

Energy Research

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Capital Markets View

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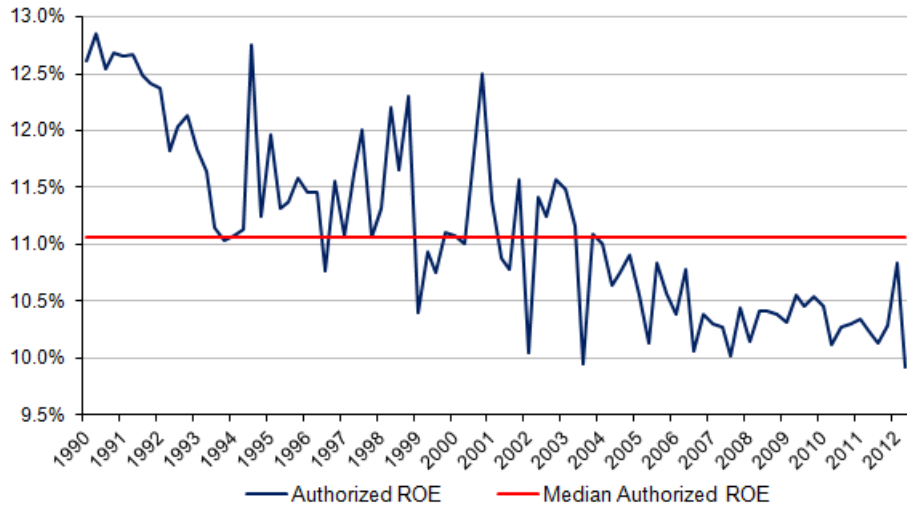
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Please refer to Appendix - Important Disclosures and Analyst Certification.

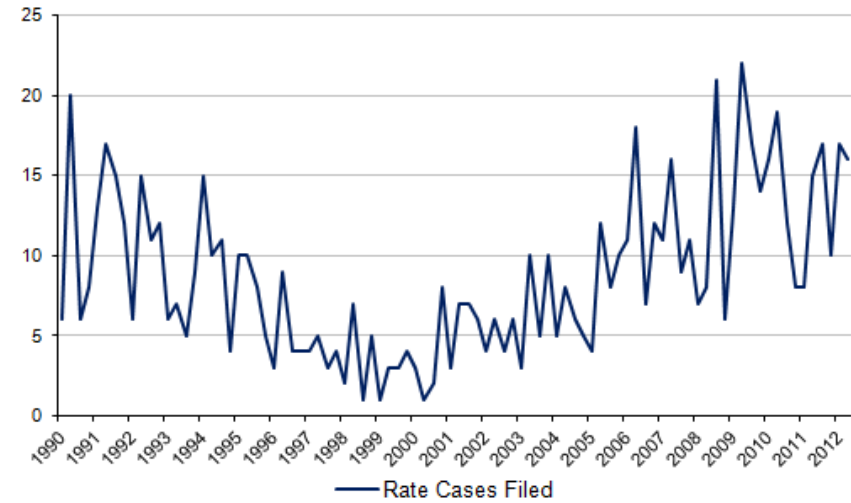
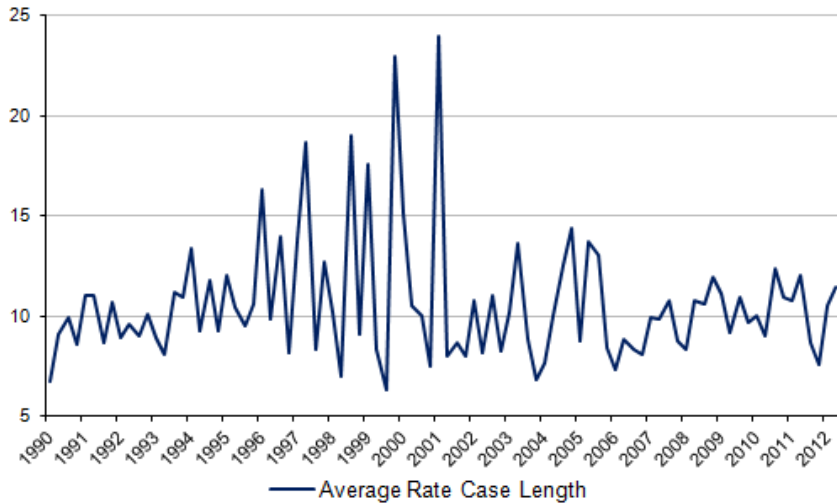


Regulatory Activity Remains at Heightened Levels



Average authorized Electric ROEs dropped below 10% for first time ever!

