

FEBRUARY 2009

THE IMPACT OF THE CREDIT CRISIS ON THE UTILITY SECTOR

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J.P.Morgan

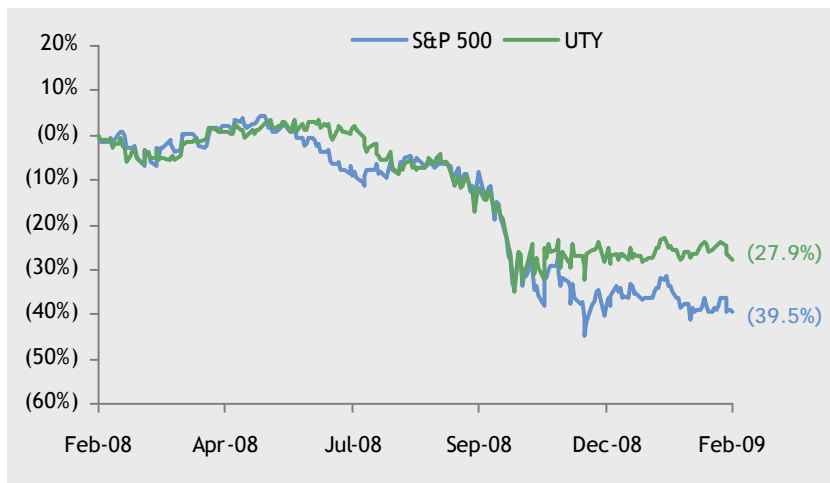
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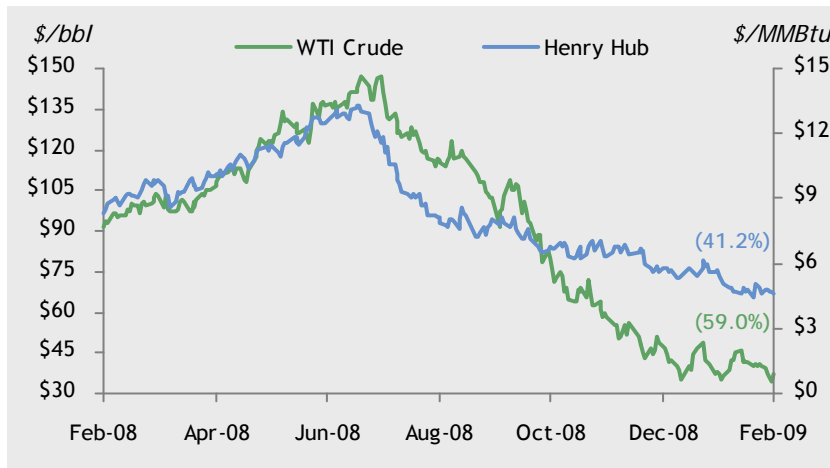
The capital markets are experiencing unprecedented volatility and instability resulting in a paradigm shift

THE IMPACT OF THE CREDIT CRISIS ON THE UTILITY SECTOR

Indexed equity performance



Commodity prices (Crude oil and natural gas)



Source: Bloomberg, FactSet as of 2/13/09

Significant events

Financial sector dislocation

Severe credit contraction

Dramatic re-pricing of risk

Uncertain capital markets access

Collapse of global equity markets

Corporate earnings contraction

Increased cost-of-capital

The financial crisis is driving a capital markets paradigm shift

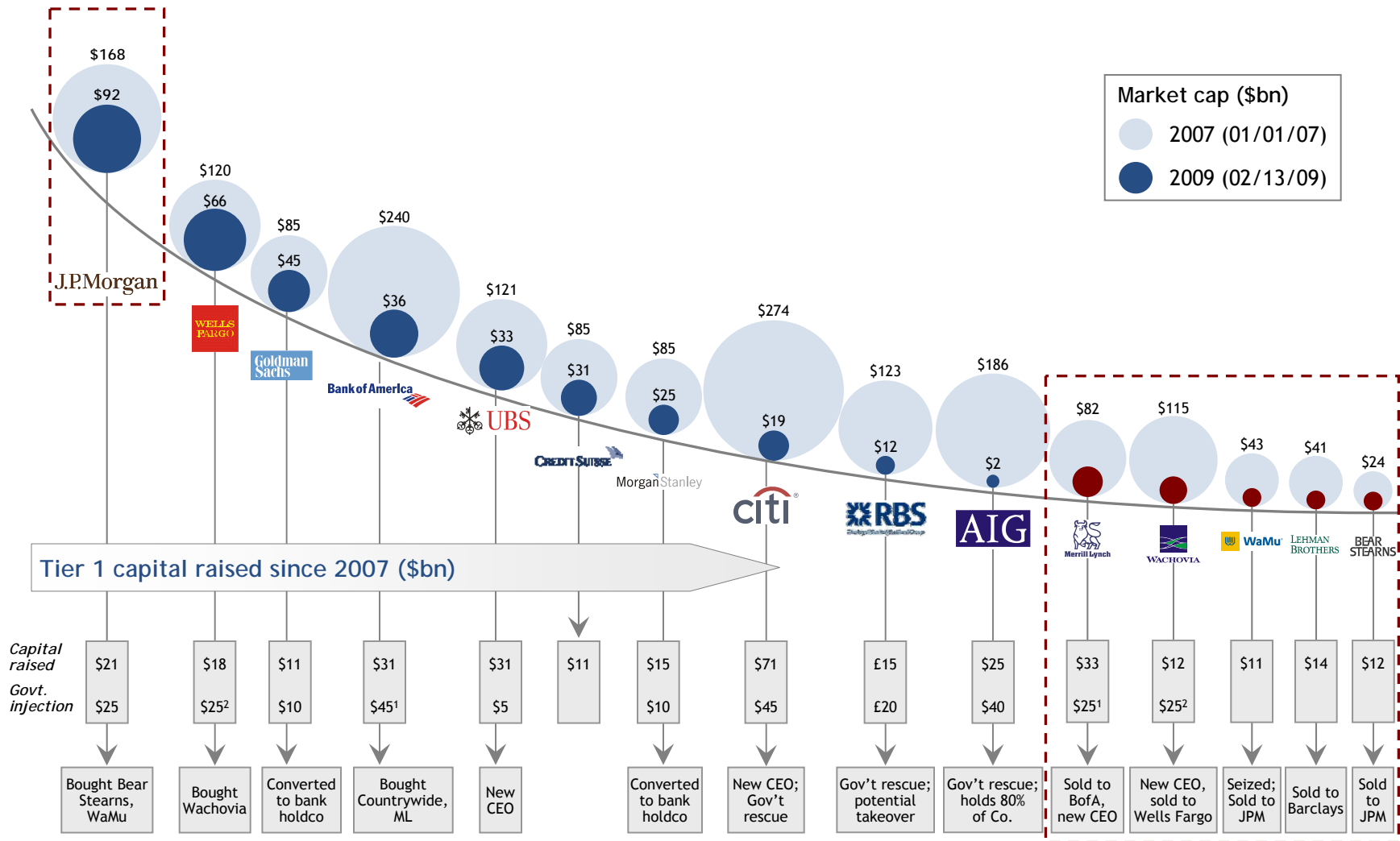
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J.P. Morgan has exhibited stability amidst the market turmoil

