Merrill Lynch

Transmission Real Estate Investment Trust Presentation To FERC Technical Conference

October 14, 2008

Merrill Lynch

Executive Summary

Situation Overview

- Transmission systems offer stable annuity-like cash flows due to regulated return on investment and natural monopoly position
  - Other stable cash flow assets have taken advantage of tax efficient vehicles to access capital markets
  - Regulated pipelines – Master Limited Partnership (MLP)
  - Commercial and residential real estate – Real Estate Investment Trusts (REIT)
  - Of the two structures, the REIT provides the widest access to public equity markets (MLPs have certain ownership restrictions)
    - Work to date shows significant promise in applying the REIT structure to transmission assets
    - REIT structure has been applied to other permanent infrastructure: railroads and telecommunications towers
- A new way to achieve Independent Ownership & Operation
  - PLR: Transmission system is REIT-able
  - Simplified Regulatory Structure
  - Lower Cost of Capital
  - Access to Expanded Investor Base

Merrill Lynch

What is a REIT ?

REIT Overview

REIT, created in 1960, is a pass-through entity that is free from taxation at the corporate level and therefore avoids "double taxation"

- REITs own, and often operate, income-producing real estate
- REITs offer investors the opportunity to participate directly in the ownership of real property

The criteria for qualifying as a REIT include:

- 100 or more shareholders / 90% of taxable income is distributed to investors
- Income tests
  - At least 95% of its gross income is derived from rents from real property, dividends, interest, and gain from the sale or disposition of stock and securities
  - At least 75% of its gross income is derived from investments relating to real property or mortgages on real property, including from rents from real property
- Asset test - at least 75% of the value of the REITs total assets must be represented by real estate assets, cash, cash items, US government securities and certain stock or debt instruments

Most REITs offer investors high dividend yields, primarily due to its requirement to distribute 90% of taxable income

REITs have enjoyed growing popularity and solid growth in recent years

- REIT investments have outperformed equity investments over the past 5 years

Merrill Lynch

What is a MLP ?

MLPs since the Revenue Act of 1987

- Requirements
  - Partnership or LLC with units traded on public stock exchange (e.g., NYSE)
  - 90% of income must come from qualifying sources
    - Interest
    - Dividends
    - Rents
    - Income from natural resource activities (oil, gas, minerals, timber)
  - Distributions to unitholders are not taxed
    - MLP income is allocated to partners
      - No double taxation
    - 80% or more of distributions may be tax deferred
- Common characteristics of midstream MLPs
  - General Partner may have incentive distribution rights
    - Provides increasing share of distributable cash to GP
    - Generally from 15% to 50% of distributable cash as LP distributions grow
  - General Partner controls decision-making for partnership
  - Limited partners have limited ability to remove GP

Merrill Lynch

Convertible UPREIT Shares

Transmission REIT Structure Can Enable Public Policy Objectives

Assumptions

- Rate Base = $1,000mm
- Rate Base Equity = 50%
- Debt-to-Cap = 50%
- Cost of debt = 6.50%
- Regulated ROE = 13.0% for Taxable C-Corp
- C-Corp Tax Rate = 35%
- REIT Tax Rate = 0%

C-Corp vs. REIT Structure

$ millions, except as shown	Taxable C-Corp	Transmission REIT		
		Benefits to Equity Investors(1)	Benefits to Rate Payers(2)	Benefits Shared 50/50(3)
Rate Base	$1,000	$1,000	$1,000	1,000
Rate Base Equity	500	500	500	500
Regulated ROE	13.00%	13.00%	8.45%	10.72%
Implied ROE	13.00%	20.00%	13.00%	16.50%
Net Income	65	65	42	54
Add Back Taxes	35	35	23	29
EBT	100	100	65	82
OpCo Debt	500	500	500	500
Pre-Tax OpCo Interest Expense	33	33	33	33
EBIT	133	133	97	115
Add Back D&A	33	33	33	33
EBITDA	166	166	131	148
O&M	200	200	200	200
Revenues	366	366	$331	348

Rate Payers and/or Investors would benefit from tax advantage of Transmission REIT structure.

