

Utility Sector Outlook

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Macro Concerns Trump Positive Outlook

2013 NAWC Water Summit

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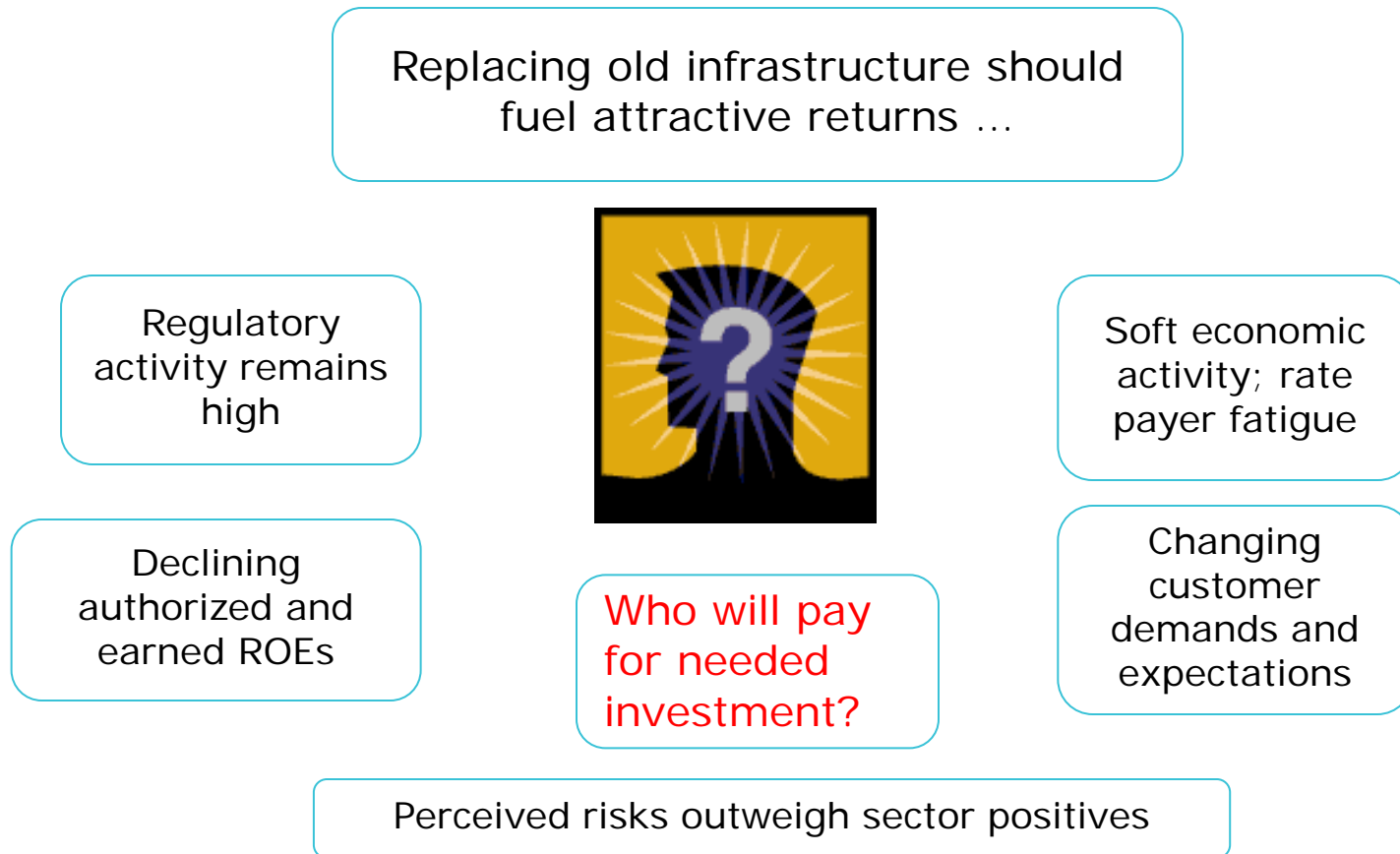
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Please refer to Appendix - Important Disclosures and Analyst Certification.



Investors Remain on the Sidelines



Encouraging Infrastructure Investment



US infrastructure in need of substantial upgrade.

