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Americas: Utilities: Power - Electric Utilities

Power lifting through 2010: long-term themes and concepts, top picks and pans for the year

Remain positive on Diversified Utilities and IPPs; NRG, EIX, and ETR our favorite names

We maintain an Attractive coverage view on IPPs/ Diversified Utilities, given valuation and improving demand, and we: (1) *add NRG to the Conviction List (CL), given strong and hedged free cash flow,* (2) remove ETR from the CL but remain Buy rated, (3) upgrade EIX to Buy, as the share price does not capture the fair value for its regulated utility segment, and (4) downgrade EXC to Neutral, given lower carbon assumptions and the roll-off of above-market hedges leading to low 2012E EPS.

Among regulated stocks, where we remain Neutral, we (1) lower DUK and CNL to Sell, (2) upgrade POR to Buy, and (3) take GXP to Neutral.

Updating estimates and target prices

We update estimates and price targets to reflect (1) revised natural gas forecasts, (2) rolling forward valuation to 2012 EBITDA for commodity-oriented utilities/IPPs, (3) lower carbon assumptions, (4) several updated authorized return forecasts, and (5) a higher baseline P/E multiple for Regulated Utilities from 10-10.5X 2012E EPS to 11.5X.

Key themes for 2010, likely rolling into 2011

Improving macroeconomic conditions remain key, driving stabilization and then improvement in demand, along with a low interest rate environment that creates mild tailwinds for utility stocks. Sector-specific themes to watch include (1) increased regulations of emissions—even with potential delays in carbon legislation—as new mercury and SOx rules will drive announcements for coal plant retirements, (2) stabilizing and potentially improving capacity price levels in mid-year auctions, (3) continued "quiet" on the M&A front for US utilities, and (4) state-level rate case decisions, especially in FL, CA, AR, CT, and MO.

Catalysts and risks

Few major sector-wide catalysts exist in early 2010, with capacity auctions impacting multiple stocks not occurring till May-August. The carbon debate may reemerge in spring 2010, although passage may get pushed into 2011-2012. Key risks include commodity prices, electricity demand levels, and higher anticipated spending needs driving financing requirements.

TICKERS & RATINGS

Ticker	Rating	01/13/10	Target	Tot Ret
AEE	Sell	$27.38	$24	-7%
AYE	Neutral	$22.95	$26	16%
EIX	Buy	$35.45	$44	26%
ETR	Buy	$82.86	$95	18%
EXC	Neutral	$48.66	$54	13%
SRE	Neutral	$53.87	$59	12%
Diversified Utilities				13% Avg.
AEP	Buy	$36.06	$38	10%
DUK	Sell	$17.07	$15	-7%
ED	Sell	$46.08	$43	-1%
PCG	Neutral	$44.77	$47	9%
PGN	Neutral	$39.17	$41	11%
SO	Neutral	$33.52	$33	4%
Large Cap Regulated				4% Avg.
CNL	Sell	$27.16	$28	6%
EE	Neutral	$19.98	$23	15%
GXP	Neutral	$19.60	$22	16%
NST	NR	$36.28	–	–
NU	Neutral	$26.39	$28	10%
NVE	Buy	$12.36	$15	25%
POR	Buy	$20.38	$24	23%
SCG	Neutral	$37.42	$43	20%
WEC	Neutral	$50.64	$54	9%
WR	Neutral	$22.15	$24	14%
Mid & Small Cap Regulated				15% Avg.
NRG*	Buy	$24.30	$33	36%
ORA	Neutral	$37.89	$42	11%
RRI	Buy	$5.74	$7	22%
CPX-CA	Neutral	$21.44	$22	8%
Independent Power Producers				19% Avg.

*NRG is on the Americas Conviction List

Source: Goldman Sachs Research.

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Portfolio manager summary: Leaning toward higher beta, commodity-leveraged names

With utilities having underperformed the S&P 500 in 2009 yet not appearing expensive on historical valuation metrics, we reiterate our Attractive coverage view on commodity-oriented Diversified Utilities and Independent Power Producers (IPPs) while remaining Neutral on higher-yielding Regulated Utilities. Demand stabilization in 2010 and recovery in 2011, along with improving and stabilizing capacity price auction results and higher yoy commodity prices, provide tailwinds for IPPs and Diversified Utilities.

We recommend investors own higher beta, commodity-exposed IPPs and Diversified Utilities, given (1) stabilizing natural gas prices, which drive power prices in most regions, in the $5.50-$6.50/MMBtu range, (2) improving demand fundamentals in 2010/2011 after a weather-adjusted decline of 3.3% in 2009, (3) significant underperformance in 2009 relative to other commodity oriented sectors, (4) stabilization and improvement in capacity market auctions in mid 2010, and (5) valuation, where merchant power oriented stocks—especially those with base-load coal/nuclear generation portfolios—trade below historical EV/EBITDA averages of 7.0X-7.5X on FY 3 expectations.

Among the commodity oriented power generation names, NRG Energy (NRG) now emerges as our top pick, while we stay positive on Entergy (ETR), upgrade Edison International (EIX) to Buy, and downgrade Exelon Corp (EXC) to Neutral. We add Buy-rated NRG to the Americas Conviction List, primarily given sizable free cash flows and significantly hedged gross margins and reaffirm our Buy rating on RRI Energy (RRI) on valuation and healthy free cash flow yields. We remain Buy rated on large-cap Entergy Corp (ETR)—especially as investors still under-estimate EPS uplift coming from the regulated businesses owned by ETR—and we upgrade Edison International (EIX) from Neutral to Buy as our sum-of-the-parts valuation implies the current stock price does not even capture full value for the high growth utility portion, leaving the merchant segment as primarily a "call" option for investors on higher commodity pricing. As we roll forward to use 2012 estimates for valuation purposes, and given delayed implementation of carbon regulations and slightly weaker $/ton assumptions for carbon pricing, we downgrade Exelon Corp (EXC) to Neutral—especially as above-market hedges roll off in 2012. We reiterate our Sell rating on Ameren (AEE), especially ahead of 2010 guidance, as we are well below consensus on the year.

We retain a Neutral coverage view on Regulated Utilities, as valuation on normalized earnings—especially for the larger cap names—tempers tailwinds tied to potentially lower Treasury yields and improving demand fundamentals. The GS Global ECS Research team forecasts the 10-year Treasury yield to decline from 3.8% to 3.3%, generally a positive for yield oriented regulated names that benefit from lower interest rates as investors seek yield elsewhere. The current relationship between Treasury yields and dividend yields implies positive momentum exists for Regulated Utilities if Treasury yields decline. However, Regulated Utilities currently trade at average historical multiples on FY1 and FY2 estimates, and at historical levels on a P/B basis, driving our Neutral rating on the sub-sector.

Within the regulated stocks, small and mid cap utilities appear more attractively valued on normalized earnings than larger cap peers, although we remain Buy rated on large-cap American Electric Power (AEP) and Sell rated on Con Edison as we downgrade Duke Energy (DUK) to Sell. AEP still trades at a P/E multiple discount to peers, one we expect to compress in the coming months. We reiterate our Sell rating on Con Edison, primarily on valuation and limited EPS growth, while lowering estimates and downgrading large-cap Duke Energy (DUK) to Sell, as we now forecast a decline in earnings from DUK's Ohio segment to offset growth in the Carolinas and Indiana. We also upgrade small cap Portland General (POR) to Buy and downgrade ~~Great Plains Energy (GXP) to Neutral—both companies face important rate cases in 2010 and should benefit from significant~~ earnings uplift in 2011, but GXP has outperformed recently while POR lagged peers. We downgrade Cleco (CNL) to Sell, primarily on recent share price performance, valuation tied to normalized earnings and dividend expectations.

Exhibit 1: We remain Attractive on IPPs & Diversified Utilities, with NRG/EIX/ETR our favorites, and Neutral on Regulated Utilities

		Drivers for Goldman Sachs Power & Utilities Ratings				
		Demand	Commodity & Hedge Profile	New Environmental Regulation	Rates, Regulatory & Projects	Comments
Ind Power Producers	**Attractive**					
NRG *	Buy	+	+	-	N/A	Benefits from higher LT pricing and current hedges | Enviro. regulation could accelerate capex
RRI Energy	Buy	+	+	-	N/A	Benefits from higher LT pricing and current hedges | Enviro. regulation could accelerate capex
Diversified Utilities	**Attractive**					
Edison International	Buy	+	+/-	+/-	+	Above-market hedges rolling-off, benefits from higher LT pricing | Strong state utility regulation
Entergy	Buy	+	+	+	+	Benefits from higher LT pricing | Improving state regulatory trends
Ameren	Sell	+	+/-	+/-	-	Above-market hedges rolling off | Regulatory lag a negative
Regulated Utilities	**Neutral**					
American Electric Power	Buy	+	N/A	N/A	+	Exposed to rising industrial demand | Improving earnings via rate cases
NV Energy	Buy	+	N/A	N/A	+	Regulation improving versus historical trends
Portland General	Buy	+	N/A	N/A	+	Major 2010 rate case should alleviate under-earning
Cleco	Sell	+	N/A	N/A	+/-	Regulatory approvals largely priced in to valuation
Consolidated Edison	Sell	+/-	N/A	N/A	+/-	Limited growth in demand | Rate cases underway for Gas & Steam
Duke Energy	Sell	+	N/A	N/A	-	Regulatory lag for 2011 | Lower Ohio earnings likely

*NRG is on the Americas Conviction List.

Source: Goldman Sachs Research.

Exhibit 2: Among our larger-cap names, we upgrade NRG (to Conviction Buy) and EIX, while downgrading DUK and EXC

Regulated Utilities (Neutral)

Names	Ticker	New Rating	Old Rating	New Price Target	Old Price Target	Yield	Total Return
Large Cap Regulated Utilities							
American Elec Power	AEP	Buy	Buy	$38	$37	4.5%	10%
Duke Energy	DUK	*Sell*	Neutral	$15	$15	5.6%	-7%
Consolidated Edison	ED	Sell	Sell	$43	$40	5.2%	-1%
PG&E	PCG	Neutral	Neutral	$47	$43	3.8%	9%
Progress Energy	PGN	Neutral	Neutral	$41	$41	6.4%	11%
Southern Company	SO	Neutral	Neutral	$33	$32	5.2%	4%
Average							4%
Small & Mid Cap Regulated Utilities							
Cleco	CNL	*Sell*	Neutral	$28	$25	3.3%	6%
El Paso Electric	EE	Neutral	Neutral	$23	$22	0.0%	15%
Great Plains Energy	GXP	*Neutral*	Buy	$22	$22	4.2%	16%
Northeast Utilities	NU	Neutral	Neutral	$28	$25	3.6%	10%
NSTAR	NST	NR	NR	--	--	4.1%	--
NV Energy	NVE	Buy	Buy	$15	$15	3.2%	25%
Portland General Electric	POR	*Buy*	Neutral	$24	$23	5.0%	23%
SCANA Corporation	SCG	Neutral	Neutral	$43	$40	5.0%	20%
Westar Energy	WR	Neutral	Neutral	$24	$23	5.4%	14%
Wisconsin Energy	WEC	Neutral	Neutral	$54	$49	2.7%	9%
Average							15%

*NRG is on the Americas Conviction List.

Diversified Utilities (Attractive) & IPPs (Attractive)

Names	Ticker	New Rating	Old Rating	New Price Target	Old Price Target	Yield	Total Return
Diversified Utilities							
Ameren	AEE	Sell	Sell	$24	$23	5.7%	-7%
Allegheny Energy	AYE	Neutral	Neutral	$26	$28	2.7%	16%
Edison International	EIX	*Buy*	Neutral	$44	$39	3.7%	28%
Entergy	ETR	Buy	Buy	$95	$98	3.6%	18%
Exelon	EXC	*Neutral*	Buy	$54	$64	4.3%	13%
Sempra Energy	SRE	Neutral	Neutral	$59	$56	2.9%	12%
Average							13%
Independent Power Producers							
NRG Energy*	NRG	Buy	Buy	$33	$34	0.0%	36%
Ormat Technologies	ORA	Neutral	Neutral	$42	$41	0.6%	11%
RRI Energy	RRI	Buy	Buy	$7	$8	0.0%	22%
Capital Power	CPX.TO	Neutral	Neutral	$22	$20	5.9%	8%
Average							19%

Source: Goldman Sachs Research.

We update estimates and target prices to reflect (1) new natural gas forecasts in line with the E&P Research team with the most significant change a $0.50/MMBtu lower forecast for 2011, (2) rolling forward valuation to 2012 EBITDA for commodity-oriented utilities/IPPs, (3) lower carbon assumptions, (4) several updated authorized return forecasts including GXP, NU, and PGN, and (5) a slightly higher baseline multiple for Regulated Utilities.

* * * * * *

A series of macro oriented items remain critical for utilities in 2010, with (1) GDP-driven demand stabilization, higher yoy commodity prices and an out-of-consensus interest rate view as positives for the broader group, offset by (2) the expected sunset of the dividend tax cut remaining an overhang through much of the year. We still view carbon legislation as likely in the coming years, although we now *recognize legislative passage may not occur till after 2010.*

Macro conditions should improve, supporting stabilization in electricity demand fundamentals, while interest rates could produce tailwinds. The Goldman Sachs Global ECS Research team expects a recovery in broader US economic fundamentals, with real GDP up 2.3% in 2010 and industrial production (IP) rising 4.1%, stimulating yoy stabilization in electricity demand fundamentals. We still expect 0.4%-0.5% yoy improvement in 2010, coming off a decline in 2009 of 3%, and more normal demand trends emerging in 2011.

***The Goldman Sachs Global ECS Research team calls for lower yields on* 10-year Treasuries remains out of consensus and presents potential tailwinds for yield oriented sectors like utilities.** After a significant climb in the 10-year Treasury, from 3.3% to levels closer to 3.7% currently, our ECS team expects treasury yields to decrease during 2010, creating tailwinds for the sector, especially higher yielding names. The relationship between treasury yields and utility dividend yields separated beginning in mid-2008, but we believe it is possible the linkage regains importance for utility stocks in 2010, especially if interest rates decline as forecast.

* * * * * *

Key sector specific themes investors should monitor include (1) improving demand fundamentals, (2) emerging environmental regulations for other pollutants, primarily mercury and sulfur dioxide (SOx), that could drive coal plant retirements and improve longer-term supply/demand fundamentals for power generation, (3) an expected stabilization and improvement in various regional capacity market auctions, (4) limited M&A activity, given environmental uncertainties and burdensome state regulatory approval processes, and (5) mean reversion or *significant changes in state regulation of utilities.*

While overall demand will stabilize, upside to our forecast exists if commercial sector MWh sales improve beyond expectations—although historical trends imply unemployment drives continued weakness in commercial sales until 2011. As detailed above, we expect yoy power demand to stabilize, increasing 0.4%-0.5%, with a strong uptick in residential demand and a decent improvement in industrial demand, partially offset by continued weakness in commercial MWh sales. Historically, unemployment and business fixed investment—as outlined in our "Powering On: Tilting to commodity-oriented utilities and IPPs" note from September 29, 2009—drive commercial segment sales—and with unemployment expected to remain near 10%, commercial segment sales—roughly 35% of total demand—may continue to weigh on broader demand growth till 2011.

While power generation markets remain over-supplied, coming environmental regulations may drive retirements of coal plants, improving longer-term fundamentals. Most regional power markets, given significant construction levels in the 2000-2005 timeframe and a decline in demand, remain over-supplied with generation and maintain high reserve margins. We expect demand recovery—with yoy comparisons improving by 2Q2010—in electricity, but believe small commercial and industrial demand still face challenges that keep 2010 demand levels from returning to historical trend patterns of 1.5%-2.0% growth. Longer term, coal plant retirements, driven by environmental policy and regulations for all 4 P's (mercury, SOx, NOx and Co2), will positively impact supply / demand fundamentals by forcing retirements, especially in the MidAtlantic, the Midwest and the South, with announcements ramping up in 2010 and continuing throughout 2011-2012. We view coming regulations for mercury, SOx and NOx as key to the sector, given they likely force capital spending decisions on older, less efficient units and force retirement decisions.

Capacity pricing levels should improve off of trough-like levels seen in 2009. As detailed in our November 30, 2009, note, "Positive developments occurring in US capacity markets, but results not visible till mid-2010"—rules changes in the PJM (MidAtlantic and Midwest) and New England power markets, likely finalized in 2010, will create modest positive benefits for capacity auctions in PJM and in New England. We anticipate a bounce in PJM from trough-like levels in the May 2009 auctions, primarily in western PJM, and stabilization of capacity pricing in New England due to implementation of a likely price floor. Coal plant retirements announcements, given the forward (three year) nature of capacity market auctions, could impact pricing levels, although not likely creating a major impact until the 2011-2012 round of auctions.

