

Morgan Stanley

International Investing in the U.S. Utility Sector

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July 15, 2007

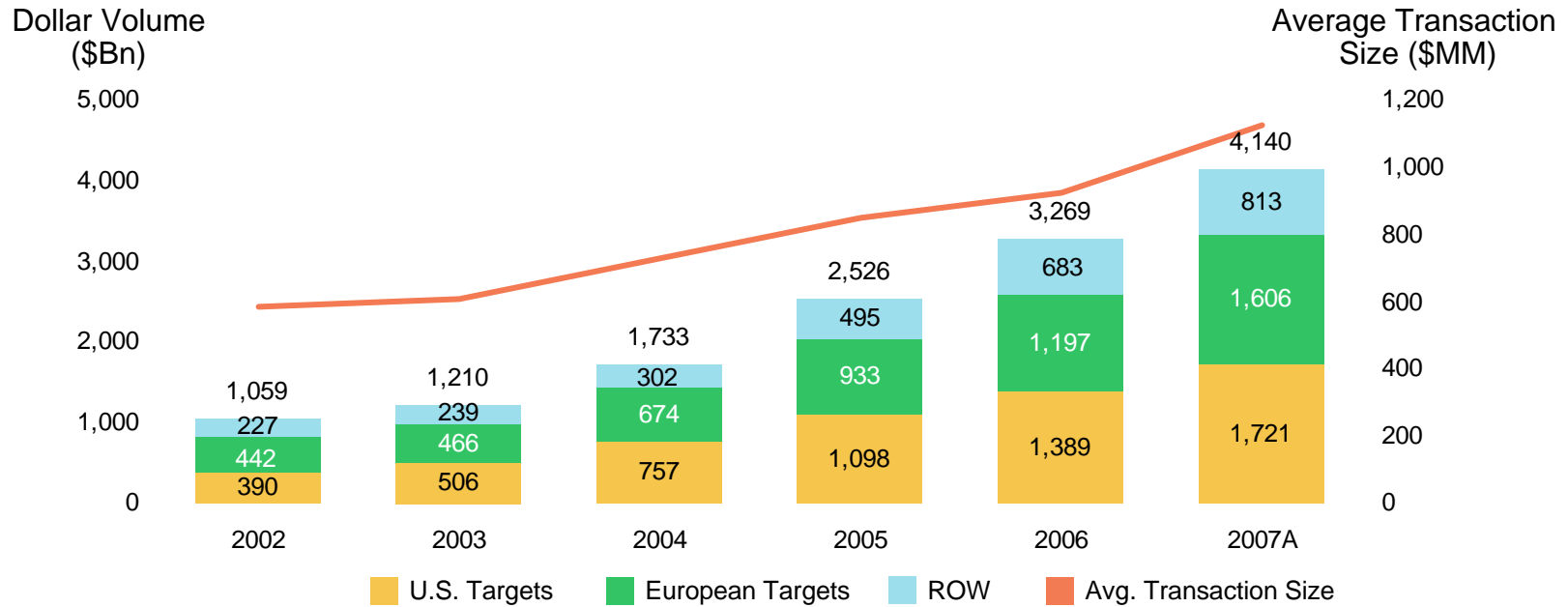
Agenda

- Global M&A Activity
- Investment in the U.S. Utility Sector
- The Europeans Are Coming
- The Rise of Infrastructure Funds

Global M&A Activity

Growth in the Worldwide M&A Markets ⁽¹⁾

Announced Transactions

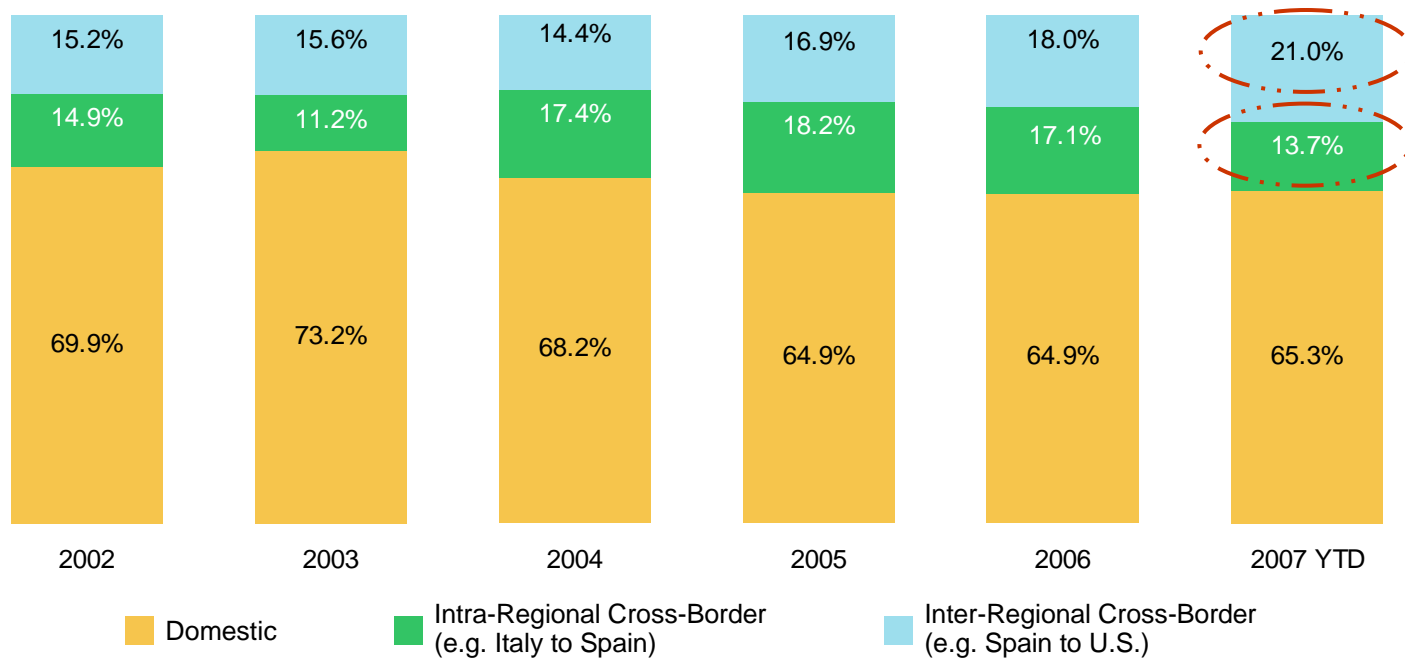


<u>% Increase Year-Over-Year</u>						
U.S. Targets	-	30	50	45	27	24
European Targets	-	5	45	39	28	34
ROW	-	5	27	64	38	19

