

Clean Tech/Energy Research

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Monumental MARC 2011 Annual Conference: You Can Lead a Horse to Water, But How You Gonna Pay for It?

By: Robert W. Baird & Co.

Dave Parker
dparker@rwbaird.com
813.274.7620

Please refer to Appendix - Important Disclosures and Analyst
Certification on page 11

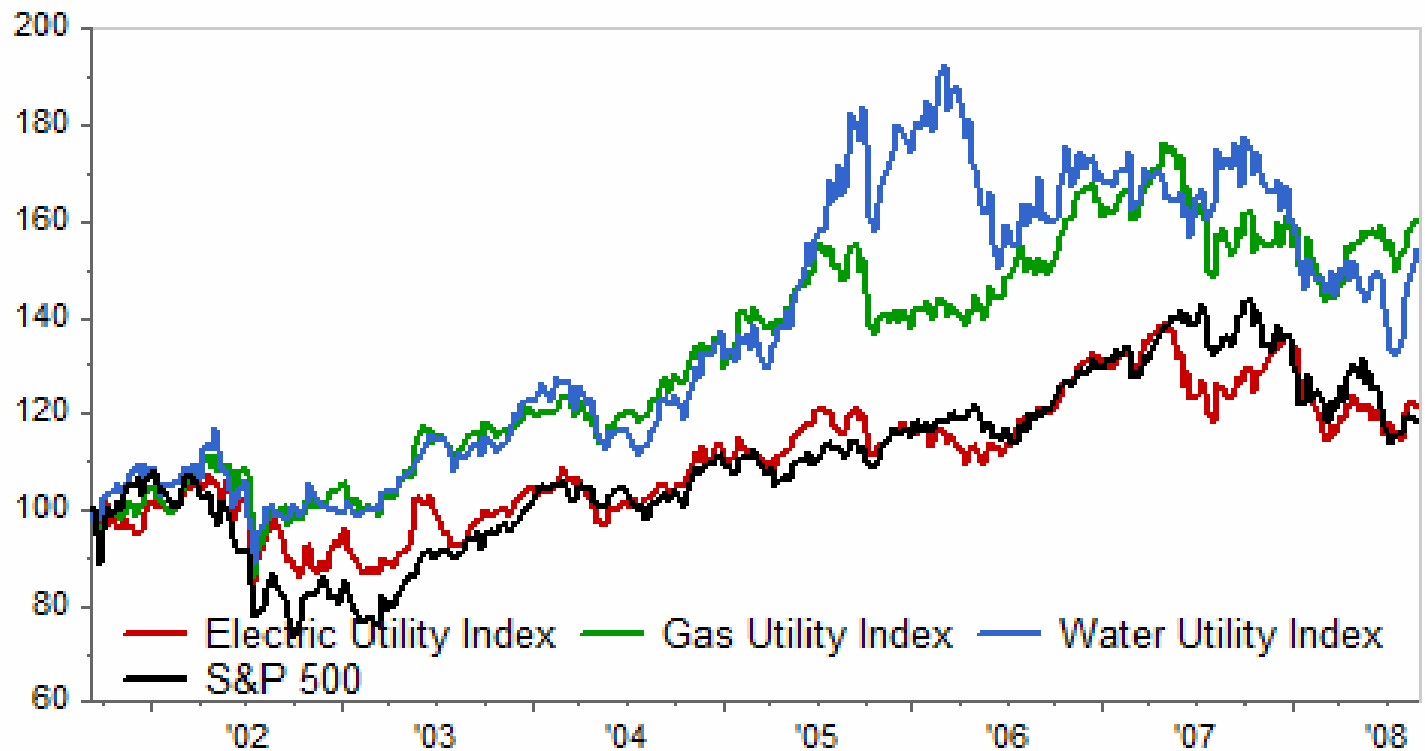


Life Was Good!

