

Clean Tech/Energy Research

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Energy Infrastructure – Where Do We Go from Here?

NCEA 2010 Leadership Conference

Dave Parker

dparker@rwbaird.com

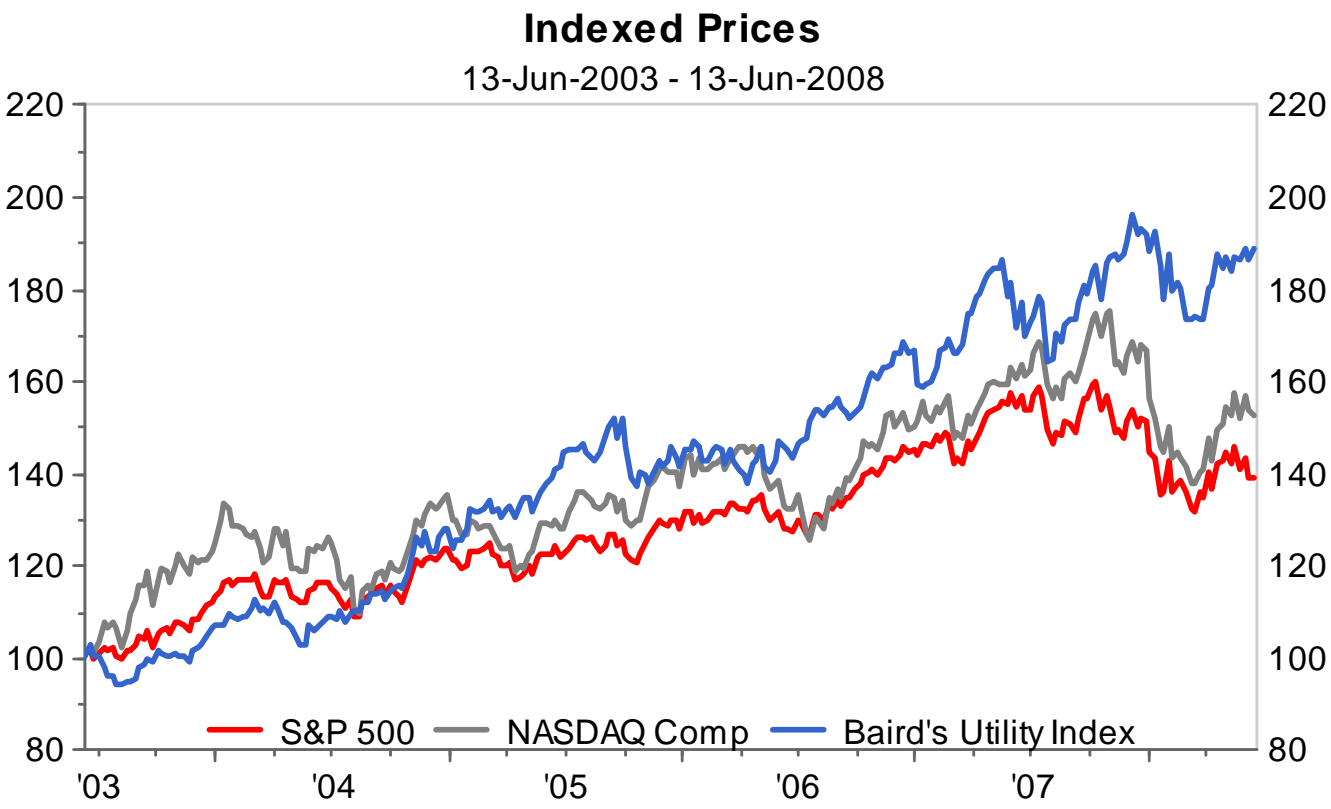
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Please refer to Appendix - Important Disclosures and Analyst Certification on page 21.



Utility Sector Outperforms



Source: FactSet

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 increased to **5-7%** annually from prior growth of **1-2%**.

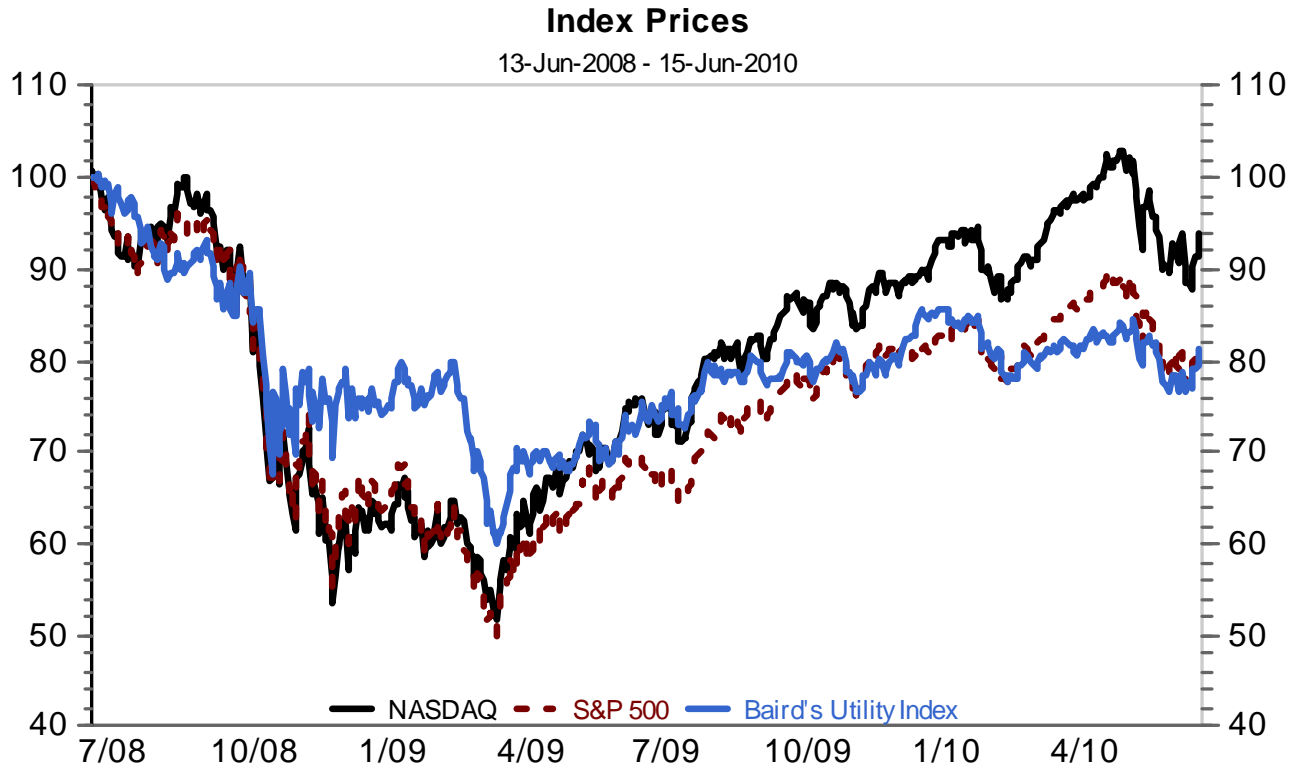
Improved EPS Growth = Enhanced Valuation