Increasing Cross-Border Activity ⁽¹⁾

Deal Composition

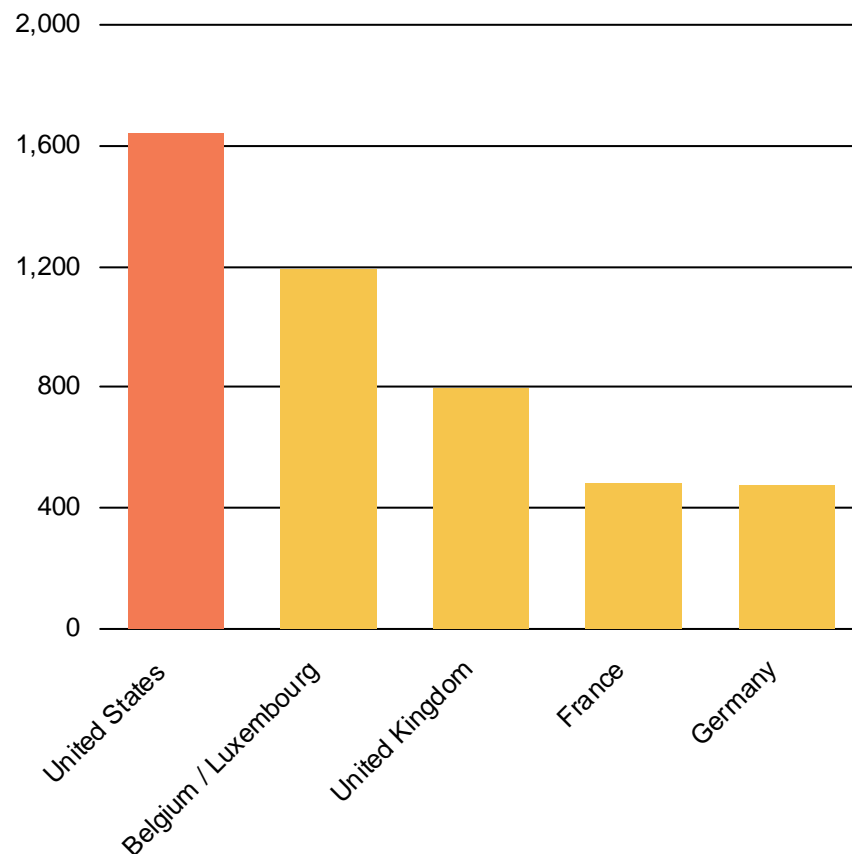
(%)



U.S. Remains Top Magnet for Foreign Investment...

Cumulative Foreign Direct Investment Flows 1997 - 2006

(\$Bn)



- The U.S. “continues to occupy a dominant position as foreign investor as a recipient of direct investment after a one-off drop in outflows in 2005 due to changes in the corporate tax code.”
 - *Organization for Economic Cooperation and Development* (June 2007)
- “It’s important for Congress to show that we haven’t decided to secede from the world.”
 - House Financial Services Chairman Barney Frank (*The Wall Street Journal* – July 11, 2007)

...But Potential Barriers May Be Emerging

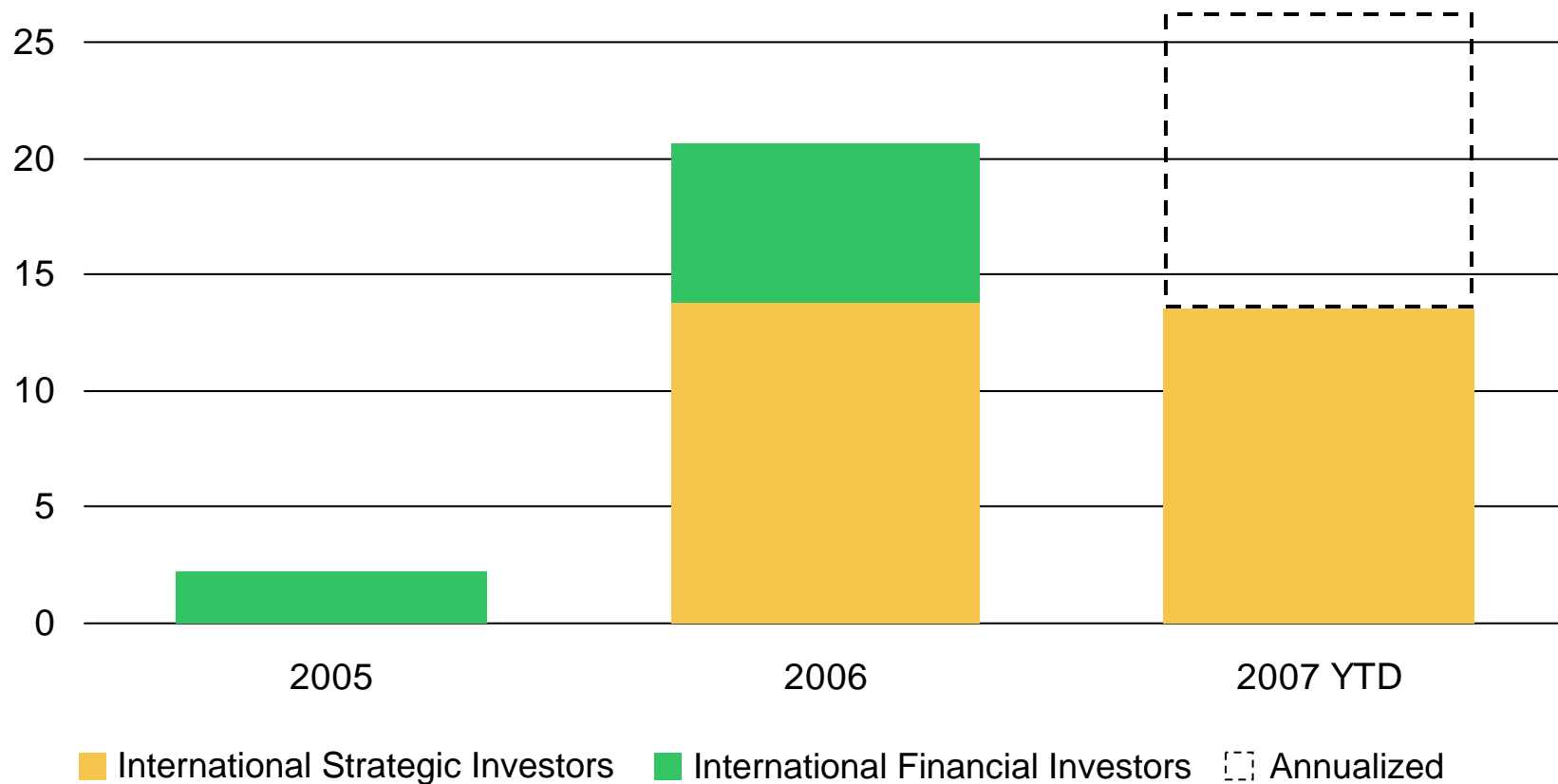
U.S. Political Landscape for Foreign Investment

