

Utilities And The Economy

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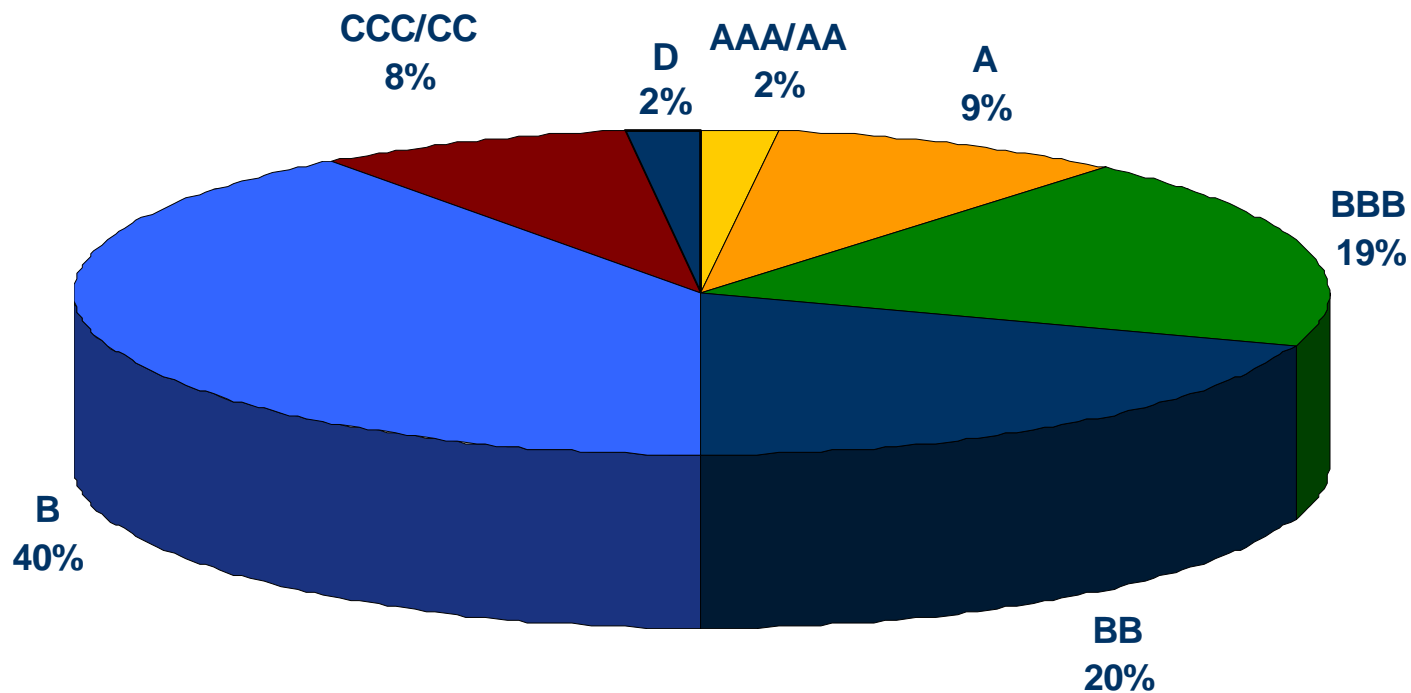
15th Annual Education Conference

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U.S. Corporate Credit Quality – Bumping Along the Bottom

