Benefits of Open Markets:
And more actively trade

- Efficiency: optimization of resources and existing infrastructure is achieved

- Price signals are conveyed to buyers and sellers to guide economic decisions and investments

- Risk mitigation is made possible for large capital projects

Let’s focus on this last item, Risk Mitigation…
But first, let’s review the infrastructure as it stands:
Our National Energy Infrastructure is Highly Capital Intensive

• We in North America currently benefit from the most reliable and low cost energy in the world as a result of enormous capital expenditures made to date, despite the fact we are the largest consumers of energy per capita

• This is the result of considerable capital investments that have been made in the past
Access to Low Cost Capital is Vital:
Our National Energy Infrastructure is Highly Capital Intensive

• Significant new capital is required for continued investment in our energy and manufacturing infrastructure

• Much of the investment in generation and distribution infrastructure is subject to significant risk of commodity price movements over time
  – It is also made in response to opportunities made clear due to commodity price signals.
Risk Mitigation is the key to Lowering Capital Cost:
Our National Energy Infrastructure is Highly Capital Intensive

- Investors require an expected return on their capital, adjusted for risk; when risks are lowered, required returns are lower as well.

- By “de-risking” investment projects, developers are able to reduce capital costs, often allowing projects to be economically viable that otherwise would not find the necessary funding available.

- Actively traded and liquid commodity markets are required to allow this risk mitigation to occur.

Please see additional important information and qualifications at the end of this material.
Role of Banks
Combining Risk Mitigation with the Capital Raise

- Banks provide risk mitigation services to clients, allowing them to reduce their exposure to commodity price risk
- By de-risking large capital projects, investors are able to borrow more money, at lower rates
- Banks will often provide both risk mitigation and debt financing together for new projects
- Generation and distribution projects that might not otherwise be economically viable are able to proceed

Please see additional important information and qualifications at the end of this material.
A Few Recent Examples
Recent Projects for which Morgan Stanley helped de-risk and raise capital

– The RimRock project in Montana, a 189 MW wind project built and operated by Naturener, was made financeable by a 10 year revenue hedge, provided by Morgan Stanley

– The associated MATL transmission project was also made economically viable through revenue streams backed by contracts from Morgan Stanley

– The Windthorst-2 Project, a 68 MW wind project in Texas now majority owned by BlackRock, is being built using a construction loan from Morgan Stanley which will be paid off by a long term loan by other investors. Those loans rely on an income stream guaranteed by an electricity hedge provided by Morgan Stanley to hedge project revenues.
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