- The U.S. Senate passed a bill on June 29th that could block foreign-owned firms from acquiring U.S. oil companies, electric utilities and other energy-related entities
 - The Bill would revise the structure and functioning of the Committee on Foreign Investment in the U.S. (“CFIUS”), which is charged with reviewing foreign-U.S. deals for national security concerns
- The new bill would require CFIUS to consider the energy-related implications of foreign investment in the U.S.
 - Requires senior-level approval of all deals
 - Carves out a formal role for the intelligence community in investment reviews
 - Expands the range of transactions subject to potential review (e.g., power plants and toll roads)
- The House passed a slightly different measure in February 2007, lawmakers will have to reconcile the two bills before submitting legislation to the President
 - Unlike the House bill, the Senate legislation creates a “lead” agency for each merger review

Investment in the U.S. Utility Sector

Recent Foreign Investment in U.S. Utility Sector

Aggregate Value (\$Bn)



What Has Been Driving Utility M&A Activity?

Fragmented Industry

- Fragmented industry with economies of scale

Growth Platform

- Transfer of best practices
- Synergies to fuel growth
- Ability to “roll up” additional utilities

PUHCA Repeal

- Broadens buyer universe
- But SEC approval has been replaced with greater state hurdles

“Rational” View of Premiums

- Market wide trend
- Less cash component to deals (focus on credit / balance sheet strength)

Size to Mitigate Risk

- Diversify regulatory risk
- Increased ability to fund significant capital expenditures

“Alternative” Capital Activity

- Private equity
- Hedge funds
- Infrastructure funds

The Europeans Are Coming

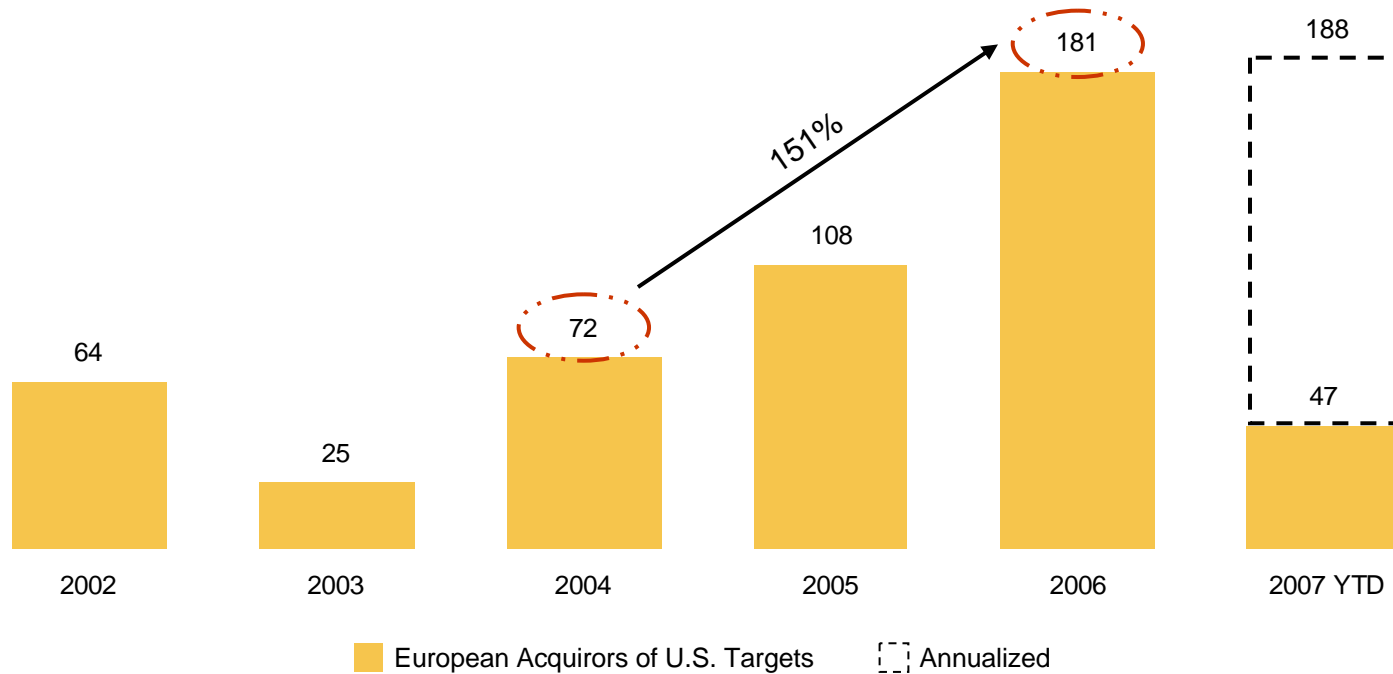
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Transatlantic M&A Activity ⁽¹⁾