**Ratings Distribution Of U.S. Corporate Ratings --
70% Are “BB” And Below**



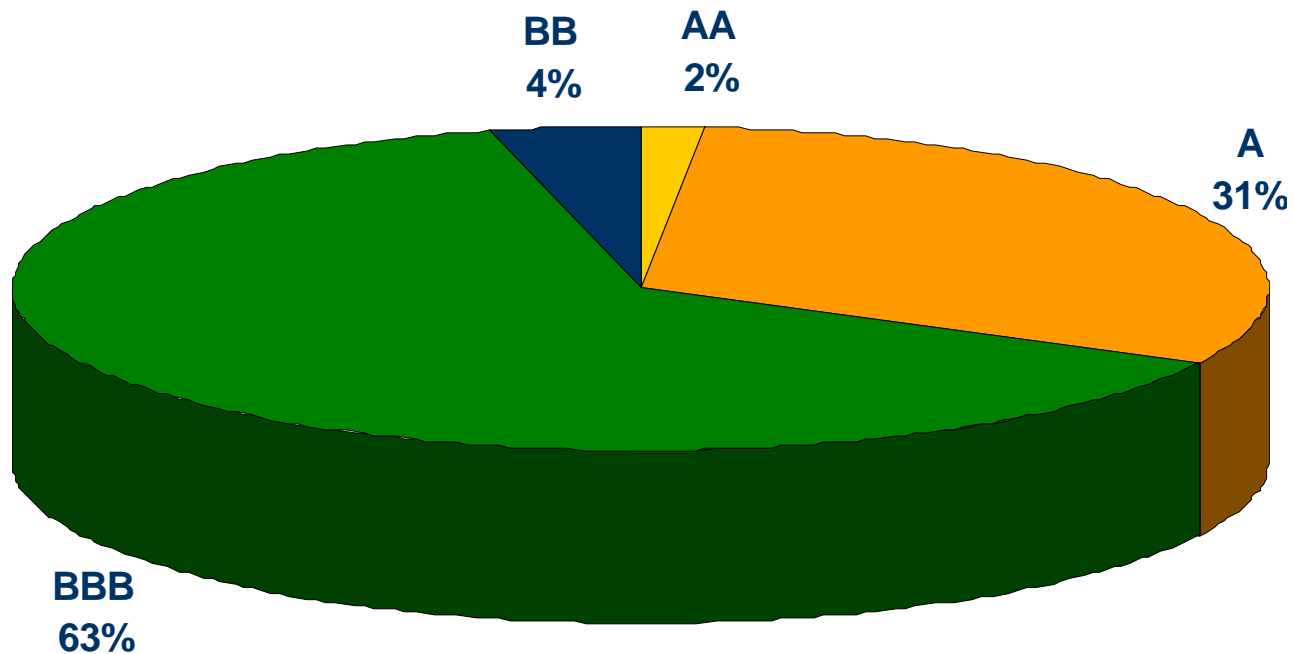
As of May 3, 2010

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U.S. Corporate *Utility* Credit Quality – The Exception

**Ratings Distribution Of U.S. Corporate Utility Ratings --
4% Are “BB” And Below**



As of June 4, 2010

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Principal Credit Influences Of Economic Conditions On Regulated Utilities

➤ Under Current And Near-Term Economic Conditions

➤ Direct Influences

➤ Stagnation, Even Decline, In Consumption Rates (Industrial Sales Declined 12.6% In 2009, With Some Modest Turnaround Noted YTD 2010)

➤ Rising Bad Debt Expense And Increasingly Underfunded Pension Plans

➤ Higher Cost Of Debt And Equity Capital

➤ Reduced/Postponed Capital Expenditure Needs

➤ Indirect Influence

➤ Heightened Regulatory Reluctance To Raise Rates/Implement Recovery Mechanisms

Investor-Owned Utility Ratings In The Late 1970's

At The Beginning Of The Last Major Utility Generation Construction Cycle, Utility Senior Debt Ratings Were Typically In The **AA and A Category. Today, In Advance Of Another Major Capital Expenditure Period, Ratings Are Much Lower...**

U.S. Corporate Utilities – Rating Trends

Stable Ratings Trend Are Supported By Expectations Of:

- Responsive Regulatory Actions --- But Is There A Lurking Tipping Point?
- Continued Access To Capital Markets (See Prior Bullet)
- Delays In New Base Load Construction
- Temporary Slow Down In Rate Case Activity

Longer Term, Higher Credit Ratings May Be Limited By:

- Substantial And Sustained Capital Expenditures, Including Environmental
 - Regulatory Lag
- Recessionary Pressure on Cash Flow and Debt Balances
- Carbon Debate (Federal And --- Versus? --- State)
- Political Interference In The Ratemaking Process

Stand-Up-And-Take-Notice Regulatory Activity

➤ High Visibility Rate Decisions

- Florida --- Florida Power & Light; Florida Progress
- Connecticut --- Various Connecticut Gas Utilities; Connecticut Light & Power
- Illinois --- Ameren; Commonwealth Edison
- Arkansas --- Entergy Arkansas

