survey & Assessment

Gas Utility Investment Needs

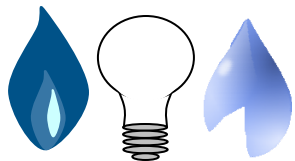
- **Main Replacements**
 - System reinforcement & enhanced reliability
 - Safety concerns
 - Increase pressure
- **Population Trends**
 - Growth has shifted farther from interstate supply points
- **Connections to Additional Interstate Pipelines**
- **Storage Projects**



Financial Implications of Capital Intensity

What does this mean?

- Necessary to regularly access the debt and equity markets to fund capital investments
- Important to keep Wall Street comfortable with the “Regulatory Compact” – that fair returns will follow the needed investment



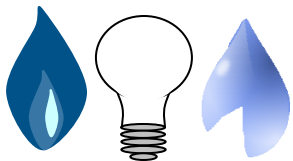
Regulation, Regulation, Regulation

There is no “one size fits all” approach to regulation

Commissions that work with their utilities to minimize rate shock to customers, while stimulating infrastructure investments in their jurisdictions, are viewed most favorably by the investment community.

How Investors Evaluate Regulatory Treatment

- Recent Allowed ROEs Granted
- Consistent Regulatory Treatment
- Timely Decision Making
- Mechanisms to Minimize Regulatory Lag

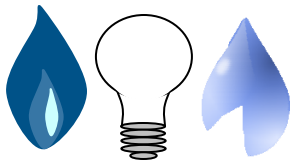


Evaluating Allowed ROEs

Most Important Consideration in Assessing Regulatory Climate

- Proper incentives need to be in place to attract capital, in order to maintain existing capital structure (50% equity ratio)
- Allowed ROEs are typically not achievable / maintainable due to regulatory lag
- Are current market and operating risks accurately reflected in granted ROEs?

Maintenance of “Regulatory Compact” Essential to Continued Access to Capital

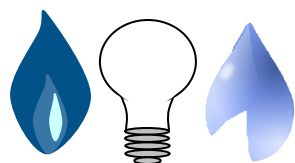


Comparing Regulatory Environments

ROEs Most Recently Granted

State	RRA Ranking	Assessment	Electric	Gas	Water
Delaware	Average / 1	relatively constructive	10.0%	10.25%	10.33%
Maryland	Below Average / 1	highly politicized	10.0%	10.0%	N/A
New Jersey	Average / 2	relatively neutral	9.75%	10.3%	10.3%
New York	Average / 3	long history of below-industry average ROEs	10.0%	9.7%	9.5%
Pennsylvania	Average / 3	relatively stable	10.1%	10.4%	11.0%
Virginia	Above Average / 3	relatively constructive	10.2%	10.0%	10.2%
West Virginia	Average / 3	somewhat restrictive	10.5%	10.55%	10.0%

Source: SNL, Public Utility Commission filings

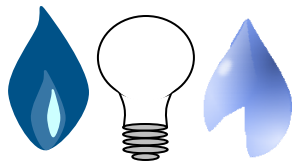
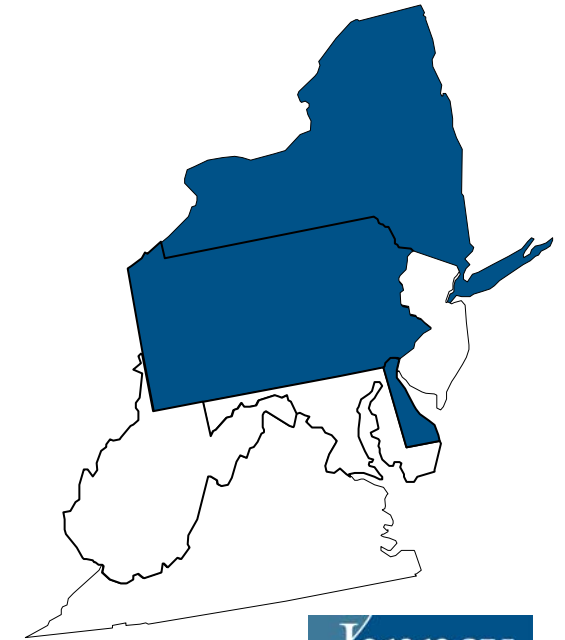


Comparing Regulatory Environments (cont.)

Water Utilities – Infrastructure Surcharge Mechanisms

Firms can reallocate capital to projects with more timely return periods and take advantage of regulatory mechanisms that recover investment more quickly.

- Mechanisms permit utilities to better manage cash flows and capitol programs in times of extreme financial / market volatility
- Currently exists in 8 states (CT, DE, IL, IN, MO, NY, OH, PA)



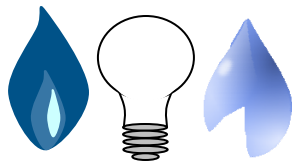
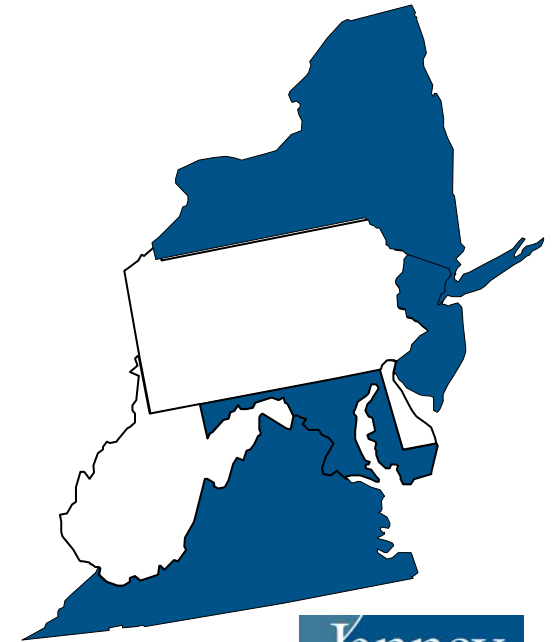
Comparing Regulatory Environments (cont.)

Gas Utilities – Decoupling Mechanisms

“Effective regulatory approaches help utilities recover lost revenue and preserve financial stability so that they are able to partner with their customers in conserving energy.”

- AGA Natural Gas Rate Round-Up (May 2009)

- The disassociation of a utility's profits from its sales of the energy commodity
- 29 natural gas utilities provide service to 20 million residential customers under decoupled rate structures.



Capital Market Needs

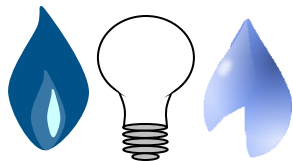
Recent equity offerings completed by American Water and American States Water and debt issuances by American Water and California Water

Company	Most Recent Equity Offering	Net Debt/ Capitalization Ratio (3/30/09)
American States Water*	May 2009	47.4%
American Water Works*	June 2009	56.8%
Aqua America	August 2006	53.4%
Artesian Water	June 2007	54.7%
California Water Service	October 2006	41.1%
Connecticut Water	May 1985	46.6%
Middlesex Water	November 2006	46.4%
Pennichuck	June 2005	57.9%
San Jose Water	N/A	47.2%
SouthWest Water **	August 2004	54.0%
York Water	November 2006	57.4%

* AWR & AWK (pro-forma for recent offerings)

** SWWC (as of 6/30/08);

Source: Company filings & Janney



Are Current Levels of Capital Spending Sustainable?

Only if...

- Utilities can regularly access the equity & debt markets to fund capital programs
- AND receive fair (and timely) returns on their investments