Index	First Call								
	YOY EPS Growth %								LT EPS Growth
	06	07	08	09	1Q10	10E	11E	12E	
Baird's Electric Utility Index	17.4	7.3	7.2	-2.0	12.8	7.3	6.3	7.9	5.5
Baird's Electric/Gas Utility Index	-6.8	7.0	1.4	5.6	17.3	8.1	8.7	5.3	5.1
Baird's Gas Utility Index	8.5	9.7	4.6	7.4	2.8	4.3	4.7	5.6	5.3
Baird's Utility/Merchant Index	5.7	11.7	4.0	0.8	-2.9	-3.6	4.3	2.9	4.0
Baird's Water Utility Index	11.6	3.8	0.0	5.5	14.8	13.0	7.4	6.8	5.6
Baird's Diversified Utility Index	14.4	7.8	16.5	-25.5	18.2	4.9	13.7	7.3	6.0
Median	10.1	7.5	4.3	3.2	13.8	6.1	6.8	6.2	5.4
S&P 500		-3.5	-23.1	-5.8		28.5	18.3		

Source: RW Baird & Co. and FactSet

Utility Sector Underperforms



Source: FactSet

Sector Loses Positive Momentum

Limited visibility for infrastructure investment near term

- Recession significantly reduced energy demand
- Utility infrastructure investment slowed, including politically popular renewables
- Consumers are broke – regulators take a wait and see approach
- Negative Florida regulatory action – more states to follow?

Implications

- Slowed EPS growth = lower P/E multiple
- Lost momentum may take years to regain

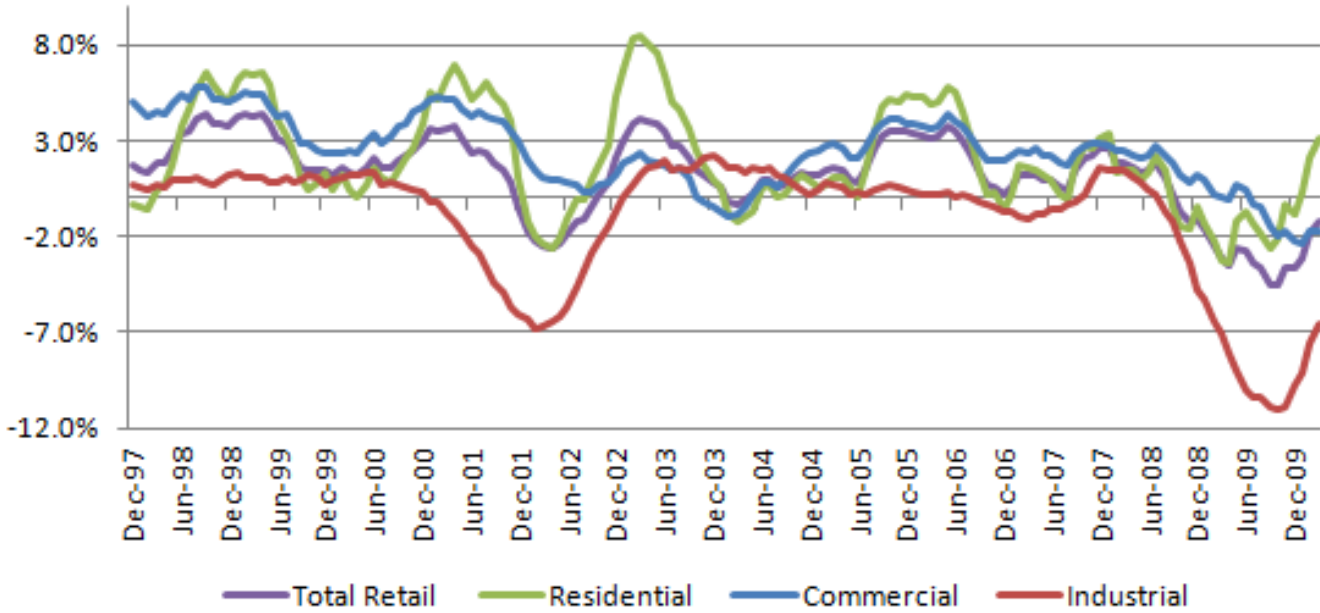


Near-Term Headwind: Demand

Substantially lower demand raises questions about long-term energy appetite and incremental infrastructure investment needed.

Implications:

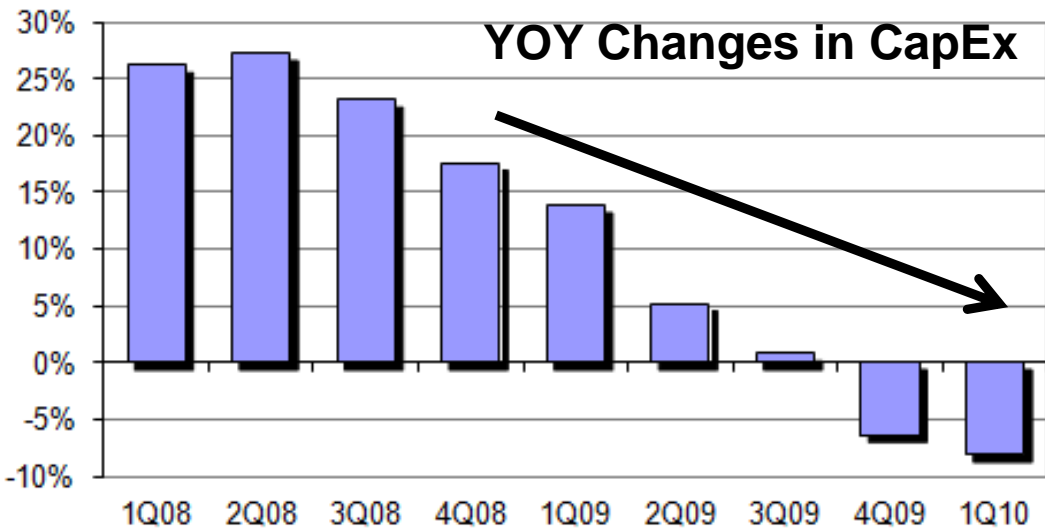
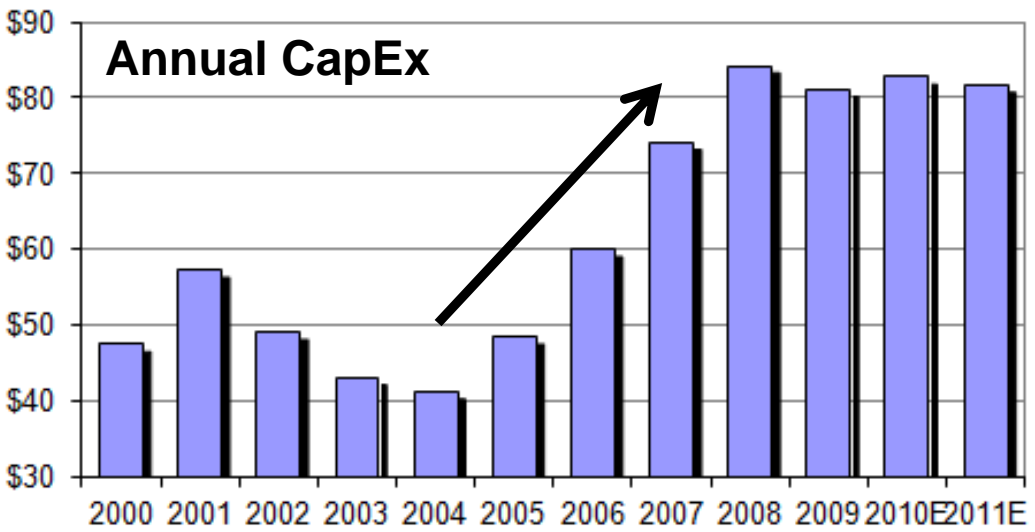
- Many stakeholders remain on the sidelines; it's safer to wait.
- Energy commodity markets crushed, limiting investment options.