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J.P. Morgan has maintained its strong capital position

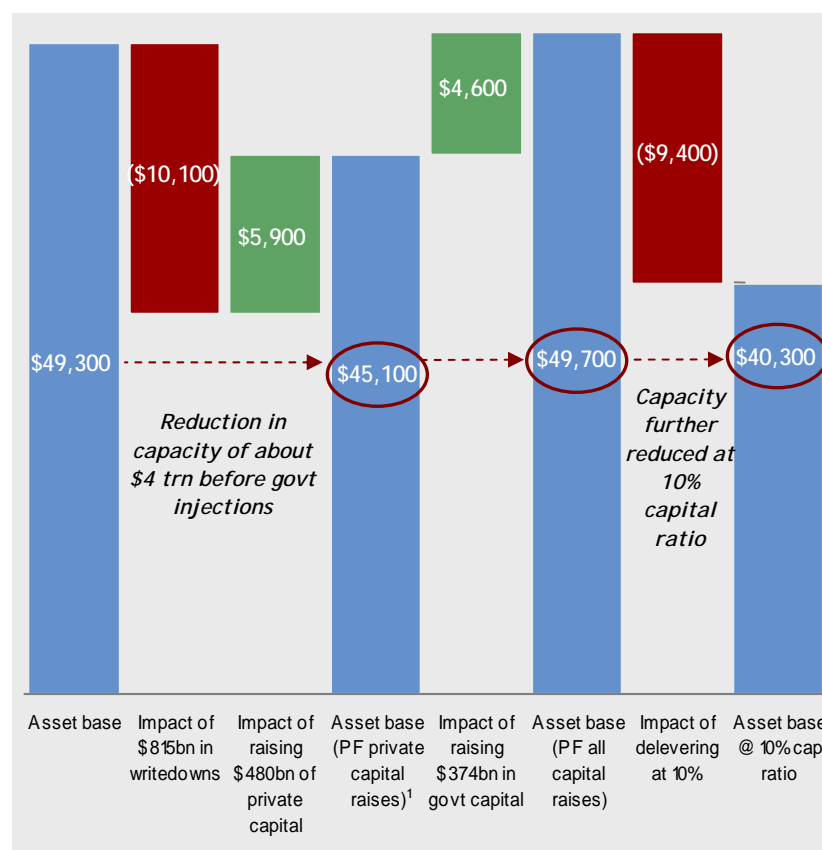


¹ Represents combined Banc of America/Merrill Lynch injection
² Represents combined Wells Fargo/Wachovia injection

Bank balance sheet erosion: Likely in the trillions

Global financials¹—reduction in asset base (\$ bn)

- Banks and financial institutions as a group lost more than 50% of their market value
 - Eroding bank market capacity just when many firms need more liquidity
 - Future liquidity challenge for many firms
- Global financials¹: \$815 billion write-downs — \$854 billion capital raises
 - More than \$4 trillion in bank balance sheet contraction at current leverage omitting government investments
 - At more conservative leverage (from 8.1% to 10.0%), close to \$9.5 trillion bank balance sheet contraction