BAIRD

Baird Utility Indices

- Increased water quality standards drive positive investment outlook for water sector
- Volatile energy commodity pricing drives positive investment outlook for NG and electric sectors



Source: FactSet & RW Baird

Electric Utility Index includes: DPL, EDE, GXP, IDA, ITC, NST, NU, NVE, PGN, PNW, POM, POR, SO, UIL, UNS, WR

Gas Utility Index includes: ATG, ATO, CPK, GAS, LG, NJR, NWN, PNY, SJI, SWX, UGI, WGL

Water Utility Index includes: ARTNA, AWK, AWR, CTWS, CWT, MSEX, PNNW, SJW, SWWC, WTR, YORW

Improved Sector Performance Reflects:

- “Back-to-Basics” business strategies
 - Increase in regulated investments doubled EPS growth rate
 - Constructive regulatory decisions
 - Improved cost/investment recovery mechanisms
- Reduced dividend tax rate
- Increased focus on dividends

Bottom line: Investors' expectations for sustainable EPS growth improved to **5-7%** annually from prior growth of **1-2%**

Sector Loses Positive Momentum

Limited visibility for infrastructure investment near term

- Utility infrastructure investment slowed, including politically popular “green” infrastructure options
- Consumers are broke – regulators take a wait and see approach before approving new infrastructure investment
- Several negative state regulatory actions (Florida) – investors wonder if more states to follow?

Implications

- Slowed infrastructure investment = lower expected total returns that pressure stock prices
- Lost momentum may take years to regain

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 and natural gas.

Current investor realities:

- Weak global economy has investors laser focused on risk
- Wall Street hates uncertainty; less regulatory activity 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



Global Competition for Capital

- Countries/States/Utility Sectors/Utility Companies are competing for capital
- Best expected risk/reward wins at lowest cost
 - Not highest “coupon” rate
- Ways to lower risk:
 - Define/Establish infrastructure policy
 - Consistent regulatory practices
 - Enhanced regulatory recovery mechanisms
 - “Smooth” cost/investment recovery to avoid rate shock

Utility Infrastructure Intensity

	Cap Ex/D&A	Cap Ex/OCF	Net Plant/ Revenue
(2010)			
Electric	2.1x	0.9x	2.4x
Gas	2.2x	0.8x	1.2x
Water	2.7x	1.4x	3.2x

Capex/Depreciation	5YR Average	10YR Average
Electric	2.4x	1.9x
Gas	1.9x	1.9x
Water	3.5x	3.5x

Source: FactSet & RW Baird

Bottom line: All stakeholders benefit from more predictable results

Regulatory Practices in the Spotlight

As infrastructure investment has accelerated, investors have determined that differing regulatory practices can substantially impact earned returns. As a result, investors now focus on key state regulatory practices including:

- General rate case practices: authorized returns, mandatory rate case timeline, test year (future, historic), interim rate relief, step increases, retroactive effective dates
- Rate designs: decoupling, single tariffs
- Investment/cost recovery mechanisms: DSIC, riders, preapproval of major projects
- Consistency of regulatory practices, absence of political pressure

Bottom line: Reduced regulatory lag is a positive especially when infrastructure investment accelerates, helping to enhance access to capital at a reasonable cost.



Commission Scorecard

	State	Appointed/ Elected	Test Year Used	Temporary, Interim, &/or Step Rate Increases	Retroactive Effective Dates	Infrastructure Surcharge Mechanism (DSIC)	Tariff Structure	Recent Allowed ROEs Granted
New England/ MidAtlantic	CT	Appointed	historical	Yes	No	Yes	Single	9.75% (CTWS; 7/10)
	NY	Appointed	historical	No	No	Yes	Single	10.5% (WTR; 2/10), 9.5% (AWK; 4/08)
	NJ	Appointed	historical	No	No	PENDING	Single	10.3% (AWK; 1/11), 10.3% (MSEX; 3/10), 10.3% (WTR; 6/10)
	PA	Appointed	updated historical	No	No	Yes	Single	~10.7% (YORW; 11/10), ~10.6% WW (AWK; 1/11), ~10.7% (WTR; x/0x)
Midwest	IL	Appointed	historical	No	No	Yes	Single	10.4% (AWK; 4/10)
	IN	Appointed	historical	No	No	Yes	Single	10.0% (WTR; 4/11), 10.0% (AWK; 5/10);
	OH	Appointed	historical	No	No	Yes	Single	9.3% (AWK; 5/10)
	IO	Appointed				Pending	Multiple	10.5% (AWK; 5/10)
	MO	Appointed	historical	No	No	Yes	Multiple	10.0% (AWK; 7/10)
Southeast	NC	Appointed	historical	No	No	No	Multiple	
	KY	Appointed	forward	No		No	Single	9.7% (AWK; 10/10)
	VA	Appointed	forward	No		No	Multiple	10.4% (WTR; 10/10); 10.5% (AWK; 5/10)
	WV	Appointed	updated	No		No	Single	9.8% (AWK; 4/11)
	GA	Appointed						
	FL	Appointed	historical	Yes	No	No	Multiple	
West/ Southwes †	CA	Appointed	historical	Yes	Yes		Multiple	10.2% for all water utilities (AWK, AWR, CWT, SJW)
	HI	Appointed	updated	No	No	No	Multiple	
	TX	Appointed	historical	Yes	Yes	No	Multiple	

