

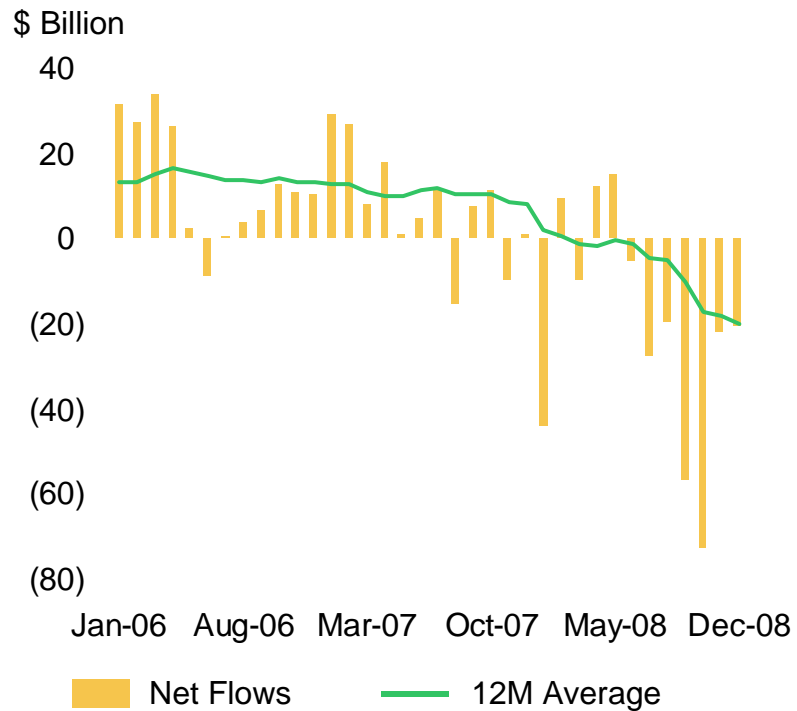
Morgan Stanley

Cost of Capital Issues Affecting Utilities

David Whitcher
Executive Director
Global Power and Utilities Group
February 16, 2009

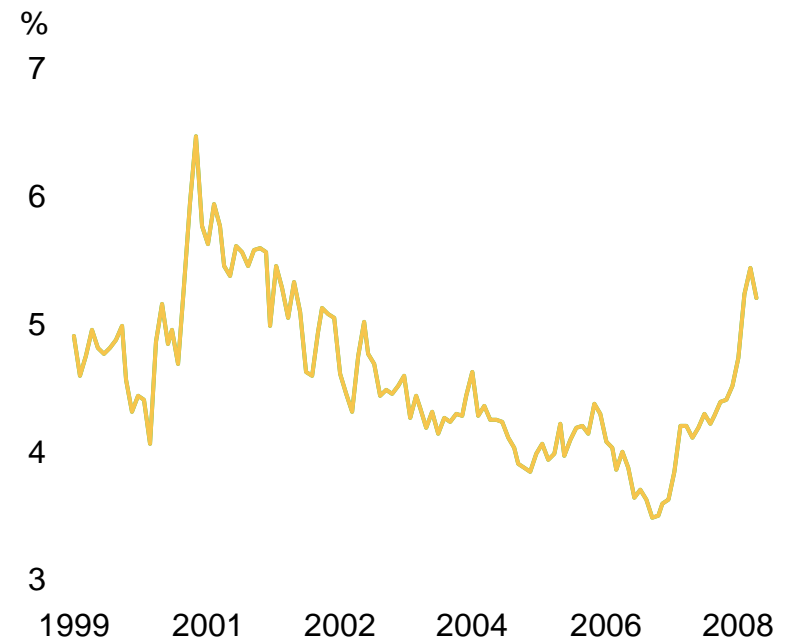
Buy-side Environment: Mutual Funds

Money Flowing Out of Equity Funds . . .
US-based Equity Fund Flows



Source Morgan Stanley Research, ICI

. . . while Cash Positions Build in Equity Funds
US-based Equity Fund Month end Cash Level