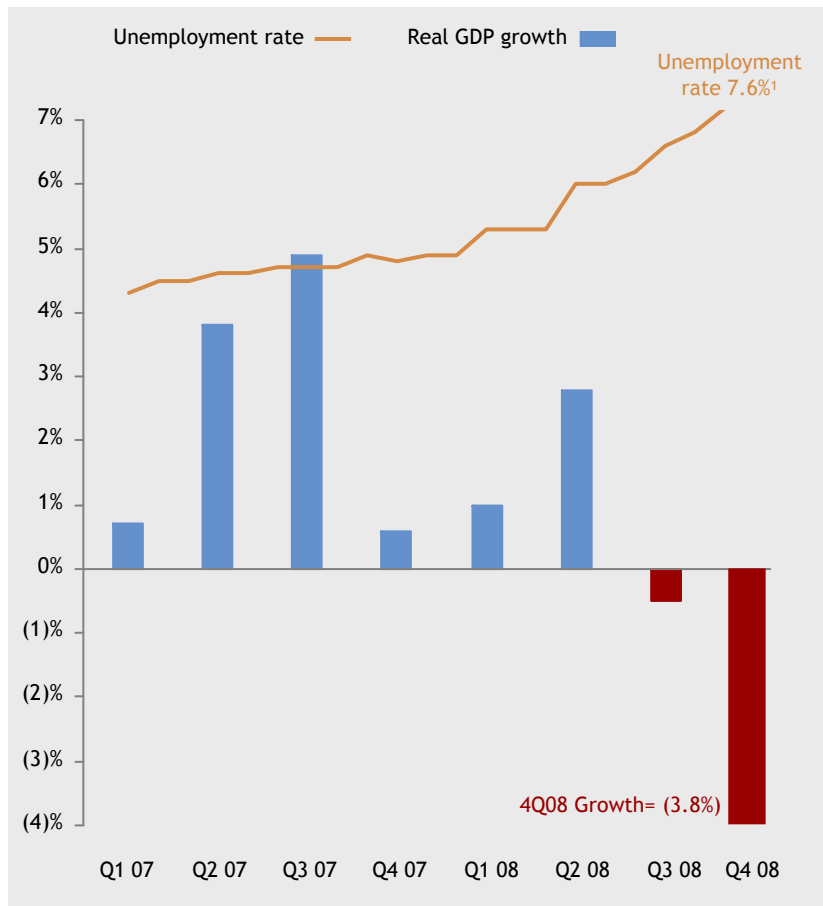
Source: Bloomberg; J.P.Morgan

Note: Total write-downs and capital raised as of 2/10/09

¹ Includes the 75 largest global banks/brokers by write-downs; Assumes core capital ratio of 8.1%

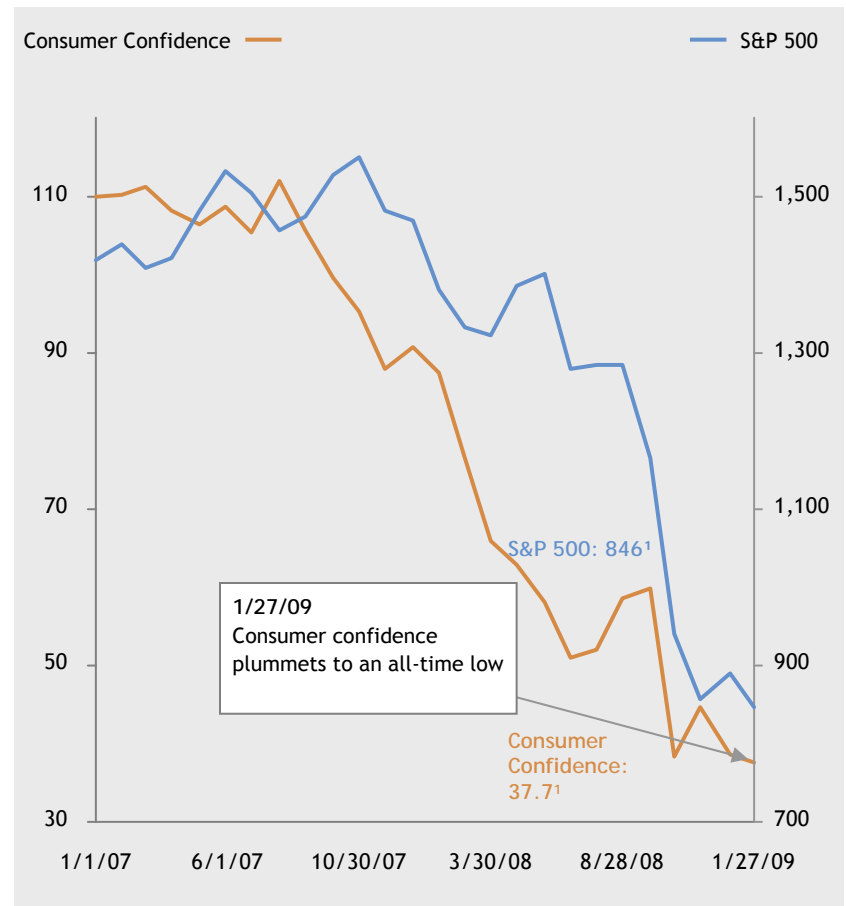
The U.S. economy has entered a period of slowing growth driven by a consumer-led downturn

Unemployment rate and real GDP growth



Source: Global Insight/DRI, Bureau of Economic Analysis
¹ As of January 2009, unemployment rate was 7.6%