➤ Challenging Staff Recommendations

- Kansas --- Kansas City Power & Light
- Texas --- Entergy Texas

➤ Pending Rate Decisions

- Public Service New Mexico --- 21.2% Increase
- Avista --- 13% Increase

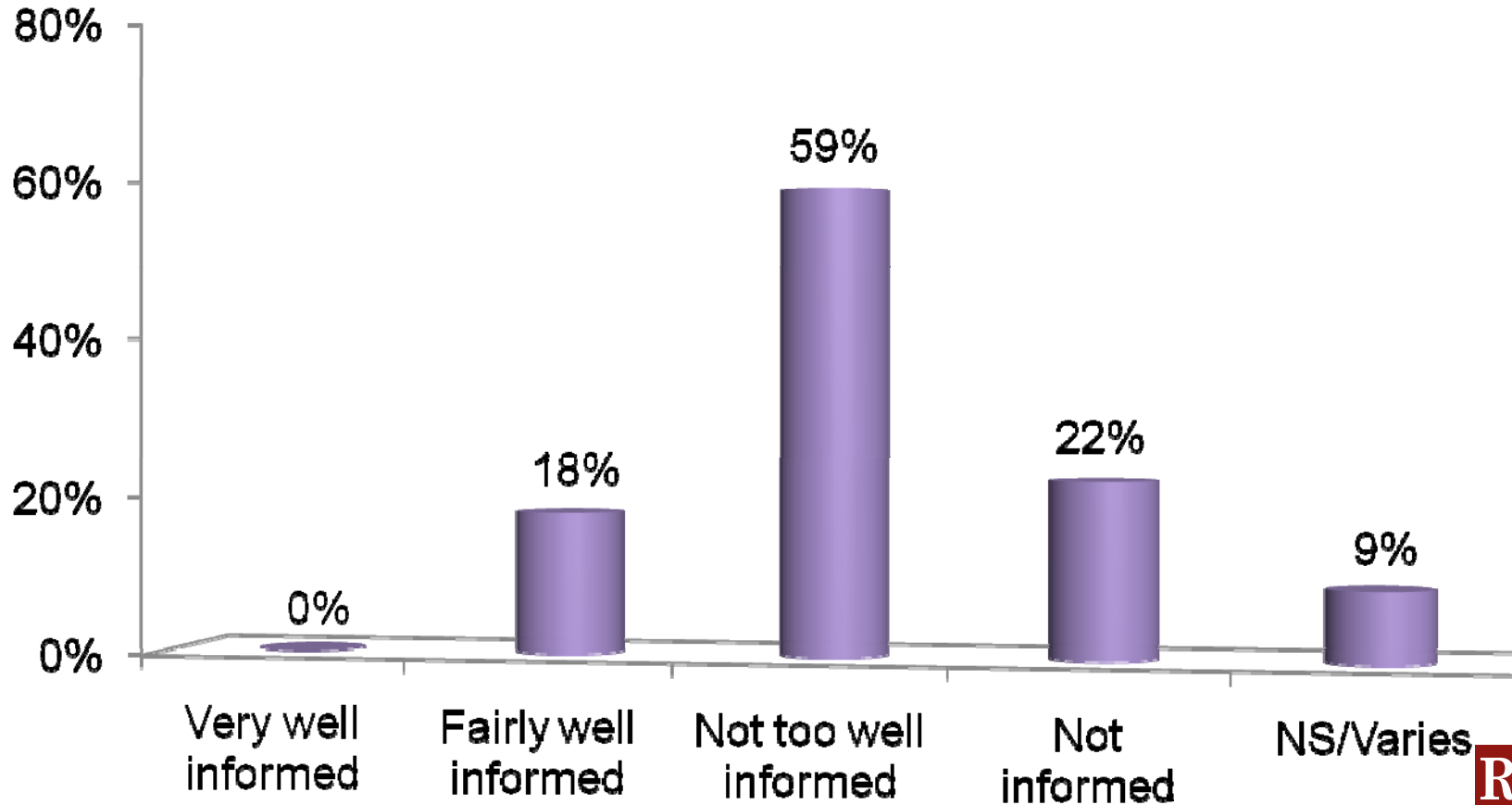
Free Energy --- “What’s Not To Like?”