- States and utility sectors competing for capital

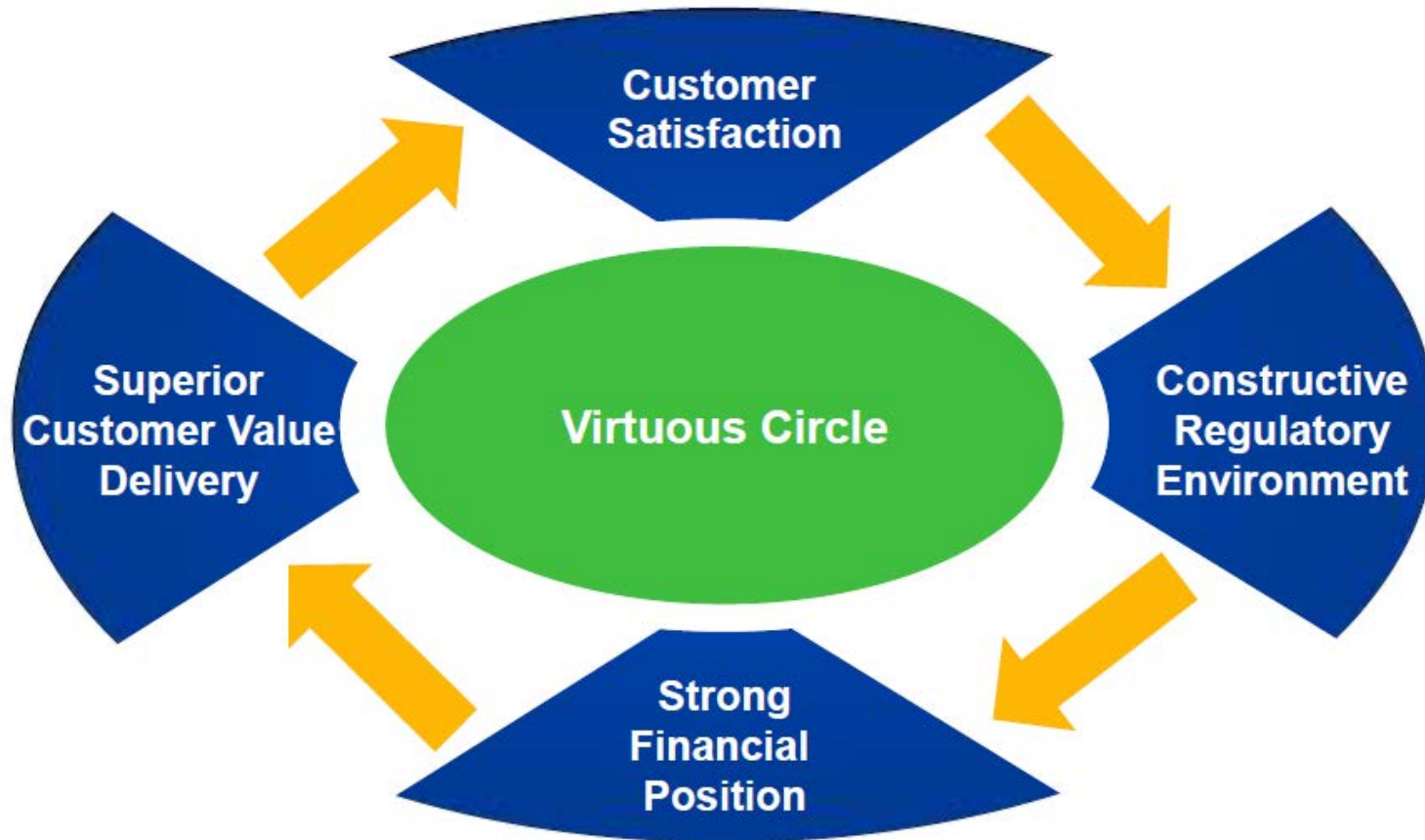
How to win the competition

- Establish goals and objectives
- Adopt and/or modify regulatory practices that recognize accelerated infrastructure needs.
 - Multi-year rate recovery strategies, investment and cost tracking mechanisms, modified rate design, pre-approval of significant projects

All stakeholders benefit if the rules are right

- Getting the rules right, enhances access to capital lowering the cost to customers of system expansion, upgrade and replacement; a win-win for all stakeholders