(1) Assumes 35% Income Tax Allowance. Regulated ROE remains unchanged – tax benefit passed to REIT equity investors.
(2) Assumes 35% Income Tax Allowance. Regulated ROE reduced to pass tax benefit to rate payers.
(3) Assumes 35% Income Tax Allowance. Regulated ROE reduced to pass 50% of tax benefit to rate payers.

Merrill Lynch

Convertible UPREIT Shares

TransCo Financing Comparison

TransCo Equity Value

($ in millions)

	TransCo w/in Utility	TransCo IPO	TransCo in REIT
TransCo Rate Base	$1,000.0	$1,000.0	$1,000.0
Rate Base Equity[(1)]	500.0	500.0	500.0
Regulated ROE[(2)]	13.0%	13.0%	10.7%
GAAP ROE	13.0%	13.0%	16.5%
Net Income	$65.0	$65.0	$53.6
Plus: Taxes	35.0	35.0	28.9
EBT	$100.0	$100.0	$82.5
2009E Price/EPS	15.0x	20.0x	20.0x
TransCo Equity Value	**$975.0**	**$1,300.0**	**$1,650.0**
Premium to TransCo w/in Utility ($MM)		**325.0**	**675.0**
Incremental $/Share[(3)]		**$0.81**	**$1.69**

Public Comparables

Company	Ticker	Price as of 09/23/08	% of 52 Week High	Equity Value	Firm Value	Price/EPS 2008E	Price/EPS 2009E	Firm Value/EBITDA 2008E	Firm Value/EBITDA 2009E	Dividend Yield
Northeast Utilities	NU	$25.58	77.1%	$3,979.2	$8,874.3	14.1x	13.3x	7.9x	7.1x	3.3%
ITC Holdings	ITC	55.05	91.8%	2,723.4	4,775.6	27.9	24.7	13.7	10.4	2.2%

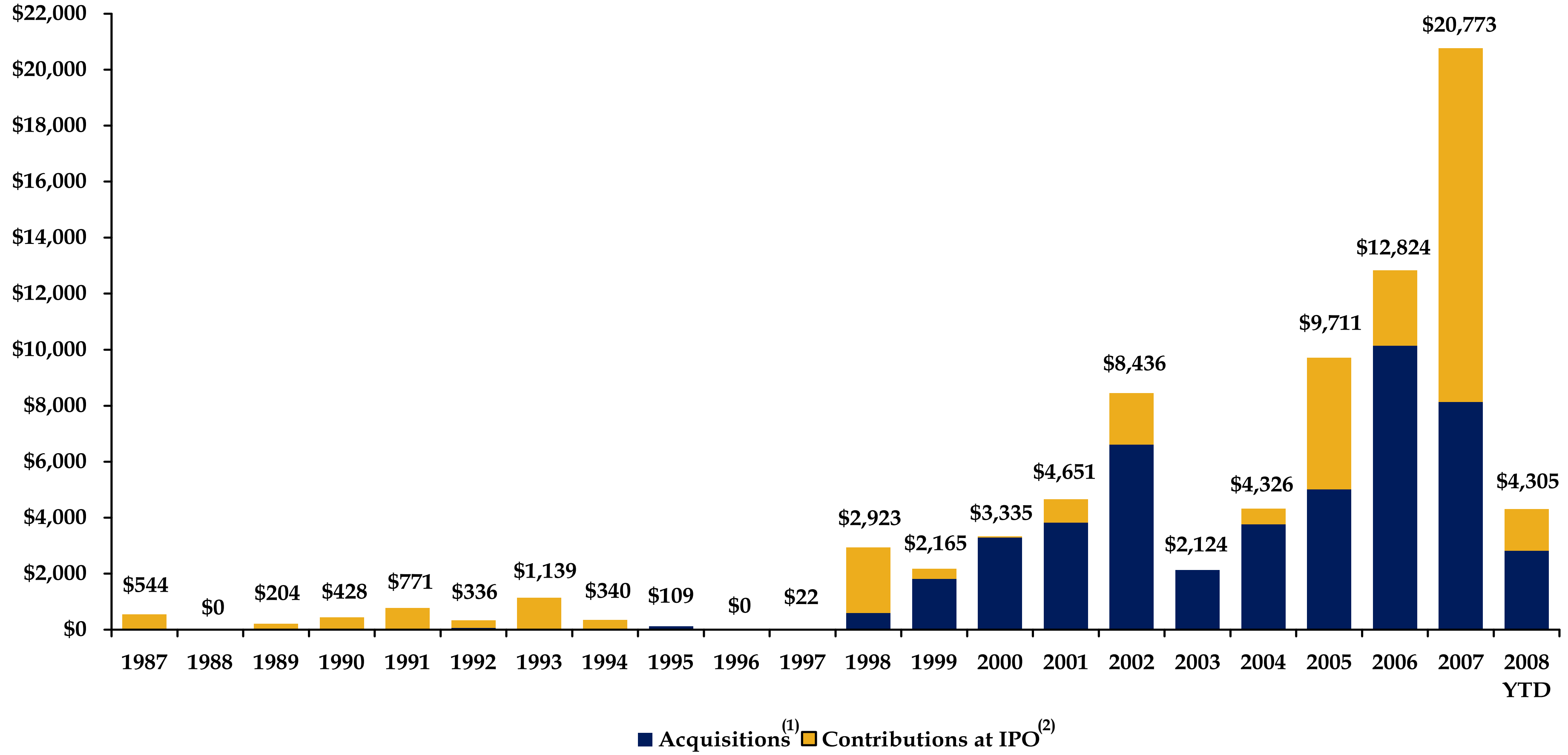
(1) *Assumes 50% equity capitalization.*
(2) *Stated FERC regulated ROE.*
(3) *Assumes AEP has 400.0 shares outstanding.*