Consumer Confidence and S&P 500 performance

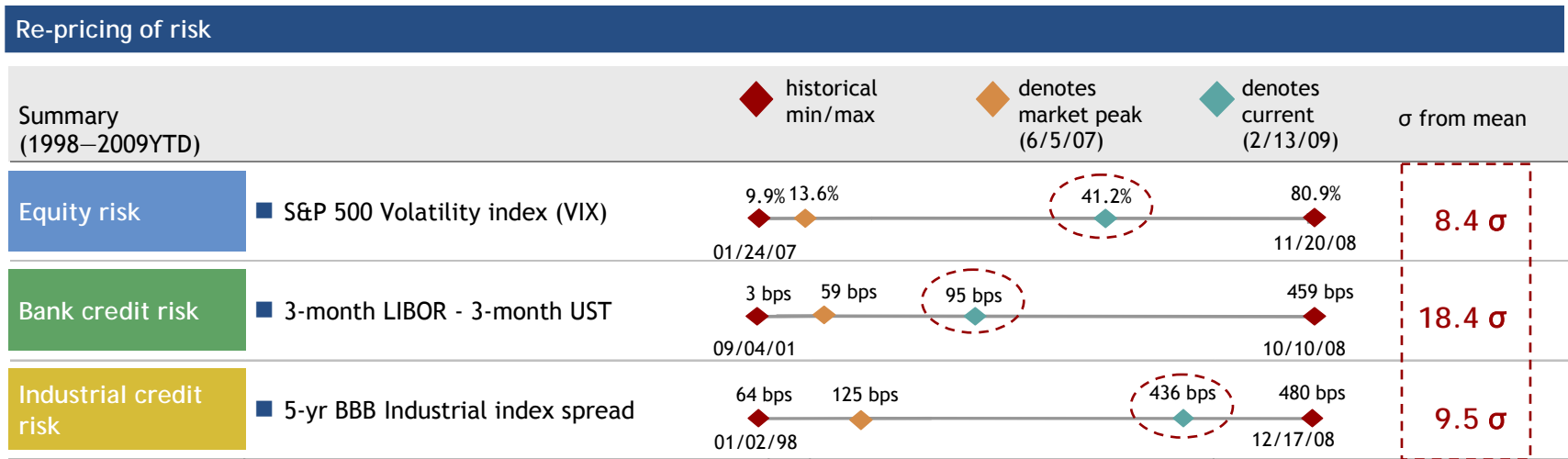


Source: FactSet, The Conference Board (Consumer Confidence Index: 1985 = 100)
¹ As of 1/27/09

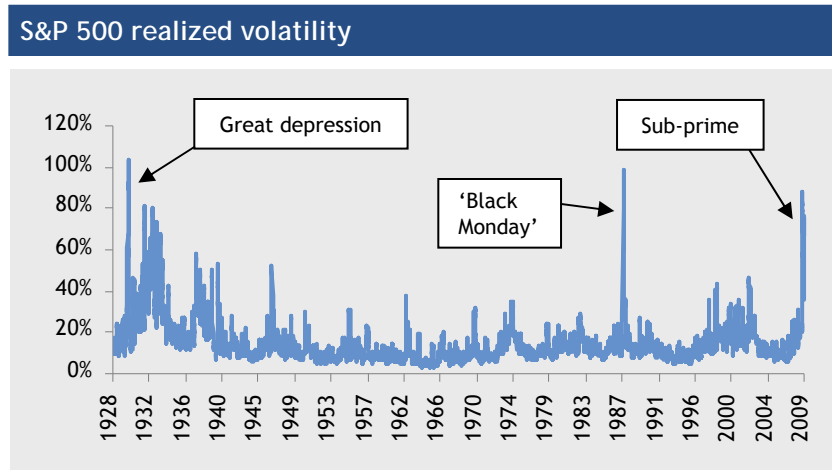
Volatility and risk pricing remain elevated ...

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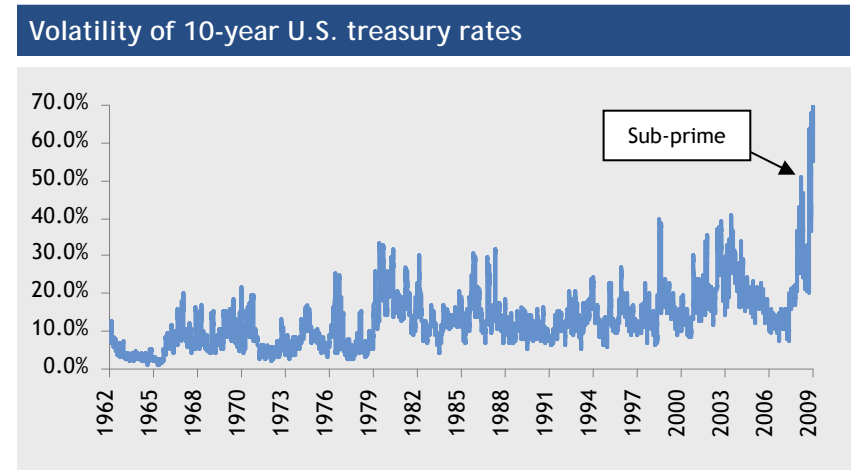
The volatility index and other market risk metrics have abated from historical highs, but remain relatively elevated



Source: Bloomberg; J.P. Morgan as of 2/13/09



Source: Bloomberg, J.P. Morgan
Note: Realized volatility is presented in annual terms and calculated based on daily returns and a one month rolling window

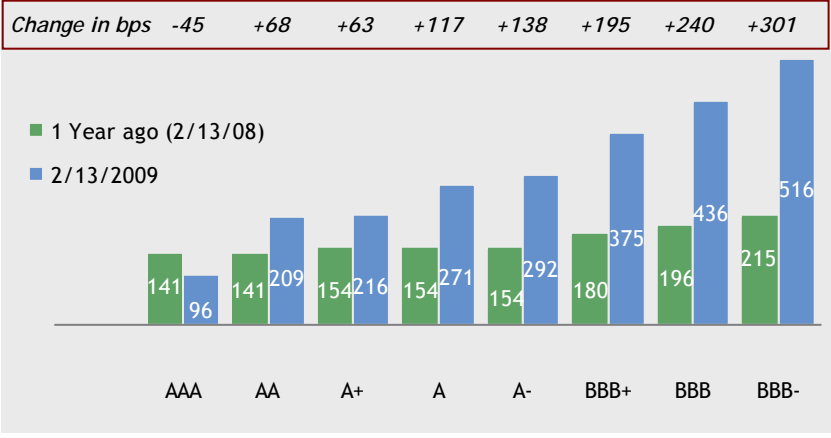


Source: Bloomberg, J.P. Morgan
Note: Realized volatility is presented in annual terms and calculated based on daily returns with a one-month rolling window

