Agenda

- Electric Utility Industry Credit Outlook
- Transition to Cleaner Fuels
- New Nuclear
- Pressures in Outlook
Moody’s Electric Utility Industry Credit Outlook
Moody’s Electric Industry Sector Outlook for 2011 Is Stable

- Investor-owned, Municipal and Cooperative credit outlooks are stable for 2011
- Investor-Owned Utility Rating Outlook Distributions

<table>
<thead>
<tr>
<th>Outlook</th>
<th>2008</th>
<th>2009</th>
<th>2010*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stable</td>
<td>82%</td>
<td>76%</td>
<td>84%</td>
</tr>
<tr>
<td>Positive</td>
<td>2%</td>
<td>3%</td>
<td>4%</td>
</tr>
<tr>
<td>Negative</td>
<td>12%</td>
<td>10%</td>
<td>11%</td>
</tr>
<tr>
<td>Under Review - Up</td>
<td>1%</td>
<td>3%</td>
<td>&lt;1%</td>
</tr>
<tr>
<td>Under Review - Down</td>
<td>3%</td>
<td>8%</td>
<td>&lt;1%</td>
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* as of 9/30/10
### Factors That Could Impact Credit in 2011

Numerous factors that could impact electric utility credit quality include:

<table>
<thead>
<tr>
<th>Factor</th>
<th>Potential Credit Impact</th>
</tr>
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<tbody>
<tr>
<td>Regulatory relationships</td>
<td>High</td>
</tr>
<tr>
<td>Natural gas prices</td>
<td>High</td>
</tr>
<tr>
<td>Environmental</td>
<td>Medium</td>
</tr>
<tr>
<td>Capital investing</td>
<td>Medium</td>
</tr>
<tr>
<td>Technological risks</td>
<td>Medium (longer term)</td>
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</table>
Financial Market Challenges in Past Few Years Have Brought More Caution to Credit Assessment

- Although recovered, the credit market failure brought more caution to assessment of credit.
- For example, Power companies face over $100 billion in credit facility expirations in 2011-2012.
- Moody’s believes companies will be able to renew these facilities and maintain adequate liquidity.
- Nevertheless we remain concerned that global financial markets will remain volatile.
- Regulatory and governance support and stronger balance sheets are needed to meet the cap-ex challenges in next few years.
Transition to Cleaner Fuels
2011 U.S. Electric Generation by Fuel Type

- 45.0% Coal-fired generation
- 19.3% Nuclear generation
- 24.2% Natural Gas
- 6.3% Hydro
- 5.2% Other
2011 Southeast U.S. Electric Generation By Fuel Type
(Florida is more than 40% natural gas)
Southeast U.S. Peak Demand Forecast Question: When Will Demand Come Back?

- Peak demand is estimated by SERC to increase from 199,619 MW in 2010 to 234,673 MW in 2019.

- The rate of growth in the forecast has been downsized by recession impact lingering in the forecast period including Florida at 1.3% growth. Will economic growth resume at demand rate prior to 2007?

- Capacity expansion will depend on the answer to the growth question but also on regulatory support for generation expansion, siting ease of new units, effect of demand side management and conservation, and environmental regulation regarding coal.
So What Now Gets Built or Will Renewables Be A Larger Part of Energy Mix?

- Low natural gas prices make most renewables less competitive from a cost standpoint. In some regions that doesn't seem to matter to policymakers?
- Some regions are “renewably challenged” such as the Southeast so will that be factored into national renewable standard policies?
- Will impact of new natural gas from shale provide more certainty of longer term gas supplies and price stability for shifting to gas as the transition fuel to new renewables?
- Will the increased emphasis on energy efficiency and demand side management lower demand sufficiently to mitigate imbalance?
- Are consumers willing to pay more for renewable energy?
Limited Renewable Potential in Southeast
Significant Challenge: It Will Take A Significant Amount of Gas For Example to Replace Base Load Coal-Fired Generation

• Existing U.S. Coal-fired Generation Capacity is estimated at 335,000 MW

• APPA calculated that that 335,000 MW times 7 MMBtu/MWh (heat content) times .72 capacity factor times 24 hours would equal about 39 Bcf per day of natural gas times 365 days or 14.1 Tcf per year

• The change in gas demand which was 63 Bcf in 2008 would have to increase to 102 BCF daily. Or annual natural gas demand would increase from 23 Tcf to 37 Tcf should all coal switched to gas if the infrastructure were present to permit such a change

• This equates to a 62% increase in Natural gas demand
New Nuclear
New Nuclear Locations

You may click on a design name to view the NRC’s Web site for the specific design.