European Acquirors of U.S. Targets

Transatlantic Activity

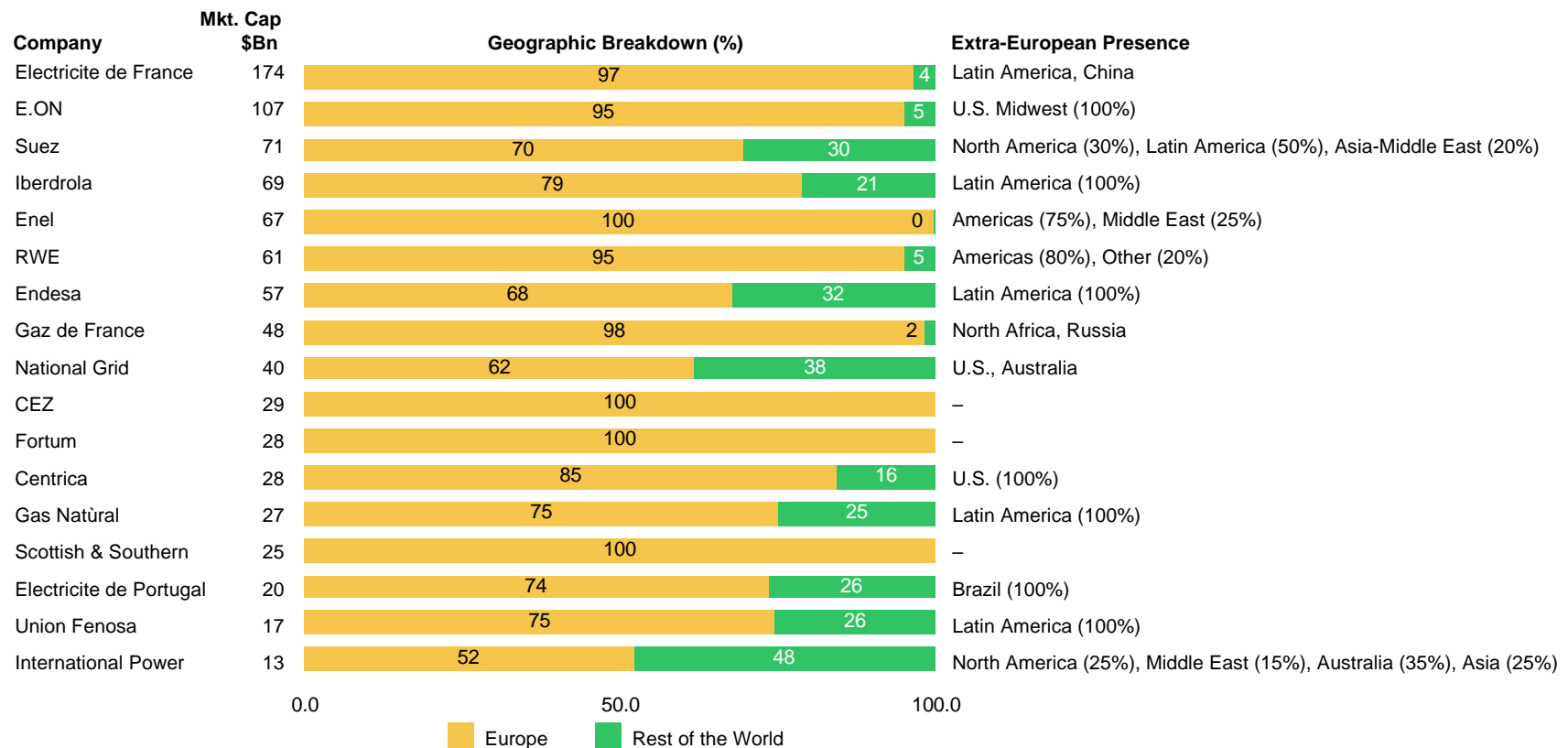
(\$Bn)



Growing a Global Footprint

EBIT Breakdown – Europe vs. Rest of the World Contribution

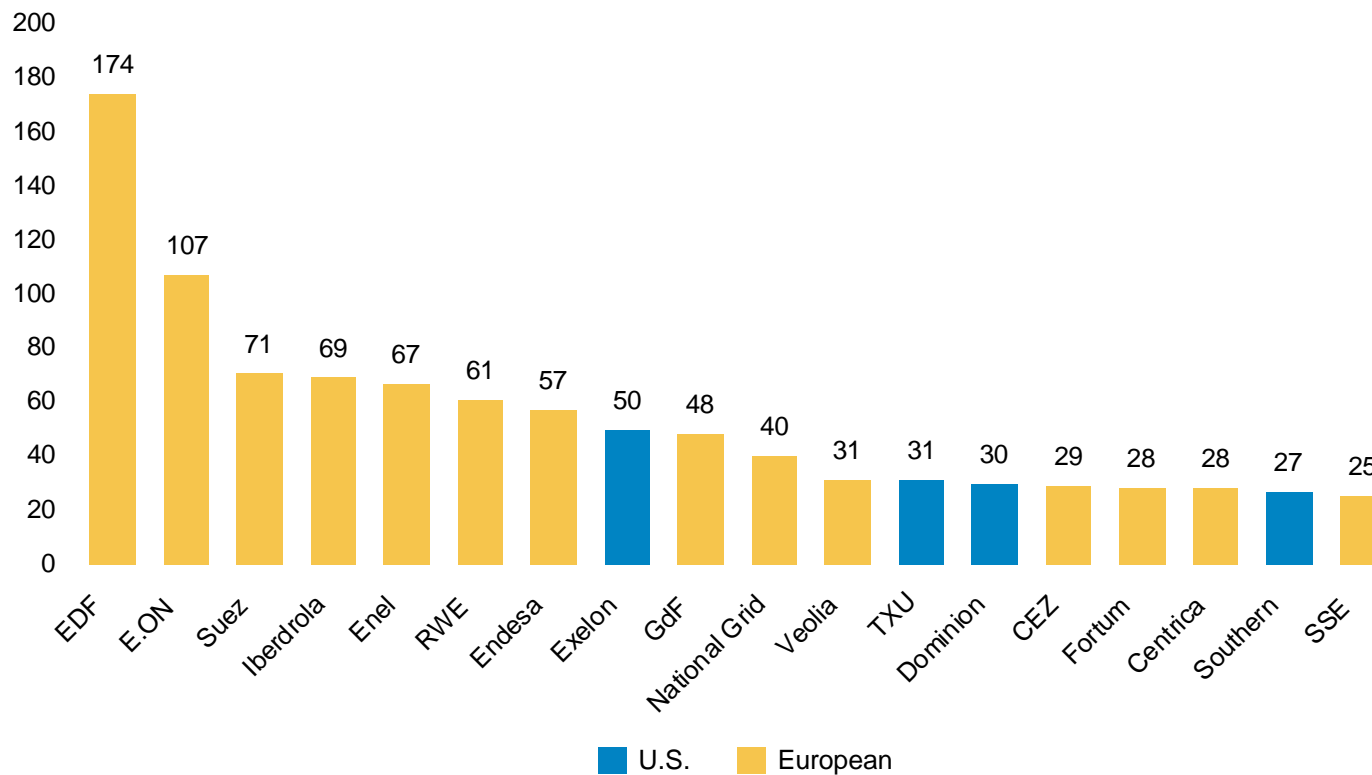
2006A



Size Matters

Global Utilities Ranked by Market Capitalization

Market Capitalization
(\$Bn)



Europeans Have Balance Sheet Strength...