We expect California regulation to remain positive supporting EIX, Florida regulation to mean revert negatively, and CT, LA, AR, and NV to mean revert positively supporting NU, ETR, and NVE. State and regional utility regulations mean revert over time, the key often focuses upon correctly identifying and timing this mean reversion. We remind investors how state utility changes—for example, regulations passed and implemented in 1996-2000 drove California-based utilities into distress or even, as with PG&E Corp, into bankruptcy—and yet for the last 5 years, the investment community largely viewed California utility regulation among the most favorable in the US. Utility regulation mean reverts slowly, but changes do occur—we expect positive changes in Arkansas and Connecticut to benefit names like Entergy and Northeast Utilities, while Illinois, Florida and Missouri regulation for larger companies, including Exelon, Progress Energy and Ameren, may remain difficult. In fact, Florida appears likely to mean revert further to the negative, given recent hearings in utility rate cases.

All quiet expected on the M&A front, given environmental uncertainty, market power and burdensome regulatory approval processes. We expect limited M&A activity within the broader utility sector, as few if any public companies face major catalysts forcing divestitures or cash raises. Continued uncertainty on environmental regulations, not just for carbon but also other pollutants such as mercury and SOx, creates an overhang on potential buyers of merchant coal generating assets. Market power concerns—where few owners own significant portions of merchant generation in select regions—also limits deal-flow among non-regulated power producers. Time-consuming approval processes—where state regulators often require 12-24 months before approving utility M&A—presents an overhang on M&A by regulated companies. The pattern by state regulators of "clawing back" much of the cost savings from deals by regulated entities makes M&A less enticing.

Exhibit 3: Goldman Sachs Power & Utilities Research vs Consensus

GS EPS estimates versus consensus

		2009			2010			2011		
Ticker	Rating	GS EPS	Cons EPS	% Ch	GS EPS	Cons EPS	% Ch	GS EPS	Cons EPS	% Ch
Large Cap Regulated										
AEP	Buy	$2.98	$2.94	1%	$3.09	$3.07	1%	$3.33	$3.24	3%
DUK	Sell	$1.16	$1.20	-4%	$1.21	$1.29	-6%	$1.23	$1.35	-9%
ED	Sell	$3.29	$3.14	5%	$3.42	$3.35	2%	$3.53	$3.49	1%
PCG	Neutral	$3.02	$3.17	-5%	$3.41	$3.41	0%	$3.86	$3.71	4%
PGN	Neutral	$2.99	$3.04	-2%	$2.93	$3.12	-6%	$3.04	$3.24	-6%
SO	Neutral	$2.37	$2.32	2%	$2.64	$2.43	8%	$2.78	$2.62	6%
Mean				-1%			-2%			-1%
Small&Mid Cap Regulated										
CNL	Sell	$1.82	$1.71	6%	$2.25	$2.10	7%	$2.36	$2.23	6%
EE	Neutral	$1.57	$1.51	4%	$1.50	$1.60	-6%	$1.64	$1.77	-7%
GXP	Neutral	$1.10	$1.17	-6%	$1.34	$1.45	-7%	$1.95	$1.79	9%
NST	NR	$2.38	$2.36	1%	$2.50	$2.52	-1%	$2.69	$2.65	2%
NU	Neutral	$1.74	$1.84	-6%	$1.87	$1.92	-3%	$2.03	$2.10	-4%
POR	Buy	$1.44	$1.39	3%	$1.49	$1.58	-5%	$2.03	$1.92	6%
SCG	Neutral	$2.88	$2.80	3%	$2.77	$2.96	-6%	$3.54	$3.29	8%
NVE	Buy	$0.83	$0.87	-4%	$1.10	$1.07	3%	$1.21	$1.12	8%
WEC	Neutral	$2.94	$3.13	-6%	$3.65	$3.72	-2%	$3.93	$4.03	-2%
WR	Neutral	$1.45	$1.45	0%	$1.68	$1.73	-3%	$1.63	$1.75	-7%
Mean				0%			-2%			2%
Diversified Utilities										
AEE	Sell	$2.51	$2.66	-6%	$2.11	$2.35	-10%	$2.23	$2.37	-6%
AYE	Neutral	$2.28	$2.17	5%	$2.33	$2.32	0%	$2.84	$2.76	3%
ETR	Buy	$6.38	$6.35	0%	$6.74	$6.69	1%	$7.42	$7.12	4%
EIX	Buy	$2.94	$3.01	-2%	$3.36	$3.28	3%	$3.53	$3.26	8%
EXC	Neutral	$4.02	$4.04	-1%	$3.87	$3.80	2%	$4.30	$4.33	-1%
SRE	Neutral	$4.73	$4.58	3%	$5.10	$5.23	-3%	$5.63	$5.55	-3%
Mean				0%			1%			1%
Median				0%			-1%			1%
Independent Power Producers										
NRG	Buy	$2.20	$2.86	-23%	$1.80	$2.07	-13%	$2.40	$1.63	47%
ORA	Neutral	$1.52	$1.49	2%	$1.45	$1.46	-1%	$1.53	$1.70	-10%
RRI	Buy	($0.87)	($0.87)	0%	($0.12)	$0.02		$0.41	$0.15	171%
Mean				0%			-7%			47%
		EBITDA	Cons.	% Ch	EBITDA	Cons.	% Ch	EBITDA	Cons.	% Ch
NRG	Buy	$2,511	$2,658	-6%	$2,277	$2,282	0%	$2,261	$2,282	-1%
ORA	Neutral	$156	$151	3%	$183	$173	6%	$261	$173	51%
RRI	Buy	$114	$76	50%	$402	$422	-5%	$585	$422	39%
Mean				16%			0%			29%

* All GS EBITDA estimates are Adjusted EBITDA, not GAAP

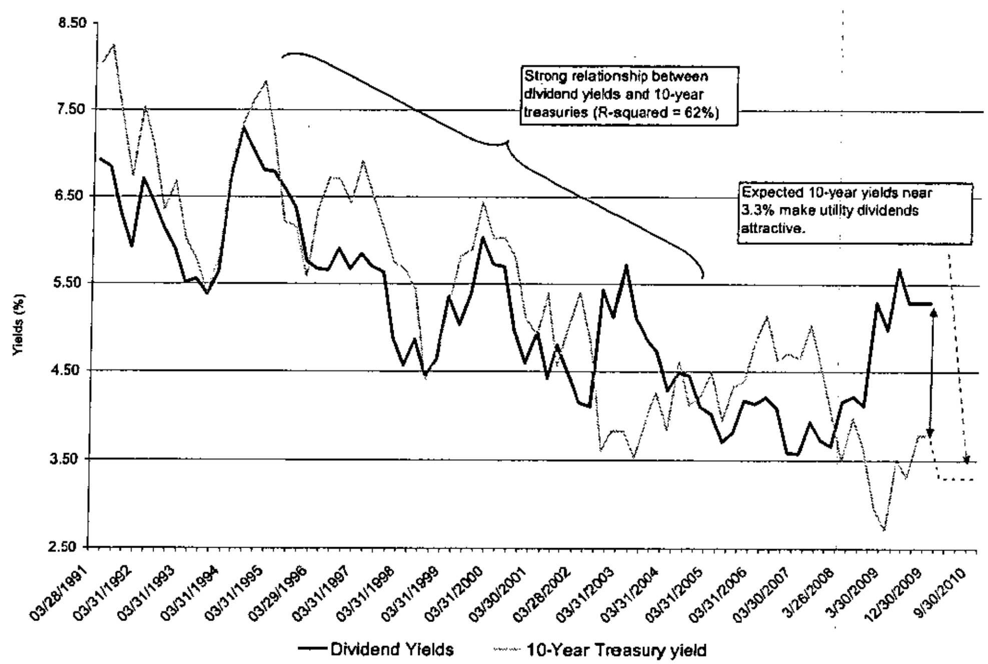
* PGN Ongoing EPS of $2.99 differs from GAAP EPS of $2.62.

Source: Goldman Sachs Research, FactSet.

Interest rate expectations imply potential tailwinds exist for yield-oriented utility stocks

The historical relationship between dividend yields and the 10-year treasury yield imply tailwinds for utility stocks, unless interest rates rise above the Goldman Sachs forecast. As indicated in Exhibit 4-5, low 10-year yields and low inflationary environments tend to be a positive driver for utility shares, as the dividend yields appear attractive relate to the risk-free rate compared to the historical relationships. The Goldman Sachs Global ECS Research team expects a 10-year Treasury level between 3.0% and 3.3%, below current levels closer to 3.7%, with inflation levels also remaining relatively low as well, as highlighted in "The Outlook for 2010/2011: Exciting, with Risks!" on December 2, 2009. Given these forecasts, a significant downward movement in treasury yields implies a modestly positive trend for utility valuations and, at a bare minimum, an improvement in sentiment for the group.

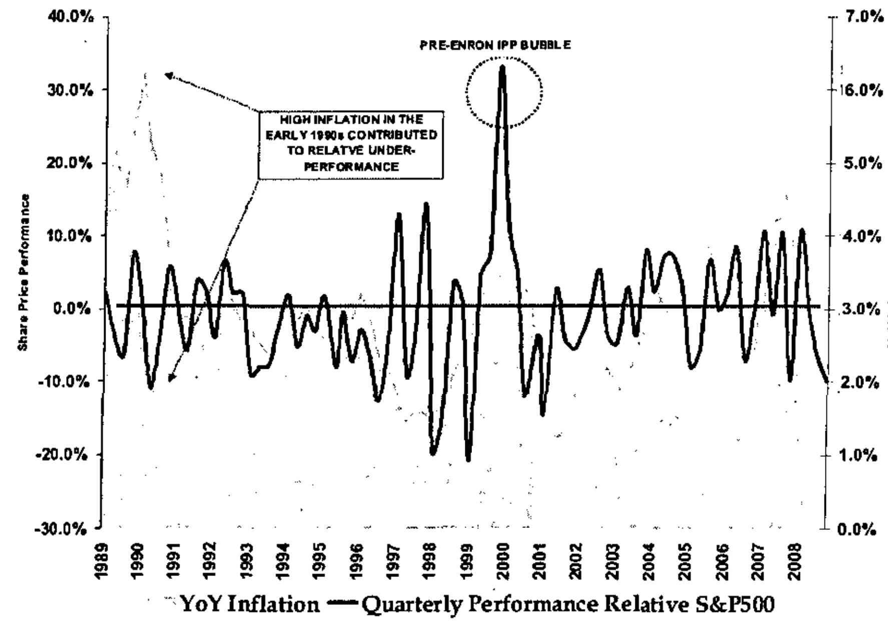
Exhibit 4: Low 10-year Treasury yields historically a positive driver for Regulated Utilities
yields, 10-year Treasury note and dividends on Regulated Utilities



Source: FactSet, Goldman Sachs Research estimates.

While a recent "separation" between treasuries and utility share price levels occurred, we do not believe this change is permanent. As shown in Exhibit 3 above, the recent trend of utility yields versus 10-year Treasuries show a "separation"—in part due to more stocks in this sector becoming more commodity sensitive and cyclical than in previous periods, as merchant generation makes up a larger portion of sector earnings than existed prior to 2000. We do not believe this "separation" is permanent and believe that a convergence of utility dividend yields and the 10-year treasury will likely re-occur over time—although more so for the yield-oriented regulated names than the commodity-leveraged ones within the space.

Exhibit 5: Low inflation a positive for the sector, as high-yielding Regulated Utilities underperformed in last inflationary period
utilities quarterly equity performance relative to S&P500 versus yoy change in inflation



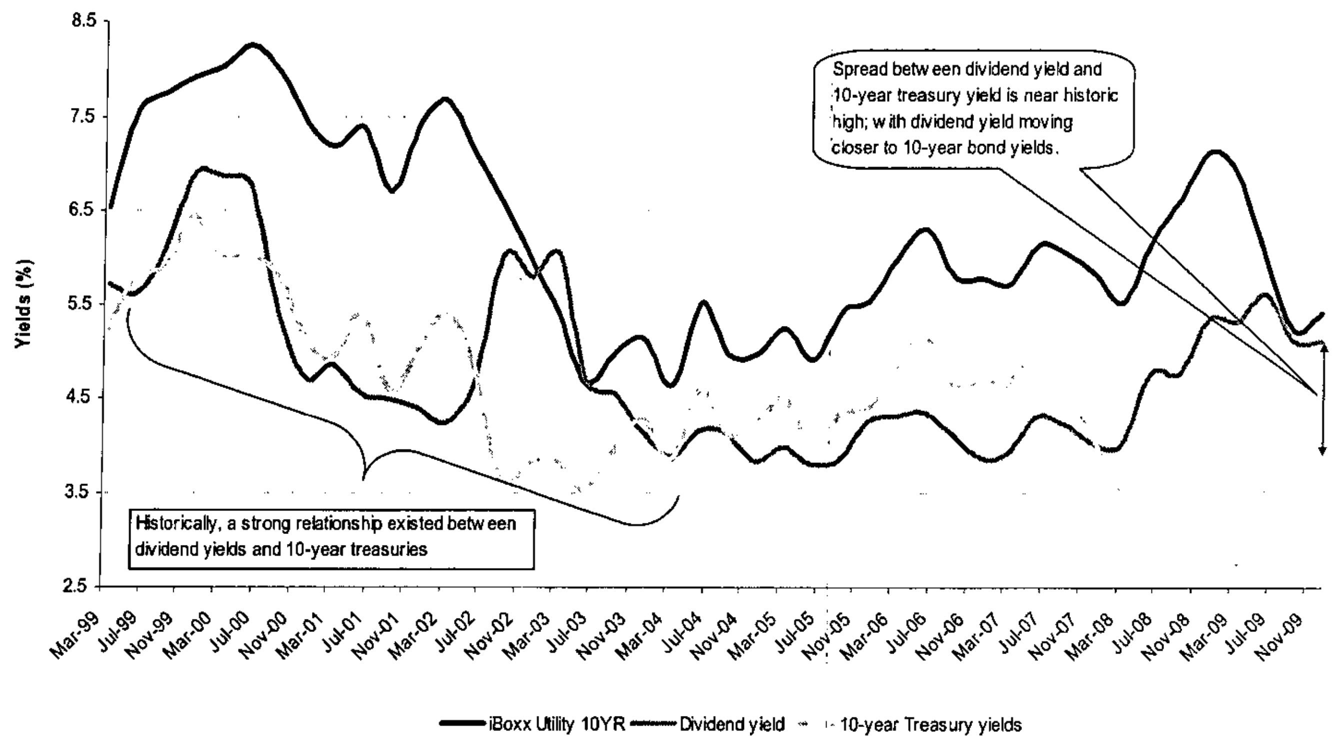
Source: FactSet, Goldman Sachs Research estimates.

Goldman Sachs ECS predicts a low inflationary environment in 2010 and 2011

Corporate bond yields though imply less upside or fewer tailwinds for yield-oriented utility shares. As shown in the exhibit below, yield spreads between corporate bond yields and utility dividend yields imply a much tighter relationship and therefore less momentum and valuation support than the relationship with treasury yields currently implies.

Exhibit 6: The average Regulated Utility dividend yield looks attractive versus 10-year Treasury yield, but less compelling versus corporate bonds yield

yields, 10-year treasury note, dividends on Regulated Utilities and 10-year utility corporate bonds



Source: FactSet, Goldman Sachs Research estimates.

Sentiment for utilities, especially those that are commodity-leveraged, should improve as demand stabilizes in 2010, recovers in 2011

Power demand should rise from the 2009 trough in 2010 but not to historical levels given high unemployment expectations. During 2009, weather adjusted power demand declined over 3%, with the trough hitting in the late 2Q2009. As outlined in our September 29, 2009 piece, we revised our power demand forecasting methodology, moving from a top-down approach to more of a bottom-up analysis, focusing on demand by customer class. Industrial demand remains driven by changes in industrial production, although partially offset by a continued expectation that usage per customer trends will, over the long term, face downwards pressure as industrial customers become more efficient. Residential demand likely will rebound significantly, but small commercial demand remains challenged—as unemployment and business fixed investment drives small commercial demand. High unemployment expectations for 2010—with the Goldman Sachs Global ECS Research team forecasting levels above 10%—will weigh on commercial demand.