Source: SNL Energy, RW Baird, Company Reports

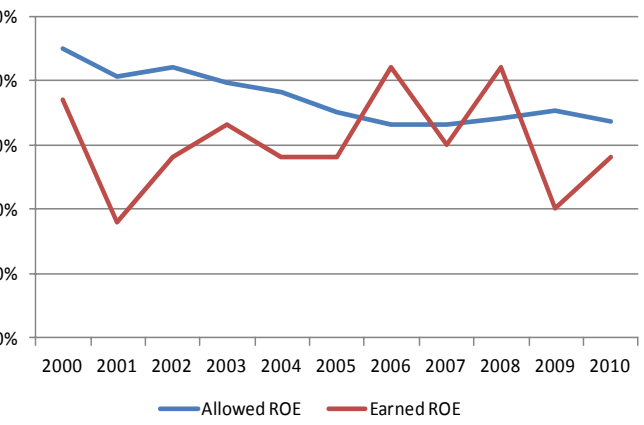


Allowed vs. Earned ROEs

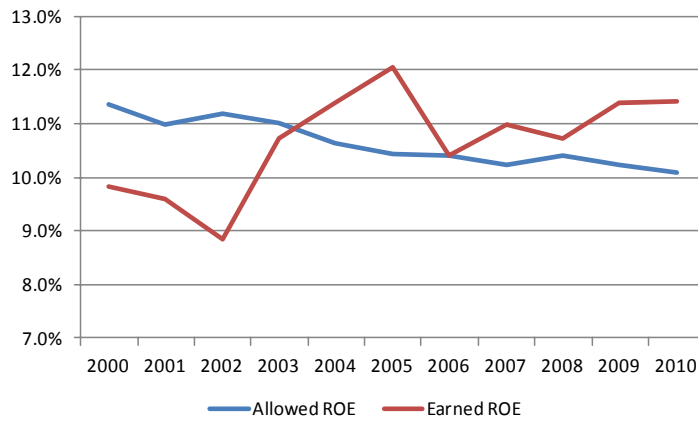
Risk/Return

- Regulatory practices significantly impact long-term investment potential
- Improved returns consistency lowers cost of capital and improves access to capital

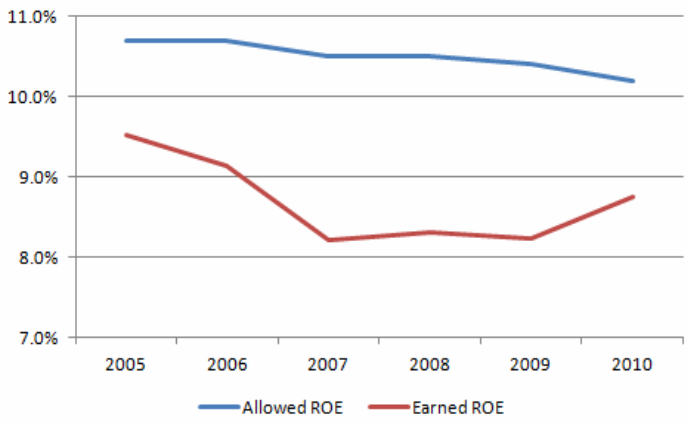
Electric Utilities



Natural Gas Utilities



Water Utilities



Source: SNL Energy, RW Baird

Baird Utilities Coverage List

David Parker 813-274-7620
Heike Doerr 215-553-7816
Maggie Hughes 414-765-3968
Ben Gaither 414-298-2480