Merrill Lynch

Midstream Infrastructure Assets Moving Into MLPs Since 1987

Migration of Midstream Assets into MLPs

(dollars in millions)



Since 1987, approximately $79.5 billion of midstream infrastructure assets have moved into MLPs, $48.4 billion via acquisitions and $31.1 billion via IPO formation.

(1) Source: John S. Herold, Inc. and Merrill Lynch Investment Banking.
(2) Based on enterprise value at IPO price, including subordinated units and GP units at values equivalent to common units.

Merrill Lynch

History of U.S. REITs

1960 - 70's	1980's	1990's	2000 - Present

1960 - 70's

- Initial REIT legislation (1960)
- REITs initially unpopular
  - Limited to asset ownership
  - High leverage
  - Externally-managed
- 1st generation mortgage REITs
  - Traded poorly
  - Lack of match funding
  - 1970's high inflation
- Negative experience with mortgage REITs tainted all REITs

1980's

- **1981 Economic Recovery Act**
  - Created tax shelter for private real estate owners, excluded REITs
- Economic motivation led to escalating asset prices & overbuilding
- **Tax Reform Act of 1986**
  - Tax shelters eliminated
  - REITs allowed to operate and manage properties
- Massive delinquencies & foreclosures led to real estate crash

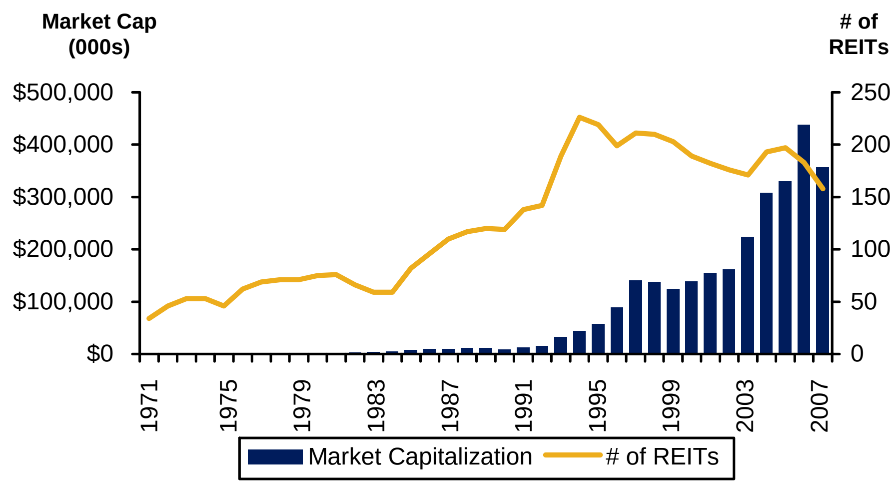
1990's

- Attractive acquisition opportunities but limited available capital
- Wall Street / securitization helped align capital
  - Kimco IPO (1991)
  - UPREIT introduction (1992)
- REIT IPO boom in mid-1990s
- Limited non-dedicated REIT investor interest