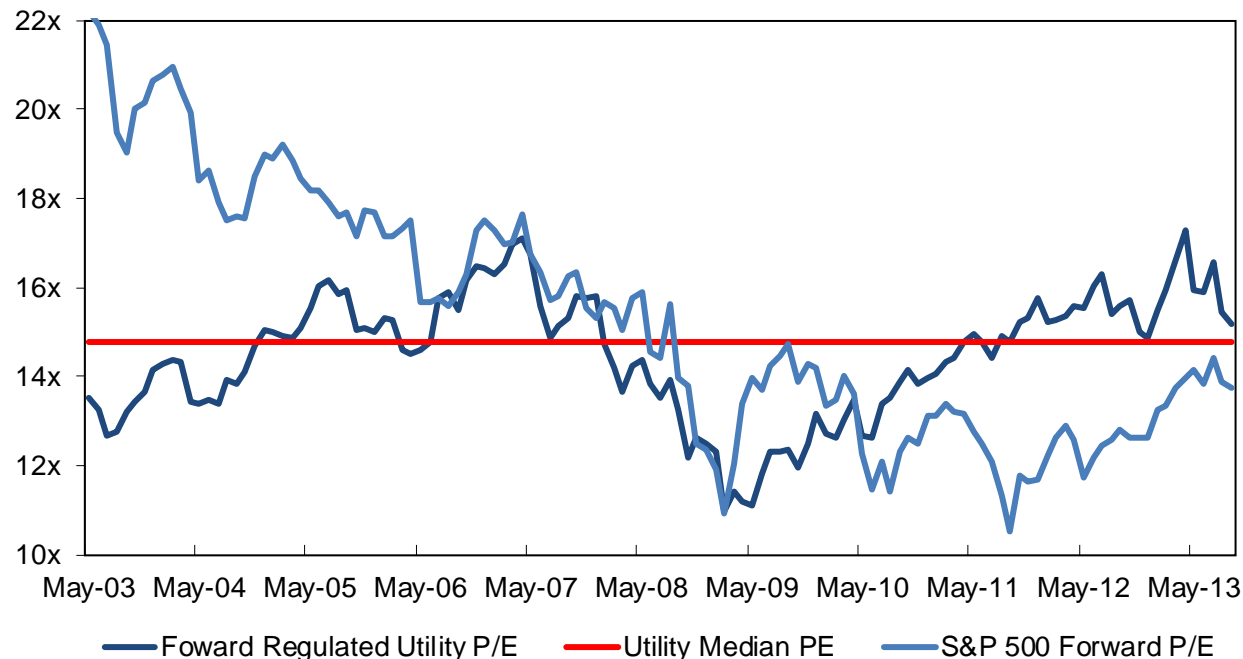
Effective Managers Laser Focused on Customer





Appendix

Sector Valuation



Improved Utility sector total returns as infrastructure investment opportunities accelerated helped eliminated the P/E multiple gap with S&P 500. 8%-10% expected total returns likely remains attractive especially on a risk-adjusted basis, helping to support current and/or expanded P/E multiples.

Index	First Call										3 YR EPS Growth
	YOY EPS Growth %										
	06	07	08	09	10	11	12	13E	14E	15E	
Baird's Electric Utility Index	9.6	3.7	2.1	(0.7)	12.1	7.5	6.0	4.0	5.2	5.0	5.2
Baird's Electric/Gas Utility Index	(6.6)	9.8	2.1	1.6	5.9	7.2	(1.6)	6.0	6.0	5.4	5.2
Baird's Gas Utility Index	9.1	8.8	6.4	6.3	3.4	3.4	1.6	5.0	4.4	3.1	4.4
Baird's Utility/Merchant Index	4.6	14.5	4.1	(0.5)	2.1	2.1	(4.1)	0.2	5.8	5.6	0.5
Baird's Water Utility Index	1.8	3.8	2.6	7.2	16.9	-	18.6	3.6	6.9	6.3	5.9
Baird's Diversified Utility Index	23.4	6.5	16.6	(24.8)	3.2	2.1	2.2	14.1	7.4	5.6	7.4
Median	6.9	7.7	3.3	0.5	4.6	2.8	1.9	4.5	5.9	5.5	5.2
S&P 500	14.7	(5.9)	(20.8)	(7.0)	37.6	16.0	5.6	6.4	6.8	9.0	7.4

Investment Recovery Rules Must Be “Right”



Baird’s proprietary state regulatory rankings help clients evaluate investment risk and also highlight states that encourage infrastructure investment.