...and there is a clear intolerance for leverage and counterparty risk

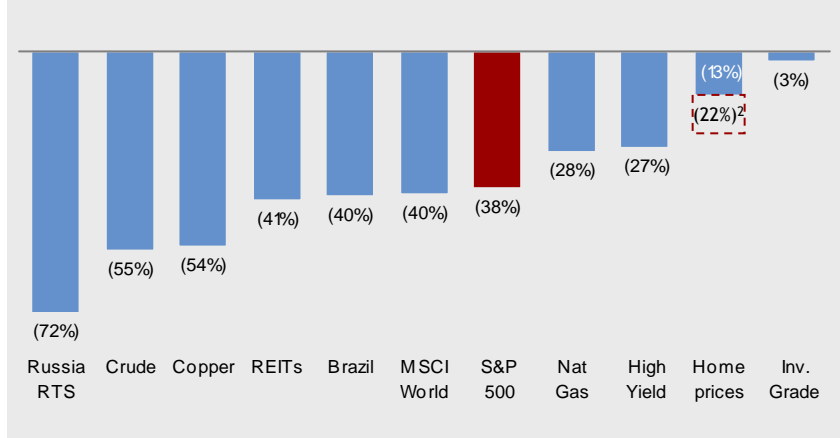
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U.S. Industrial index spread (5 year yield vs. 5 year Treasury Note)



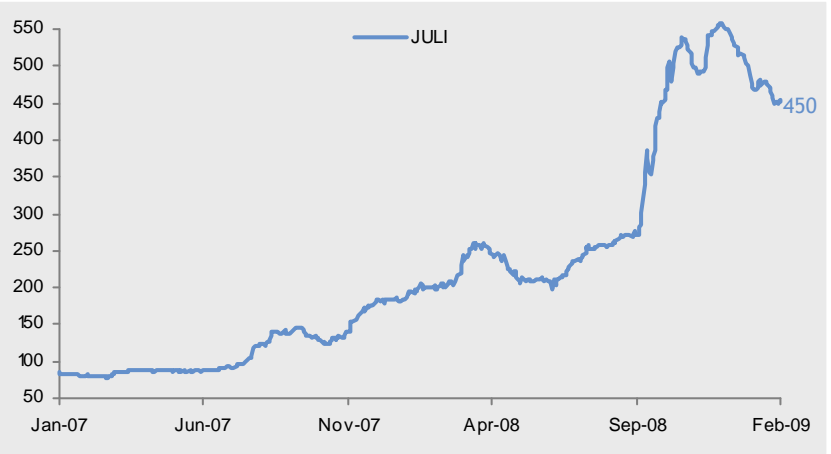
Source: Bloomberg

Global decline in asset values in 2008¹



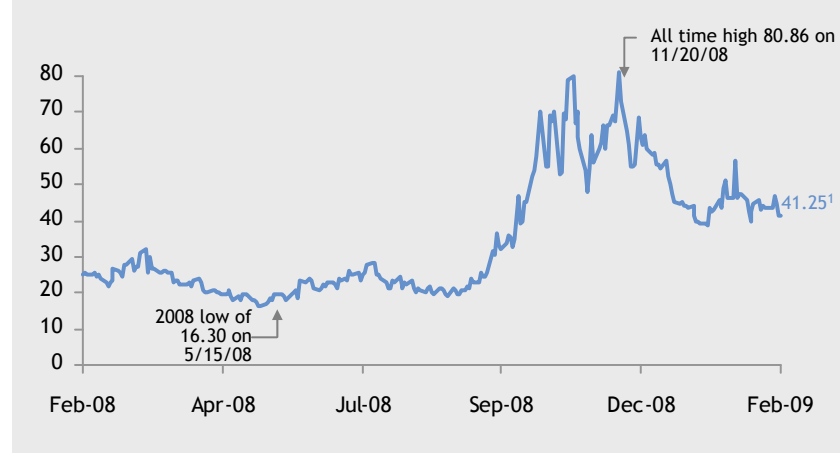
¹ Bloomberg as of 12/31/08; Home prices represents the S&P Case-Shiller Composite 20 Index, as of October 2008 (Published Dec.30); REITs represents the RMZ index; High Yield represents the J.P. Morgan Global High Yield Index; Investment Grade represents the JULI Index
² Represents % change from 2-year high

HG bond spreads have reached decade-wide levels (bps)