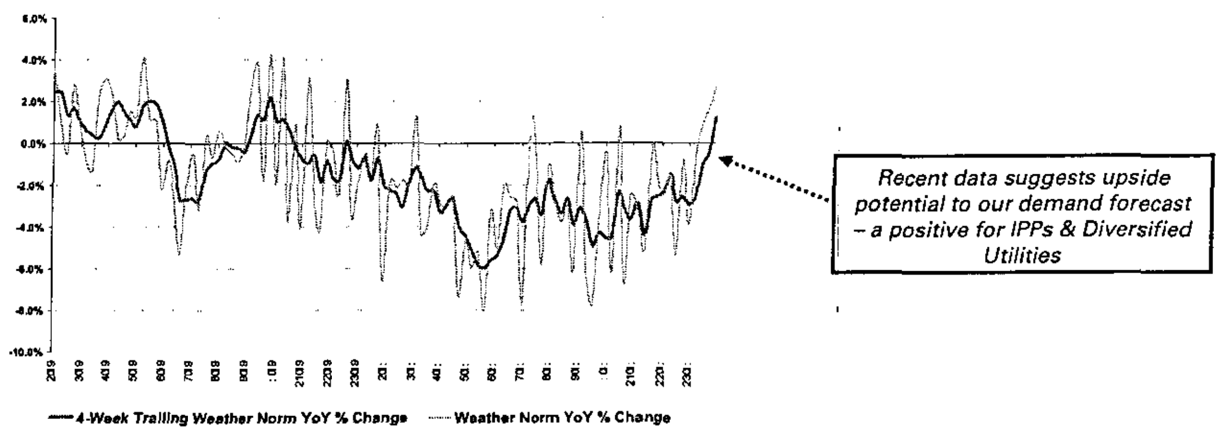
Recent strength in weather-normalized generation output data and the GS US Economics GDP Team's forecast suggests upside potential to our power demand estimates. We observed a noticeable uptick in weather-normal generation output in the last three weeks of data, with the four-week trailing average now up yoy, as indicated by Exhibit 8. Additionally, the GS real GDP forecast of 2.3% implies a 2010 yoy increase in power demand of 1.4-1.5%, as historically every 1% change in yoy GDP drives a 0.6-0.7% change in electricity demand, as shown in Exhibit 9. While we maintain our "bottom-up" forecast, as we believe it continues to be a more accurate predictor of the demand recovery—we recognize there is upside risk to our demand forecast.

Exhibit 7: Our bottom-up, weather normalized forecasts shows slight growth in 2010, driven by a pickup in industrial demand
weather-normalized yoy demand forecasts

Weather-Normal Demand	1Q2009A	2Q2009A	3Q2009A	4Q2009E	2009E	1Q2010E	2Q2010E	3Q2010E	4Q2010E	2010E	2011E	2012E
National	**-2.6%**	**-4.5%**	**-3.9%**	**-2.2%**	**-3.3%**	**-0.6%**	**0.0%**	**0.8%**	**1.3%**	**0.4%**	1.5%	1.7%
Industrial	-11.6%	-14.7%	-9.3%	-6.1%	**-10.4%**	-1.5%	1.4%	1.6%	1.4%	**0.7%**	0.2%	0.1%
Residential	0.9%	0.2%	-1.8%	0.9%	**0.0%**	1.4%	0.9%	1.4%	1.4%	**1.3%**	1.9%	1.9%
Commercial	-0.5%	-2.0%	-2.9%	-2.6%	**-2.0%**	-2.4%	-1.9%	-0.3%	1.1%	**-0.9%**	1.9%	2.6%

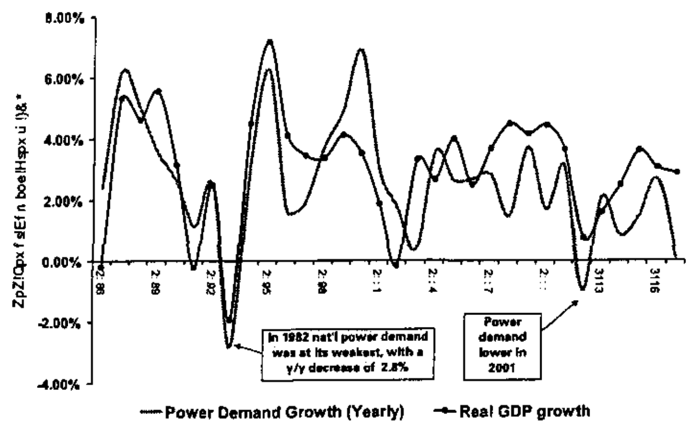
Source: Goldman Sachs Research, EIA, GS Global ECS Research.

Exhibit 8: Recent strength in EEI generation output data suggests there is upside potential to our 2010 demand forecasts
weather-normalized yoy EEI output data



Source: EEI, EIA, Goldman Sachs Research.

Exhibit 9: Historically, every 1% change in yoy GDP, drives a 0.6-0.7% change in electricity demand
Yoy power demand and GDP growth (1975-2007)



Source: Goldman Sachs Research, GS Global ECS Research

Expected change in the dividend tax rates presents an overhang, especially for higher yielding Regulated Utilities

Since 2003, investors in high yielding sectors benefited from lower tax rates on dividends—*the expected expiration of* dividend tax cut may create news-flow and incremental volatility late in 2010. Legislation passed in 2003 reduced tax levels on dividends to 15% from normal or marginal income tax levels, increasing after-tax returns for *many investors in dividend paying* stocks. The 2003 legislation, however, always called for the expiration of the dividend tax relief, so we believe investor expectations incorporated this tax cut as more of a *temporary, not permanent, relief or benefit.* Legislative priority in 2010 remains on other areas currently—healthcare, financial reform, energy, etc.—so focus may not turn to this issue till late 2010. The preliminary expectation assumes a slight increase, from 15% to 20%-25%, *in the near-term dividend tax rate,* only modestly impacting the after tax value of dividends.

Exhibit 10: For every 5% the dividend tax rate increases, there is a 6% change in after-tax value
dividend tax policy analysis

	Dividend Tax Policy Analysis				
	15% Dividend Tax Rate	20% Dividend Tax Rate	25% Dividend Tax Rate	30% Dividend Tax Rate	35% Dividend Tax Rate
Dividend per Share	$2.00	$2.00	$2.00	$2.00	$2.00
Tax Rate	**15%**	**20%**	**25%**	**30%**	**35%**
After-tax Return	**$1.70**	**$1.60**	**$1.50**	**$1.40**	**$1.30**
% Change In After Tax Value		**5.88%**	**11.76%**	**17.65%**	**18.75%**
Dividend Growth Rate	3.00%	3.00%	3.00%	3.00%	3.00%
Risk Free Rate	3.50%	3.50%	3.50%	3.50%	3.50%
Risk Premium	4.00%	4.00%	4.00%	4.00%	4.00%
Cost of Equity	7.50%	7.50%	7.50%	7.50%	7.50%
Value	$37.78	$35.56	$33.33	$31.11	$28.89
% Change		5.88%	11.76%	17.65%	18.75%
Implied Yield	5.29%	5.63%	6.00%	6.43%	6.92%

Source: Goldman Sachs Research.

Power generation markets remain over-built, but longer-term trends may improve as emerging environmental regulations drive retirements of coal plants

Power markets maintain a surplus of supply and reserve margins remain inflated. Many expected, back in 2006-2007, regional power markets to tighten significantly, assuming normal demand growth of 1%-2% annually and few capacity additions. With demand response impacting markets and broader demand fundamentals deteriorating due to economic conditions, power markets largely remain over-built, with reserve margins *well above required levels*, as outlined below in Exhibit 11.

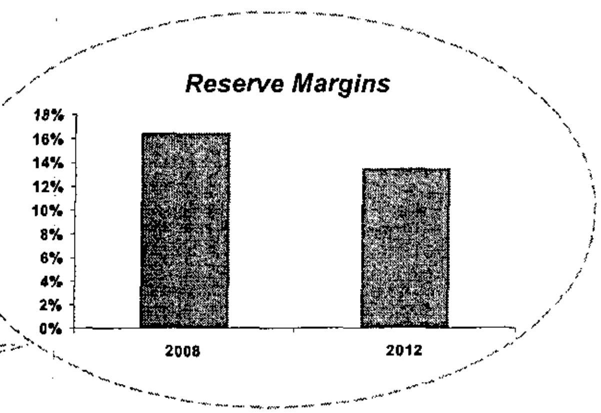
Exhibit 11: Regional data and forecasts by the North American Reliability Council show many regions remain far from equilibrium levels

reserve margins by region

	2008		2012	
	Net Capacity Resources Margin	Adjusted Potential Resources Margin	Net Capacity Resources Margin	Adjusted Potential Resources Margin
ERCOT	12.1%	12.1%	12.7%	20.3%
FRCC	17.1%	17.1%	19.6%	19.6%
MRO	13.8%	14.2%	9.2%	16.7%
NPCC	19.0%	19.0%	16.3%	16.3%
New England	16.0%	16.0%	13.0%	13.0%
New York	21.4%	21.4%	18.7%	18.7%
RFC	17.1%	17.1%	13.9%	17.1%
RFC-MISO	12.7%	12.7%	10.1%	12.5%
RFC-PJM	15.4%	15.4%	11.9%	15.5%
SERC	15.7%	24.7%	10.6%	20.1%
Central	15.2%	22.4%	11.1%	18.3%
Delta	6.9%	32.9%	-2.4%	26.4%
Gateway	19.4%	31.2%	17.8%	30.6%
Southeastern	16.1%	23.8%	9.3%	17.4%
VACAR	18.1%	20.1%	14.0%	16.2%
SPP	14.1%	26.4%	14.9%	26.6%
WECC	18.8%	18.8%	15.0%	15.0%
AZ-NM-SNV	16.0%	16.0%	6.2%	6.2%
CA-MX-US	17.5%	17.5%	15.7%	15.7%
NWPP-US	25.2%	25.2%	21.3%	21.3%
RMPA	12.1%	12.1%	11.5%	11.5%
Total U.S.	16.5%	19.7%	13.5%	18.5%

SFHPO

Supply/demand becomes more balanced when reserve margins decline to 12-15%

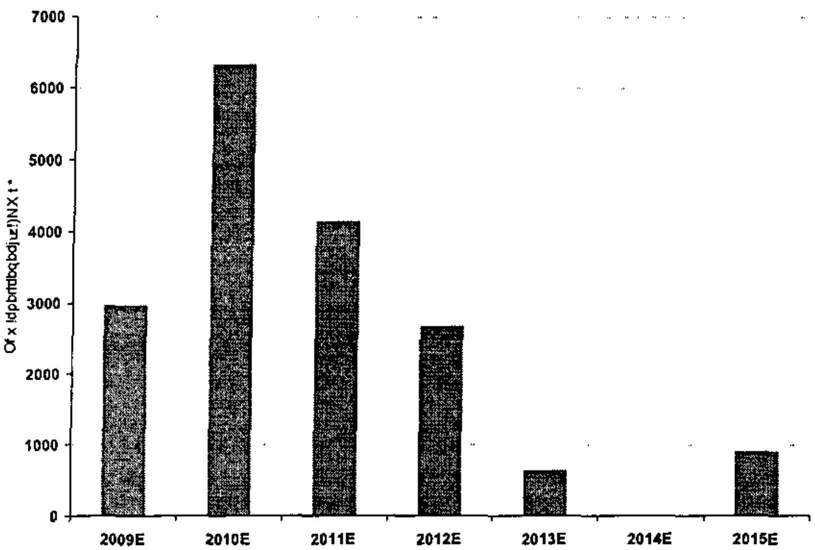


Net Capacity Resources (MW) — Deliverable Internal Capacity, less Transmission-Limited Resources, all Derates, Energy Only resources, and Inoperable resources; plus Net Firm and Expected Purchases/Sales.
Adjusted Potential Resources (MW) —Total Potential Resources with Total Proposed Capacity reduced (multiplied) by a confidence factor

Source: NERC.

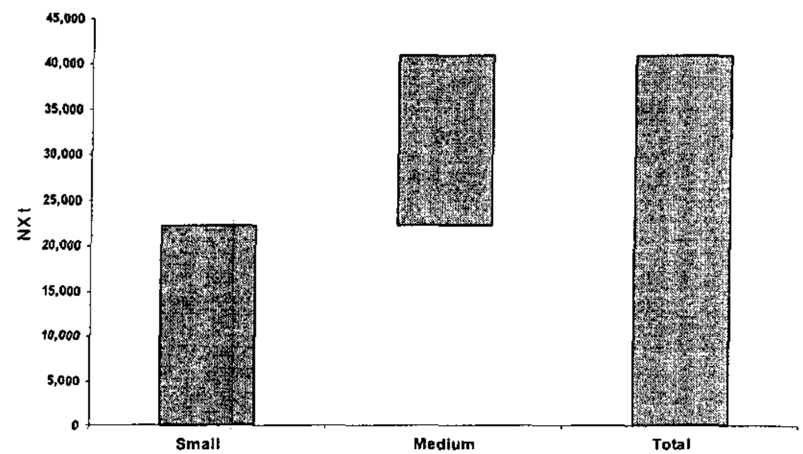
Environmental regulations, especially for SOx, NOx and Hg, will drive significant retirements of coal power plants with at least 20-40 GW of capacity going off-line by 2015-2017—creating a significant impact, even if carbon is delayed. We now believe significant challenges exist, given the legislative calendar, in passing carbon regulations this year, but still expect passage in the coming years and implementation by mid-decade. However, over the next 12-24 months, the Environmental Protection Agency (EPA) will, per mandates from US federal courts, revise rules for emissions reductions from existing coal plants—focusing on SOx (sulfur dioxide), NOx (nitrogen oxide) and Hg (mercury). Unlike potential CO_2 regulations, rules for the other 3 P's will force companies to either invest significant capital in pollution controls or to retire existing units that lack these controls. New mercury rules will require a Maximum Achievable Control Technology (MACT) standard, likely forcing companies over the next 5-8 years to install expensive pollution controls or to retire, while SOx and NOx rules as well may drive incremental spending on 40-60 year old coal power plants. Even though roughly 18 GW of new coal capacity will likely come on-line by 2014-2015, we expect at least 20 GW and more likely up to 40 GW of small/mid-size coal plants to retire by 2015-2017, rather than invest significant capital in older units at current levels of forecast power prices. Upside to our estimate for coal plant retirements exists if some of the larger units in areas where power prices remain weak—in the Midwest especially—retire as well instead of investing new capital.

Exhibit 12: We expect approximately 18 GWs of new coal plant capacity coming online over 2009-2015
coal plant additions by year



Source: Goldman Sachs Research estimates.

Exhibit 13: *Small and mid-sized coal plants without scrubbers likely will* retire by 2015-2016, reducing overall coal generation supply by 7%-10%
potential retirements by 2015/2016 (MWs)

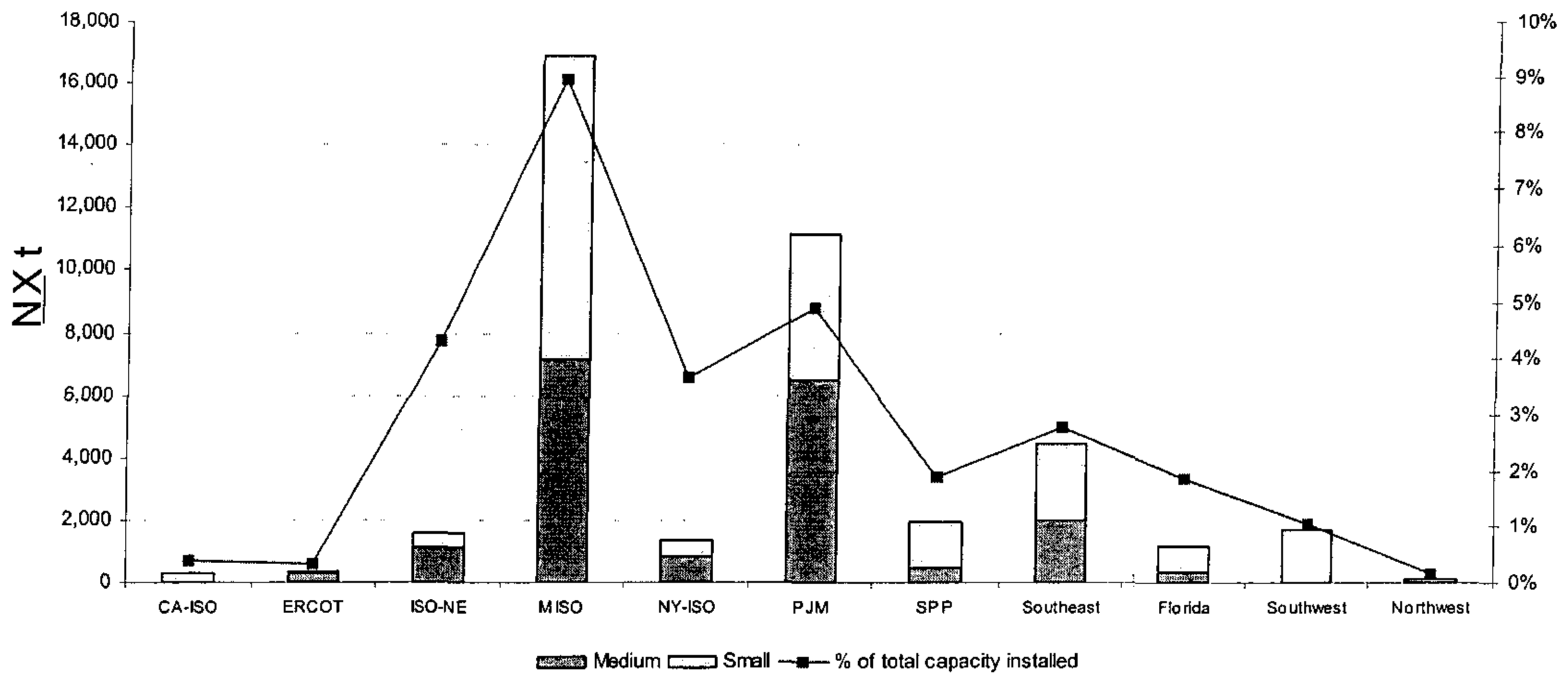


Note: Small size plants<300 MWs; Medium size plants: 300 – 500 MWs

Source: SNL Energy, Goldman Sachs Research estimates.