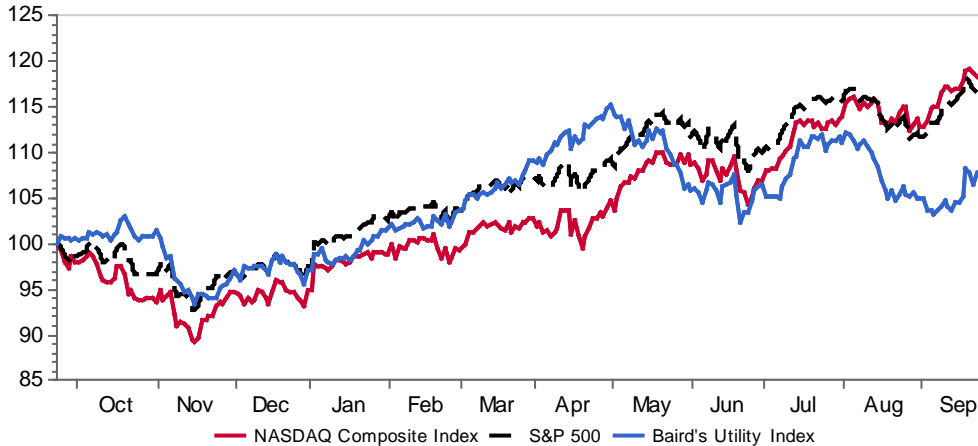
Baird's Water Utility Commission Assessment			
Constructive	Generally Constructive	Marginal	Unfavorable
Pennsylvania - Texas	California Delaware Hawaii Maine Maryland New York North Carolina Ohio Virginia	+ Connecticut Illinois + Indiana Kentucky + Missouri New Jersey	West Virginia

Utility Sector Underperforms

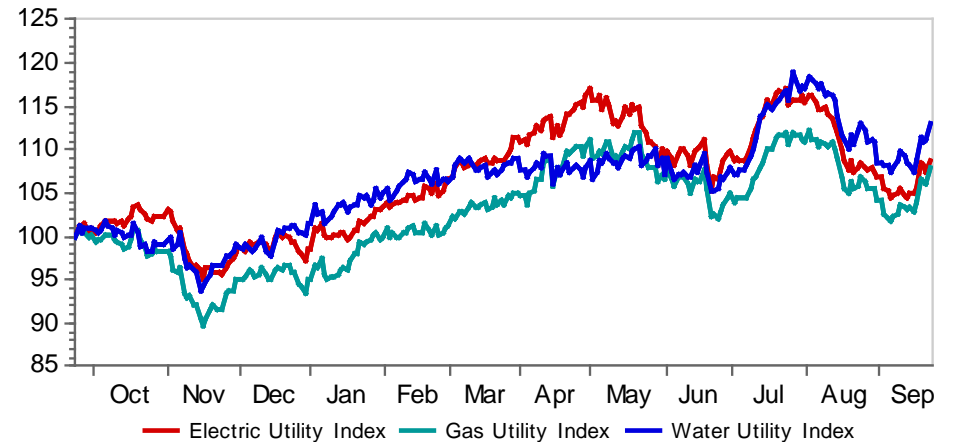


Investor focus remains fixed on global macro issues: Utility Sector underperforms as rising interest rates, slowing EPS CAGRs, heightened regulatory activity and declining authorized ROEs keeps investors on the sidelines despite more attractive entry point.

