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Bankability of Electricity Transmission, Storage and Distribution Infrastructure Investment

Opening Remarks

Good morning and thank you for the opportunity to participate in this panel discussion.

My name is Greg Rutherford. I am an Executive Director in the Global Power & Utilities Group within the Investment Banking Division at Morgan Stanley.

At Morgan Stanley we provide strategic advisory services as well as capital raising and risk management products and services to Investor Owned Utilities and investors focused on gas and electric infrastructure. My client base consists primarily of regulated investor owned utilities and private equity funds focused on the sector.

The market value of regulated transmission and distribution companies, specifically investor owned utilities, is driven by an ability to deliver an attractive total return to investors through dividend payments and earnings growth. Dividends are determined by the earnings power of the company, and under traditional rate making in the U.S., earnings growth is driven by the amount of capital a company can put to work, its ability to get that capital into rates and the rate of return on that capital. So, companies need to invest capital to continue to deliver attractive returns to shareholders and reliable electricity service to customers.

A lot of attention has been focused on the impact of declining or negative electricity demand growth on companies' continued ability to attract capital and fund infrastructure investment. In an environment of declining or negative demand growth, the infrastructure cost of the network (separate from the commodity cost) becomes a more significant component of a customer's bill on a per unit basis, as that cost is spread across a smaller base of sales. However, as long as personal demand keeps pace with the overall

trend, a customer's proportional share of the cost of the network should not be impacted by demand despite the fact that the network cost becomes a more significant part of the bill on a per unit basis. Volume based pricing should incentivize individual customers to improve usage patterns along with the overall market. It is the growth in required investment that is causing the infrastructure cost to become a more significant part of the overall cost of having access to electricity. And, the impact of growing capital investment on customer bills is critical to regulators when evaluating a company's ability to earn a timely return on its investment.

In today's environment, there is no shortage of investment opportunities required to improve the safety and reliability of our electricity infrastructure and deal with the changing nature of our electricity supply. Rather, utility management teams are being forced to prioritize investment. Projects that are critical to system reliability and projects that offer the most attractive and timely returns are combined into a carefully organized plan that is supported by significant analysis on the impact to customer bills, as companies seek to minimize that impact as much as possible. Ideally, the critical investment should have the most attractive returns and be supported by regulatory mechanisms that insure this investment is reflected in customer rates in a timely manner.

We are currently benefitting from an environment where both the cost of commodity and the cost of capital are both at historic lows. As a result, the impact of significant investment in recent years has not been as pronounced on customer bills. If interest rates and commodity costs rise, as many predict in future years, we will be in a situation where customer bills may need to rise more significantly than they have in the past to support the needed investment. Regulators and policymakers will then have difficult decisions to make in order to support this investment in our nation's critical infrastructure.

To the extent that financing structures or applications can reduce cost, they can help accelerate infrastructure development. Ultimately, financing structures are designed to benefit from a rule (e.g. qualifying for inclusion in tax efficient structures) or financing structures package assets that are in demand by a certain group of investors, which in turn drives down the cost of financing those particular assets in comparison to traditional means. REIT's, MLP's, Yieldco's and project financings are examples of structures that are

being utilized to help finance infrastructure investment today. If investors were theoretically willing to pay a premium for green bonds, then this could help development indirectly because it lessens the impact on customer bills (that is a new market and we have not seen a pricing advantage yet).

I would not conclude, however, that electricity transmission, storage and distribution infrastructure investment is limited by the availability of financing. The capital markets and pools of private capital have and continue to show strong demand for infrastructure investments because of the long-term stable cash flow profile. There are other technological, regulatory and political issues, including lengthy approval processes, obtaining rights of way, state approvals, etc., that significantly affect the risk profile and the ability of investors or companies to deploy capital in critical infrastructure. To accelerate investment, we need to continue to assure returns are attractive, projects are approved in a timely manner, competition is encouraged, policy is consistent and the public understands the benefits and is supportive. Federal efforts should be focused on these areas. This will give companies and investors the comfort they need to assure the bankability of required long-term infrastructure-related investments.

Thank you.