

Before the Federal Energy Regulatory Commission

Technical Conference on
Liability Limitation
December 11, 2002

by Gary M. Rygh,
Vice President, Morgan Stanley & Co.

Experience

- Extensive experience with financing arrangements for integrated utilities, IPPs, gas distribution and gas and electric transmission companies, such as
 - Initial public offerings
 - Fixed income and equity offerings
 - Mergers and acquisitions
 - Private placements

State of the Market

- Unprecedented challenges in maintaining liquidity, attracting new capital and providing earnings transparency to investors
 - Market turmoil caused by accounting discrepancies, ratings downgrades
 - Concerns relating to volatile power and fuel prices, uncertain regulatory situations
 - Ability of utilities to transition to a competitive market

Adverse Financial Implications of Unlimited Liability

- Lack of liability protection exacerbates difficulties in maintaining liquidity and attracting new capital
- Increases cost of capital
- Investors will look for less-risky investments

Adverse Financial Implications of Unlimited Liability

- Failure of regulators to provide fundamental protection would be seen as a drawback to investing in federally-regulated entities.
- May discourage creation of RTOs and stand-alone transmission companies