Coal plant retirement announcements will increase this year, with investors likely focusing again on supply/demand balances in markets currently over-built—especially in the Midwest and MidAtlantic. With the largest portion of US coal capacity based in the "middle of the country", we expect the pace of coal plant announcements to largely impact expectations for merchant power in the *Midwest* and *MidAtlantic*. *Assuming 40 GW of smaller/mid size coal plants retire by 2015-2017, this implies* roughly 9% of the capacity in the Midwest ISO and 5% in PJM will go offline, providing long-term upwards pressure on supply fundamentals.

Exhibit 14: The Midwest and the Mid-Atlantic are likely to see the highest level of coal plant retirements
potential retirements as a % of total installed capacity



Source SNL Energy, Goldman Sachs Research estimates.

Capacity price levels in 2010 auctions should stabilize or improve

Rules changes in regional capacity markets and retirements may modestly benefit US capacity market auctions, but lower demand forecasts could partially offset this. As highlighted in our November 30, 2009, note on US capacity markets, rules changes in PJM and ISO New England could either stabilize or lead to improvements in capacity pricing levels. PJM—which covers most of the MidAltantic and part of the Midwest regions—will likely allow all demand response resources to bid at least at their marginal cost, creating upward bias on yoy pricing in the western portion of PJM. In the 2009 auction, where PJM required existing demand resources to bid at $0/MW-day, pricing in western PJM of $16/MW-day appeared even below the expected marginal cost range—likely closer to $30-$70/MW-day—for demand response. Removing should improve western PJM capacity pricing, albeit still below auction levels from 2007-2008 that came in above $100/MW-day. In New England, negotiations continue on implementing a pricing floor—the grid operator, ISO NE, filed for approval at the FERC, in front of the proposed August 2010 auctions. This floor, likely at the $2.95/kW-month level, would reduce downside risk for many plant owners, given the *significant overbuild of capacity* in New England, including the demand response resources.

Exhibit 15: Sensitivity analysis for Western PJM highlights RRI and AYE's exposure to higher capacity prices
easing in pricing pressure has a material impact on normalized estimates

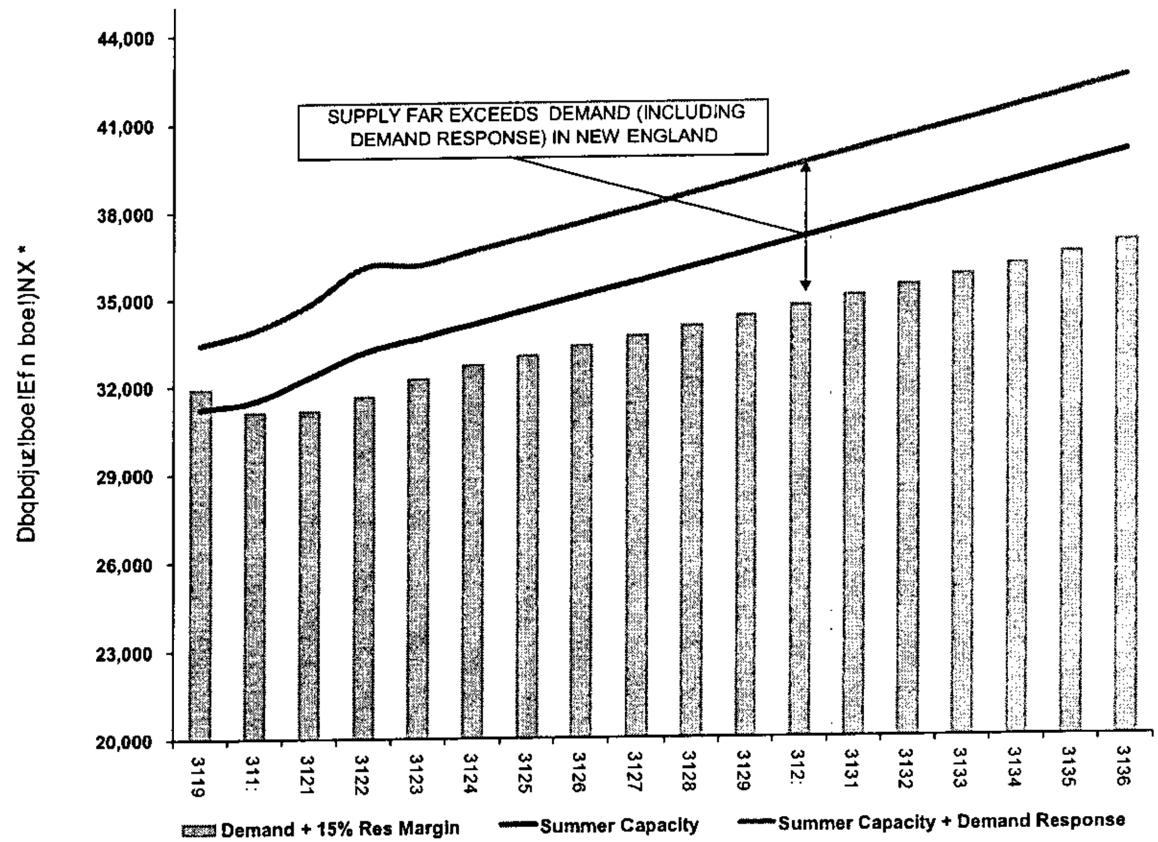
PJM West (RTO) Capacity Payment Sensitivity Analysis Resource Clearing Price ($/kW month)							
	Total Merchant Generation (2012E GW)	Total Generation in PJM (GW)	Total Generation in PJM RTO (GW)	2012-2013 Capacity Payment (per MW)	PJM RTO Annualized Capacity Revenue (Mn)	*Annualized Change in* Capacity Revenue for + or - $10 MW/day (Mn)	% Change in EPS for + or - $10 MW/day
RRI	14,740	6,945	2,261	$16.46	$13	$8	17%
AYE	6,919	6,343	6,343	$16.46	$37	$23	4%
EXC	25,777	20,790	12,357	$16.46	$74	$46	1%
EIX	10,906	5,477	4,582	$16.46	$28	$17	<1%
NRG	23,120	1,600	445	$16.46	$3	$2	<1%

**AYE PJM Generation includes only generation that can bid in next auction*

Source: Goldman Sachs Research estimates.

Exhibit 16: New England generation supply exceeds electric demand, especially when factoring in demand

peak demand with 15% reserve margin (bars) versus generation capacity (lines) in New England



Note: Demand Response forecasts from the ISO-NE Capacity, Energy, Load and Transmission (CELT) Report

Source: Goldman Sachs Research, SNL, ISO NE

State regulatory decisions create catalysts for many regulated names, positively impacting ETR, NU, POR, and NVE

Decisions from state utility regulators or policy makers remain the major catalysts for regulated companies—and mean reversion of state regulation remains key for investors to monitor. Regulated companies—either the pure-play Regulated Utilities or the regulated subsidiaries of Diversified Utilities—depend highly on decisions from state utility commissions that (1) approve or deny projects that drive rate base growth, (2) set authorized levels of returns and capital structures, and (3) decide on mechanisms, such as decoupling of demand or trackers for capital investment, pension expense or other items, that enable or hinder companies from earning their allowed return. In our view, investors should closely monitor (1) potential mean reversion by state regulators, where markets deemed as challenging become less so or vice versa, (2) major decisions that drive significant earnings impacts, or (3) broader policy changes that would impact regulated utilities in a particular state.

Within our coverage universe, the top rate cases to follow in 2010 include those for Ameren (AEE), Entergy (ETR), Progress Energy (PGN), Portland General (POR), Great Plains Energy (GXP) and Northeast Utilities (NU). Mean reversion of state utility regulation occurs gradually and in increments, while rate cases remain more frequent occurrences. We recommend investors closely monitor proceedings in the following.

- **Mean reversion potential exists in Arkansas and Connecticut, benefiting Entergy and Northeast Utilities.** Entergy's Arkansas subsidiary, in its last rate case, received one of the lowest returns on equity (RoE) authorized to a regulated utility that owns/operates generation capacity—9.9%. We expect Entergy to *receive a modest rate increase—mostly relieving regulatory* lag—in Arkansas, even assuming no change to the RoE level, but upside to this remains if the RoE is increased from 9.9%. NU's subsidiary in Connecticut likely will benefit from turnover at the commission, as insights from the new commissioners appear more focused, than predecessors, on ensuring appropriate levels of return for utility investments in the state—as highlighted by the potential RoE docket suggested by the new chairman in order to create a structured, less arbitrary, process for determining RoE's in future cases.
- **Missouri and Kansas cases remain key for Ameren and Great Plains Energy.** Ameren's utility subsidiary in Missouri, primarily due to regulatory lag, lower demand and operating costs, continues to under-earn there. The request for a $400m rate increase remains well above our expectation of closer to $195 mn—a key driver behind our below consensus estimates for Ameren. GXP also under-earns, but is in the process of filing new cases in Kansas and Missouri—in order to place a new coal plant into revenues. The roll-off of previously authorized regulatory amortizations, approximately $130 mn, will significantly *reduce the total rate increase request amount to levels likely below or near $100 mn—enabling* the company to come closer to earning authorized returns by 2011.

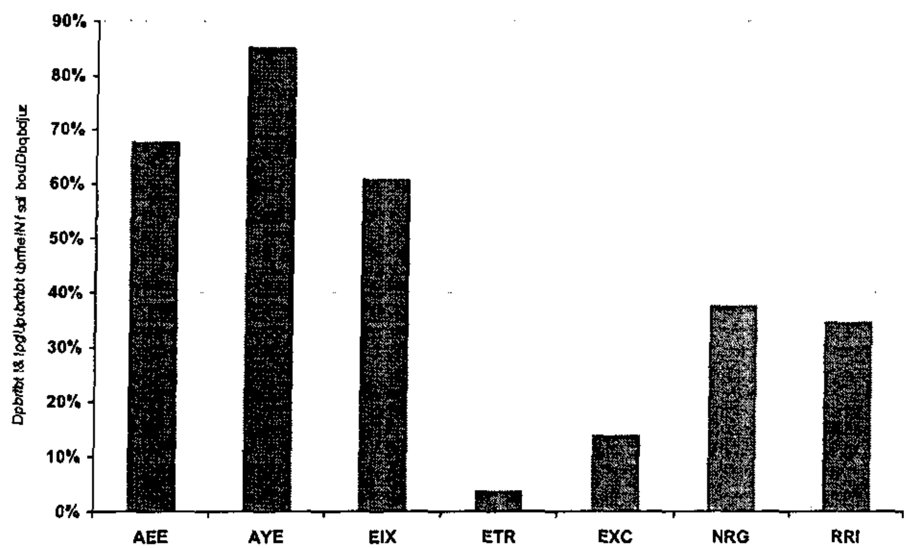
Florida cases remain key, especially since a challenging order for Progress Energy likely decreases willingness to build new nuclear there. The Florida PSC decision for a rate hike several hundred million below the company's request—and reducing the depreciation expense by a sizable amount, impacting cash flow, drives our below consensus estimate in 2010. More importantly, negative rate case results likely will drive Progress Energy to "re-evaluate" willingness to build nuclear facilities there—already, we assume the company will announce another delay to its Levy County Project, given (1) reduced demand, (2) receipt of a license from the Nuclear Regulatory Commission remains unlikely before late 2011 or 2012 and (3) a shift in Florida regulation, as witnessed in recent rate case results, making this market less desirable for developing major, time-intensive and high cost, base-load projects such as nuclear plants.

M&A in the Power & Utilities sector continues to face significant challenges

M&A activity among merchant power generators *likely faces significant challenges* in 2010, *given* (1) uncertainty over environmental regulations, including CO_2, (2) covenants, make-whole agreements and debt maturity schedules, and (3) regional market power concerns. The US power market, where *coal generation still comprises almost* 50% of the energy dispatched, faces sizable environmental uncertainty, given the EPA and Congress will likely debate, draft and design rules for Co2, NOx, SOx and Hg emissions from existing coal plants and older gas/oil units. We view the lack of clarity on rules for *emissions* reductions as an overhang on sector M&A, as few appear willing to expand coal plant portfolios until greater certainty exists regarding the costs associated with owning these assets—costs incurred either through installation of pollution controls *or paying* for carbon credits. Of the publicly traded Diversified Utilities and IPPs, many own significant coal generation as a portion of their portfolios—with others expressing a desired interest to remain focused on low-emission technologies.

Exhibit 17: Uncertainty over regulations for emissions remains an overhang on sector M&A, as few appear willing to expand their *coal plant portfolios without clarification*

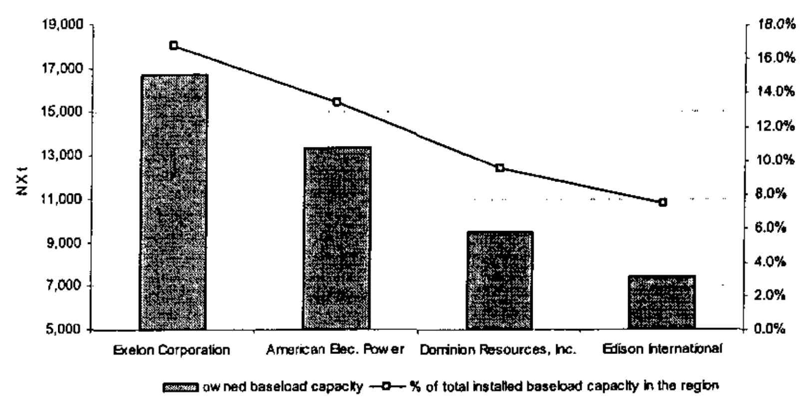
coal as percentage of total installed capacity by merchant generator under coverage



Source: SNL, Goldman Sachs Research.

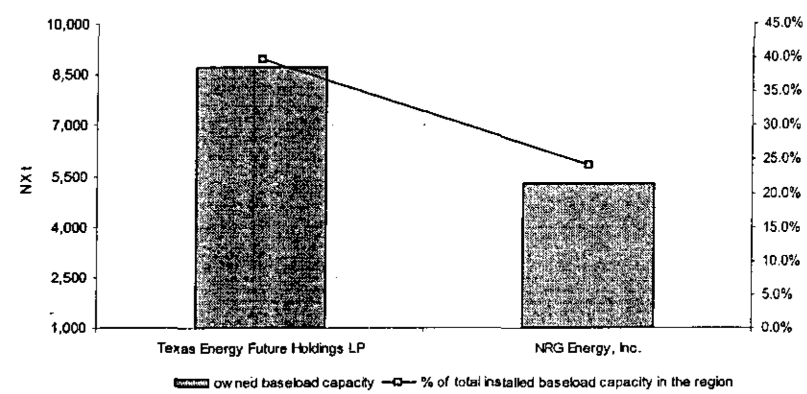
In various regions of the US, ownership of merchant power plants remains somewhat concentrated– M&A possibilities often face potential market power concerns from regional grid operators or antitrust policy-makers. Merchant power markets—primarily PJM, New England, New York, ERCOT, etc.—and the grid operators or RTO's that run them remain highly focused on evaluating market concentration levels. We believe this also presents a modest challenge for utility sector M&A, as increasing concentration in a power market where a company already maintains a sizable generation portfolio would face regulatory concerns that could (1) lead to a prolonged review process to garner approvals from state, regional and federal regulators—as occurred in the failed merger between Exelon Corp (EXC) and PSEG (PEG, Not Covered), (2) force divestitures of plants due to market concentration—as proposed in the bid by EXC for NRG Energy (NRG) or (3) could lead to outright rejection of a potential deal due to market power concerns by regional or federal regulators. Many potential deals would likely require a company to consider merging or buying another if they maintain minimal overlap of generation portfolios—making it harder to benefit from enhanced scale in a particular region.