“With H.B. 1001 We Will Manufacture And Install Panels And Turbines All Over Colorado To Capture **Free Energy**. The Sun Will Always Shine For Free, The Winds Will Always Blow For Free, And Our Energy Production Will Be Cleaner. Renewable Energy, Green Jobs, And A Cleaner Future --- What’s Not To Like?”

- Representative Max Tyler (CO), Co-Sponsor Of Bill Increasing Utility Renewables Requirement To 30% Of Retail Sales By 2020

2009 Standard & Poor's/RKS Survey of State Regulators

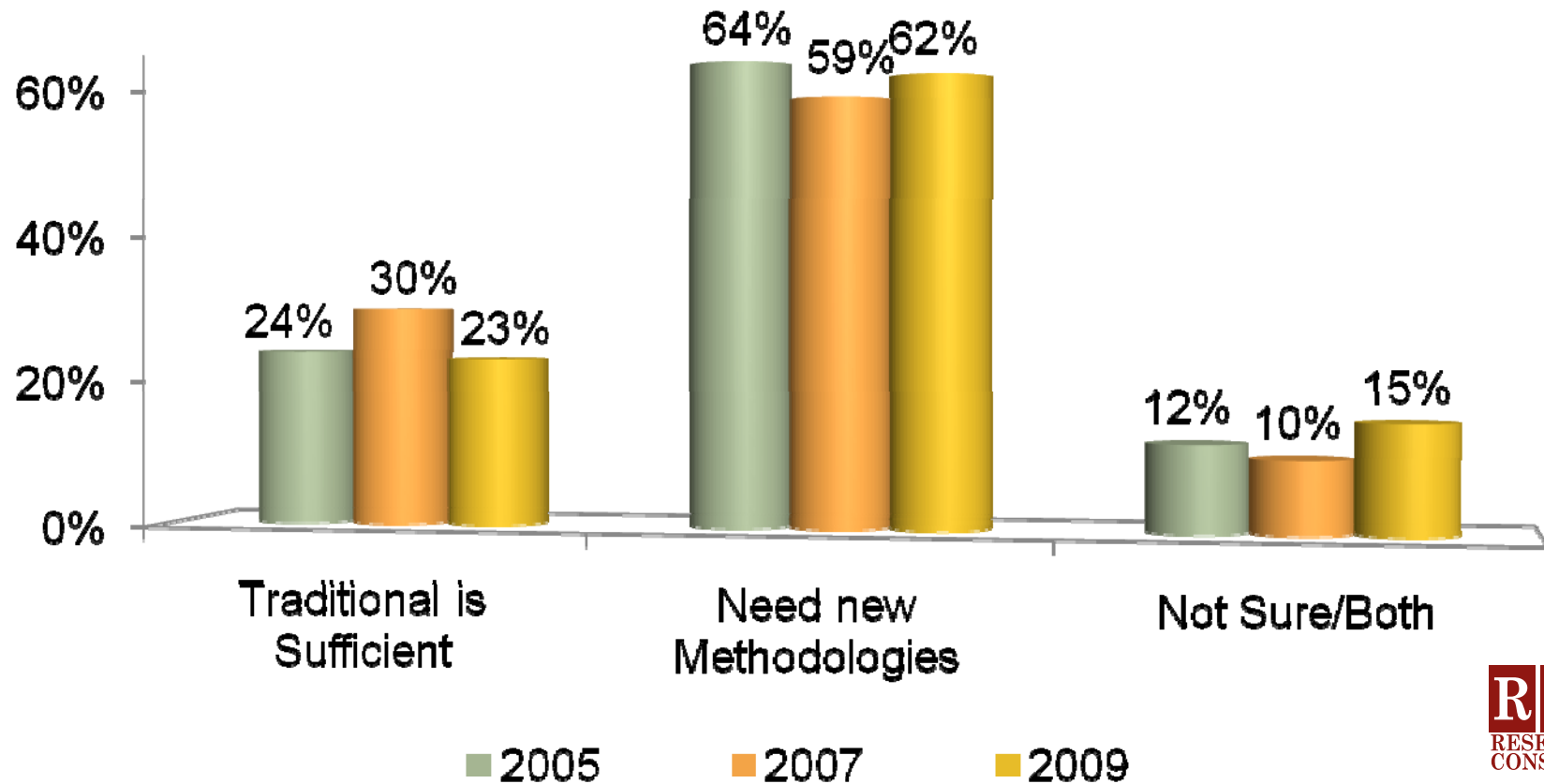
Are Ratepayers Generally Well Informed About Energy Issues/Initiatives?