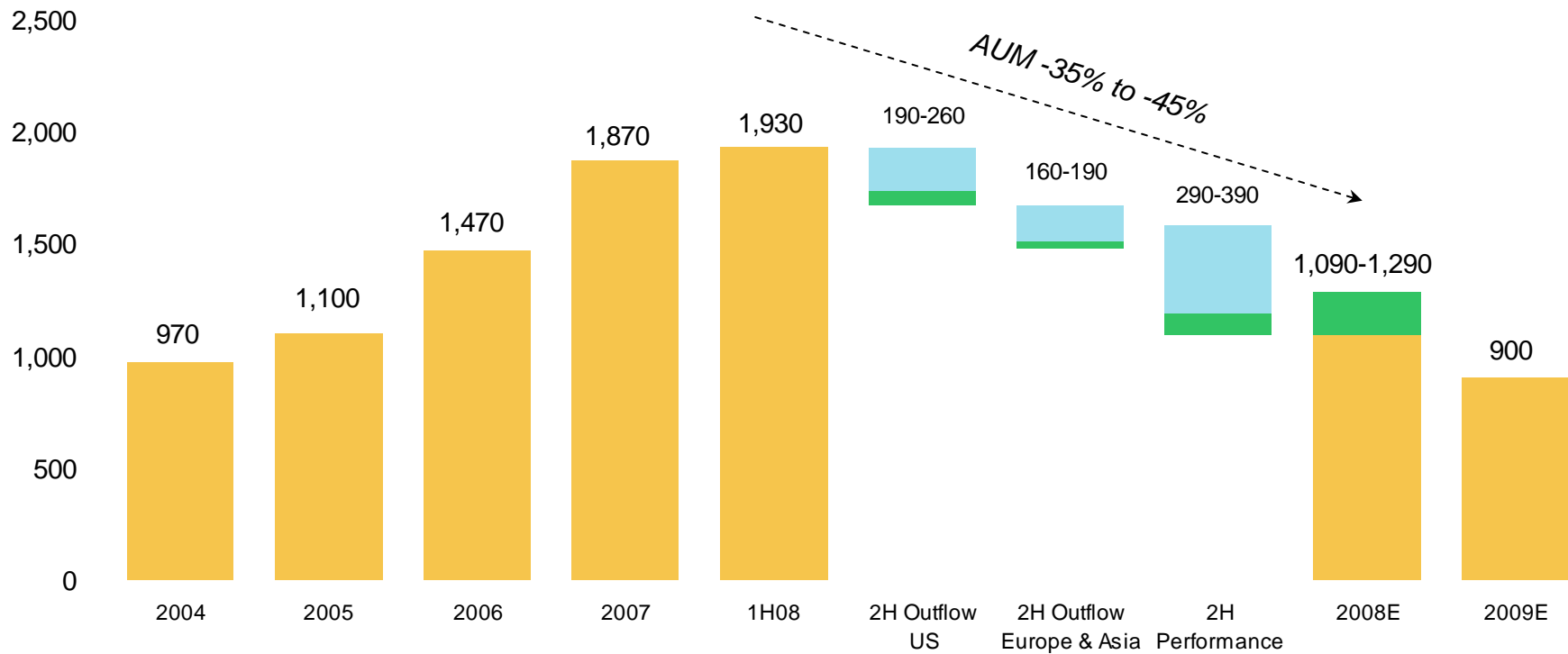


Source Morgan Stanley Research, ICI

Buy-side Environment: Hedge Funds

Reduction in Investment Capacity

Hedge Fund AUM Estimated to Fall to \$1.1-1.3 Trillion Redemptions and Negative Performance