Source: J.P. Morgan
 Note: JULI refers to J.P. Morgan U.S. Liquidity Index

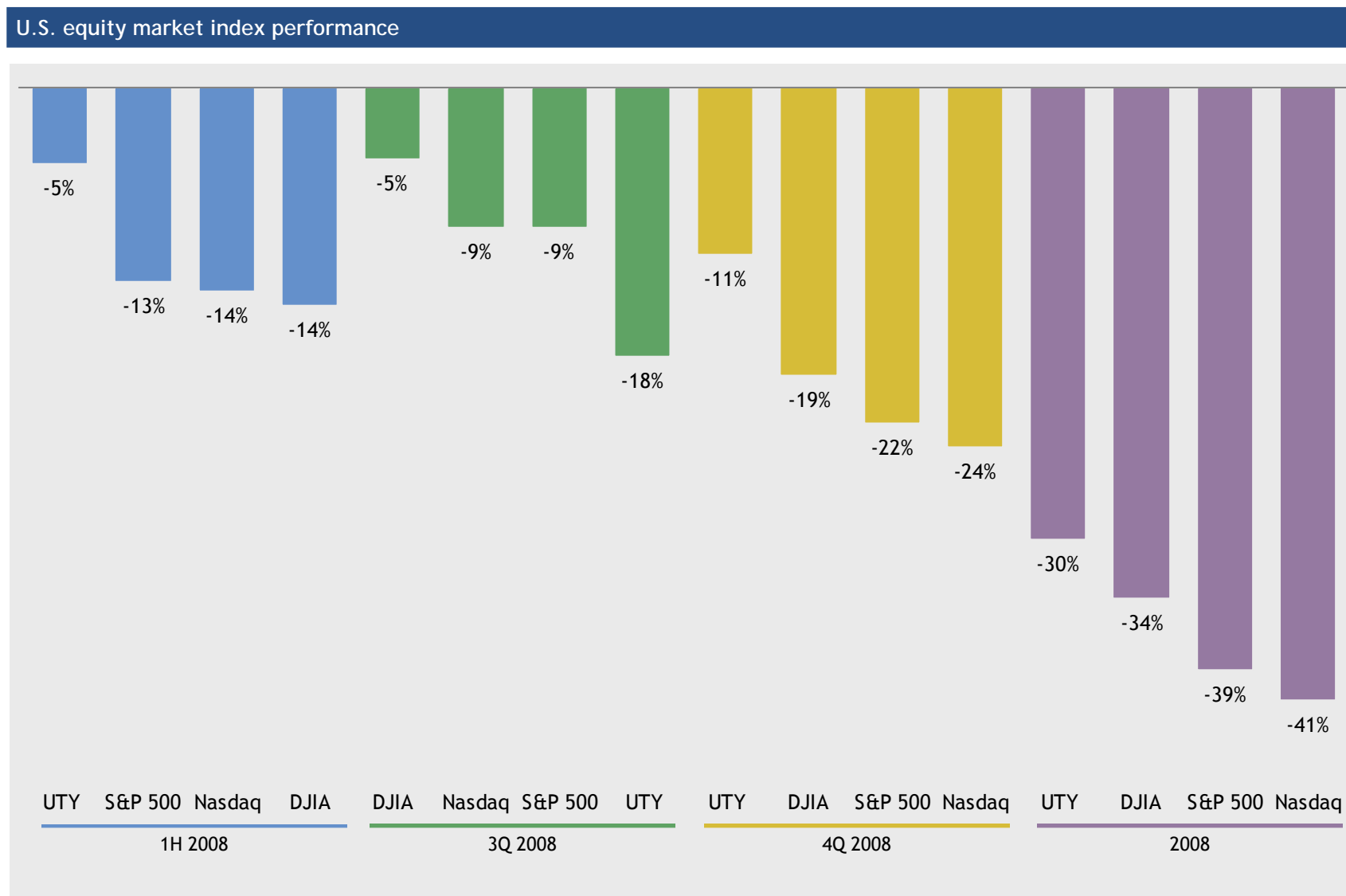
VIX volatility index¹



¹ FactSet as of 2/13/09

...while the equity markets remain volatile amid ongoing investor concerns around financials and the economy

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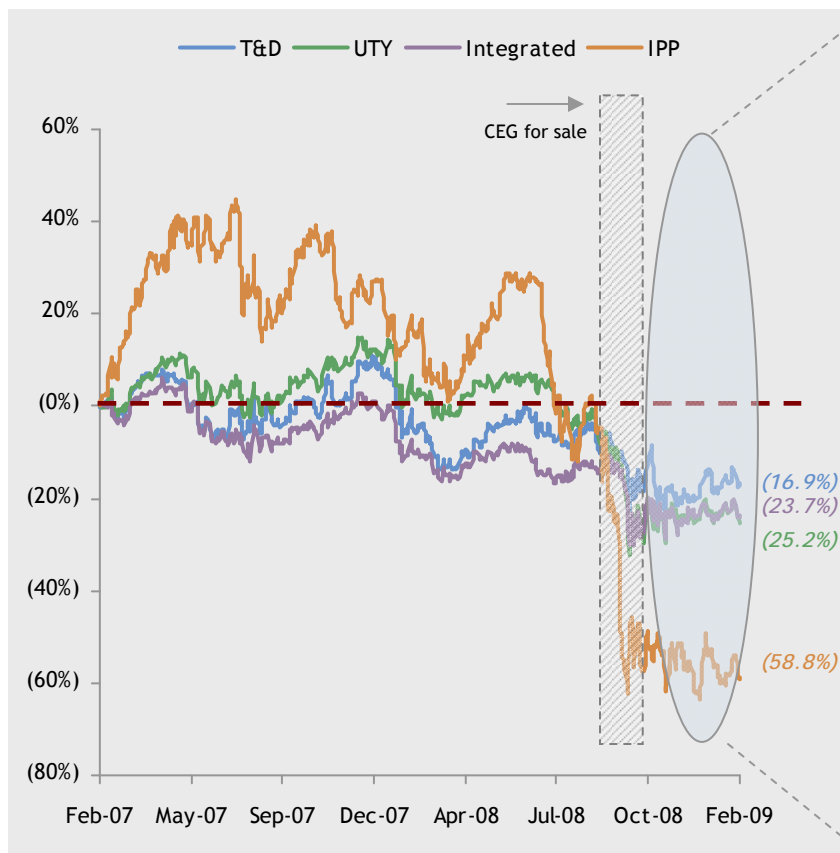


The utility sector has not been immune to the financial crisis although share prices have stabilized recently