Source: EIA DOE

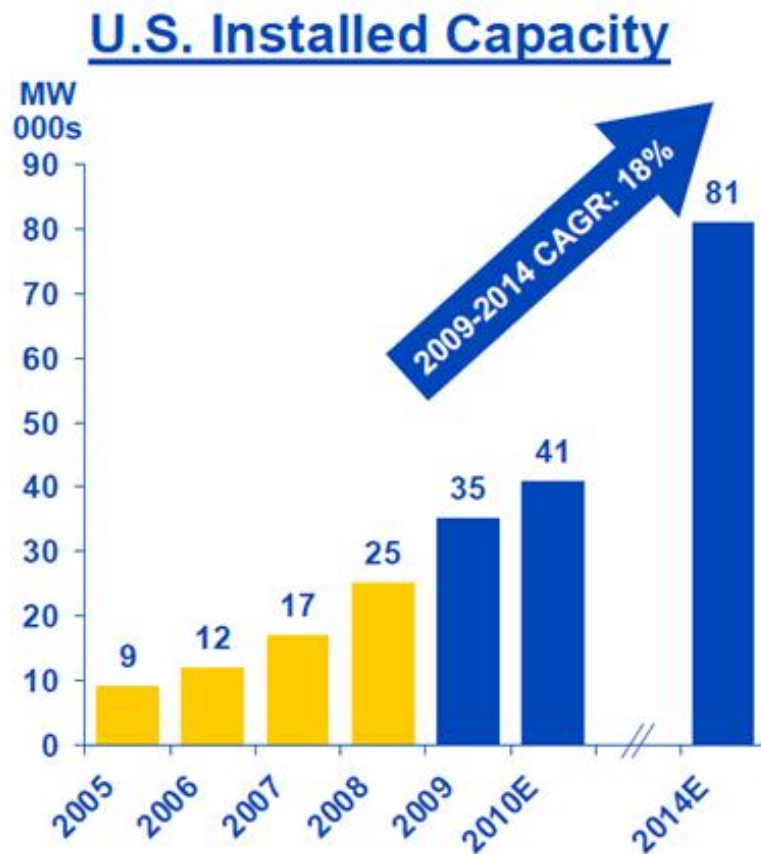
Capital Investment Slows

Reduced demand for energy + broke consumer = Limited near-term investment



Source: SNL Financial, EEI

Even Wind Development Slowed

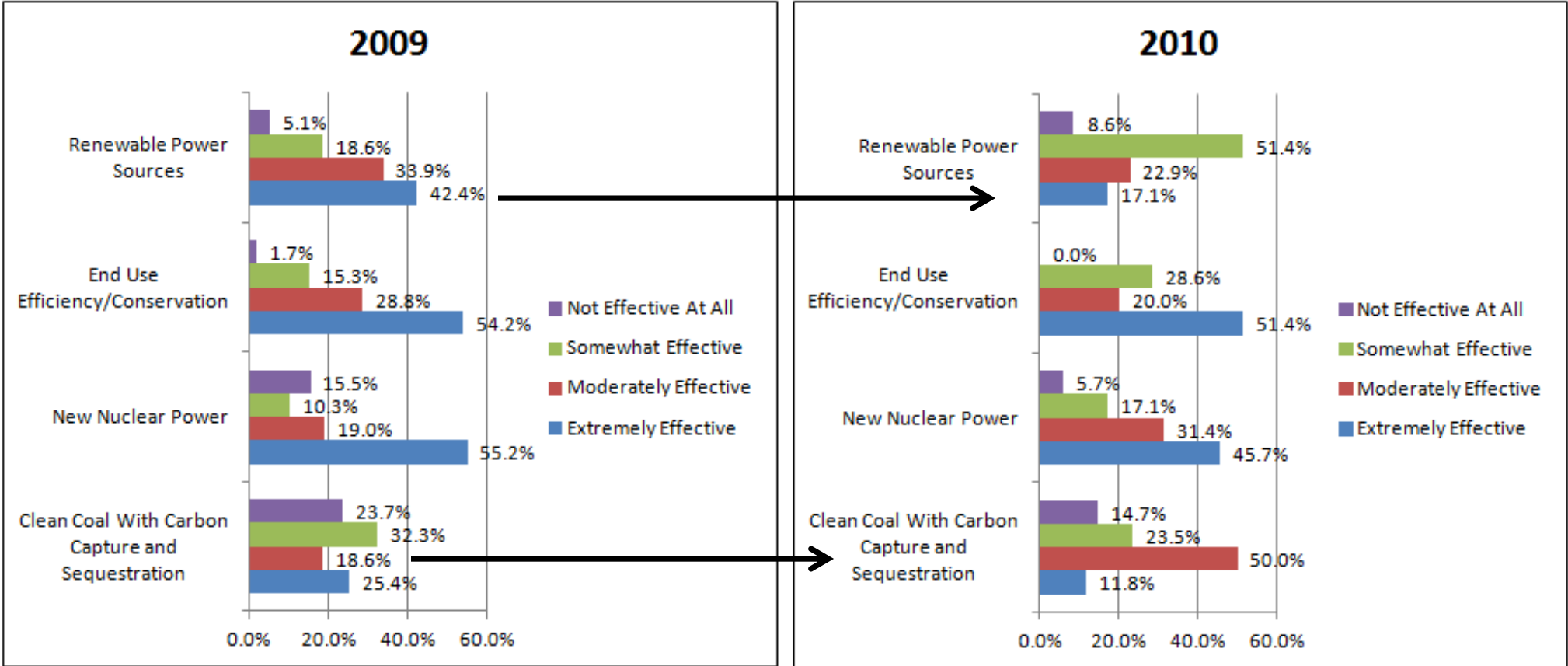


Source: FPL Group, Emerging Energy Research

2009/2010 Near-Term Challenges

- Continued uncertainty regarding federal climate change legislation or federal Renewable Portfolio Standard
- Low commodity prices and lower electric demand make it harder to justify new wind generation
- Economic uncertainty and extension of Production Tax Credit through 2012 has reduced urgency of customer decision making