Average rate case length increasing; directionally negative

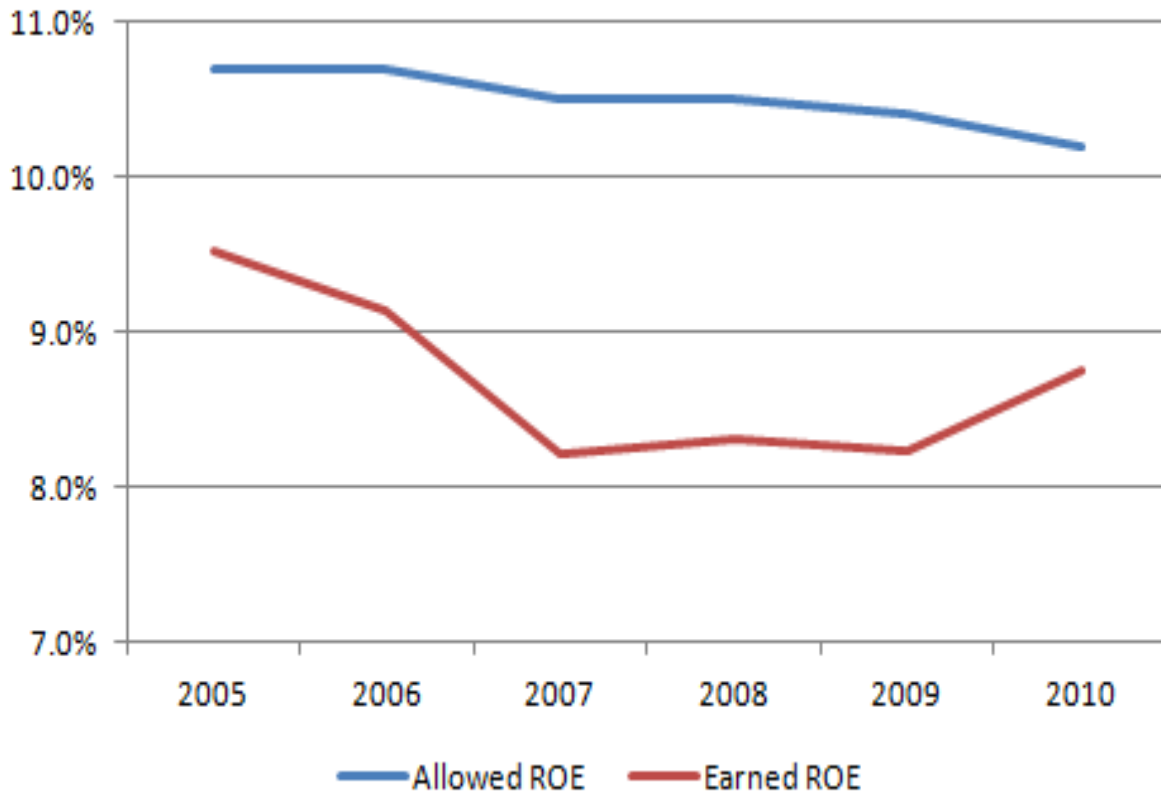


Source: SNL Financial, Regulatory Research, EEI

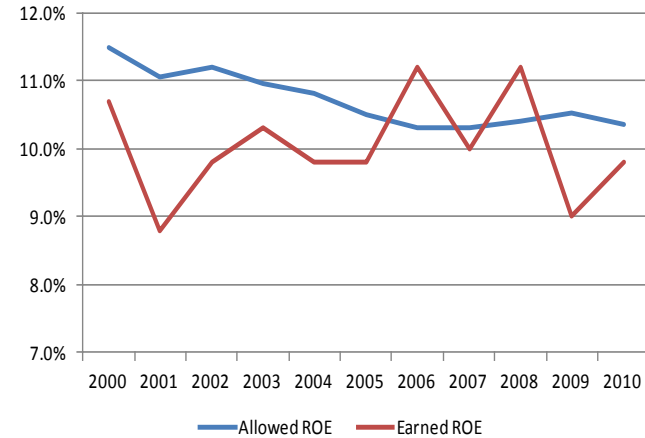
Allowed vs. Earned Return Comparison



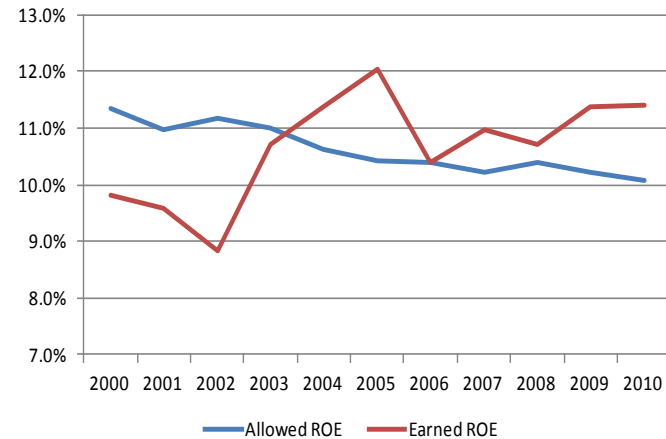
Water Utilities



Electric Utilities



Natural Gas Utilities



Source: SNL Energy, RW Baird

Audience Response System Question



What is the average difference (shortfall) between the allowed ROE granted and the ROE earned for the water utilities in your state?

- A. 50 Basis Points (BP)**
- B. 100 BP**
- C. 150 BP**
- D. 200 BP**
- E. Greater than 200BP**

Audience Response System Question



How would you categorize your regulatory climate?

- A. Constructive**
- B. Generally Constructive**
- C. Marginal**
- D. Unfavorable**

Baird's Water Utility Commission Assessment



Constructive	Generally Constructive	Marginal	Unfavorable
Pennsylvania	California	Florida	- Connecticut
Texas	Delaware	- Illinois	West Virginia
	Hawaii	Indiana	
	Iowa	+ Missouri	
	Kentucky	+ New Jersey	
	Maine	Ohio	
	Maryland		
	New York		
	North Carolina		
	Virginia		

Note: +/- Indicates improving (+) or declining (-) outlook

Source: Robert W. Baird & Co.

Baird's Commission Scorecard (excerpt)



State	Appointed/ Elected	Test Year	Recent Allowed ROEs	Allow Single Tarriff	Infrastructure Surcharge Mechanism (DSIC)	Enhanced Regulatory Mechanisms	Avg. Rate Case Duration