Source: HFR, Morgan Stanley Forecasts 11/2008

Utility Stock Index Performance

Last Twelve Months



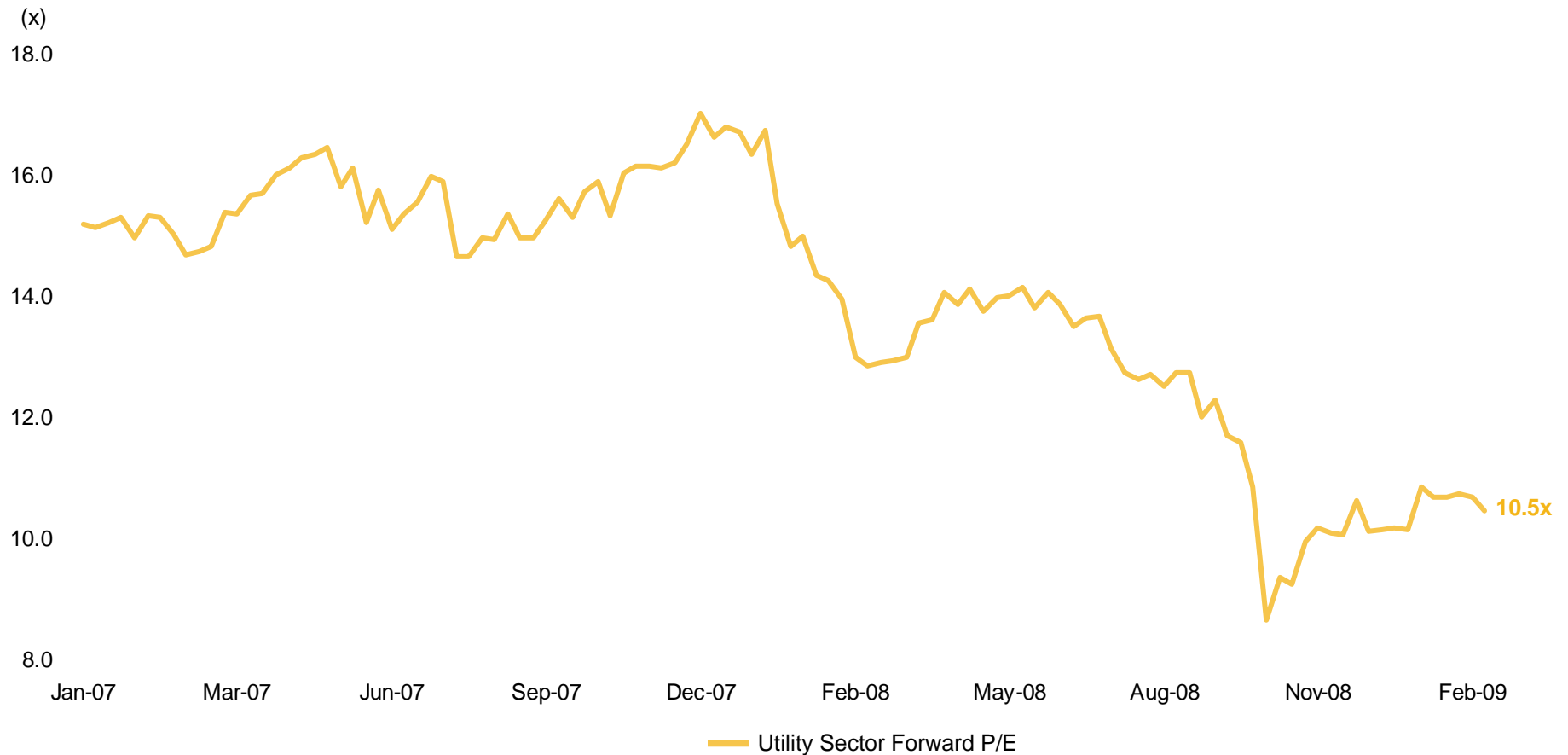
Source FactSet

Morgan Stanley

Note:
As of February 11, 2009

Utility Sector Forward P/E

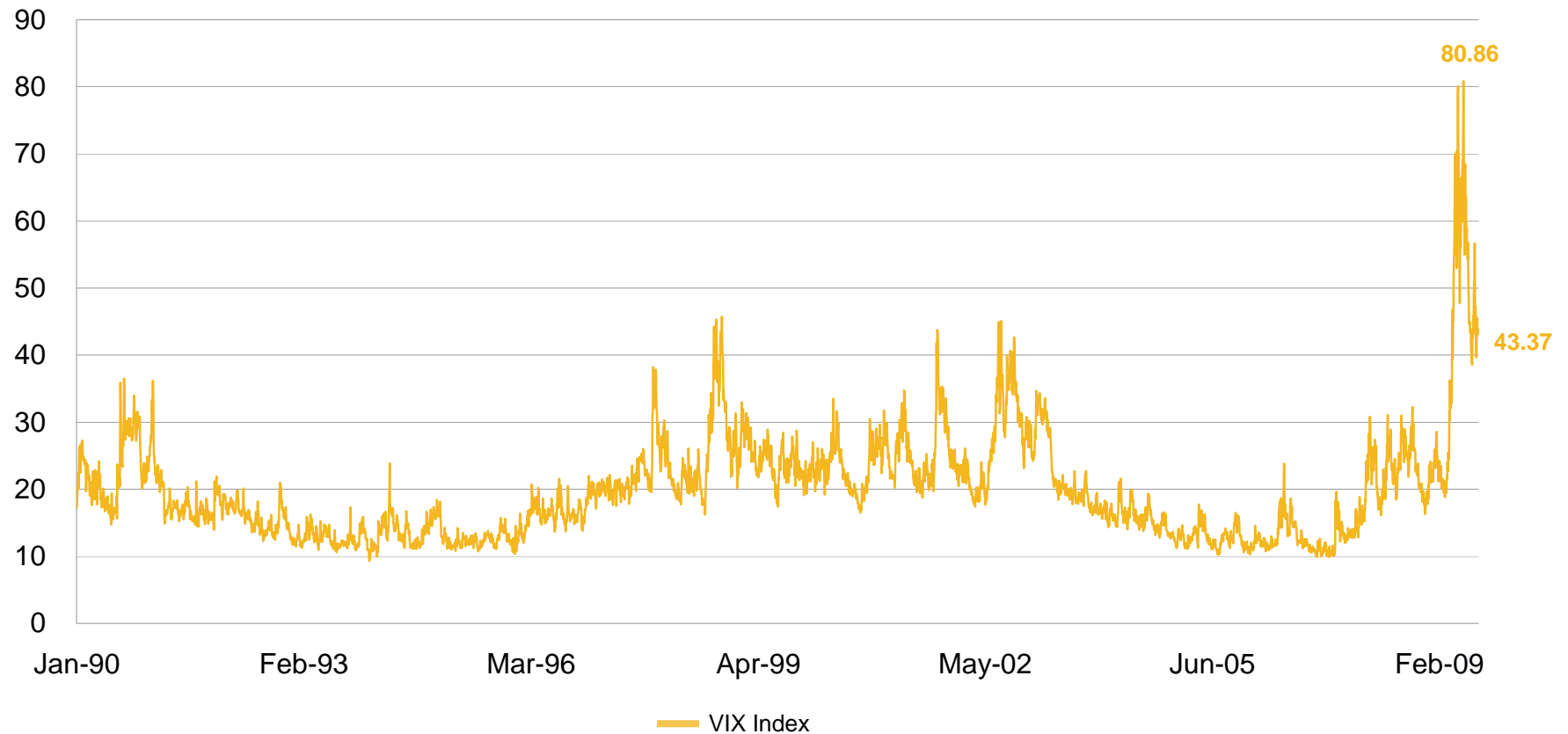
Since January 1, 2007



Source Morgan Stanley

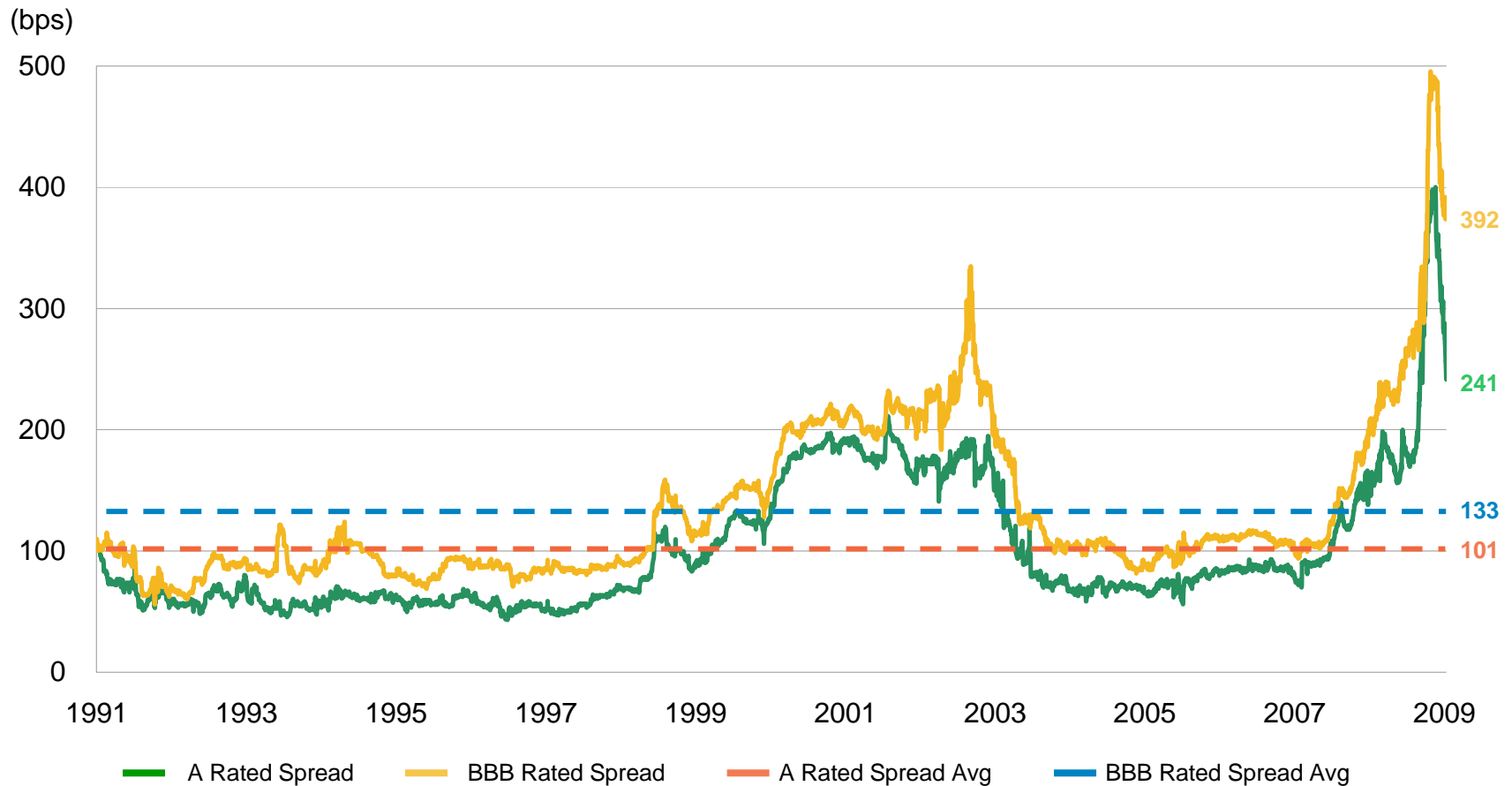