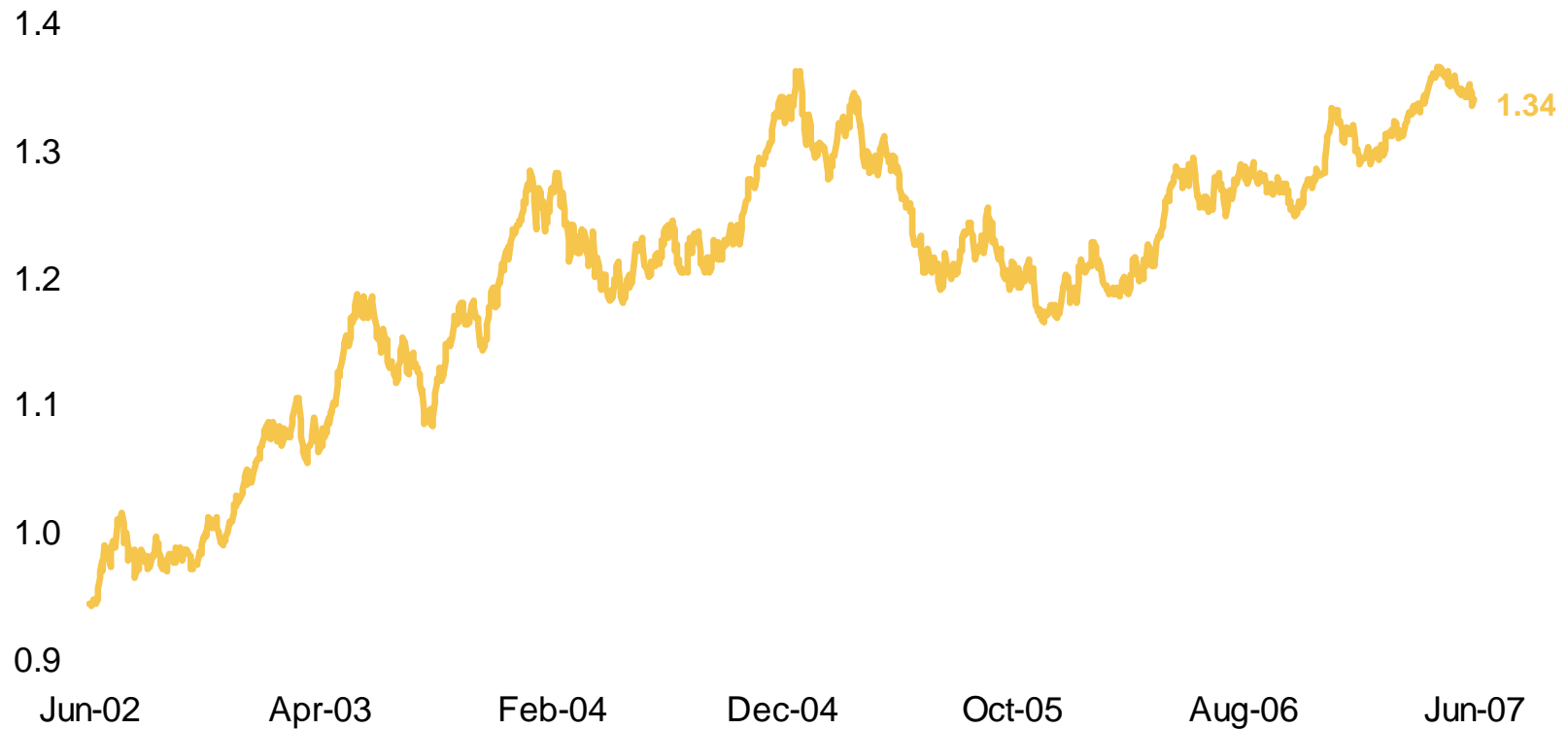
Company	Rating (Moody's / S&P)
EDF	Aa1 / AA-
E.ON	A2 / AA-
Suez	A2 / A-
Iberdrola	A2 / A
Enel	Aa3 / A+
RWE	A1 / A+
Endesa	A3 / A
Exelon	Baa2 / BBB+
GdF	Aa1 / AA-
National Grid	Baa1 / A
Veolia	A3 / BBB+
TXU	Ba1 / BB
Dominion	Baa2 / BBB
CEZ	A2 / A-
Fortum	A2 / A-
Centrica	A3 / A
Southern	A3 / A-
SSE	A1 / A+