	Ticker	Rating	5/26/11 Price	52 Week Range	Market Cap	Stock Price Performance (%)				EPS Estimates			P/E Ratio			Earned ROE				Debt/Capital	Dividend Yield	Payout Ratio
						1 Month	3 Month	YTD	TTM	2010	2011E	2012E	2010	2011E	2012E	2009	2010	2011E	2012E			
Electric Utilities																						
DPL Inc.	DPL	N	\$30.05	24 - 30	3,514	(0.7)	16.0	16.9	22.6	\$2.50	\$2.40	\$2.45	12.0x	12.5x	12.3x	22.1%	25.0%	22.3%	21.8%	52%	4.4%	53%
PNM Resources	PNM	N	\$16.14	11 - 16	1,399	8.4	20.7	24.0	33.4	\$0.87	\$0.85	\$1.25	18.6x	19.0x	12.9x	4.5%	4.8%	5.2%	7.4%	51%	3.1%	57%
Progress Energy	PGN	N	\$47.33	38 - 49	13,940	1.0	4.5	8.9	24.3	\$3.06	\$3.20	\$3.30	15.5x	14.8x	14.3x	9.3%	9.1%	9.1%	9.2%	56%	5.2%	81%
Electric/Natural Gas Utilities																						
Alliant Energy	LNT	O	\$40.39	31 - 41	4,481	2.8	4.6	9.8	29.4	\$2.75	\$2.90	\$3.10	14.7x	13.9x	13.0x	11.2%	12.9%	11.0%	11.1%	47%	4.2%	62%
Chesapeake Utilities	CPK	N	\$39.73	29 - 43	379	(7.2)	(1.3)	(4.3)	34.5	\$2.73	\$2.85	\$3.00	14.6x	13.9x	13.2x	9.6%	11.9%	11.6%	11.4%	42%	3.5%	51%
Integrus Energy	TEG	N	\$51.89	43 - 54	4,062	1.6	6.9	7.0	17.2	\$3.13	\$3.40	\$3.55	16.6x	15.3x	14.6x	6.2%	8.5%	9.0%	9.2%	46%	5.2%	87%
TECO Energy	TE	N	\$18.91	15 - 20	4,064	(0.2)	5.5	6.2	24.6	\$1.28	\$1.32	\$1.45	14.8x	14.3x	13.0x	11.3%	12.9%	12.3%	12.0%	60%	4.5%	67%
UIL Holdings	UIL	O	\$33.18	24 - 34	1,676	7.5	8.9	10.7	38.3	\$2.04	\$2.00	\$2.25	16.3x	16.6x	14.7x	10.3%	7.5%	10.1%	10.2%	61%	5.2%	85%
Vectren	VVC	N	\$28.14	22 - 29	2,300	1.3	7.2	10.9	24.7	\$1.64	\$1.70	\$1.85	17.2x	16.6x	15.2x	10.6%	10.0%	9.6%	10.3%	57%	4.9%	84%
Wisconsin Energy	WEC	N	\$31.08	24 - 32	7,265	1.6	5.7	5.6	28.6	\$1.92	\$2.05	\$2.20	16.2x	15.2x	14.1x	10.9%	12.3%	12.6%	13.1%	54%	3.3%	54%
Xcel Energy	XEL	N	\$24.69	20 - 25	11,954	2.3	3.7	4.8	21.8	\$1.62	\$1.75	\$1.85	15.2x	14.1x	13.3x	9.6%	9.8%	10.3%	10.4%	56%	4.2%	64%
Natural Gas Utilities																						
Nicor	GAS	N	\$54.44	39 - 56	2,479	(0.2)	3.5	9.1	37.1	\$3.08	\$2.50	\$2.50	17.7x	21.8x	21.8x	13.5%	12.9%	10.4%	11.2%	45%	3.4%	60%
Piedmont Natural Gas	PNY	N	\$31.11	25 - 32	2,233	0.4	6.2	11.3	24.4	\$1.53	\$1.60	\$1.75	20.3x	19.4x	17.8x	13.5%	11.8%	11.9%	12.6%	51%	3.7%	76%
Diversified Utilities																						
Hawaiian Electric	HE	O	\$24.52	21 - 26	2,336	(2.4)	2.0	7.6	13.8	\$1.21	\$1.48	\$1.75	20.3x	16.6x	14.0x	7.3%	6.4%	7.5%	9.0%	47%	5.1%	102%
