

Implications of PUHCA Repeal: As Assessment of Investor Perceptions

**Presentation to the
Electricity Committee
NARUC Winter Meetings**

**Washington, D.C.
February 14, 2006**

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Investor Perceptions of PUHCA Repeal: Overview

- **Outlook for further industry consolidation**
- **State regulatory oversight of M&A**
- **Opinions on PUHCA**
- **FERC's enhanced merger authority**
- **State regulators' potential responses to PUHCA repeal**

Investor Perceptions of PUHCA Repeal: Consolidation Backdrop

- **More consolidation is widely anticipated**
- **Valuations at more reasonable levels than in merger go-go years; more realism regarding merger premiums**
- **New potential investors**
- **Deal shapes may change**
- **Concerns about state regulators' approval**

Investor Perceptions of PUHCA Repeal: State Regulatory Oversight of M&A

- **Almost all investors believe or accept state regulators' review of M&A**
- **Desired factors with oversight:**
 - **Fairness in evaluation**
 - **Recovery of merger premiums**
 - **Only one controlling entity to review the deal**
 - **Regulators able to see positives in a combination**
 - **Applying incentives**
 - **Limiting judgments to the no harm/benefit test**

Investor Perceptions of PUHCA Repeal: State Regulatory Oversight of M&A

- **Concerns with oversight:**
 - Confiscation of economic value/required givebacks
 - Protracted time for approvals
 - Immediate rate cuts aren't realistic

Investor Perceptions of PUHCA Repeal: Analysts' Thoughts on PUHCA

- **Essentially benign, a non-event**
- **Federal and universally applicable**
- **Didn't save anyone, nor push anyone over the edge**
- **A company's strategy trumps PUHCA. If the strategy is inherently conservative, it will be so even without PUHCA.**

Investor Perceptions of PUHCA Repeal: FERC's Broadened Merger Authority

- **Generally viewed benignly**
- **“The jury’s still out.”**
- **Positives (related to FERC):**
 - **Understands the markets**
 - **Has a history of consistency**
 - **Supportive of maintaining industry’s financial health**

Investor Perceptions of PUHCA Repeal: FERC's Broadened Merger Authority

➤ **Negatives:**

- Potential for over-exercise of power
- Concern of succumbing to political pressure
- Increasing jurisdictional tension with state regulators

➤ **Neutral views:**

- A “non-event, ” continuing spirit of previous legislation
- Authority had to go to somebody
- FERC is an independent body

Investor Perceptions of PUHCA Repeal: State Regulators' Potential Responses

Ring Fencing

- Analysts have mixed opinions
- Portland General cited as an excellent example
- Depends on how mechanisms are structured

Investor Perceptions of PUHCA Repeal: State Regulators' Potential Responses

Ring Fencing (continued)

➤ Positives

- Provides financial protection from unregulated activities
- Limits downside exposure to investors and consumers
- Can provide comfort to state regulators

Investor Perceptions of PUHCA Repeal: State Regulators' Potential Responses

Ring Fencing (continued)

- **Negatives:**
 - Limits the ability of markets to work
 - Can be so restrictive it isn't helpful
 - Can pose a cost to ratepayers
 - Has a potential negative impact on holding companies and other affiliates

Investor Perceptions of PUHCA Repeal: State Regulators' Potential Responses

Mini-PUHCAs

- Many investors view unfavorably, others have mixed or neutral views
- **Negatives:**
 - Limit industry's consolidation potential
 - Hurt consumers through reducing economies of scale possibilities
 - Limit market's ability to function
 - Introduce territorial issues
 - Increase industry complexity

Investor Perceptions of PUHCA Repeal: State Regulators' Potential Responses

Mini-PUHCAs (continued)

- **Mixed views:**
 - State-by-state issue
 - Depends on individual circumstances, levels of requirements, and parameters
- **Neutral opinions:**
 - Regulators desire consistency
 - Becomes a legal question: strong rules, laws needed
- **Only one positive cited: could prevent LBOs**

Investor Perceptions of PUHCA Repeal: Summary

- **Further industry consolidation widely anticipated**
- **State regulators have a role—hopefully constructive—in M&A approval process**
- **FERC's broadened merger authority generally considered benign**
- **Properly constructed ring-fencing mechanisms can help protect regulated utilities**
- **Mini-PUHCAs not a desirable response to PUHCA repeal**

Q & A