■ U.S. ■ European

...With An Attractive Currency

US\$ per Euro

Last 5 Years

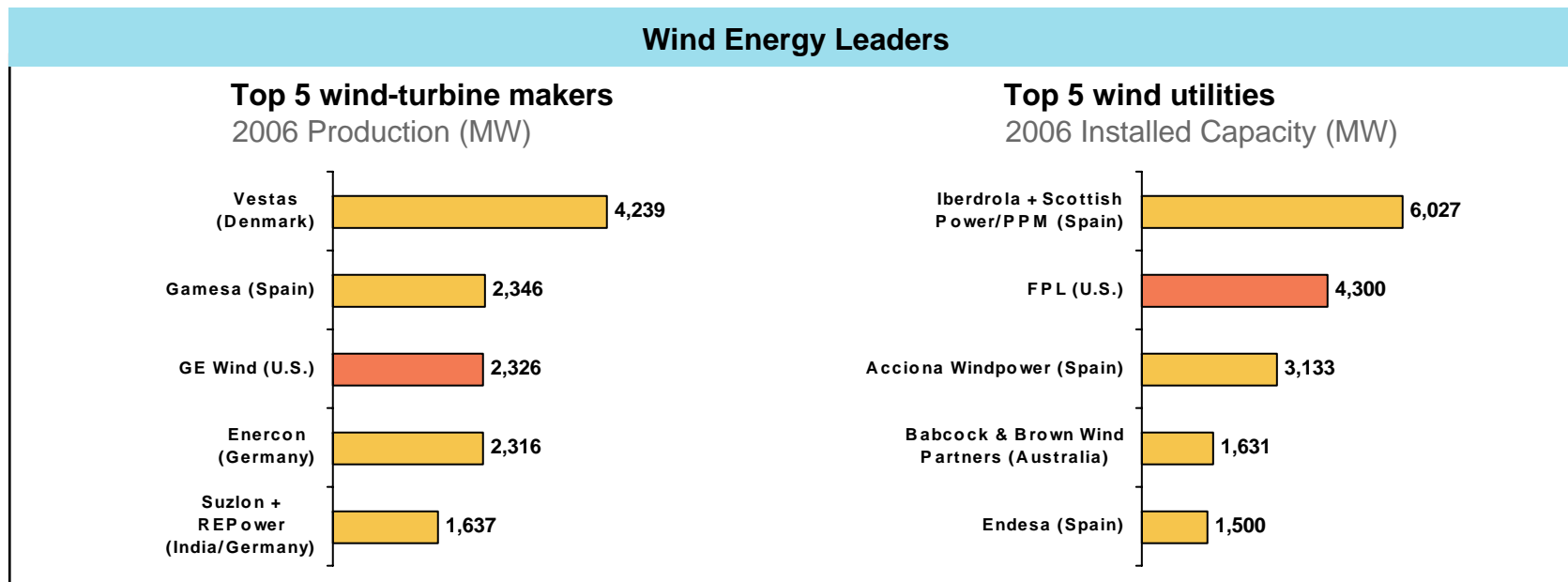


Selected European Strategic Investments in U.S.

Date	Acquiror	Target	Equity Value (\$MM)	Status
06/25/2007	Iberdrola	Energy East	\$4,700	Pending
03/27/2007	EDP	Horizon Wind Energy	\$2,150	Pending
02/27/2006	National Grid	KeySpan	\$7,323	Pending
02/15/2006	National Grid	New England Gas Company, RI Assets	\$498	Closed
09/17/2001	RWE AG / Thames Water	American Water Works	\$4,633	Closed
09/05/2000	National Grid	Niagra Mohawk Holdings	\$2,831	Closed
02/28/2000	E.ON UK	LG&E Energy	\$3,200	Closed
11/22/1999	Thames Water	E'Town Corporation	\$591	Closed
08/19/1999	Suez Lyonnaise	United Water Resources	\$984	Closed
06/01/1999	Kelda	Aquarion	\$455	Closed
12/06/1998	Scottish Power	PacifiCorp	\$7,964	Closed

The Next U.S. Growth Market for Europeans

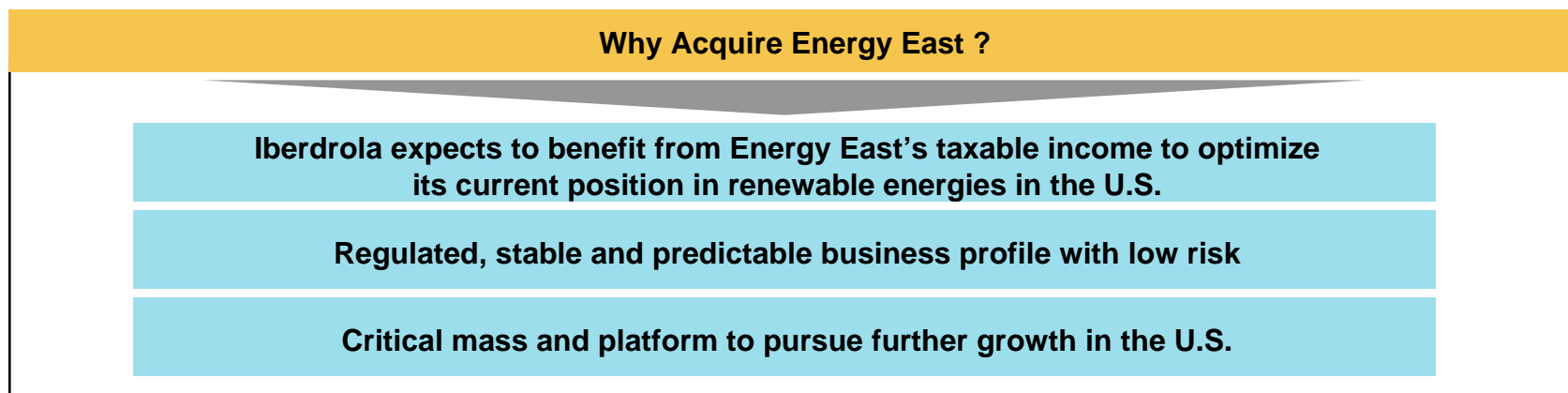
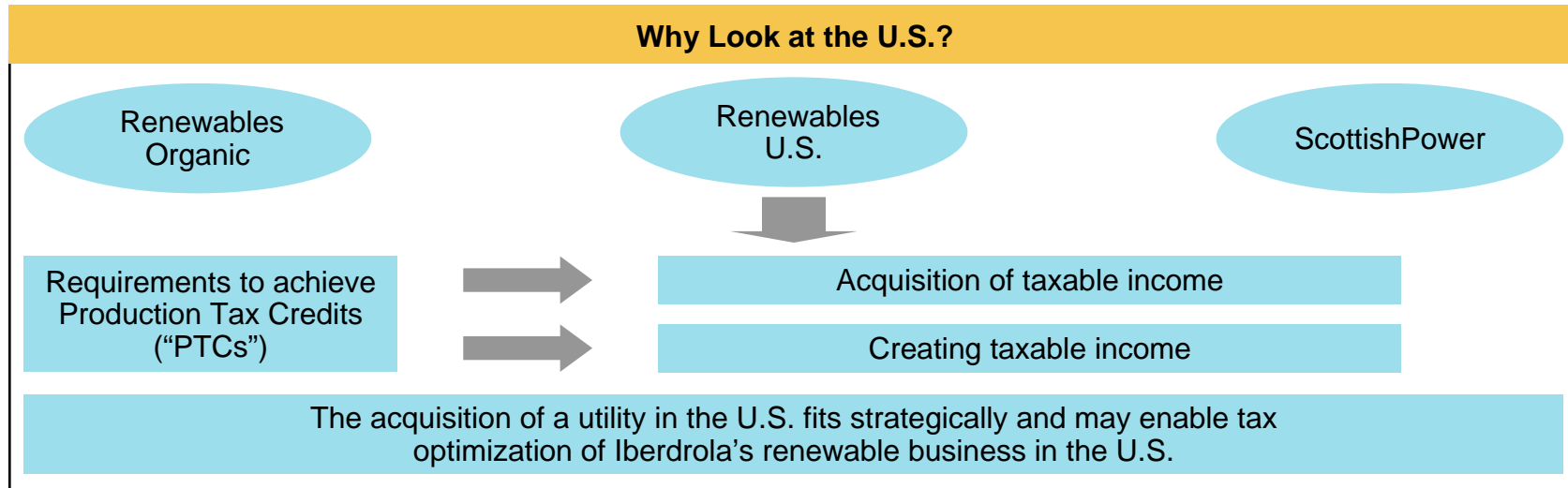
Alternative Energy Investment in U.S. Wind Projects