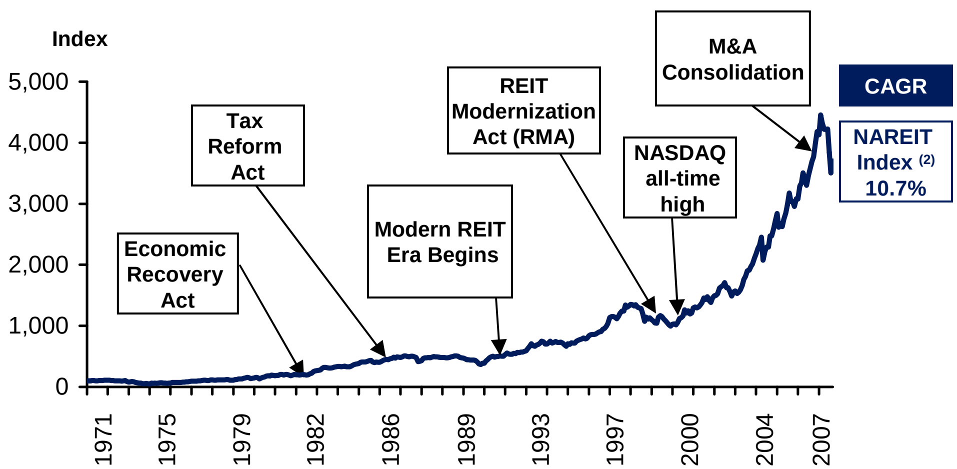
2000 - Present

- Tech bubble burst led investors to REITs for tangible assets / lower volatility
- Effectiveness of RMA expanded REITs operating flexibility (TRS)
- Migration of investor's focus to total return from just dividend yield
- REITs gained credibility & broad investor acceptance and outperformed major indices
- Improving fundamentals, favorable interest rate environment and M&A activity led to outsized returns

U.S. REIT Equity Market Capitalization (1)



NAREIT Index Performance (2)



(1) *Includes all equity, mortgage, and hybrid REITs. Equity market cap excludes OP units.*

(2) *NAREIT U.S. Real Estate Index includes all equity, mortgage, and hybrid REITs. Total return index includes effect of reinvested dividends.*

Merrill Lynch

Infrastructure Fund Capital

Substantial Pool Of Infrastructure Return Capital Available

Company	Assets Under Management Fund Size (mm)	Company	Assets Under Management Fund Size (mm)
Brookfield Asset Management	C$50,000	Goldman (Infra. Fund)	$6,500
Caisse de Dépôt (CDP)	C$257,700	Industry Funds Management	AUD14,000
Canadian Pension Plan (CPP)	C$119,400	JP Morgan	$2,000 - $5,000
Carlyle Group (Infra. Fund)	$1,000	Morgan Stanley (Infra. Fund)	$1,000
Challenger (Infra. Fund)	AUD1,350	OMERS /Borealis	C$5,600
Colonial First State Investments	AUD149,000	Ontario Teachers	C$108,500
Commonwealth Bank of Australia	N/A	OP Trust	C$13,500
Deutsche Bank/RREEF Infrastructure	€6,100	Public Sector Pension Investment Board of Canada (PSP)	C$35,000
Global Infra. Partners (Credit Suisse/GE High Star Fund)	$3,000		

Each of these funds possesses substantial generation / transmission expertise.

- Substantially greater assets under management when sovereign wealth funds are included.
- These funds need to marry their long-duration liabilities with long-term annuity-like returns of a transmission REIT.

Merrill Lynch

Industry Feedback & FERC Update

Industry Feedback

Based on Meetings with 30 Large Transmission Owners