Exhibit 18: Top four listed companies own approximately 47% of the total installed baseload capacity in PJM
installed baseload capacity (MWs), percentage of total capacity in the region



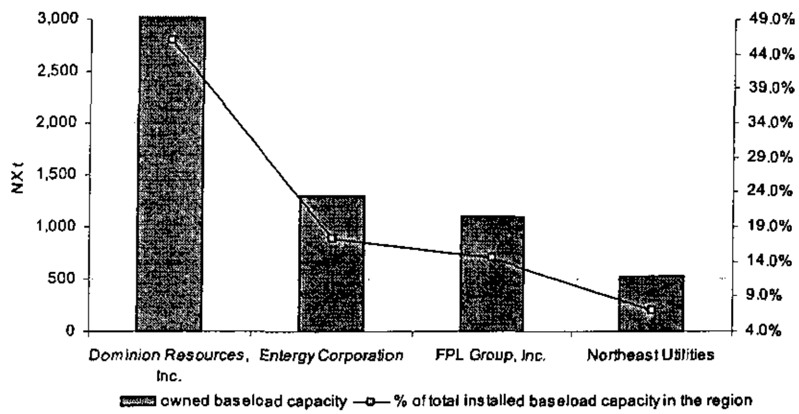
Source: SNL Energy.

Exhibit 19: Top two listed companies own approximately 64% of the total installed baseload capacity in ERCOT
installed baseload capacity (MWs), percentage of total capacity in the region



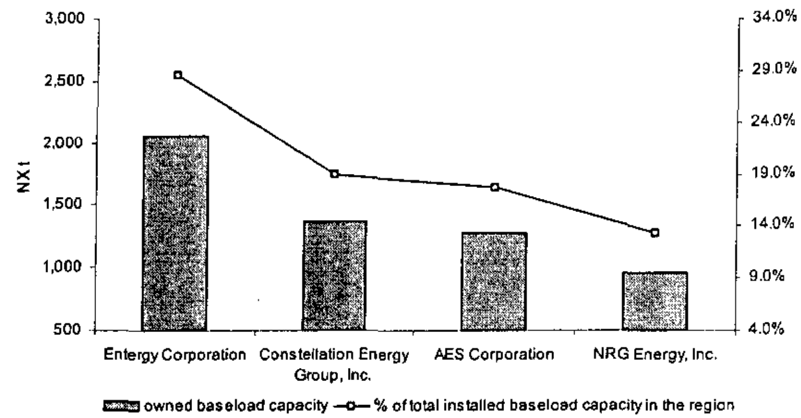
Source: SNL Energy.

Exhibit 20: Top four listed companies own approximately 85% of the total installed baseload capacity in ISO-NE
installed baseload capacity (MWs), % of total capacity in the region



Source: SNL Energy.

Exhibit 21: Top four listed companies own approximately 79% of the total installed baseload capacity in ISO-NY
installed baseload capacity (MWs), % of total capacity in the region



Source: SNL Energy.

Few companies appear "forced" to make transactions, given limited debt maturities in the coming months, while covenants may make refinancing unattractive. Among the merchant generators in our coverage universe, the large-cap names such as ETR and EXC face limited debt maturities outside of their regulated subsidiaries, while others—including Edison International, Allegheny Energy, etc.—will not see significant maturities of their existing debt until post 2011. Privately held generators—most relatively small in size and MW scale—remain challenged, as implied by debt levels well below par, but with maturities not coming for 1-3 years so minimal "incentive" for the owners to sell given currently depressed fundamentals and valuations.

Exhibit 22: We do not expect key privately-held merchant generators to face significant debt maturities in 2010/2011
select debt maturities of key privately-held merchant generators

Issuer	Debt Outs ($mm)	Maturity
La Paloma	$305	2012
Wolf Hollow	$110	2012
Boston Gen.	$1,450	2013
Tenaska	$1,150	2013
Kelson	$990	2013
Astoria Gen.	$300	2013
~~Entegra~~	~~$850~~	~~2015~~

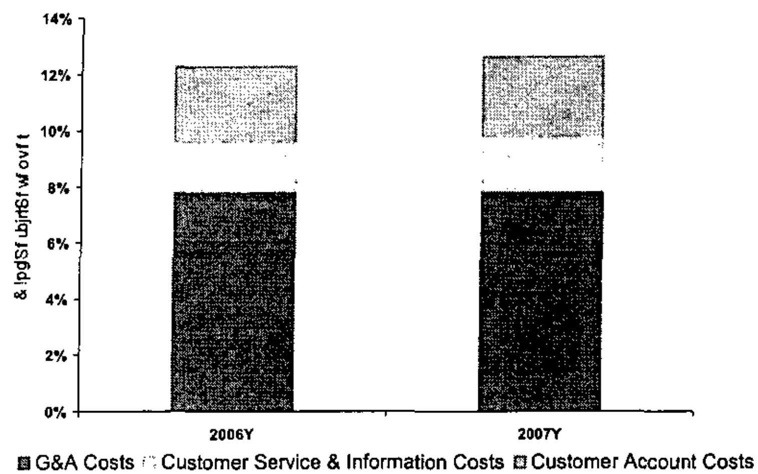
Few maturities for privately-held merchant generators before 2012

Source: Goldman Sachs Research.

Regulated M&A could create value for shareholders and customers, but the process for state regulatory approvals remains highly challenging. In many mergers, cost savings opportunities often exist, especially in the reduction of back office of information technology functions—and regulated utility operating companies incur significant annual operating expenses in these areas. *Among the publicly traded utility companies*, focusing just on the regulated subsidiaries, we estimate G&A, Customer Information Systems/Service and Customer Account costs of roughly $15.8 bn, $4.5 bn and $6.3 bn—reflecting approximately 12%-13% of the total retail price to consumers in 2006-2008. Every 5% reduction in each of these cost areas would reduce total costs to consumers by almost 0.5%-0.7%, cost savings that may prove difficult without increased consolidation. Significant value creation could exist from reducing these costs—but in most regulated utility mergers, state utility regulators "claw-back" the bulk of the synergy savings, creating value for customers, less so for shareholders. We view this, along with the typical 12-24 month state regulatory review process, as a significant impediment to M&A in the sector, not just for 2010 but going forward.

Exhibit 23: G&A and customer-related costs form a significant portion of the utility cost structure

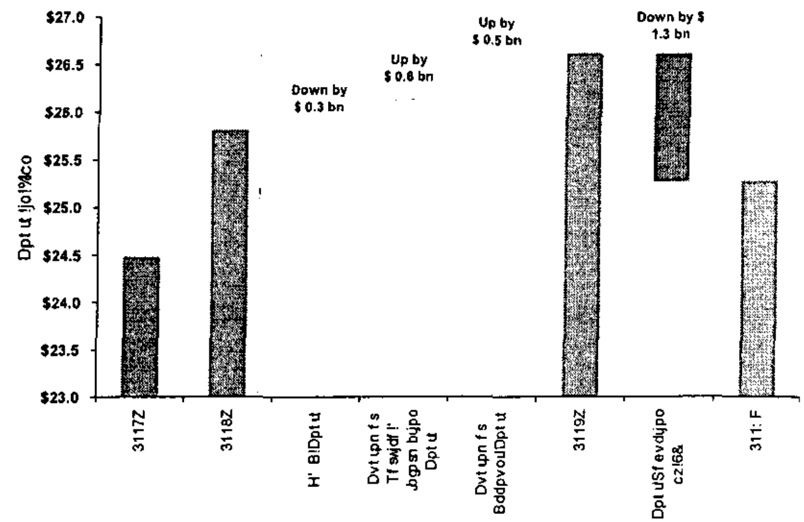
G&A and customer-related costs are 12-13% of the total electric retail revenues



Source: SNL Energy, Goldman Sachs Research estimates.

Exhibit 24: Every 5% reduction in G&A and customer-related costs saves customers $1.3 bn

change in G&A and customer-related costs yoy

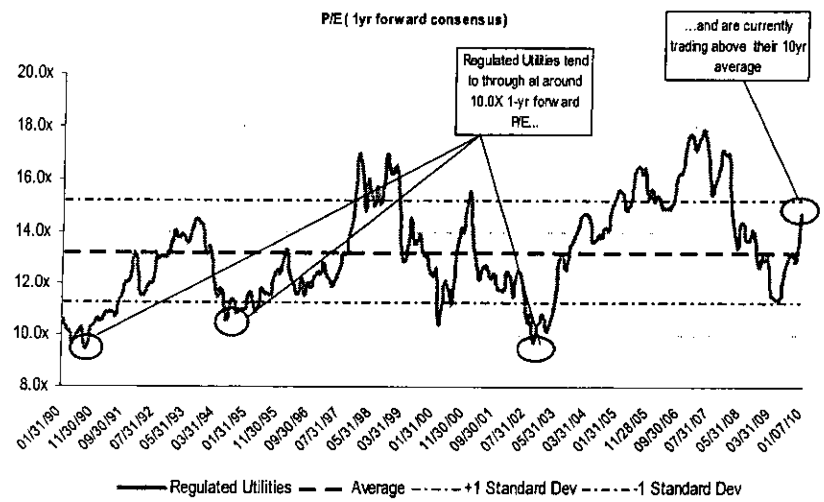


Source: SNL Energy, Goldman Sachs Research estimates.

Neutral view on Regulated Utilities: Downgrading DUK and GXP while upgrading POR

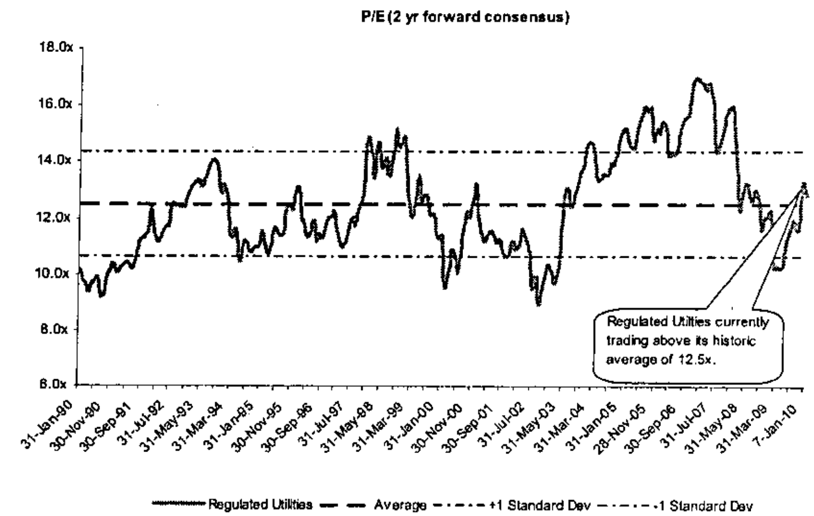
Regulated names trade near historical valuation levels, driving our Neutral coverage view. As highlighted in Exhibit 25-26 below, on average Regulated Utilities historically trade at 13X FY1 and at 12.5X on FY2 EPS, near current levels, especially for larger cap names. On a price-to-book basis, this sub-sector also appears relatively fairly valued, with many names trading at or above historical P/B levels and only a few trading below book.

Exhibit 25: Regulated Utilities currently trade above the historic average of 13X on FY1 consensus estimates...
FY 1 consensus, 1990 - current



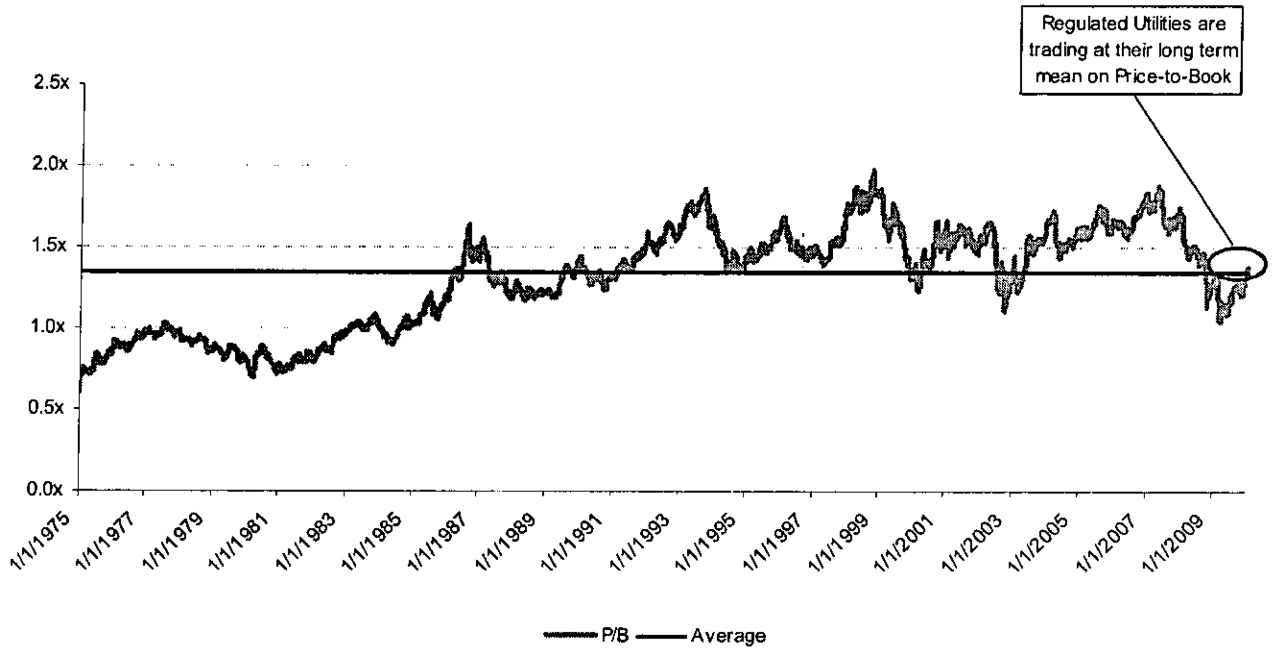
Source: FactSet, Goldman Sachs Research estimates

Exhibit 26: ...but trade in line with the historic average of 12.5X on FY2 consensus estimates
FY 2 consensus, 1990 - current



Source: FactSet, Goldman Sachs Research estimates.

Exhibit 27: Regulated Utilities are trading at their long-term mean on price/book multiples
Jan 1, 1990 - current



Source: Goldman Sachs Research estimates.

To value regulated stocks, we continue to utilize both a Dividend Discount (DDM) model approach and a P/E multiple analysis on normalized earnings, albeit now adjusting multiples for historical premiums/discounts. As detailed in prior notes, we utilize a dual approach to valuing regulated companies, applying a P/E multiple on 2012 earnings, as well as employing a DDM analysis on expected dividend payouts. In the DDM portion of our valuation methodology, we assume similar costs of equity, terminal growth rates and payout ratios in our normalized year. While still utilizing a base-line P/E multiple, up from 10-10.5X to 11.5X, we also now incorporate historical premiums/discounts into our valuation of these names, as detailed in Exhibit 28 below.

Exhibit 28: Valuation of Regulated Utilities using a blended dividend discount model and P/E analysis imply a 11% total return potential

price target methodology for Regulated Utilities

	Ticker	Rating	1/13 Close	DDM Value	Current Yield	Total Return, DDM Only	2012 EPS	Total Multiple	P/E-Based Value	Total Return, P/E Only	12-month Target Price	Total Return to 12-Month Target
Large-Cap												
American Electric Power	AEP	Buy	$36.06	$39	4.5%	12%	$3.44	11.0x	$38	10%	$38	10%
Consolidated Edison	ED	Sell	$46.08	$42	5.2%	-3%	$3.62	12.0x	$43	0%	$43	-1%
Duke Energy	DUK	Sell	$17.07	$15	5.6%	-5%	$1.27	12.0x	$15	-5%	$15	-7%
PG&E	PCG	Neutral	$44.77	$45	3.8%	4%	$4.06	12.0x	$49	13%	$47	9%
Progress Energy	PGN	Neutral	$39.17	$43	6.4%	16%	$3.56	11.0x	$39	6%	$41	11%
Southern	SO	Neutral	$33.52	$33	5.2%	3%	$2.91	11.5x	$33	5%	$33	4%
Large-Cap Mean					5.1%	4%		11.6x		5%		4%
Large-Cap Median					5.2%	3%		11.8x		6%		6%
Mid & Small-Cap												
Cleco	CNL	Sell	$27.16	$27	3.3%	2%	$2.41	12.0x	$29	10%	$28	6%
El Paso Electric	EE	Neutral	$19.98	$22	0.0%	8%	$2.22	11.0x	$24	22%	$23	15%
Great Plains Energy	GXP	Neutral	$19.60	$22	4.2%	17%	$2.02	11.0x	$22	18%	$22	16%
Northeast Utilities	NU	Neutral	$26.39	$28	3.6%	8%	$2.44	12.0x	$29	14%	$28	10%
NSTAR	NST	NR	$36.28									
NV Energy	NVE	Buy	$12.36	$16	3.2%	31%	$1.45	11.0x	$16	32%	$15	25%
Portland General	POR	Buy	$20.38	$24	5.0%	25%	$2.21	11.0x	$24	24%	$24	23%
SCANA	SCG	Neutral	$37.42	$43	5.0%	19%	$3.83	11.5x	$44	23%	$43	20%
Westar	WR	Neutral	$22.15	$24	5.4%	14%	$2.13	11.0x	$23	11%	$24	14%
Wisconsin Energy	WEC	Neutral	$50.64	$51	2.7%	3%	$4.71	12.0x	$56	14%	$54	9%
Mid & Small-Cap Mean					3.6%	14%		11.4x		19%		15%
Mid & Small-Cap Median					3.6%	14%		11.0x		18%		15%
Regulated Utilities Mean					4.2%	10%		11.5x		13%		11%
Regulated Utilities Median					4.5%	8%		11.5x		13%		10%

Notes: Assumed cost of equity of 9.0%, terminal growth rate of 2.5% and 75% dividend payout ratios in 2012 for all companies

Source: Goldman Sachs Research estimates.