- European companies are estimated to own 20% of all the wind energy in the U.S. ⁽¹⁾
- In March 2007, a Portuguese utility EDP paid approximately \$2.7Bn for Horizon Wind Energy of Houston
- In April 2007, Iberdrola completed the acquisition of Scottish Power which included PPM (1,060MW of owned and 606MW of contracted wind generation)

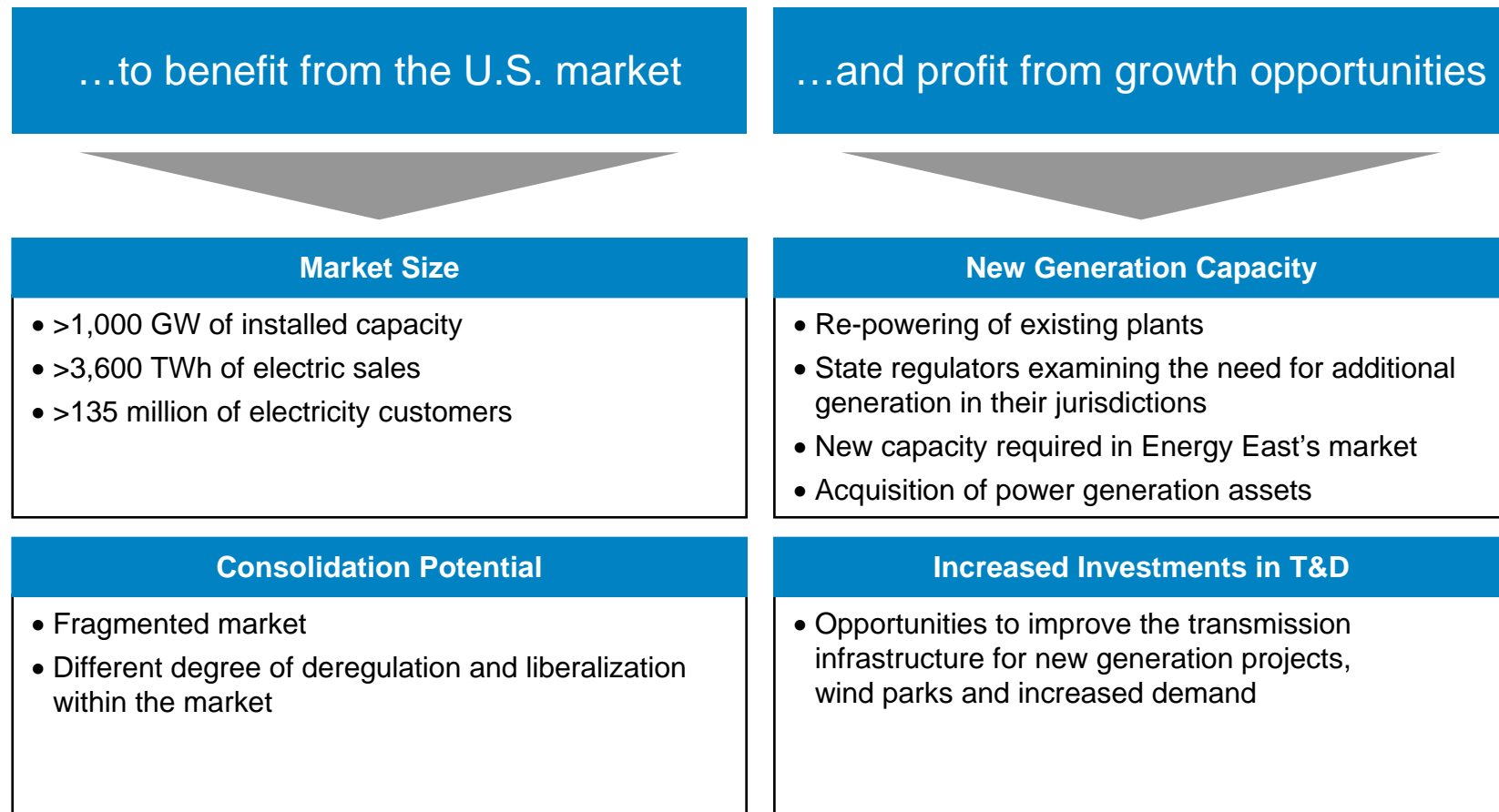
\$4.7Bn Iberdrola Acquisition of Energy East

Strategic Rationale



\$4.7Bn Iberdrola Acquisition of Energy East (cont'd)