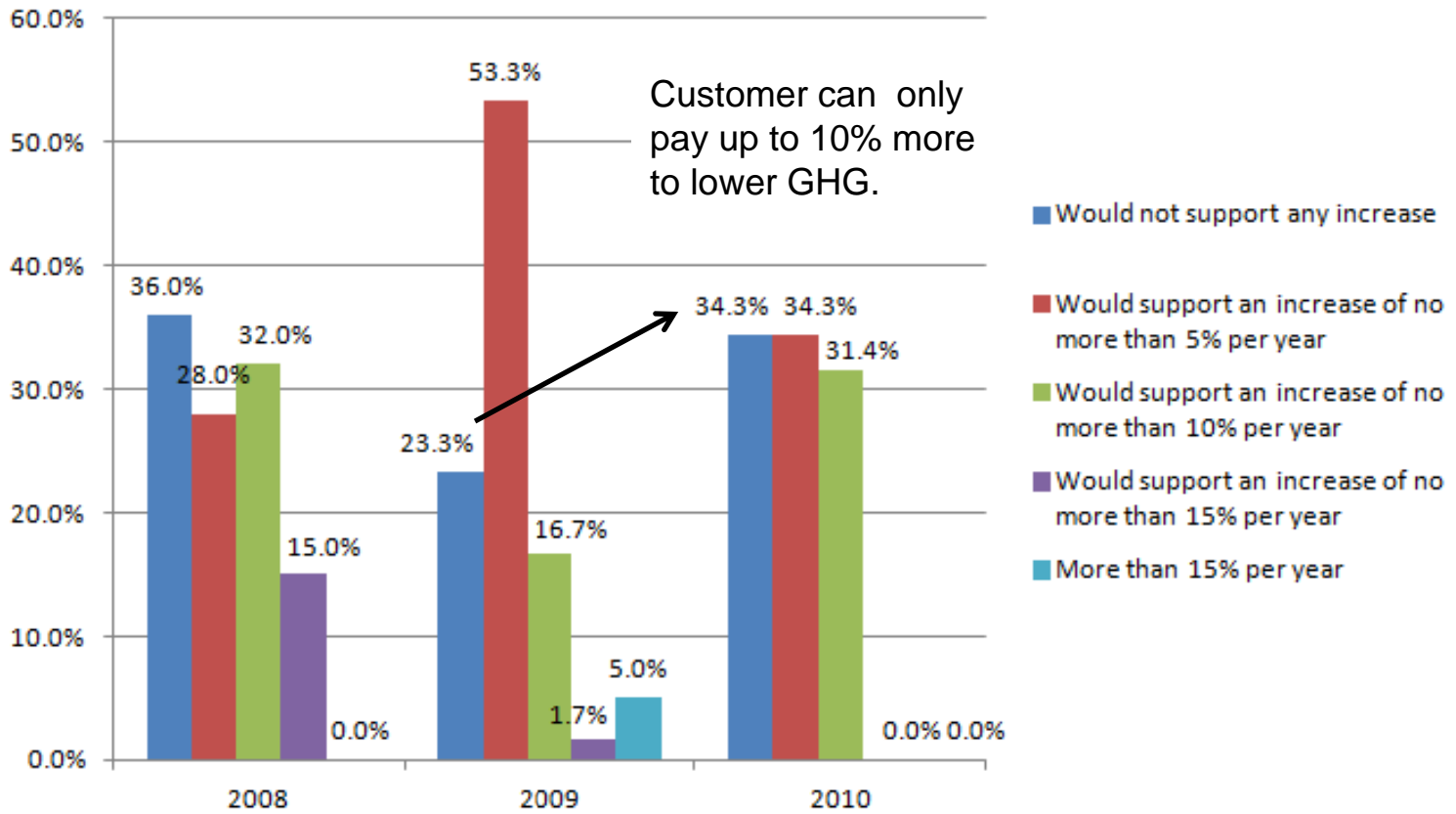
Shifting Regulator Sentiments



Source: Deloitte 2010 State Commissioner Survey

Shifting Regulator Sentiments

How much of an annual increase in electricity rates do you think the retail consumers in your state would support to mitigate greenhouse gas emissions from electric generation sources?