Within Regulated Utilities, AEP remains our top large-cap pick, while we downgrade DUK to Sell and, while still Neutral, become incrementally more positive on PGN given valuation. We revise estimates for a handful of companies to reflect adjustments to our commodity price view or the timing/impact of rate case outcomes, including modest adjustments to expected levels of authorized returns. For valuation purposes, we incorporate slight premiums and discounts on normalized earnings levels and adjust target prices for most names, as shown in Exhibit 28 above. AEP remains our top large-cap within this sub-sector, even after recent share price outperformance, and upside potential to our price target exists, as we expect AEP will continue to trade at a modest discount to peers—if this gap compresses entirely, it represents $1-$2 upside to our $38, 12-month price target. We remain Sell rated on ED and downgrade DUK to Sell—as concerns regarding the earnings power at its Ohio segment, as well as regulatory lag in the Carolinas and Indiana, drive us to lower estimates well below consensus.

Among small/mid-cap regulated names, we prefer NVE and upgrade POR to Buy while downgrading GXP to Neutral and CNL to Sell. NVE still presents significant upside potential to our target price, as normalized earnings power—after the next round of utility rate cases in 2010-2011—remains much higher than current levels and present significant yoy EPS growth through 2012. We upgrade POR to Buy, given relative share price under-performance and a significant uplift in earnings expected in 2011 after this year's rate case—a rate case where we expect authorized returns to remain constant. GXP now faces an overhang related to delays in the construction schedule of the latan 2 coal plant and the timing / implementation of key rate cases - we downgrade to Neutral, especially given share price out-performance since mid 2009. While CNL remains a high quality, well-managed company with strong regulatory relationships, we downgrade this small cap to Sell. Our near-term estimates remain above consensus for CNL, but on normalized earnings, CNL trades at a premium to peers, as growth slows post 2010. The coming dividend announcement appears largely priced in and telegraphed, as construction of the Rodemacher coal plant finished in late 2009, as we expect an increase in the annual level from $0.90/sh to near $1.15/sh.

Since being added to the Americas Buy list on 06/10/09, GXP shares are up 26.3%, versus the S&P 500 up 22.0%, and the XLU up 15.7%. In the last twelve months, shares are up 2.6% versus the S&P500 up 34.1% and the XLU up 10.4%.

Exhibit 29: Regulated Utilities: Target price and EPS summary

Target Price and EPS Summary

	Ticker	Rating	Close 01/13/10	Price Target*	Tot Ret to Target	EPS 2009	EPS 2010	EPS 2011	EPS 2012	P/E 2009	P/E 2010	P/E 2011	P/E 2012	Dividend Yield
Regulated Utilities														
Large-Cap														
American Elec Power	AEP	Buy	$36.06	$38	10%	$2.98	$3.09	$3.33	$3.44	12.1x	11.7x	10.8x	10.5x	4.5%
Duke Energy	DUK	Sell	$17.07	$15	-7%	$1.16	$1.21	$1.23	$1.27	14.6x	14.1x	13.8x	13.5x	5.6%
Consolidated Edison	ED	Sell	$46.08	$43	-1%	$3.29	$3.42	$3.53	$3.62	14.0x	13.5x	13.0x	12.7x	5.2%
PG&E	PCG	Neutral	$44.77	$47	9%	$3.02	$3.41	$3.86	$4.06	14.8x	13.1x	11.6x	11.0x	3.8%
Progress Energy	PGN	Neutral	$39.17	$41	11%	$2.99	$2.93	$3.04	$3.56	13.1x	13.4x	12.9x	11.0x	6.4%
Southern Company	SO	Neutral	$33.52	$33	4%	$2.37	$2.64	$2.78	$2.91	14.2x	12.7x	12.0x	11.5x	5.2%
Large-Cap Mean					4%					13.8x	13.1x	12.4x	11.7x	5.1%
Large-Cap Median					9%					14.1x	13.2x	12.5x	11.3x	5.2%
Mid & Small-Cap														
Cleco	CNL	Sell	$27.16	$28	6%	$1.82	$2.25	$2.36	$2.41	15.0x	12.1x	11.5x	11.2x	3.3%
El Paso Electric	EE	Neutral	$19.98	$23	15%	$1.57	$1.50	$1.64	$2.22	12.7x	13.3x	12.2x	9.0x	0.0%
Great Plains Energy	GXP	Neutral	$19.60	$22	16%	$1.10	$1.34	$1.95	$2.02	17.9x	14.6x	10.0x	9.7x	4.2%
NSTAR	NST	NR	$36.28	$30	-13%	$2.38	$2.50	$2.69	$2.69	15.3x	14.5x	13.5x	13.5x	4.1%
Northeast Utilities	NU	Neutral	$26.39	$28	10%	$1.74	$1.87	$2.03	$2.44	15.2x	14.1x	13.0x	10.8x	3.6%
NV Energy	NVE	Buy	$12.36	$15	25%	$0.83	$1.10	$1.21	$1.45	14.9x	11.2x	10.2x	8.5x	3.2%
Portland General Electric	POR	Buy	$20.38	$24	23%	$1.44	$1.49	$2.03	$2.21	14.2x	13.6x	10.1x	9.2x	5.0%
SCANA Corporation	SCG	Neutral	$37.42	$43	20%	$2.88	$2.77	$3.54	$3.83	13.0x	13.5x	10.6x	9.8x	5.0%
Wisconsin Energy	WEC	Neutral	$50.64	$54	9%	$2.94	$3.65	$3.93	$4.71	17.2x	13.9x	12.9x	10.8x	2.7%
Westar Energy	WR	Neutral	$22.15	$24	14%	$1.45	$1.68	$1.63	$2.13	15.3x	13.2x	13.5x	10.4x	5.4%
Small / Mid Cap Mean					12%					15.1x	13.4x	11.8x	10.3x	3.7%
Small / Mid Cap Median					14%					14.9x	13.5x	11.9x	10.1x	3.9%
Regulated Utilities Mean					10%					14.6x	13.3x	12.0x	10.8x	4.1%
Regulated Utilities Median					10%					14.8x	13.5x	12.2x	10.8x	4.2%

* 12 month price target

Note: Progress ongoing EPS of $2.99 differs from GAAP EPS of $2.62 for 2009.

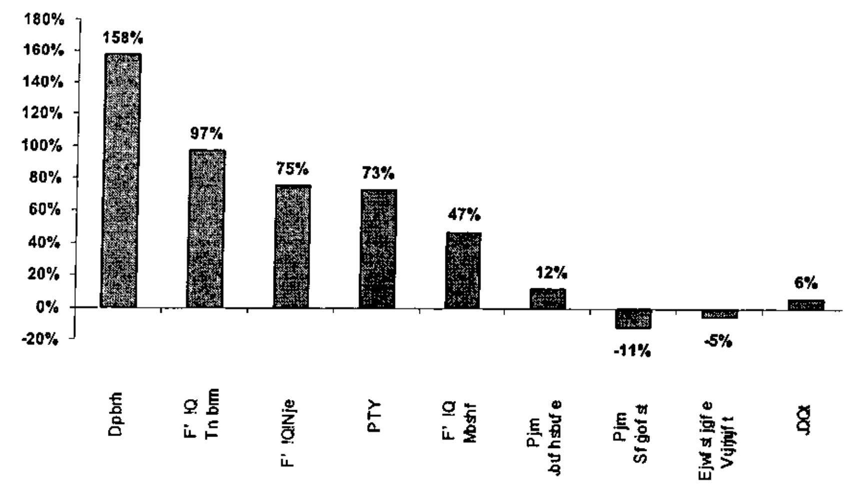
Source: Goldman Sachs Research estimates.

Expect outperformance from Diversified Utilities and IPPs, adding Buy-rated NRG to the Americas Conviction List, upgrading EIX and downgrading EXC

We recommend investors own higher beta, commodity exposed IPP's and Diversified Utilities given:(1) stabilizing natural gas prices, which drive power prices in most regions, in the $5.50-$6.50/MMBtu range, (2) improving demand fundamentals in 2010/2011 after a decline of 3% in 2009, (3) significant underperformance in 2009 relative to other commodity oriented sectors, (4) stabilization and improvement in capacity market auctions in mid 2010 and (5) valuation, where merchant power oriented stocks—especially those with base-load coal/nuclear generation portfolios—trade below historical EV/EBITDA averages of 7.0X-7.5X on FY 3 expectations.

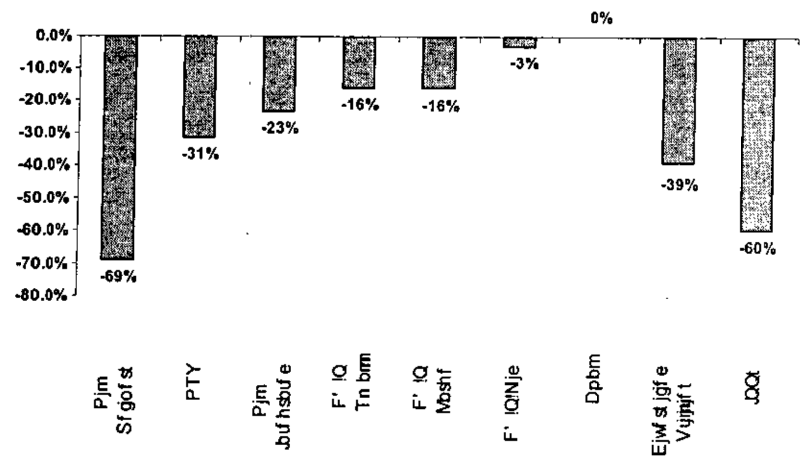
Merchant generation valuations lag other commodity oriented sectors in 2009, driven largely by disappointing capacity price auctions, uncertainty over demand and various environmental and regulatory concerns. As detailed in our sector notes from October 2009, Independent Power Producers (IPPs) and Diversified Utilities—companies that own non-regulated power generation—underperformed most other commodity oriented sectors in 2009, shown in Exhibit 30-31 below.

Exhibit 30: IPPs and Diversified Utilities underperformed other commodity sensitive equities over 2009
share price performance by coverage sector in 2009



Source: Goldman Sachs Research estimates, FactSet.

Exhibit 31: IPPs and Diversified Utilities underperformed other commodity sensitive equities since January, 2008
share price performance since Jan 1, 2008 - current



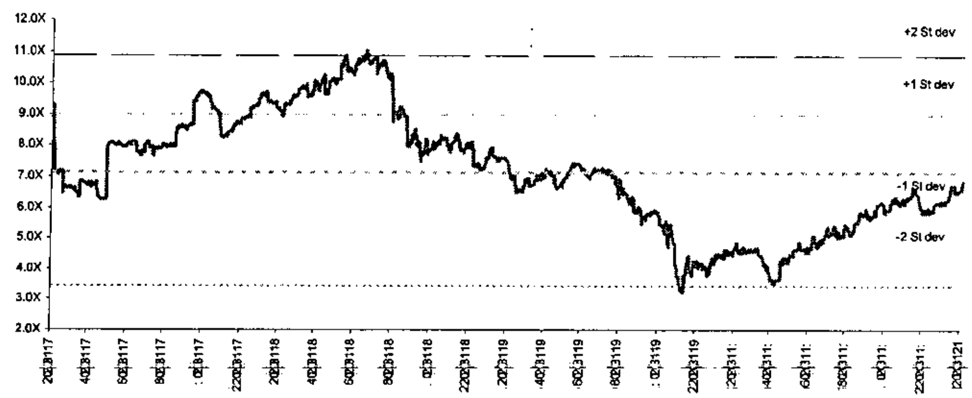
Source: Goldman Sachs Research estimates, FactSet.

Given significantly hedged generation output and fuel costs, as well as potential positive catalysts in 2010, NRG now becomes our top pick as we add this IPP to our Conviction Buy List, replacing Buy-rated Entergy. Among our commodity oriented names, NRG has the largest hedged profile—which decreases near-term sensitivity to commodity price movements and downside risk if natural gas forward prices for post 2010 decline below expectations of $6.50/MMBtu. We expect continued share buybacks from NRG, with over $350 mn or 6% of the market cap occurring in 2010—and recognize potential upside to this buyback level exists if NRG pays a consent to bondholders and expands the restricted payments basket in existing covenants. Upside also exists to our 2010 EBITDA forecast of $2.3 bn for NRG, as we remain highly conservative on retail margins in Texas. We add NRG to the Conviction Buy list as IPP sub-sector fundamentals and multiples improve with stabilizing & accelerating demand trends, as well as higher yoy natural gas prices in the $5.50-$6.50/MMBtu range for 2010-2011. We remove Entergy from the Conviction List, although remaining Buy rated, given a lack of near-term catalysts.

We revise estimates, decreasing 2011 commodity prices given a new natural gas price forecast, and updating to reflect modest adjustments to basis differentials and heat rates. We update estimates across the board for IPPs and Diversified Utilities and to reflect a new natural gas and power price outlook, with the primary change to gas prices, as published January 4 by the Goldman Sachs E&P team, centering upon (1) updates to 2010 quarterly projections, although maintaining a $5.50/MMBtu full year view and (2) revising 2011 forecasts downward by $0.50/MMBtu to $6.50/MMBtu. Additionally, we modestly adjust expected natural gas price basis differentials across regions of the US.

We expect IPP's to trade to 7.0X-7.5X 2011 EBITDA and slightly higher on 2012, with NRG Energy (CL-Buy) emerging as our top pick. We utilize a sum-of-the-parts methodology for valuing IPPs, employing a base-line EV/EBITDA multiple and adjustments on 2012 EBITDA estimates to reflect (1) FCF per share, (2) carbon exposure, (3) returns on capital, and (4) M&A potential. We revise our carbon expectations within this sum of the parts to reflect: (a) shorter asset lives for base-load generation and (b) the lower-end of the EPA forecast for an initial carbon price per ton (from $13/ton to $11/ton, per Appendix F). We continue to expect implementation of carbon regulations by 2014-2016, even though passage in 2010 faces significant challenges. We remain Neutral on both geothermal power producer Ormat (ORA), with a 12-month, DCF-based target price of $42, and Canadian power generator Capital Power (CPX.TO).

Exhibit 32: Baseload IPPs currently trade near the historic EV/EBITDA average of 7.1X on FY3 consensus estimates
EV/EBITDA plot on three-year forward consensus estimates, 2006 - Current



Source: FactSet, Goldman Sachs Research estimates.

Exhibit 33: We maintain our Buy ratings on NRG and RRI, as we roll forward our valuation from a blend of 2011E/2012E EBITDA to only 2012E EBITDA
12-month SOTP-derived valuation of IPPs

Company	RRI	NRG	CPX
2012 EBITDA	**$444**	**$2,123**	**$395**
Baseline EV/EBITDA Multiple	7.0x	7.0x	7.0x
Adjustments to Baseline Multiple			
Attractiveness of Regional Markets	0.0x	-0.3x	-0.8x
Carbon Exposure	-1.3x	-0.6x	0.0
Returns on Capital	0.0x	0.0x	0.0x
Free Cash Flow Yield	1.75x	1.25x	1.0x
Target EV/EBITDA Multiple	**7.5x**	**7.4x**	**7.3x**
Enterprise Value	**$3,318**	**$15,625**	**$2,860**
Net debt	$848	$6,325	$1,175
Equity Value - Generation & Other Non-Utility	**$2,470**	**$9,012**	**$1,685**
Current Diluted Share Count	352	272	78
Equity Value per Share - Generation & Other Non-Utility	**$7.03**	**$33.13**	**$21.50**
Target Price per Share	**$7**	**$33**	**$22**
Current Share Price	$5.74	$24.30	$21.44
Dividend yield	0.0%	0.0%	6%
Total Return to Target	**22%**	**36%**	**8%**

Source: Goldman Sachs Research estimates.