CT	Appointed	Historical	9.8% (CTWS; 7/10)	Yes	Yes	Step rate increases	6 mo. suspension period
<p><i>Baird Assessment: Unfavorable/Declining - Lowest ROEs in nation, offsets the benefit from DSIC mechanism; recent reorganization of Commission adds additional risk.</i></p>							
DE	Appointed	Historical	9.8% (MSEX; 5/12) 10.0% (ARTNA; 1/12) <i>* MSEX - settlement pending</i>	Yes	Yes	Temporary rate increases	9 mo.
<p><i>Baird Assessment: Generally Constructive - Part-time PUC can create regulatory lag; ROEs at low end of range, but has DSIC mechanism.</i></p>							
NJ	Appointed	Updated Historical	10.2% (AWK; 5/12) 10.3% (WTR; 4/12) 10.3% (MSEX; 3/10)	Yes	Pilot program recently approved	Purchased water adjustments	Settlement typically in 9-12 mo.
<p><i>Baird Assessment: Marginal/Improving - Average ROEs. Efforts to impliment DSIC mechanism encouraging, but regulatory lag still a concern.</i></p>							
PA	Appointed	Updated Historical	~10.5% (WTR; 6/12) 10.3% (AWK; 11/11) ~10.7% (YORW; 11/10) <i>* ROEs are estimations as decisions were black box settlements</i>	Yes	Yes	Purchased water adjustments	Settlement typically in 6-9 mo.
<p><i>Baird Assessment: Constructive - Premier regulatory climate for water given favorable ROEs, single tariff rate structure, and DSIC mechanism.</i></p>							

Utility Index 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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