Source: Deloitte 2010 State Commissioner Survey

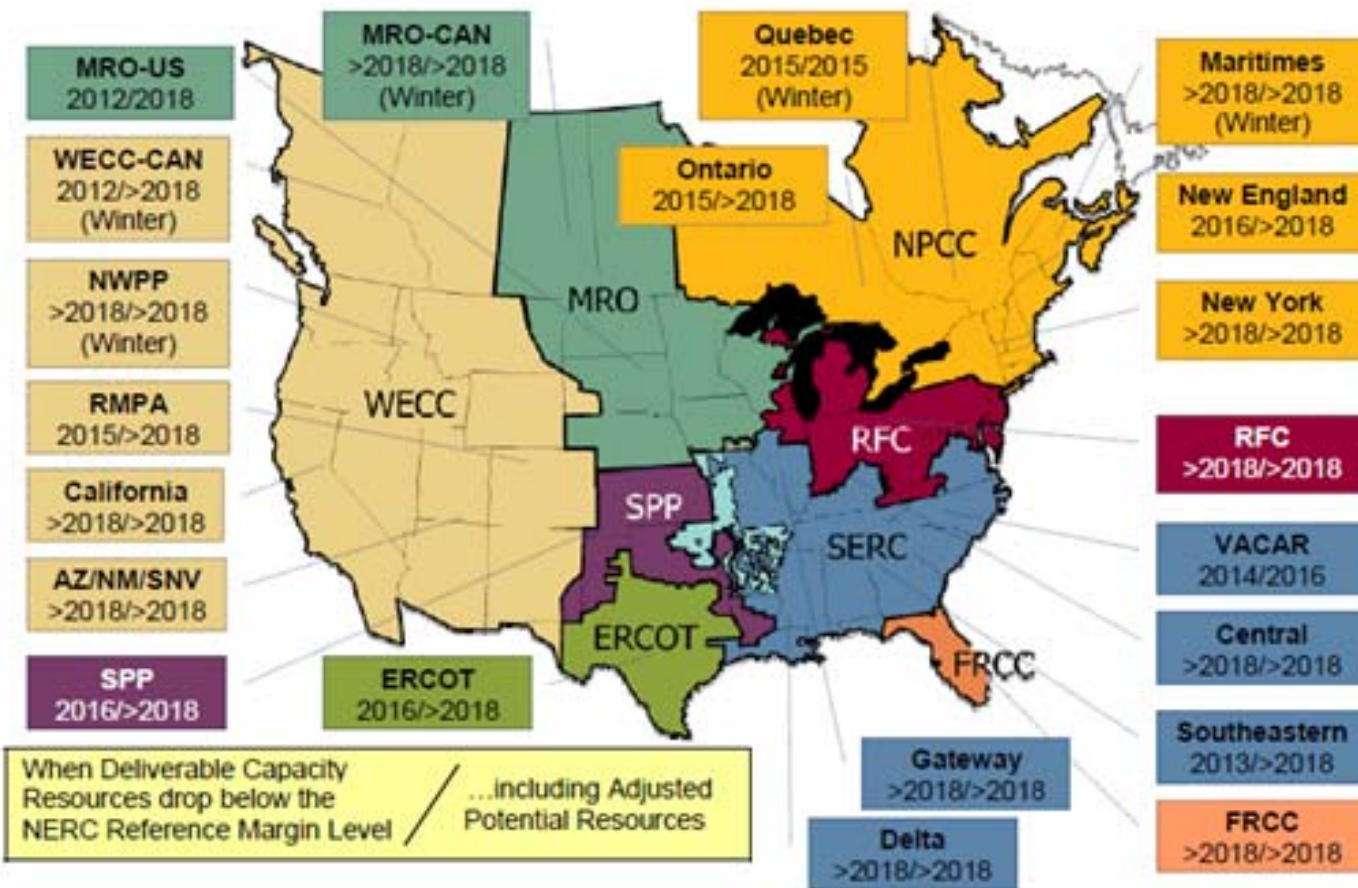
Investor Concerns

- No positive catalyst – *we don't disagree*
- Regulators hesitant to approve anything that increases rates
 - With consumers' (and state) budgets stretched, can ratepayers pay for anything?
 - With lower energy demand, is new infrastructure needed?
- Increased taxation on dividend income – *appears to be in stock prices already*
- “Regulation has been good, it's gotta get bad” – *positive trend continues*
- “Global climate change legislation will change the industry” – *when?*

Recapture the Momentum

- An aging US energy infrastructure system is incapable of meeting materially “greener” energy goals.
- We forecast that \$700-\$800 billion of energy infrastructure investment is needed in the next decade to reduce emissions, enhance system deliverability and reliability, replace aging assets, and improve customer efficiencies.
- Demand must begin to recover before stakeholders begin to push for new investment.
- Expected to see first wave of reaccelerated investment, “wind and wires,” by 2011.

Electric Supply/Demand

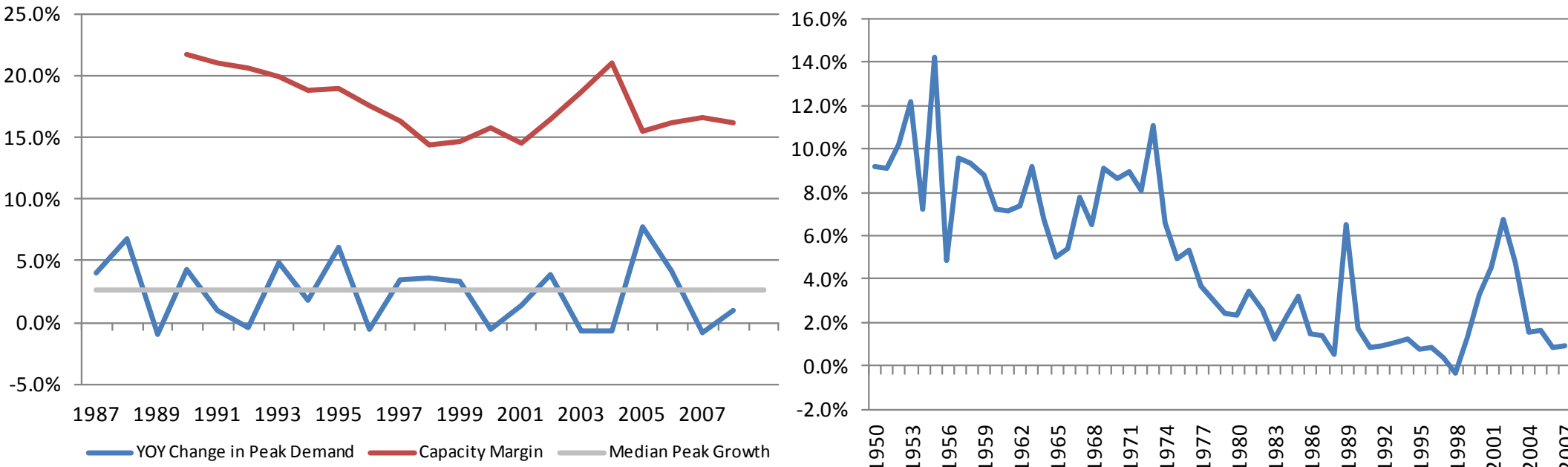


With project lead times ranging from 2-5 years, most US regions will again need to support aggressive generating capacity additions. NERC assumptions may also prove to be too conservative (supported by past misses) providing additional support for new investment.

- Key NERC assumptions:
- 1.5% peak demand growth
 - Improved efficiency lowers peak 40,000 MW (4%)
 - 260,000 MW of new renewable generation
 - Transmission efforts must more than double to allow for renewable additions