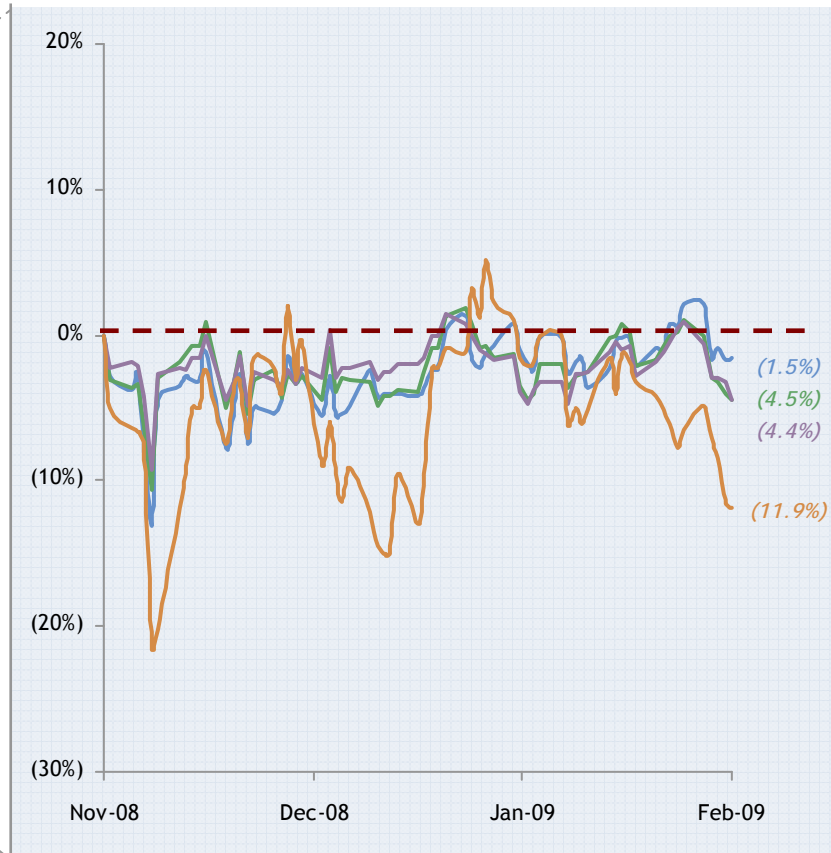
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Indexed share price performance

Last two years



Last 3 months



Source: FactSet as of 2/13/09

Note: Integrated Sector is composed of: AEP, D, DUK, DTE, LNT, PCG, PGN, SCG, SO, WEC, WR, XEL

T&D Sector is composed of: NU, ED, ITC, NST, POM

IPP Sector is composed of: CPN, NRG, DYN, RRI, MIR

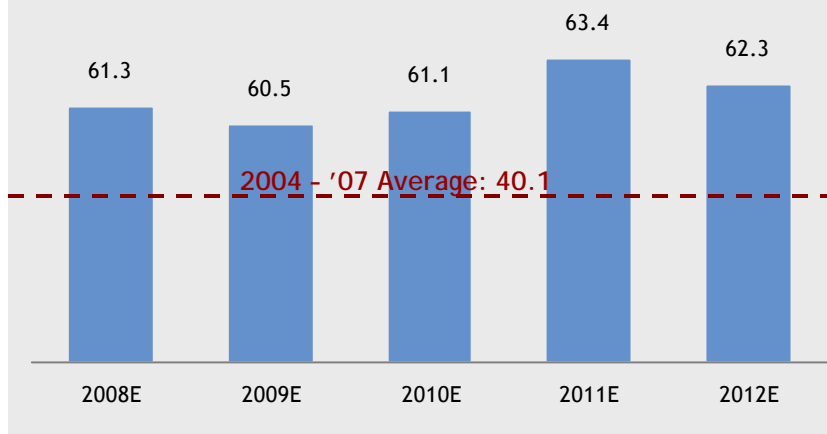
Duke price adjusted to account for Spectra spin-off

Significant capex and declining credit quality is driving near-term equity issuance in the utility sector

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Regulated investor owned utilities projected capex (\$bn)

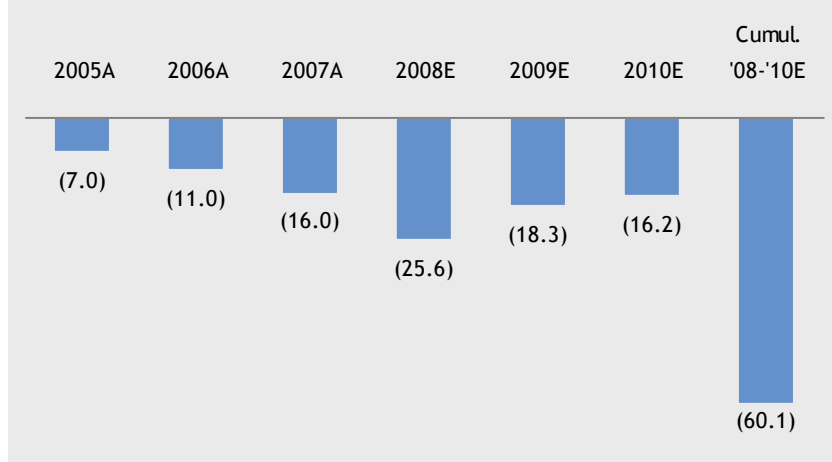
Total 2008E–2012E capex¹: \$309bn



Source: Equity research

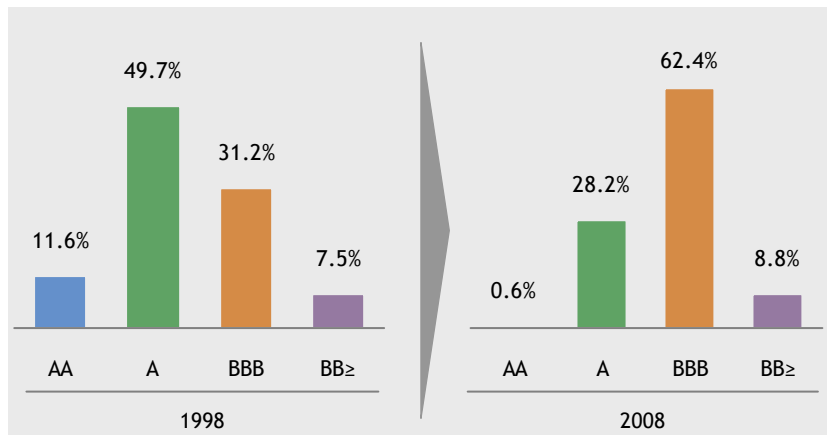
¹ Figures reflect equity research utility coverage scaled up by a factor of 1.16x to reflect companies not in the coverage universe