Risk is Being Re-priced

VIX Index — Since January 1, 1990



10-Year Secondary Trading Spreads

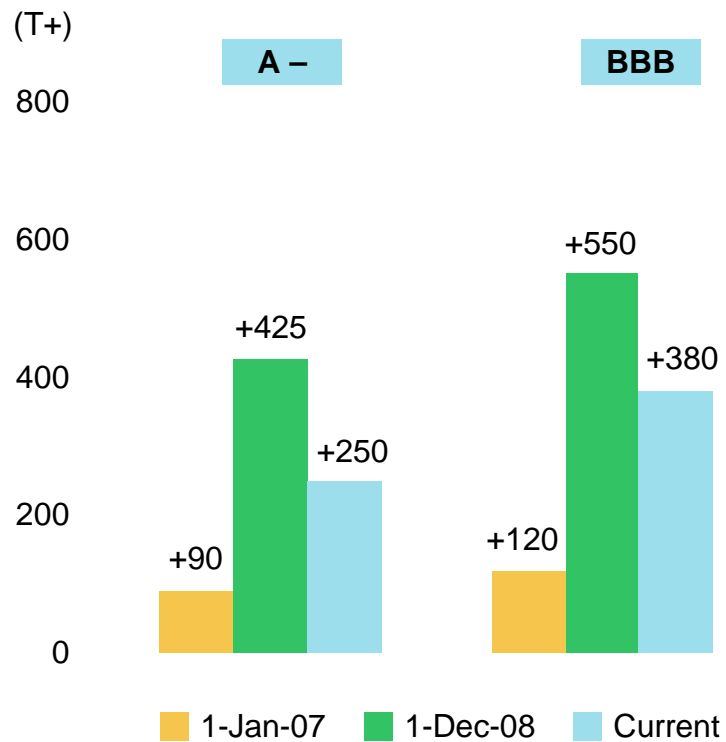
Debt Spreads Have Increased Dramatically