Source: NERC

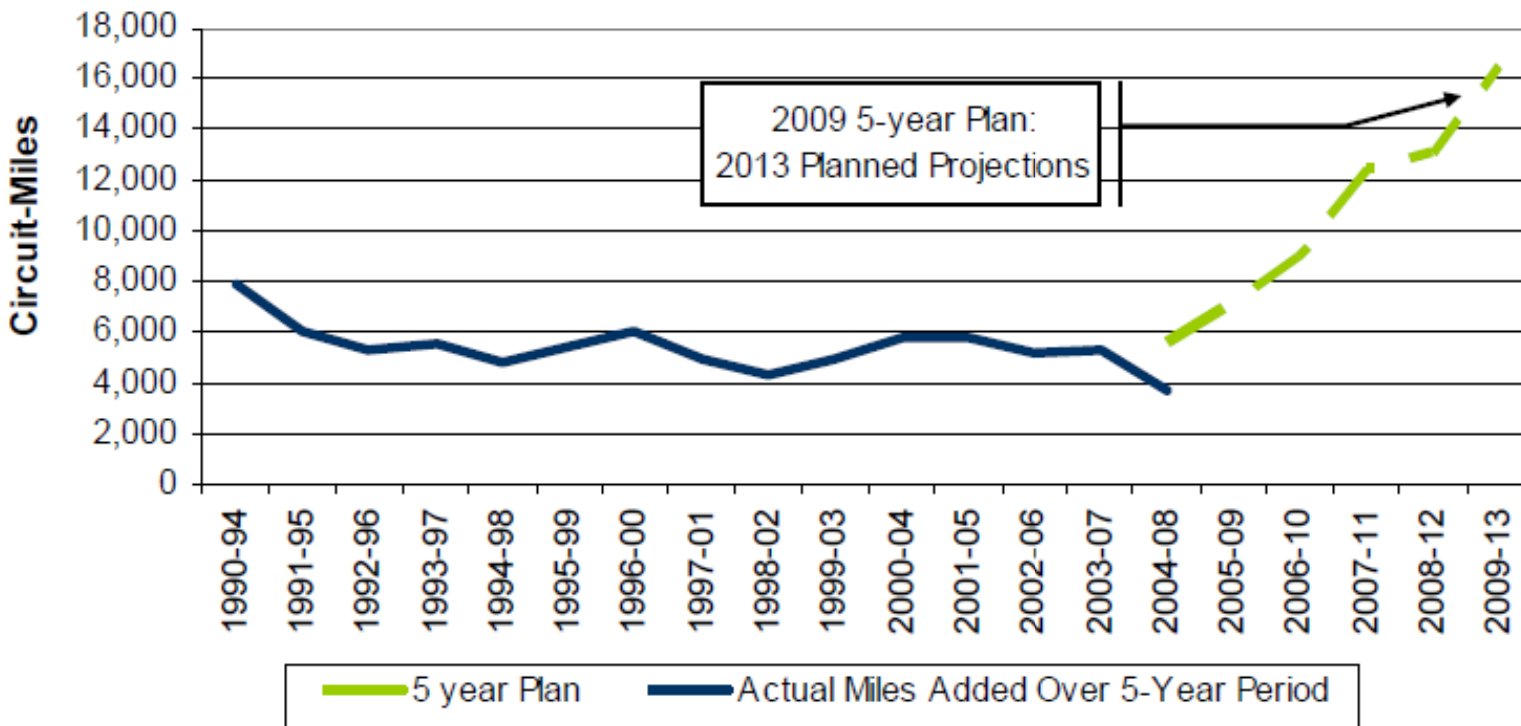
Demand Outstrips Supply



Source: NERC

Electricity supply has expanded at a slower rate than demand growth since investment peaked in 2003. Median peak demand growth has been 2.5% while the median for capacity additions has been 1.2%. GHG legislation could materially impact supply!

Forecasted Transmission Investment



Transmission spending is expected to be 2-3x current levels, which are 2x past levels.

NERC believes more than 11,000 miles of transmission is needed to maintain system reliability.

1/3 of expected construction is to enable renewables.

Source: NERC



Expected Investment Recovery Table

	Now - 2011	2011 - 2012	2012	2013 -2020
Expected Sector Dynamics	Limited investment opportunities reflecting low demand, a broke consumer and uncertainty concerning US environmental policy.	Economy and energy demand pick up fueling resurgence of wind and wires investment.	New GHG legislation helps shape longer -term investing strategies .	Demand growth reaccelerates, fueling need for new traditional electric generation.
Preferred Investment Style	Yield, lower risk investment well positioned to provide stable EPS despite weak energy demand.	Wind and wires . We anticipate that renewable power generation and wires enabling that investment will be the first new energy infrastructure opportunities to recover from the recession.	Assuming GHG legislation is reasonable, sector multiples should expand. If cost for carbon emission is determinable, stakeholders can then support more expansive carbon reduction strategies including smart grid, customer efficiency, carbon capture, IGCC and energy storage.	Broad -based sector support as infrastructure investment significantly ramps. NG generation construction ramps to meet expanding demand and increasing intermittent generation from renewables given shorter construction lead times.

Source: RW Baird & Co. estimates

LT Sector Outlook: Positive

- Substantial investment opportunities should create attractive returns without inordinate risk
- Spending on electric energy infrastructure should reaccelerate (4-6%) in 2011
- Stimulus initiatives should be a positive, eventually
- Constructive regulation to date
- New emissions legislation remains the wild card. When?