Utility Index vs. Market



Baird Utility Indices



Source: FactSet

Utility Coverage



Baird Utilities Coverage List

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	Ticker	Rating	Price Target	9/24/13 Price	52 Week Range	Market Cap	Stock Price Performance (%)				EPS Estimates				3 Year CAGR	P/E Ratio				Debt/Capital	Dividend Yield	Payout Ratio
							1 Month	3 Month	YTD	TTM	2012	2013E	2014E	2015E		2012	2013E	2014E	2015E			
Electric Utilities																						
ALLETE, Inc.	ALE	O	\$57	\$48.69	54 - 38	1,955	1.9	1.2	18.8	14.8	\$2.58	\$2.70	\$3.05	\$3.35	9%	18.9x	18.0x	16.0x	14.5x	42%	3.9%	70%
Alliant Energy	LNT	O	\$56	\$50.14	54 - 42	5,563	(0.9)	4.4	14.2	14.6	\$3.05	\$3.15	\$3.30	\$3.45	4%	16.4x	15.9x	15.2x	14.5x	51%	3.7%	60%
PNM Resources	PNM	O	\$26	\$22.69	24 - 20	1,807	(0.7)	5.4	10.6	7.2	\$1.31	\$1.37	\$1.55	\$1.60	7%	17.3x	16.6x	14.6x	14.2x	50%	2.9%	48%
Wisconsin Energy	WEC	N	\$45	\$41.28	45 - 36	9,398	(0.0)	3.7	12.0	11.0	\$2.35	\$2.45	\$2.55	\$2.65	4%	17.6x	16.8x	16.2x	15.6x	55%	3.7%	62%
Xcel Energy	XEL	O	\$34	\$28.14	32 - 26	14,002	0.8	0.4	5.4	2.0	\$1.82	\$1.92	\$2.00	\$2.10	5%	15.5x	14.7x	14.1x	13.4x	56%	4.0%	58%
Electric/Natural Gas Utilities																						
Chesapeake Utilities	CPK	N	\$57	\$54.31	60 - 41	523	1.2	5.2	19.6	13.8	\$2.99	\$3.40	\$3.40	\$3.60	6%	18.2x	16.0x	16.0x	15.1x	40%	2.8%	45%
Integrus Energy	TEG	O	\$68	\$56.46	64 - 51	4,494	(1.9)	(0.8)	8.1	7.2	\$3.26	\$3.50	\$3.65	\$3.95	7%	17.3x	16.1x	15.5x	14.3x	47%	4.8%	78%
NorthWestern Corp.	NWE	O	\$47	\$45.00	46 - 33	1,731	9.9	15.6	29.6	20.8	\$2.39	\$2.55	\$2.85	\$2.95	7%	18.8x	17.6x	15.8x	15.3x	54%	3.4%	60%
UIL Holdings	UIL	O	\$45	\$38.52	42 - 32	1,953	3.2	5.1	7.6	7.9	\$2.02	\$2.15	\$2.45	\$2.55	8%	19.1x	17.9x	15.7x	15.1x	59%	4.5%	80%
Unitil	UTL	N	\$31	\$29.94	32 - 24	414	5.1	5.1	15.5	9.8	\$1.43	\$1.55	\$1.75	\$1.90	10%	20.9x	19.3x	17.1x	15.8x	52%	4.6%	89%
Natural Gas Utilities																						
Piedmont Natural Gas	PNY	N	\$34	\$33.45	36 - 29	2,540	1.7	2.2	6.8	0.2	\$1.66	\$1.77	\$1.95	\$2.05	7%	20.2x	18.9x	17.2x	16.3x	51%	3.7%	70%
Diversified Utilities																						
Hawaiian Electric	HE	N	\$28	\$25.38	28 - 24	2,516	0.6	4.0	1.0	(5.3)	\$1.68	\$1.60	\$1.75	\$1.90	4%	15.1x	15.9x	14.5x	13.4x	47%	4.9%	78%
MDU Resources	MDU	O	\$32	\$27.71	30 - 20	5,233	0.5	12.0	30.5	23.1	\$1.15	\$1.40	\$1.60	\$1.75	15%	24.1x	19.8x	17.3x	15.8x	36%	2.5%	49%
NextEra Energy	NEE	O	\$90	\$81.22	88 - 66	34,491	(0.2)	3.6	17.4	16.9	\$4.57	\$4.90	\$5.30	\$5.60	7%	17.8x	16.6x	15.3x	14.5x	59%	3.3%	54%
Otter Tail Corp.	OTTR	N	\$28	\$28.59	32 - 23	1,037	2.4	4.8	14.4	19.3	\$1.30	\$1.40	\$1.50	\$1.65	8%	22.0x	20.4x	19.1x	17.3x	45%	4.2%	85%
TECO Energy	TE	N	\$20	\$17.03	19 - 16	3,701	1.4	1.7	1.6	(3.7)	\$1.21	\$0.92	\$1.10	\$1.30	2%	14.1x	18.5x	15.5x	13.1x	56%	5.2%	96%
Vectren	VVC	O	\$40	\$33.61	38 - 27	2,767	(0.1)	2.7	14.3	16.1	\$1.94	\$2.05	\$2.25	\$2.40	7%	17.3x	16.4x	14.9x	14.0x	57%	4.2%	69%
Water Utilities																						
American States Water	AWR	N	\$28	\$27.05	33 - 20	1,047	(3.4)	3.6	12.8	21.8	\$1.41	\$1.40	\$1.40	\$1.45	5%	19.2x	19.3x	19.3x	18.7x	45%	3.0%	58%
American Water Works	AWK	O	\$47	\$40.79	44 - 36	7,259	(2.6)	3.5	9.9	9.4	\$2.11	\$2.16	\$2.36	\$2.52	6%	19.3x	18.9x	17.3x	16.2x	57%	2.7%	52%
Aqua America	WTR	N	\$28	\$24.62	28 - 19	4,345	(2.7)	1.6	21.1	24.8	\$1.06	\$1.14	\$1.18	\$1.24	6%	23.3x	21.5x	20.8x	19.9x	59%	2.5%	53%
Artesian Resources Corp.	ARTNA	N	\$25	\$22.72	24 - 20	180	1.9	3.3	1.3	(2.9)	\$1.13	\$1.07	\$1.30	\$1.34	6%	20.1x	21.2x	17.5x	17.0x	58%	3.7%	78%
California Water	CWT	N	\$23	\$19.79	22 - 17	945	(5.3)	3.4	7.8	5.4	\$1.17	\$0.85	\$1.20	\$1.25	2%	16.9x	23.3x	16.5x	15.8x	50%	3.2%	75%
Connecticut Water Service	CTWS	O	\$36	\$32.30	32 - 28	350	2.3	12.5	8.5	2.1	\$1.53	\$1.62	\$1.70	\$1.65	3%	21.1x	19.9x	19.0x	19.6x	49%	3.1%	61%
Middlesex Water Co.	MSEX	N	\$21	\$21.44	22 - 17	340	1.5	11.3	9.6	11.0	\$0.90	\$1.00	\$1.02	\$1.09	7%	23.8x	21.4x	21.0x	19.7x	55%	3.5%	75%
SJW Corp.	SJW	N	\$32	\$28.51	29 - 23	574	6.1	13.9	7.2	12.1	\$1.18	\$1.43	\$1.50	\$1.60	11%	24.2x	19.9x	19.0x	17.8x	55%	2.6%	51%
York Water Co.	YORW	N	\$20	\$20.96	22 - 17	271	2.7	9.5	19.3	15.0	\$0.72	\$0.79	\$0.88	\$0.88	7%	29.1x	26.5x	23.8x	23.8x	46%	2.6%	70%
Indices																						
S&P 500 Index				1,697	1730 - 1343		2.0	7.9	19.0	16.5												
NASDAQ				3,768	3799 - 2811		3.0	13.5	24.8	19.2												
Baird Utility Index				123	132 - 108		1.3	3.6	10.5	4.7												

