The Santa Fe Conference: "Do Not Pass Go - Building a Regulated Monopoly in a Recession"

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Please refer to Appendix - Important Disclosures and Analyst Certification on page 7
Large Capital Investment Needs

• An aging US infrastructure system is incapable of meeting “greener” goals.
• We forecast that over $1 trillion of infrastructure investment is needed in the next decade to reduce emissions, enhance system deliverability and reliability, replace aging assets, and improve customer efficiencies.
• The economy must begin to recover before stakeholders begin to push for new investment

Positive long-term outlook

• Substantial investment opportunities should create attractive returns without inordinate risk
• Spending on infrastructure should reaccelerate (4-6%) in 2011
• Constructive regulation to date
• New emissions legislation/standards remain the wild card. When?
Access to Capital

*With trillions of dollars in US infrastructure investment anticipated, access to capital markets will be crucial for capital-intensive sectors like water, electric & natural gas.*

**Current investor realities:**
- Global recession has investors laser focused on risk
- Wall Street hates uncertainty; less needed regulatory action is better
- Recent state regulatory decisions (i.e. Florida) fuel investor fears that regulatory practices could turn less constructive

**Bottom line:** Investor interest is waning as risk/reward diminishes and sector direction becomes less predictable
Commissions that work with their utilities to minimize rate shock to customers, while stimulating infrastructure investments in their jurisdictions, are viewed most favorably by the investment community.

How Investors Evaluate Regulatory Treatment
- Consistent regulatory treatment
- Fair and balanced allowed returns on equity
- Mechanisms that minimize regulatory lag

Maintenance of “Regulatory Compact” Essential to Continued Access to Capital
ROE: Litmus Test for Investors & Regulation

Allowed returns send a strong message to potential investors

- Difficult to determine the “right” ROE, but getting it wrong can be very costly (i.e., UIL)
- Earned ROE provides good insight into effectiveness of recovery mechanisms and review process

Managing headline risk important

Source: RW Baird & Co. and FactSet
Methods to Minimize Regulatory Lag

Allowed ROEs are typically not achievable/maintainable due to regulatory lag

- Forward looking test years
- Infrastructure surcharge mechanisms
- Trackers & pass-throughs
- Temporary rate increases
- Retroactive effective dates

*There is no “one size fits all” approach to regulation*
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