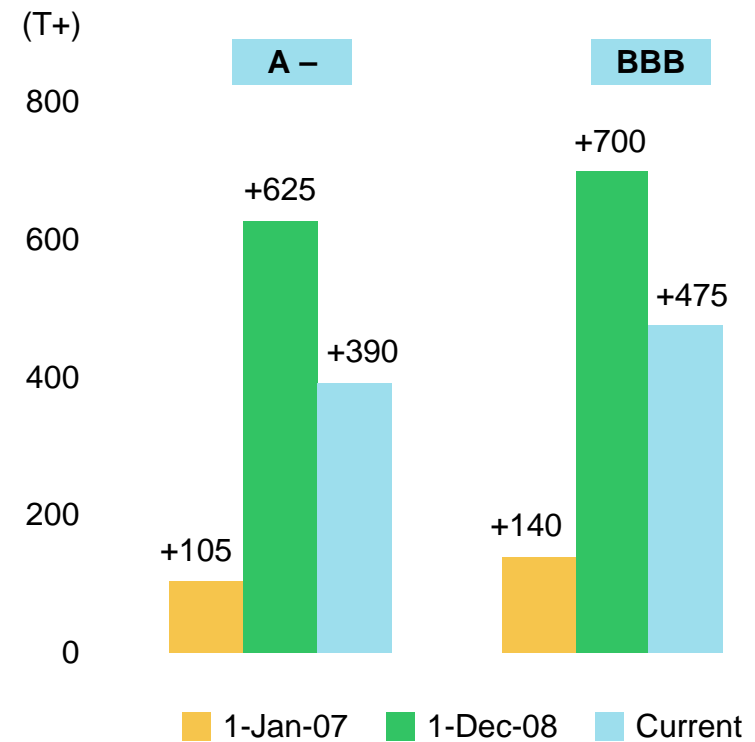
Source Bloomberg, Morgan Stanley

Utility and HoldCo Issuance Spreads

Utility 10-Year Issuance Spreads

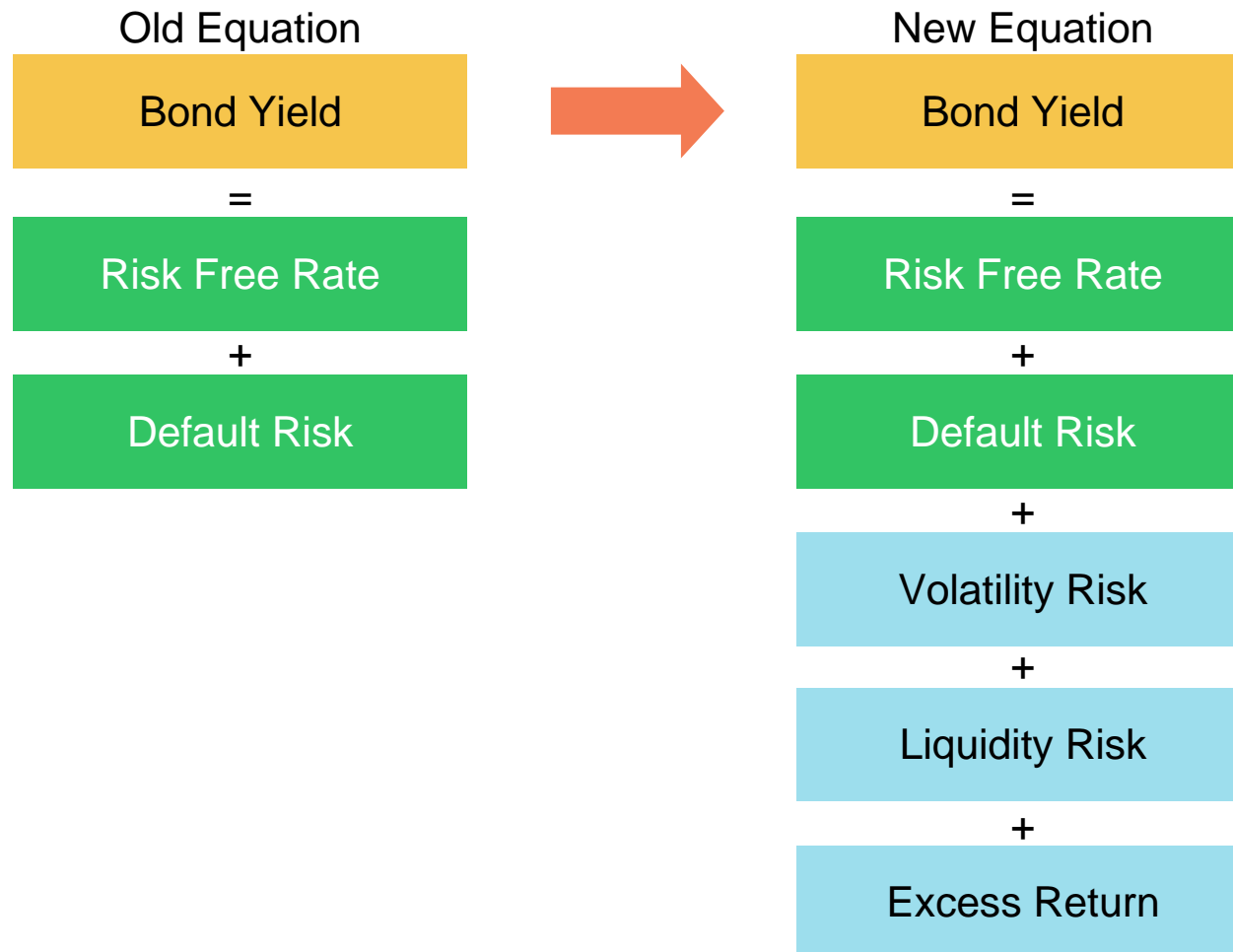


HoldCo 10-Year Issuance Spreads



How Do Investors Think About Risk?

Current pricing is well outside of norms associated with cyclical downturns, indicating systemic risk pricing rather than consideration of historical default probabilities



Key Takeaways

Utilities

- Maintain financial strength
- Take advantages of windows to access capital
- Maintain open and constructive relationship with Regulators

State Regulatory Commissions

- Goal to ensure that utilities continue to provide the most reliable service for rate payers at the lowest cost
- Maintain open and constructive relationships with utilities
- Provide transparency to decision making
- Allow adequate returns to encourage investment by utilities

Rate Payers

- Continued safe and reliable service
- Lowest rates for consumers through access to the lowest cost of capital