Utility Sector Coverage List



Baird - Utility Ratings and Earnings Guide - Page 1

6/15/10	Alliant Energy	Aqua America	California Water	Chesapeake Utilities	DPL Inc.	FPL Group	Hawaiian Electric	Integrus Energy	MDU Resources	Nicor
	LNT	WTR	CWT	CPK	DPL	FPL	HE	TEG	MDU	GAS
Rating	Outperform	Outperform	Outperform	Neutral	Outperform	Neutral	Outperform	Neutral	Outperform	Neutral
Risk Suitability	Low er	Low er	Low er	Average	Lower	Average	Average	Average	Average	Average
Market Cap (MM)	\$3,665	\$2,419	\$742	\$288	\$3,019	\$21,277	\$2,150	\$3,522	\$3,588	\$1,913
Long-Term Debt (MM)	\$2,205	\$1,393	\$381	\$99	\$1,224	\$16,300	\$1,365	\$2,066	\$1,506	\$398
Market Cap + LT Debt (MM)	\$5,870	\$3,812	\$1,123	\$387	\$4,242	\$37,577	\$3,515	\$5,588	\$5,093	\$2,311
Price 6/15/10	\$33.09	\$17.66	\$35.66	\$30.48	\$25.38	\$51.31	\$23.08	\$45.73	\$19.07	\$42.26
52 Week Range	36-23	19-15	41-33	35-28	29-21	61-45	24-16	51-27	24-17	45-30
Price Change (%)										
1 Mo.	-3.0%	-1.7%	-8.7%	-2.3%	-5.2%	-2.7%	-0.2%	-5.2%	-1.9%	-1.6%
2 Mo.	-4.3%	-2.3%	-8.2%	1.4%	-7.6%	5.1%	0.5%	-6.5%	-12.9%	-2.9%
3 Mo.	-1.5%	4.4%	-3.0%	-1.8%	-7.7%	8.5%	5.3%	-2.0%	-11.7%	-1.4%
YTD	9.4%	0.9%	-3.2%	-4.9%	-8.0%	-2.9%	10.4%	8.9%	-19.2%	0.4%
TTM	33.5%	4.1%	0.1%	-3.9%	14.6%	-9.2%	23.0%	61.1%	0.7%	22.3%
Peer Classification	Electric / Gas	Water	Water	Gas	Electric	Utility / Merchant	Diversified	Electric / Gas	Diversified	Gas
Primary Reg. States	WI, IA, MN	PA, NC, IL, OH, TX	CA, WA	DE, MD, FL	OH	FL	HI	WI, IL, MI, MN	MT, ND, SD, MN	IL
Diluted EPS (Adj.)	2009 2010	2009 2010	2009 2010	2009 2010	2009 2010	2009 2010	2009 2010	2009 2010	2009 2010	2009 2010
Q1	0.30 0.45	0.14 0.16	0.12 0.10	1.24 1.47	0.61 0.61	0.90 0.94	0.22 0.29	1.27 1.49	0.22 0.22	0.96 1.33
Q2	0.34 0.40	0.19 0.20	0.58 0.56	0.12 0.20	0.37 0.40	0.99 1.05	0.17 0.35	0.30 0.40	0.30 0.30	0.50 0.40
Q3	0.77 1.05	0.25 0.29	0.94 0.98	0.04 0.00	0.59 0.70	1.38 1.44	0.37 0.50	0.35 0.45	0.50 0.50	0.30 0.30
Q4	0.55 0.70	0.20 0.25	0.31 0.35	0.71 0.53	0.43 0.69	0.79 0.87	0.36 0.45	0.49 0.82	0.38 0.48	1.21 1.17
	Baird First Call	Baird First Call	Baird First Call	Baird First Call	Baird First Call	Baird First Call	Baird First Call	Baird First Call	Baird First Call	Baird First Call
2009	1.96 1.96	0.77 0.77	1.95 1.95	2.15 2.15	2.01 2.01	4.05 4.05	1.12 1.12	2.41 2.41	1.41 1.41	2.98 2.98
2010E	2.60 2.56	0.90 0.87	2.00 2.00	2.20 2.27	2.40 2.42	4.30 4.34	1.60 1.48	3.15 3.09	1.50 1.37	3.20 3.15
2011E	3.00 2.88	1.00 0.96	2.30 2.27	2.30 2.29	2.60 2.56	4.60 4.50	2.00 1.83	3.40 3.34	1.80 1.63	3.10 2.92
2012E	3.10 3.04	1.05 1.06	2.40 2.33	2.40 2.40	2.80 2.64	4.90 4.77	2.10 2.05	3.55 3.55	1.90 1.75	3.20 3.20
Price/Earnings Ratio	2009	16.9x 16.9x	22.9x 22.9x	18.3x 18.3x	14.2x 14.2x	12.6x 12.6x	12.7x 12.7x	20.6x 20.6x	19.0x 19.0x	13.5x 13.5x
	2010	12.7x 12.9x	19.6x 20.3x	17.8x 17.8x	13.9x 13.4x	10.6x 10.5x	11.9x 11.8x	14.4x 15.6x	14.5x 14.8x	12.7x 13.9x
	2011	11.0x 11.5x	17.7x 18.4x	15.5x 15.7x	13.3x 13.3x	9.8x 9.9x	11.2x 11.4x	11.5x 12.6x	13.5x 13.7x	10.6x 11.7x
	2012	10.7x 10.9x	16.8x 16.7x	14.9x 15.3x	12.7x 12.7x	9.1x 9.6x	10.5x 10.8x	11.0x 11.3x	12.9x 12.9x	10.0x 10.9x
2010 P/E Relative to Peer Group	97%	101%	92%	98%	81%	103%	88%	111%	77%	93%
2011 P/E Relative to Peer Group	90%	99%	87%	97%	80%	89%	82%	110%	75%	100%
2011 P/E Relative to S&P500	89%	142%	125%	107%	79%	90%	93%	108%	85%	110%
EV/EBITDA	2008	7.5x	11.7x	9.2x	9.5x	7.0x	#N/A	8.5x	10.6x	5.7x
	2009	11.0x	10.7x	8.5x	7.8x	7.2x	#N/A	8.7x	16.1x	5.2x
	TTM	9.1x	10.4x	8.4x	6.5x	7.2x	#N/A	8.7x	8.2x	5.0x
LT Debt to Capital Price/Book	2009	42%	56%	48%	31%	51%	56%	48%	42%	28%
	2010	1.3x	2.2x	1.8x	1.3x	2.6x	#N/A	1.5x	1.2x	1.8x
ROE	2009	7.5%	9.6%	9.8%	9.6%	22.1%	13.4%	7.3%	6.2%	13.5%
	2010E	10.1%	10.9%	9.4%	9.7%	23.1%	13.4%	10.8%	8.4%	13.8%
	2011E	11.2%	11.5%	10.0%	9.7%	22.1%	13.7%	12.2%	8.9%	12.6%
	2012E	11.0%	11.4%	9.7%	9.7%	21.0%	13.3%	12.1%	9.1%	12.4%
Common Dividend Yield		\$1.54	\$0.57	\$1.19	\$1.26	\$1.18	#N/A	\$1.24	\$2.72	\$0.63
Dividend Payout		4.7%	3.2%	3.3%	4.1%	4.6%	#N/A	5.4%	5.9%	3.3%
		59%	63%	59%	57%	49%	#N/A	78%	86%	42%