To value Diversified Utilities, as with IPPs, we now roll forward our EV/EBITDA valuation from 2011/2012 EBITDA to 2012 EBITDA and lower our carbon assumptions. We continue to utilize a sum-of-the-parts methodology for Diversified Utilities, valuing the regulated portion using a P/E multiple on 2012E earnings and then applying a base-line EV/EBITDA multiple on the merchant segment, with adjustments for FCF, carbon exposure and returns on capital.

We upgrade Edison International (EIX) to Buy among Diversified Utilities, while we downgrade Exelon Corp (EXC) to Neutral and reiterate our Sell-rating on Ameren (AEE). We upgrade EIX from Neutral to Buy, as the share price still does not reflect fair value for this high growth utility, while Edison Mission presents a call option for shareholders. We downgrade EXC to Neutral, given lower carbon valuation assumptions and the negative impact of valuing the company on 2012 versus a blend of 2011E/2012E. We rate Ameren as a Sell, especially ahead of guidance, given our 2010 estimate is 10% below consensus. We remove ETR from the Conviction List but remain Buy rated on the name.

Since being added to the Americas Conviction List on 06/29/2009, ETR shares are up 6.9% versus the S&P 500 up 24.5% and the XLU up 11.8%. In the last twelve months, ETR shares are up 6.8%versus the S&P500 up 31.4% and the XLU up 10.4%. Since being added to the Americas Buy List on 05/28/2008, EXC shares are down 44.4% versus the S&P 500 down 16.5% and the XLU down 24.0%. In the last twelve months, EXC shares are down 7.0% versus the S&P500 up 36.3% and the XLU up 10.4%.

Exhibit 34: Edison International offers the most upside to our target price among Diversified Utilities, while Ameren represents the most downside

12-month SOTP-derived valuation of Diversified Utilities

Company	AEE	AYE	EIX	EXC
Utility 2012 EPS	$2.37	$1.42	$3.48	$1.07
Applied Target PE Multiple	11.0x	11.0x	12.0x	11.5x
Utility Equity Value per Share	**$26**	**$16**	**$42**	**$12**
Generation 2012 EBITDA	$292	$519	$559	3,325
Other 2012 EBITDA	$0	$0	(20)	($102)
Total Generation & Other Non-Utility EBITDA	**$292**	**$519**	**$539**	**$3,223**
Baseline EV/EBITDA Multiple	7.0x	7.0x	7.0x	7.0x
Adjustments to Baseline Multiple				
Attractiveness of Regional Markets	-0.8x	-0.8x	-0.8x	-0.5x
Carbon Exposure	-0.5x	0.1x	0.4x	2.8x
Returns on Capital	-0.3x	0.5x	0.0x	0.3x
Free Cash Flow Yield	-0.3x	0.3x	0.0x	0.0x
Target EV/EBITDA Multiple	**5.3x**	**7.1x**	**6.7x**	**9.5x**
Enterprise Value - Generation & Other Non-Utility	**$1,538**	**$3,670**	**$3,591**	**$30,698**
Generation & Non-Utility Net Debt	$1,976	$1,843	$2,978	$3,140
Equity Value - Generation & Other Non-Utility	**-$438**	**$1,827**	**$613**	**$27,558**
Current Diluted Share Count	218	170	329	659
Equity Value per Share - Generation & Other Non-Utility	**-$2**	**$11**	**$2**	**$42**
Target Price per Share	**$24**	**$26**	**$44**	**$54**
Current Share Price	$27.38	$22.95	$35.45	$49.66
Dividend yield	5.7%	2.7%	3.7%	4.3%
Total Return to Target	**-7%**	**16%**	**28%**	**13%**

Source: Goldman Sachs Research estimates.

Exhibit 35: Diversified Utilities: Target price and EPS summary

P/E Multiples Summary						Estimates				P/E Multiples			
	Ticker	Rating	Close 01/13/10	Price Target	Tot Ret to Target	2009	2010	2011	2012	2009	2010	2011	2012
Natural Gas Price Forecast ($/MMBtu)						**$4.25**	**$5.50**	**$7.00**	**$6.50**				
Diversified Utilities													
Ameren	AEE	Sell	$27.38	$24	-7%	$2.51	$2.11	$2.23	$2.36	10.9x	13.0x	12.3x	11.6x
Allegheny Energy	AYE	Neutral	$22.95	$26	16%	$2.28	$2.33	$2.84	$2.57	10.1x	9.9x	8.1x	8.9x
Edison International	EIX	Buy	$35.45	$44	28%	$2.94	$3.36	$3.53	$3.29	12.0x	10.5x	10.0x	10.8x
Entergy	ETR	Buy	$82.88	$95	18%	$6.38	$6.74	$7.42	$8.04	13.0x	12.3x	11.2x	10.3x
Exelon	EXC	Neutral	$49.66	$54	13%	$4.02	$3.87	$4.30	$3.37	12.4x	12.8x	11.6x	14.7x
Sempra Energy	SRE	Neutral	$53.87	$59	12%	$4.73	$5.10	$5.63	$5.74	11.4x	10.6x	9.6x	9.4x
		Diversified Utilities Mean			13%					**11.6x**	**11.5x**	**10.5x**	**11.0x**
		Diversified Utilities Median			14%					**11.7x**	**11.4x**	**10.6x**	**10.6x**
US IPP's													
NRG Energy	NRG	Buy	$24.30	$33	36%	$2.20	$1.80	$2.40	$2.28	11.0x	13.5x	10.1x	10.7x
RRI Energy	RRI	Buy	$5.74	$7	22%	($0.87)	($0.12)	$0.41	$0.12	NA	-48.8x	14.1x	46.1x
		US IPP Median			23%					**17.9x**	**-3.1x**	**16.3x**	**26.7x**
		US IPP Mean			22%					**17.9x**	**13.5x**	**14.1x**	**23.2x**
Canadian IPP's													
Capital Power Corp.	CPX-CA	Neutral	$21.44	$22	8%	$1.50	$1.38	$1.75	$1.65	14.3x	15.5x	12.3x	13.0x

Note: 12-month target prices based on SoTP analysis.

Source: Goldman Sachs Research estimates.

Exhibit 36: We maintain a Neutral view on Sempra, but adjust upwards our 12-month target price from $56 to $59
SRE SoTP valuation

SEMPRA ENERGY SUM OF THE PARTS VALUATION	Segment Earnings or Equiv.	Multiple / Value Applied	Metric Desc.	Per Share Value
California Utilities				
SDG&E 2012E EPS	$2.00			
SoCalGas 2012E EPS	$1.10			
Total	**$3.10**	12.0x	(P/E)	**$37**
Generation				
2012 EBITDA	$212	7.0x	(EV/EBITDA)	
Implied EV	$1,484			
Debt	$0			
Equity Value	**$1,484**			**$6**
Pipelines & Storage				
2012 EBITDA Forecast	$503	7.5x	(EV/EBITDA)	
Implied EV	$3,771			
SRE % Rockies Ex Pipeline Project Debt	$475			
Equity Value	**$3,296**			**$13**
LNG				
Cameron and Energia Costa Azul			(DCF)	***$10***
Commodities				
Book Value, SRE Portion	$1,600	1.2x	(P/B)	**$8**
Parent/Other				
Net Debt	$3,810			**($15)**
Total SoP Value				**$59**

Valuation Changes:
- Utility from 11.5X to 12.0X
- Pipelines from 7.0X to 7.5X
- LNG lower terminal growth assumption in DCF
- Commodities from 1.0X to 1.2X

Source: Goldman Sachs Research estimates.

Appendices:

We revise estimates for most companies in our universe, both regulated and commodity sensitive, to reflect (1) changes in natural gas price forecasts, (2) minor adjustments to expected marginal heat rates, (3) higher baseline multiples for Regulated Utilities from 10.0-10.5X to 11.5X, and (4) adjustments to natural gas price basis differentials. Changes to the natural gas price forecast utilized by the Goldman Sachs E&P team are highlighted in Appendix A.

Appendix A: Key commodity price forecasts for oil, natural gas and coal

	Oil	Natural gas	US Coal (physical pricing, $/ST)			Int'l coal ($/metric ton)	
	WTI	Henry Hub	CAPP	NAPP	PRB 8800	Asia met	Newcastle therm
1Q 2009	$43.18	$4.75	$56.27	$71.12	$11.34	$300	$69
2Q 2009	$59.69	$3.75	$47.65	$52.00	$8.53	$129	$64
3Q 2009	$68.14	$3.40	$45.85	$47.00	$7.83	$129	$70
4Q 2009E	$75.00	$4.27	$50.30	$50.92	$8.53	$129	$75
FY 2009E	**$61.50**	**$4.04**	**$50.02**	**$55.26**	**$9.06**	**$172**	**$69**
1Q 2010E	$85.00	$5.50	$55.00	$50.00	$10.00	$129	$75
2Q 2010E	$85.00	$5.00	$55.00	$50.00	$10.00	$180	$85
3Q 2010E	$90.00	$5.50	$55.00	$50.00	$10.50	$180	$85
4Q 2010E	$100.00	$6.00	$55.00	$50.00	$11.50	$180	$85
FY 2010E	**$90.00**	**$5.50**	**$55.00**	**$50.00**	**$10.50**	**$167**	**$82**
2011E	**$110.00**	**$6.50**	**$60.00**	**$55.00**	**$12.00**	**$165**	**$89**
2012E	**$105.00**	**$6.50**	**$65.00**	**$60.00**	**$12.00**	**$140**	**$86**
2013N	**$85.00**	**$6.50**	**$70.00**	**$65.00**	**$13.00**	**$111**	**$72**

Revisions: 4Q 2009 oil from $77; 4Q 2009 gas from $4.50; 1Q 2010E gas from $5.00; 4Q 2010E gas from $6.50; FY 2011E gas from $7.00

Source: Goldman Sachs Research estimates.

Other key changes include:

- Removal of the proposed PATH transmission line, impacting AYE and AEP,
- Revised model approach, based on new disclosures, for DUK's Commercial Power segment,
- Decreased authorized rates of return for Great Plains Energy (GXP)—a 50 bps reduction in expected returns, moving more in-line with regional peers,
- Rate case assumptions for PGN, AEP, WEC, and EE, and
- ~~Updating for 3Q2009 10Q data for multiple companies.~~

Appendix B: Old vs. new EPS estimates
2009E-2012E

EPS Revisions		2009			2010			2011			2012		
	Ticker	Old	New	%	Old	New	%	Old	New	%	Old	New	%
Large Cap Regulated Utilities													
American Elec Power	AEP	$2.98	$2.98	0%	$3.13	$3.09	-1%	$3.35	$3.33	-1%	$3.46	$3.44	-1%
Duke Energy	DUK	$1.11	$1.16	4%	$1.17	$1.21	4%	$1.30	$1.23	-5%	$1.34	$1.27	-6%
Consolidated Edison	ED	$3.29	$3.29	0%	$3.42	$3.42	0%	$3.53	$3.53	0%	$3.62	$3.62	0%
PG&E	PCG	$3.02	$3.02	0%	$3.41	$3.41	0%	$3.86	$3.86	0%	$4.06	$4.06	0%
Progress Energy	PGN	$2.99	$2.99	0%	$3.04	$2.93	-4%	$3.16	$3.04	-4%	$3.69	$3.56	-4%
Southern	SO	$2.37	$2.37	0%	$2.64	$2.64	0%	$2.78	$2.78	0%	$2.91	$2.91	0%
Large Cap Average				1%			0%			-2%			-2%
Mid & Small Cap Regulated Utilities													
Cleco	CNL	$1.82	$1.82	0%	$2.24	$2.25	1%	$2.36	$2.36	0%	$2.41	$2.41	0%
El Paso Electric	EE	$1.64	$1.57	-4%	$1.50	$1.50	0%	$1.58	$1.64	4%	$2.22	$2.22	0%
Great Plains Energy	GXP	$1.17	$1.10	-6%	$1.54	$1.34	-13%	$2.01	$1.95	-3%	$2.13	$2.02	-5%
NSTAR	NST	$2.38	$2.38	0%	$2.50	$2.50	0%	$2.69	$2.69	0%	$2.69	$2.69	0%
Northeast Utilities	NU	$1.74	$1.74	0%	$1.85	$1.87	1%	$1.92	$2.03	6%	$2.38	$2.44	2%
Portland General Electric	POR	$1.44	$1.44	0%	$1.49	$1.49	0%	$2.03	$2.03	0%	$2.21	$2.21	0%
SCANA Corporation	SCG	$2.88	$2.88	0%	$2.77	$2.77	0%	$3.54	$3.54	0%	$3.83	$3.83	0%
NV Energy	NVE	$0.83	$0.83	0%	$1.10	$1.10	0%	$1.21	$1.21	0%	$1.45	$1.45	0%
Wisconsin Energy	WEC	$2.94	$2.94	0%	$3.65	$3.65	0%	$3.93	$3.93	0%	$4.71	$4.71	0%
Westar Energy	WR	$1.45	$1.45	0%	$1.68	$1.68	0%	$1.63	$1.63	0%	$2.13	$2.13	0%
Mid & Small Cap Average				-1%			-1%			1%			0%
Regulated Average				0%			-1%			0%			-1%
Diversified Utilities													
Ameren	AEE	$2.51	$2.51	0%	$2.14	$2.11	-2%	$2.40	$2.23	-7%	$2.62	$2.36	-10%
Allegheny Energy	AYE	$2.19	$2.28	4%	$2.33	$2.33	0%	$3.08	$2.84	-8%	$2.05	$2.57	25%
Edison International	EIX	$2.94	$2.94	0%	$3.30	$3.36	2%	$3.72	$3.53	-5%	$3.25	$3.29	1%
Entergy	ETR	$6.37	$6.38	0%	$6.72	$6.74	0%	$7.71	$7.42	-4%	$8.19	$8.04	-2%
Exelon	EXC	$4.02	$4.02	0%	$3.86	$3.87	0%	$4.27	$4.30	1%	$3.25	$3.37	4%
Sempra Energy	SRE	$4.71	$4.73	0%	$5.14	$5.10	-1%	$5.77	$5.63	-2%	$5.92	$5.74	-3%
Average				1%			0%			-4%			3%
Independent Power Producers (IPPs)													
NRG Energy	NRG	$2.23	$2.20	-1%	$1.80	$1.80	0%	$2.72	$2.40	-12%	$2.23	$2.28	2%
Ormat Technologies	ORA	$1.23	$1.52	24%	$1.27	$1.45	14%	$1.25	$1.53	23%	$1.35	$1.64	21%
RRI Energy	RRI	($0.86)	($0.87)	-2%	($0.05)	($0.12)	149%	$0.44	$0.41	-9%	$0.07	$0.12	NA
Average				7%			54%			1%			12%

EBITDA Revisions		2009			2010			2011			2012		
IPPs	Ticker	Old	New	%	Old	New	%	Old	New	%	Old	New	%
NRG Energy	NRG	$2,507	$2,511	0%	$2,279	$2,277	0%	$2,382	$2,261	-5%	$2,104	$2,123	1%
Ormat Technologies	ORA	$148	$156	5%	$180	$183	2%	$248	$261	5%	$272	$287	6%
RRI Energy	RRI	$120	$114	-6%	$433	$402	-7%	$595	$585	-2%	$412	$444	8%
Average				0%			-2%			-1%			5%

Note: Progress Ongoing EPS of $2.99 differs from GAAP EPS of $2.62 for 2009.

Source: Goldman Sachs Research estimates.

Appendix C: Free cash flow estimates for IPPs
2009E-2012E

Company	Ticker	Rating	Close 01/12/10	2009E	2010E	2011E	2012E
Independent Power Producers (IPPs)							
NRG Energy	NRG	Buy	$24.26	10.3%	6.8%	15.4%	14.0%
Ormat Technologies	ORA	Neutral	$36.28	-11.2%	-5.4%	-21.5%	-5.9%
RRI Energy	RRI	Buy	$5.66	21.7%	9.4%	22.1%	17.2%
Capital Power Corp.	CPX-CA	Neutral	$21.69	-85.8%	3.1%	18.2%	16.0%
IPP Median				*10.3%*	*6.8%*	*15.4%*	*14.0%*
IPP Mean				*6.9%*	*3.6%*	*5.3%*	*8.4%*

FCF = CFO + CFI

Source: Goldman Sachs Research estimates.