Free cash flow deficit (\$bn)



Source: 2005–2007 numbers reflect equity research, 2008E–2010E numbers reflect equity research projections for 52 select utility companies. Free cash flow = cash flow from operations - capex - dividends

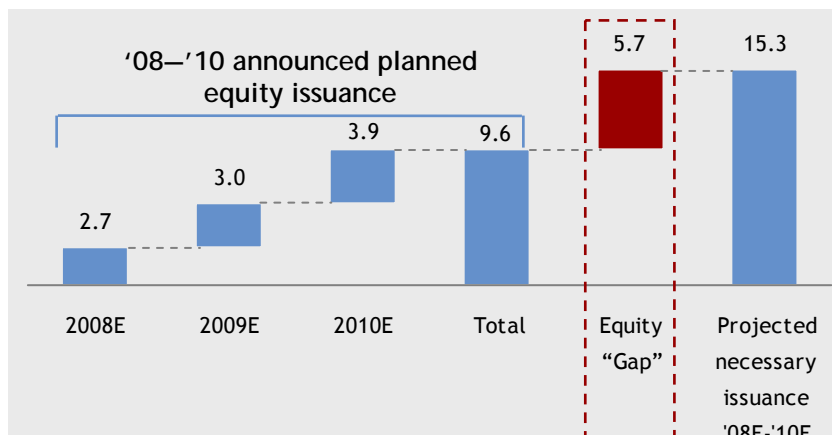
Power and utilities industry: Relative credit profile 1998–2008



Source: FactSet, broker research, J.P. Morgan estimates

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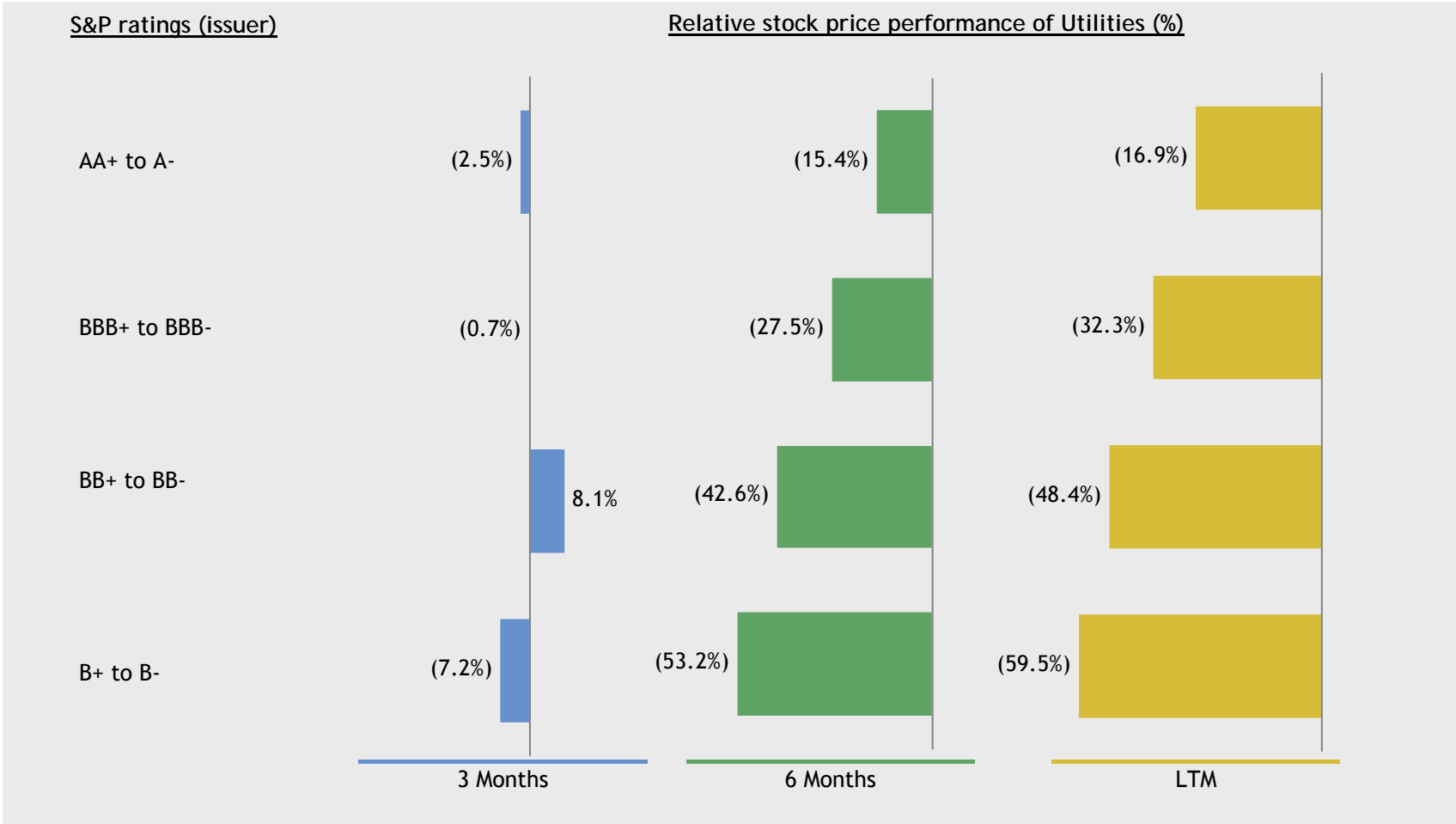
Announced equity issuance 2008–2010 (\$bn)



Source: FactSet, broker research, J.P. Morgan estimates

...despite a clear market focus on dividends and credit quality

Stock price performance vs. Credit rating



Source: FactSet as of 2/13/09