Source: Robert W. Baird & Co. estimates and FactSet

Utility Sector Coverage List



Baird - Utility Ratings and Earnings Guide - Page 2

6/15/10	Otter Tail Corp.	Piedmont Natural Gas	PNM Resources	Progress Energy	TECO Energy	UIL Holdings	Vectren	Wisconsin Energy	Xcel Energy
	OTTR	PNY	PNM	PGN	TE	UIL	VVC	WEC	XEL
Rating	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral	Outperform	Neutral
Risk Suitability	Average	Lower	Higher	Lower	Average	Lower	Lower	Lower	Lower
Market Cap (MM)	\$744	\$1,893	\$1,041	\$11,297	\$3,463	\$771	\$1,938	\$5,916	\$9,678
Long-Term Debt (MM)	\$436	\$732	\$1,531	\$12,027	\$3,385	\$675	\$1,550	\$4,396	\$8,055
Market Cap + LT Debt (MM)	\$1,180	\$2,625	\$2,572	\$23,324	\$6,848	\$1,446	\$3,488	\$10,312	\$17,733
Price 6/15/10	\$20.70	\$26.31	\$12.01	\$39.34	\$16.19	\$25.71	\$23.87	\$50.61	\$21.06
52 Week Range	25-19	29-22	14-9	42-34	17-11	30-21	26-21	54-37	22-17
Price Change (%)									
1 Mo.	-2.1%	-2.7%	-8.3%	-1.7%	1.1%	-13.2%	-0.3%	-0.5%	-1.0%
2 Mo.	-8.2%	-4.7%	-7.0%	1.8%	-1.5%	-11.9%	-4.8%	-0.6%	-0.8%
3 Mo.	-6.3%	-3.8%	-9.0%	0.8%	2.0%	-8.5%	-0.2%	0.8%	-0.4%
YTD	-16.6%	-1.6%	-5.1%	-4.1%	-0.2%	-8.4%	-3.3%	1.6%	-0.8%
TTM	-2.4%	6.1%	23.6%	7.3%	36.5%	18.5%	1.5%	25.9%	18.0%
Peer Classification	Diversified	Gas	Utility / Merchant	Electric	Electric / Gas	Electric	Electric / Gas	Electric / Gas	Electric / Gas
Primary Reg. States	ND, SD, MN	NC, SC, TN	NM, TX	FL, NC, SC	FL	CT	IN, OH	WI, MI	MN, CO, WI, TX
Diluted EPS (Adj.)	2009 2010	2009 2010	2009 2010	2009 2010	2009 2010	2009 2010	2009 2010	2009 2010	2009 2010
Q1	0.12 0.13	1.10 1.14	0.10 0.06	0.66 0.75	0.14 0.34	0.47 0.53	0.90 0.78	1.20 1.10	0.38 0.42
Q2	0.07 0.12	0.73 0.65	0.21 0.15	0.64 0.60	0.29 0.30	0.51 0.30	0.07 0.08	0.54 0.70	0.25 0.26
Q3	0.29 0.40	-0.10 -0.10	0.63 0.55	1.22 1.15	0.40 0.45	0.73 0.45	0.15 0.35	0.50 0.85	0.48 0.54
Q4	0.23 0.52	-0.06 #N/A	0.00 -0.07	0.50 0.50	0.25 0.18	0.22 0.18	0.67 0.49	0.96 1.10	0.37 0.42
	Baird First Call	Baird First Call	Baird First Call	Baird First Call	Baird First Call	Baird First Call	Baird First Call	Baird First Call	Baird First Call
2009	0.71 0.71	1.66 1.66	0.94 0.94	3.02 3.02	1.08 1.08	1.93 1.93	1.80 1.80	3.20 3.20	1.49 1.49
2010E	1.25 1.04	1.61 1.61	0.70 0.71	3.00 3.03	1.25 1.32	2.05 2.03	1.70 1.68	3.75 3.73	1.65 1.61
2011E	1.80 1.62	1.77 1.67	1.25 0.94	3.20 3.12	1.40 1.40	2.15 2.15	1.90 1.87	4.10 4.07	1.80 1.75
2012E	1.90 1.90	1.85 1.85	1.40 1.29	3.30 3.26	1.52 1.49	2.20 2.19	2.00 2.04	4.40 4.51	1.85 1.85
Price/Earnings Ratio	2009 29.2x 29.2x	15.8x 15.8x	12.8x 12.8x	13.0x 13.0x	15.0x 15.0x	13.3x 13.3x	13.3x 13.3x	15.8x 15.8x	14.1x 14.1x
2010	16.6x 19.9x	16.3x 16.3x	17.2x 16.9x	13.1x 13.0x	13.0x 12.3x	12.5x 12.7x	14.0x 14.2x	13.5x 13.6x	12.8x 13.1x
2011	11.5x 12.8x	14.9x 15.8x	9.6x 12.8x	12.3x 12.6x	11.6x 11.6x	12.0x 12.0x	12.6x 12.8x	12.3x 12.4x	11.7x 12.0x
2012	10.9x 10.9x	14.2x 14.2x	8.6x 9.3x	11.9x 12.1x	10.7x 10.9x	11.7x 11.7x	11.9x 11.7x	11.5x 11.2x	11.4x 11.4x
2010 P/E Relative to Peer Group	101%	115%	148%	97%	99%	93%	107%	103%	98%
2011 P/E Relative to Peer Group	81%	109%	76%	100%	95%	98%	103%	101%	96%
2011 P/E Relative to S&P 500	92%	120%	77%	99%	93%	96%	101%	99%	94%
EV/EBITDA	2008 8.3x	8.3x	-42.3x	8.1x	9.7x	7.3x	7.6x	10.0x	7.4x
2009	9.5x	8.1x	5.9x	7.3x	8.5x	6.3x	6.9x	9.7x	7.4x
TTM	8.9x	6.8x	6.8x	7.2x	7.9x	6.1x	6.8x	9.7x	7.2x
LT Debt to Capital	39%	42%	47%	55%	62%	54%	54%	52%	52%
Price/Book	1.1x	1.9x	0.6x	1.2x	1.6x	1.3x	1.4x	1.6x	1.3x
ROE	2009 3.8%	13.5%	4.8%	9.3%	11.3%	10.4%	10.6%	10.9%	9.6%
2010E	6.3%	12.2%	3.8%	8.8%	12.7%	10.5%	9.8%	12.0%	10.2%
2011E	8.6%	13.0%	6.6%	9.1%	13.7%	10.9%	10.8%	12.2%	10.6%
2012E	9.0%	12.9%	7.2%	9.2%	13.7%	10.9%	11.0%	12.1%	10.5%
Common Dividend	\$1.19	\$1.09	\$0.50	\$2.48	\$0.81	\$1.73	\$1.36	\$1.48	\$0.98
Yield	5.7%	4.1%	4.2%	6.3%	5.0%	6.7%	5.7%	2.9%	4.7%
Dividend Payout	95%	68%	71%	83%	64%	84%	80%	39%	59%

Source: Robert W. Baird & Co. estimates and FactSet

Appendix – Important Disclosures and Analyst Certification

The logo for Baird, consisting of the word "BAIRD" in white, uppercase, sans-serif font, set against a blue parallelogram background that is tilted to the right.

Robert W. Baird & Co. and/or its affiliates expect to receive or intend to seek investment-banking related compensation from the company or companies mentioned in this report within the next three months.

Investment Ratings: Outperform (O) - Expected to outperform on a total return, risk-adjusted basis the broader U.S. equity market over the next 12 months. **Neutral (N)** - Expected to perform in line with the broader U.S. equity market over the next 12 months. **Underperform (U)** - Expected to underperform on a total return, risk-adjusted basis the broader U.S. equity market over the next 12 months.

Risk Ratings: L - Lower Risk - Higher-quality companies for investors seeking capital appreciation or income with an emphasis on safety. Company characteristics may include: stable earnings, conservative balance sheets, and an established history of revenue and earnings. **A - Average Risk** - Growth situations for investors seeking capital appreciation with an emphasis on safety. Company characteristics may include: moderate volatility, modest balance-sheet leverage, and stable patterns of revenue and earnings. **H - Higher Risk** - Higher-growth situations appropriate for investors seeking capital appreciation with the acceptance of risk. Company characteristics may include: higher balance-sheet leverage, dynamic business environments, and higher levels of earnings and price volatility. **S - Speculative Risk** - High-growth situations appropriate only for investors willing to accept a high degree of volatility and risk. Company characteristics may include: unpredictable earnings, small capitalization, aggressive growth strategies, rapidly changing market dynamics, high leverage, extreme price volatility and unknown competitive challenges.

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