- **ABWR**
- **AP1000**
- **EPR**
- **ESBWR**
- **USAPWR**
- ▼ Design/Units - TBA
New Nuclear is Coming Forward After A Strong and Safe Record of Existing Nuclear Fleet Operations

- Excellent safety and performance record

- Design and regulatory process created that is focused on certainty

- Nuclear renaissance; get first ones right

- New nuclear units located adjacent to existing units have a stronger likelihood of success

- But $6,000 to $7,000/KW build cost estimate could still be the stumbling block
US Nuclear New Build Costs During Last Building Cycle

- Historically, nuclear construction in the US experienced major cost overruns toward the end of the last construction cycle from the 1960s to 1980s.

- Average cost overruns were 207% according to the Congressional Budget Office May 2008 report: resulting in costs 3 times original estimates.

- Increased labor costs, incomplete designs, extensive regulatory delays, high inflation, inexperience with large construction projects and poor oversight are often cited then as contributing factors.

### Projected and Actual Construction Costs for Nuclear Power Plants

<table>
<thead>
<tr>
<th>Year Initiated</th>
<th>Number of Plants</th>
<th>Utilities' Projections (Thousands of dollars per MW)</th>
<th>Actual (Thousands of dollars per MW)</th>
<th>Overrun (Percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1966 to 1967</td>
<td>11</td>
<td>612</td>
<td>1,279</td>
<td>109</td>
</tr>
<tr>
<td>1968 to 1969</td>
<td>26</td>
<td>741</td>
<td>2,180</td>
<td>194</td>
</tr>
<tr>
<td>1970 to 1971</td>
<td>12</td>
<td>829</td>
<td>2,889</td>
<td>248</td>
</tr>
<tr>
<td>1972 to 1973</td>
<td>7</td>
<td>1,220</td>
<td>3,882</td>
<td>218</td>
</tr>
<tr>
<td>1974 to 1975</td>
<td>14</td>
<td>1,263</td>
<td>4,817</td>
<td>281</td>
</tr>
<tr>
<td>1976 to 1977</td>
<td>5</td>
<td>1,630</td>
<td>4,377</td>
<td>169</td>
</tr>
<tr>
<td>Overall Average</td>
<td>13</td>
<td>938</td>
<td>2,959</td>
<td>207</td>
</tr>
</tbody>
</table>

Source: Nuclear Power's Role in Generating Electricity by Congressional Budget Office dated May 2008
How Many Nukes Will Get Built?

*Vogtle Units 3&4* development appears mostly “on track”

*VC Summer Units 2&3* project appears to proceeding ahead, although Santee Cooper, a 45% owner, is re-evaluating its level of interest

*Calvert Cliffs Unit 3 – UniStar*
EDF will acquire Constellation’s 50% ownership in UniStar making it the sole owner
UniStar is expected to continue developing Calvert Cliffs Unit 3

*South Texas Project 3 & 4*
NRG has an outsized interest relative to market capitalization & challenges to find owners and/or off-takers

*Duke and Levy Nuclear?*
Have Investors Gotten Some of Nuclear Risk Premium Wrong?

▪ What will be the relationship of new nuclear to the price of coal priced with carbon?

▪ Are new nuclear units now 60-80 year assets?

▪ Has the new NRC process reduced risk of project delays after COL?

▪ Will DOE rework the federal loan guarantee program to provide investors confidence that there is a non-market source of funds during unexpected construction overruns?

▪ Or will there be a need for larger balance sheets to finance these major construction projects?
Pressures on Industry Credit Outlook
Wild Card: A Consensus on Climate Change Seems To Be Now on Hold- But What is the Next Step and How Immediate Will the Response Be and At What Cost?
Threat to Credit Outlook: INFLECTION POINT
Inflection Point Probably Largest Risk to Sector

Rates as a % of Disposable Income

- Inflection - high
- Inflection - low
Questions?
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