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2009 Standard & Poor's/RKS Survey of State Regulators

Are Traditional Ratemaking Methods Sufficient To Address Challenges Of Today, Or Are New Methods Needed?

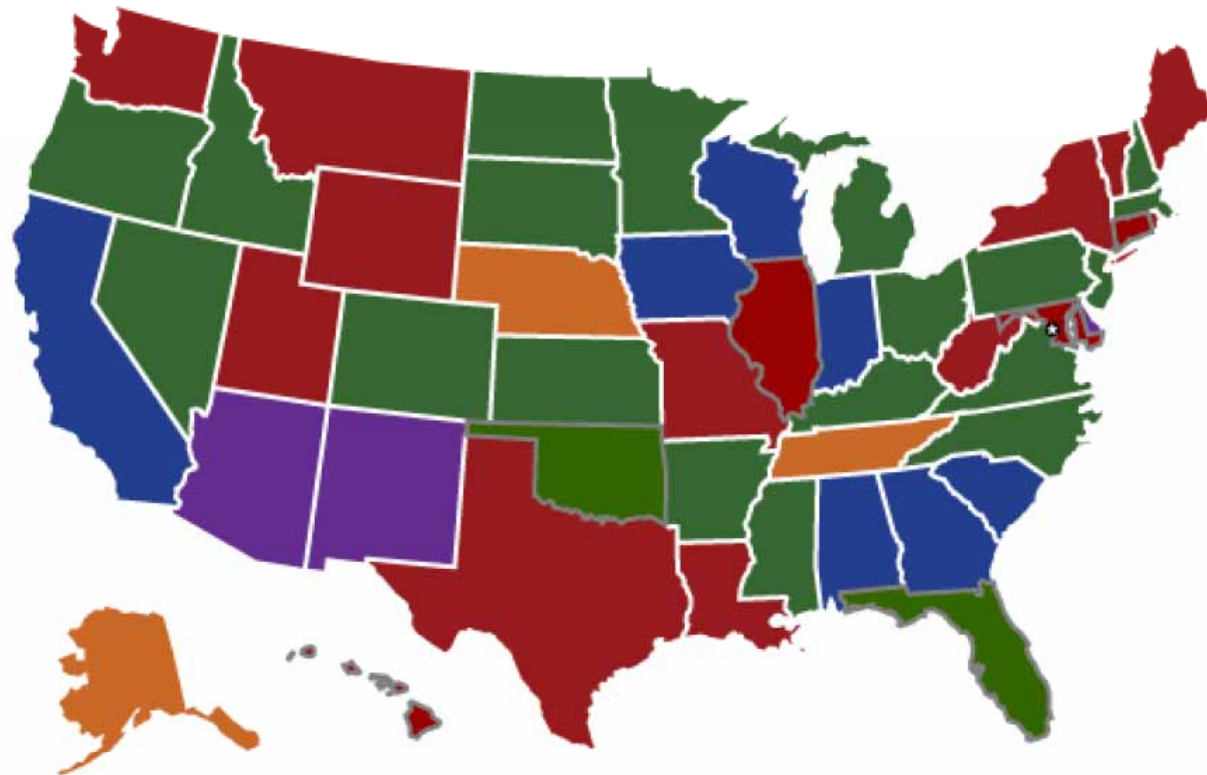


Note: Base is 95 interviews in 2005, 96 interviews in 2007, 107 interviews in 2009.

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Assessments Of State Political/Regulatory Credit Posture

Most credit supportive*
 More credit supportive
 Credit supportive
 Less credit supportive
 Least credit supportive
 No credit assessment



*The assessments are made against an absolute standard of the degree of credit support. At this time, we observe no U.S. jurisdictions that qualify in the top category. States outlined in gray have changed their regulatory condition since last surveyed.

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