MDU Resources	MDU	N	\$23.16	18 - 24	4,372	(3.3)	9.7	14.3	30.2	\$1.30	\$1.45	\$1.70	17.8x	16.0x	13.6x	12.9%	14.3%	12.8%	12.1%	36%	2.8%	50%
NextEra Energy	NEE	O	\$57.10	48 - 59	24,094	1.9	4.4	9.8	17.9	\$4.30	\$4.45	\$4.70	13.3x	12.8x	12.1x	13.4%	13.0%	12.3%	12.1%	59%	3.9%	51%
Otter Tail Corp.	OTTR	N	\$21.47	18 - 23	774	(6.9)	(3.9)	(4.7)	11.3	\$0.38	\$0.85	\$1.25	56.5x	25.3x	17.2x	9.5%	10.2%	9.3%	9.5%	45%	5.5%	313%
Water Utilities																						
American States Water	AWR	O	\$33.99	31 - 39	634	(2.0)	0.9	(1.4)	0.4	\$2.02	\$2.10	\$2.27	16.8x	16.2x	15.0x	7.8%	8.8%	9.3%	9.5%	45%	3.3%	55%
American Water Works	AWK	O	\$29.88	20 - 31	5,240	4.3	9.2	18.1	49.4	\$1.53	\$1.70	\$1.80	19.5x	17.6x	16.6x	6.2%	7.6%	8.0%	8.0%	57%	2.9%	58%
Aqua America	WTR	N	\$22.29	17 - 24	3,081	0.9	(0.1)	(0.8)	30.0	\$0.90	\$1.06	\$1.09	24.8x	21.0x	20.4x	10.4%	10.8%	10.7%	10.8%	59%	2.8%	69%
Artesian Resources Corp.	ARTNA	N	\$19.51	16 - 20	132	(1.2)	0.9	3.0	12.3	\$1.00	\$0.92	\$1.07	19.5x	21.2x	18.2x	7.6%	8.9%	8.2%	8.4%	58%	3.9%	76%
California Water	CWT	N	\$37.24	34 - 39	777	0.1	6.0	(0.1)	4.9	\$1.81	\$2.20	\$2.40	20.6x	16.9x	15.5x	9.7%	9.6%	10.1%	9.8%	56%	3.3%	68%
Connecticut Water Service	CTWS	N	\$25.56	20 - 28	222	0.2	1.6	(8.3)	21.7	\$1.13	\$1.23	\$1.31	22.6x	20.8x	19.5x	11.6%	10.4%	9.8%	10.9%	56%	3.6%	82%
Middlesex Water Co.	MSEX	N	\$18.27	15 - 19	285	(1.7)	(1.5)	(0.4)	10.0	\$0.96	\$1.00	\$1.03	19.0x	18.3x	17.7x	7.8%	10.0%	8.8%	8.9%	47%	4.0%	76%
SJW Corp.	SJW	N	\$22.69	22 - 28	422	(3.6)	(7.5)	(14.3)	(4.3)	\$1.49	\$1.03	\$1.15	15.2x	22.0x	19.7x	9.4%	13.0%	7.9%	8.7%	53%	3.0%	46%
York Water Co.	YORW	N	\$17.30	13 - 18	220	(0.4)	1.8	0.1	33.0	\$0.71	\$0.80	\$0.80	24.4x	21.6x	21.6x	10.3%	10.8%	10.7%	10.6%	47%	3.0%	74%
Indices																						
S&P 500 Index			1,326	1,011 - 1,371		(1.6)	0.4	5.4	24.1													
NASDAQ			2,783	2,061 - 2,888		(2.3)	0.1	4.9	26.7													
Baird Utility Index			323	270 - 329		2.0	4.2	5.8	18.5													

Sources: FactSet and Baird estimates

O=Outperform, N=Neutral, U=Underperform

Please refer to Appendix for Important Disclosures and Analyst Certification

Note: See recent research notes for additional information.

Appendix – Important Disclosures and Analyst Certification

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