Sources: FactSet and Baird estimates

O=Outperform, N=Neutral, U=Underperform, R = Restricted due to regulatory quiet period

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Utility Industry Risks

Regulation. Regulated operations are subject to state and federal regulations. Changes in the regulatory environment can affect a company's near-term and long-term financial performance.

Wholesale power price volatility. Profitability of merchant energy assets can fluctuate significantly with swings in commodity prices. Swings in the capacity factor caused by base demand growth and degree day changes could create mismatches with lumpy supply growth, thus creating swings in commodity power prices.

Weather. Companies' businesses are sensitive to fluctuations in the weather. A particularly warm winter or cool summer could adversely affect a company's financial results. Likewise, favorable weather conditions can positively impact near-term financial results.

Commodity price risk. Companies have no control of the wholesale prices of electricity, natural gas, oil or coal. While some companies maintain a fuel clause recovery mechanism that helps mitigate risk, a spike in the price of these fuels could adversely affect financial results.

Acquisition risk. A company may have the opportunity to purchase assets or companies in the near future. Utility companies typically make acquisitions with the belief that such activity will generate additional profits beyond what could have been earned if those funds were used for a different purpose. Acquisitions carry risks related to personnel, expected-versus-actual growth and a myriad of unforeseen hurdles, all of which can negatively affect earnings.

Financial derivative risk. Electric and natural gas commodity markets are today among the most volatile of any commodity traded. This volatility can significantly impact financial results. For all derivative financial instruments, counterparties can expose companies to losses in the event of nonperformance. Companies typically establish controls to determine monitor and mitigate its exposure to counterparty credit risk.

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