Energy East as a Platform for Growth



\$7.3Bn National Grid Acquisition of KeySpan

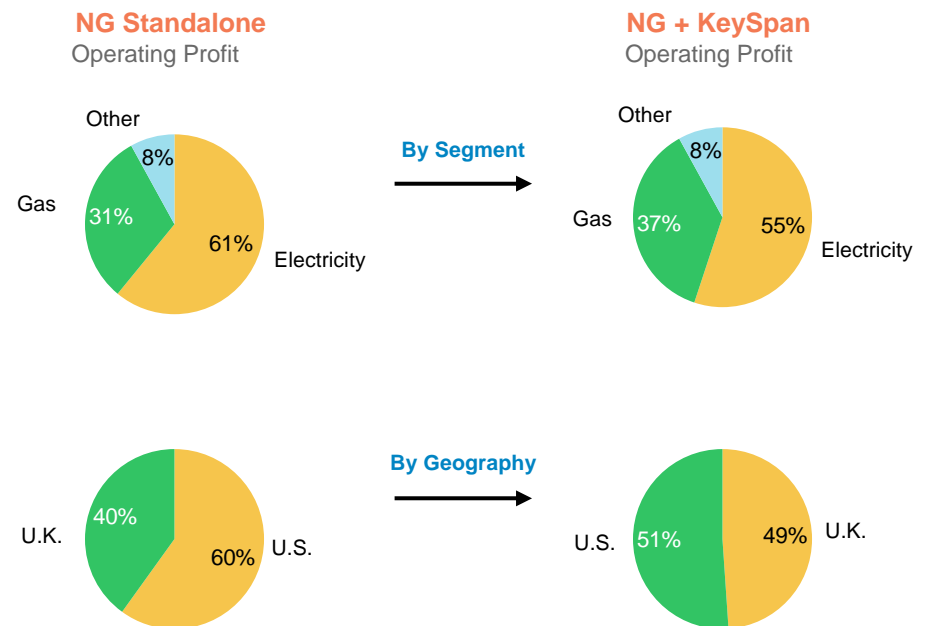
Announced February 27, 2006

Strategic Rationale

- Strategic, operational and geographic fit given existing U.S. platform
- Significant integration synergies estimated at \$200MM per annum
 - Equivalent to 12% of combined U.S. business controllable cost base
- Solid growth prospects
 - Low current saturation rate
 - Attractive allowed returns for network expansions
 - Investment opportunities in Storage and Pipelines
- Earnings and cashflow enhancing
- Return above National Grid's cost of capital

Source: National Grid Investor Relations

National Grid Business Profile



Source: February 27, 2006 NG Analyst Presentation

\$7.3Bn National Grid Acquisition of KeySpan (cont'd)

Announced February 27, 2006

Regulatory Update

- July 9th National Grid reached a settlement with the New York Staff
 - Rate freeze 5 years
 - 10.6% ROE, with 50/50 sharing up to 13.6%
- Synergy savings expected to total \$200MM a year for 5 years
- New York Commission is scheduled to vote on August 22nd, merger expected to close shortly thereafter

Serial Acquiror in U.S.

<u>Date</u>	<u>U.S. Acquisition</u>	<u>Equity Value (\$MM)</u>
02/27/2006	KeySpan	7,323
02/15/2006	NE Gas Company, RI Assets	498
09/05/2000	Niagra Mohawk Holdings	2,831
12/14/1998	New England Electrical System	3,180

The Rise of Infrastructure Funds

All Financial Capital is Not Created Equal

Pools of Financial Capital

	Investment Size	Investment Horizon	Return Target
Private Equity	Size is not a Constraint	3 – 7 years	IRR of 15%+
Hedge Funds	Allocation of up to 10% of Portfolio for Illiquid Assets	Short-Time Horizon	Opportunistic
Infrastructure Funds	Target \$1Bn – \$3Bn Investments	25+ years	Cash-on-Cash Returns of 9 – 12%

Drivers of Infrastructure Fund Activity

Focus on yield has driven investment

- Increasing capital for investment
- Low risk cash flows provide inflation hedge
- Low correlation to most other asset classes
- Ability to release cash through re-leveraging
- Cash flow profile provides pension funds with match to liabilities

Infrastructure Fund Target Rates of Return

Competitive Cost of Capital that targets returns of 9-12%

	Target IRR (%)
Macquarie Infrastructure Group ⁽¹⁾	10 – 12
Babcock & Brown Infrastructure ⁽²⁾	9 – 12
Borealis Infrastructure ⁽³⁾	10 – 15
Ontario Teachers Pension Plan ⁽⁴⁾	10 – 12
HSBC Infrastructure Fund ⁽⁵⁾	7 – 8
Goldman Sachs Infrastructure Fund	10 – 12

(1) Prospectus for Cintra (2002)

(2) NorthWestern Corporation acquisition presentation (2006)

(3) Company Web site (2006)

(4) Long-term return of 11.7% since 1990 on company Web site (2006)

(5) Prospectus (2006)

Selected International Infrastructure Investments in U.S.

Date	Acquiror	Target	Equity Value (\$MM)	Status
07/05/2006	Macquarie	Duquesne Light Holdings	\$1,569	Closed
06/01/2006	Babcock & Brown	Flinders Power Assets	\$314	Closed
04/26/2006	Babcock & Brown	NorthWestern	\$1,313	Resubmitted
02/23/2006	Macquarie	Aquarion	\$625	Closed
11/09/2005	Babcock & Brown	Cross Sound Cable	\$280	Closed
08/18/2005	Macquarie	The Gas Company	\$238	Closed
04/19/2005	Ontario Teachers/AIG Highstar	InterGen	\$1,750	Closed
11/19/2002	Borealis	Express Pipeline	\$593	Closed

Babcock & Brown's Failed Acquisition of NorthWestern

Announced on April 26, 2006 / Failed to Receive Commission Approval on May 22, 2007

“Governor Brian Schweitzer said the 5-0 vote is “a resounding no” on Babcock’s ownership: “This is a vote that says, ‘Pack your bags and ride a kangaroo, because you’re not going to be in Montana””

-Great Falls Tribune (May 25, 2007)

Macquarie's Successful Acquisition of Duquesne

Closed On May 31, 2007

“In a consolidating electric utility industry, this partnership with the Macquarie Consortium gives Duquesne Light the best opportunity to **maintain our role** as a committed, Pittsburgh-based **public service provider** and a long-time community partner. It is gratifying that the Commission and these key stakeholders - representing a broad range of our customers - see the **benefits of this partnership.**”

– Morgan K. O'Brien, President and Chief Executive Officer of Duquesne Light (April 24, 2007)

“I am excited about the opportunity that this merger presents for the Pittsburgh region. Macquarie is the global infrastructure leader with an outstanding track record of long-term investment in infrastructure assets in the U.S. and around the world. We are confident that our partnership with the Macquarie consortium will not only help ensure Duquesne Light's continued success, but also add to the **ongoing success of our region.**”

– Morgan K. O'Brien, President and Chief Executive Officer of Duquesne Light (May 31, 2007)

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