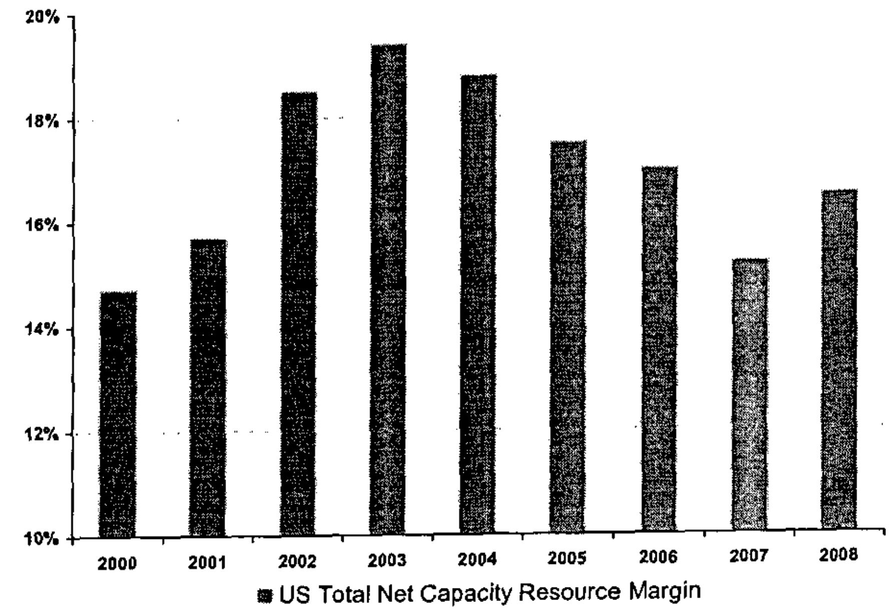
Appendix D: EBITDA estimates for IPPs
2009E-2012E

EBITDA Revisions		2009			2010			2011			2012		
IPPs	Ticker	Old	New	%	Old	New	%	Old	New	%	Old	New	%
NRG Energy	NRG	$2,507	$2,511	0%	$2,279	$2,277	0%	$2,382	$2,261	-5%	$2,104	$2,123	1%
Ormat Technologies	ORA	$148	$156	5%	$180	$183	2%	$248	$261	5%	$272	$287	6%
RRI Energy	RRI	$120	$114	-6%	$433	$402	-7%	$595	$585	-2%	$412	$444	8%
Average				0%			-2%			-1%			5%

Source: Goldman Sachs Research estimates.

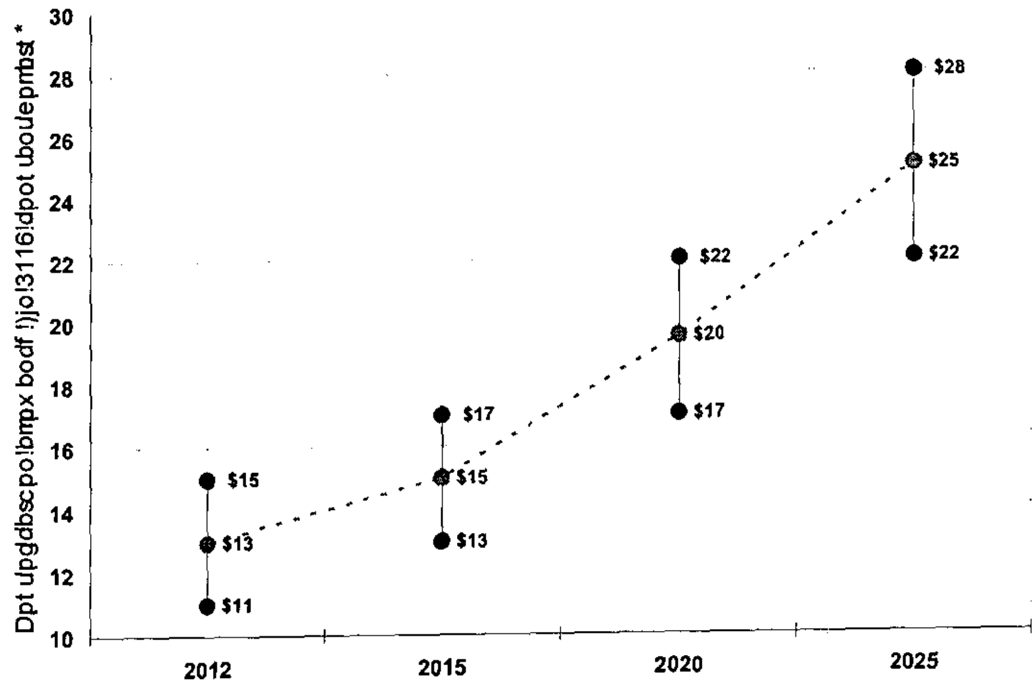
Appendix E: Power markets to remain oversupplied near-term, with potential coal plant retirements likely the drivers of decreasing reserve margins long-term

US total net capacity resource margin (2000-2008)



Source: NERC.

Appendix F: Initial costs for carbon allowances from Waxman-Markey draft range from $11-15/ton
initial cost for carbon allowances from Waxman-Markey draft, in 2005 constant dollars



Source: Goldman Sachs Research estimates.

Appendix G: Action Off: Conviction Buy List—ETR

Company	Ticker	Primary analyst	Price currency	Price as of 01/13/10	Price performance since 06/25/09	3 month price performance	6 month price performance	12 month price performance
Americas Power & Utilities Peer Group								
Entergy Corp.	**ETR**	**Michael Lapides**	**$**	**82.88**	**6.9%**	**5.2%**	**12.4%**	**6.8%**
Allegheny Energy, Inc.	AYE	Michael Lapides	$	22.95	-11.5%	-10.3%	-5.6%	-29.8%
Ameren Corp.	AEE	Michael Lapides	$	27.38	10.2%	8.3%	15.5%	-14.9%
American Electric Power	AEP	Michael Lapides	$	36.06	24.7%	18.4%	25.4%	12.2%
Capital Power Corp.	CPX.TO	Michael Lapides	C$	21.44	NA	4.1%	6.1%	NA
Cleco Corp.	CNL	Michael Lapides	$	27.16	23.7%	7.9%	22.2%	22.5%
Consolidated Edison, Inc.	ED	Michael Lapides	$	46.08	24.1%	12.5%	24.1%	16.4%
Duke Energy Corporation	DUK	Michael Lapides	$	17.07	16.7%	9.4%	17.2%	12.6%
Edison International	EIX	Michael Lapides	$	35.45	11.7%	8.0%	15.8%	13.8%
El Paso Electric Co.	EE	Michael Lapides	$	19.98	43.5%	7.1%	40.0%	8.8%
Exelon Corp.	EXC	Michael Lapides	$	49.66	-2.6%	0.5%	0.3%	-6.7%
Great Plains Energy Inc.	GXP	Michael Lapides	$	19.60	28.1%	8.3%	31.5%	2.6%
Northeast Utilities	NU	Michael Lapides	$	26.39	19.1%	13.4%	22.5%	11.4%
NRG Energy Inc.	NRG	Michael Lapides	$	24.30	2.1%	-13.7%	2.8%	3.4%
NSTAR	NST	Michael Lapides	$	36.28	14.8%	15.3%	17.8%	4.9%
NV Energy, Inc.	NVE	Michael Lapides	$	12.36	15.5%	7.9%	13.6%	20.9%
Ormat Technologies, Inc.	ORA	Michael Lapides	$	37.89	-8.4%	-5.8%	-0.8%	24.5%
PG&E Corporation	PCG	Michael Lapides	$	44.77	16.6%	7.7%	17.6%	20.9%
Portland General Electric Co.	POR	Michael Lapides	$	20.38	4.9%	1.1%	5.2%	8.0%
Progress Energy Inc.	PGN	Michael Lapides	$	39.17	3.8%	4.2%	6.4%	4.0%
RRI Energy, Inc.	RRI	Michael Lapides	$	5.74	25.9%	-17.9%	20.8%	11.0%
SCANA Corp.	SCG	Michael Lapides	$	37.42	16.3%	7.7%	14.9%	9.2%
Sempra Energy	SRE	Michael Lapides	$	53.87	8.9%	2.5%	11.7%	25.2%
The Southern Company	SO	Michael Lapides	$	33.52	5.5%	5.6%	9.1%	-3.8%
Westar Energy Inc.	WR	Michael Lapides	$	22.15	16.4%	12.8%	19.7%	13.1%
Wisconsin Energy Corp.	WEC	Michael Lapides	$	50.64	24.1%	15.0%	23.8%	19.7%
S&P 500				**1145.68**	**24.5%**	**6.8%**	**27.1%**	**31.4%**

Note: Prices as of most recent available close, which could vary from the price date indicated above
This table shows movement in absolute share price and not total shareholder return. Results presented should not and cannot be viewed as an indicator of future performance.

Source: FactSet, Quantum.

Appendix H: Action Off: Buy List—GXP

Company	Ticker	Primary analyst	Price currency	Price as of 01/13/10	Price performance since 06/10/09	3 month price performance	6 month price performance	12 month price performance
Americas Power & Utilities Peer Group								
Great Plains Energy Inc.	**GXP**	**Michael Lapides**	**$**	**19.60**	**26.3%**	**8.3%**	**31.5%**	**2.6%**
Allegheny Energy, Inc.	AYE	Michael Lapides	$	22.95	-11.6%	-10.3%	-5.6%	-29.8%
Ameren Corp.	AEE	Michael Lapides	$	27.38	15.8%	8.3%	15.5%	-14.9%
American Electric Power	AEP	Michael Lapides	$	36.06	34.6%	18.4%	25.4%	12.2%
Capital Power Corp.	CPX.TO	Michael Lapides	C$	21.44	NA	4.1%	6.1%	NA
Cleco Corp.	CNL	Michael Lapides	$	27.16	28.4%	7.9%	22.2%	22.5%
Consolidated Edison, Inc.	ED	Michael Lapides	$	46.08	28.3%	12.5%	24.1%	16.4%
Duke Energy Corporation	DUK	Michael Lapides	$	17.07	20.7%	9.4%	17.2%	12.6%
Edison International	EIX	Michael Lapides	$	35.45	16.0%	8.0%	15.8%	13.8%
El Paso Electric Co.	EE	Michael Lapides	$	19.98	44.9%	7.1%	40.0%	8.8%
Entergy Corp.	ETR	Michael Lapides	$	82.88	11.2%	5.2%	12.4%	6.8%
Northeast Utilities	NU	Michael Lapides	$	26.39	24.7%	13.4%	22.5%	11.4%
NRG Energy Inc.	NRG	Michael Lapides	$	24.30	2.9%	-13.7%	2.8%	3.4%
NSTAR	NST	Michael Lapides	$	36.28	18.6%	15.3%	17.8%	4.9%
NV Energy, Inc.	NVE	Michael Lapides	$	12.36	18.1%	7.9%	13.6%	20.9%
Ormat Technologies, Inc.	ORA	Michael Lapides	$	37.89	-5.6%	-5.8%	-0.8%	24.5%
PG&E Corporation	PCG	Michael Lapides	$	44.77	21.1%	7.7%	17.6%	20.9%
Portland General Electric Co.	POR	Michael Lapides	$	20.38	7.9%	1.1%	5.2%	8.0%
Progress Energy Inc.	PGN	Michael Lapides	$	39.17	9.0%	4.2%	6.4%	4.0%
RRI Energy, Inc.	RRI	Michael Lapides	$	5.74	4.9%	-17.9%	20.8%	11.0%
SCANA Corp.	SCG	Michael Lapides	$	37.42	22.8%	7.7%	14.9%	9.2%
Sempra Energy	SRE	Michael Lapides	$	53.87	13.1%	2.5%	11.7%	25.2%
The Southern Company	SO	Michael Lapides	$	33.52	15.4%	5.6%	9.1%	-3.8%
Westar Energy Inc.	WR	Michael Lapides	$	22.15	24.8%	12.8%	19.7%	13.1%
Wisconsin Energy Corp.	WEC	Michael Lapides	$	50.64	27.8%	15.0%	23.8%	19.7%
Exelon Corp.	EXC	Michael Lapides	$	49.66	-1.3%	0.5%	0.3%	-6.7%
S&P 500				**1145.68**	**22.0%**	**6.8%**	**27.1%**	**31.4%**

Note: Prices as of most recent available close, which could vary from the price date indicated above
This table shows movement in absolute share price and not total shareholder return. Results presented should not and cannot be viewed as an indicator of future performance.

Source: FactSet, Quantum.

Appendix I: Action Off: Buy List—EXC

Company	Ticker	Primary analyst	Price currency	Price as of 01/14/10	Price performance since 05/26/08	3 month price performance	6 month price performance	12 month price performance
Americas Power & Utilities Peer Group								
Exelon Corp.	EXC	**Michael Lapides**	$	49.08	-44.4%	-0.8%	-2.0%	-7.0%
Allegheny Energy, Inc.	AYE	Michael Lapides	$	22.72	-57.0%	-11.5%	-7.7%	-29.0%
Ameren Corp.	AEE	Michael Lapides	$	27.48	-38.8%	8.7%	14.7%	-13.0%
American Electric Power	AEP	Michael Lapides	$	36.20	-14.1%	18.7%	24.9%	14.7%
Capital Power Corp.	CPX.TO	Michael Lapides	C$	21.45	NA	4.6%	6.7%	NA
Cleco Corp.	CNL	Michael Lapides	$	27.15	10.8%	7.6%	21.8%	25.6%
Consolidated Edison, Inc.	ED	Michael Lapides	$	46.23	12.5%	12.9%	23.7%	17.3%
Duke Energy Corporation	DUK	Michael Lapides	$	17.07	-6.3%	8.2%	17.6%	13.9%
Edison International	EIX	Michael Lapides	$	35.43	-31.9%	7.2%	15.6%	12.8%
El Paso Electric Co.	EE	Michael Lapides	$	19.84	-7.0%	5.4%	38.6%	9.7%
Entergy Corp.	ETR	Michael Lapides	$	82.80	-31.2%	5.0%	10.7%	8.7%
Great Plains Energy Inc.	GXP	Michael Lapides	$	19.17	-26.9%	6.1%	27.8%	2.9%
Northeast Utilities	NU	Michael Lapides	$	26.39	2.7%	12.7%	22.5%	12.8%
NRG Energy Inc.	NRG	Michael Lapides	$	24.05	-39.9%	-17.1%	-3.2%	3.0%
NSTAR	NST	Michael Lapides	$	36.42	9.3%	16.4%	18.9%	7.5%
NV Energy, Inc.	NVE	Michael Lapides	$	12.37	-7.4%	6.8%	13.5%	23.9%
Ormat Technologies, Inc.	ORA	Michael Lapides	$	37.28	-24.0%	-9.4%	-2.5%	29.1%
PG&E Corporation	PCG	Michael Lapides	$	44.49	13.0%	6.5%	17.6%	21.4%
Portland General Electric Co.	POR	Michael Lapides	$	20.27	-14.1%	0.7%	4.5%	10.3%
Progress Energy Inc.	PGN	Michael Lapides	$	39.23	-5.9%	4.1%	5.6%	4.8%
RRI Energy, Inc.	RRI	Michael Lapides	$	5.60	-77.9%	-19.8%	15.0%	6.7%
SCANA Corp.	SCG	Michael Lapides	$	37.55	-6.1%	7.7%	13.4%	10.7%
Sempra Energy	SRE	Michael Lapides	$	53.60	-6.8%	1.7%	11.0%	26.8%
The Southern Company	SO	Michael Lapides	$	33.44	-7.1%	5.0%	8.4%	-2.6%
Westar Energy Inc.	WR	Michael Lapides	$	22.18	-5.0%	12.6%	18.9%	14.9%
Wisconsin Energy Corp.	WEC	Michael Lapides	$	50.52	5.8%	13.1%	22.7%	21.8%
S&P 500				**1148.46**	**-16.5%**	**5.2%**	**26.8%**	**36.3%**

Note: Prices as of most recent available close, which could vary from the price date indicated above
This table shows movement in absolute share price and not total shareholder return. Results presented should not and cannot be viewed as an indicator of future performance.

Source: Factset, Quantum.

Appendix J: Ratings and price target methodology and risks

	Ticker	Rating	Method	Risks to Our Thesis
Diversified Utilities				
Ameren	AEE	Sell	SoP	Regulatory mean reversion, commodity price volatility, leanant environmental regulations
Allegheny Energy	AYE	Neutral	SoP	Regulatory risk, commodity price volatility, environmental regulations, project risk
Edison International	EIX	Buy	SoP	Regulatory risk, commodity price volatility, environmental regulations
Entergy	ETR	Buy	SoP	Regulatory risk, commodity price volatility, environmental regulations
Exelon	EXC	Neutral	SoP	Regulatory risk, commodity price volatility, environmental regulations
Sempra Energy	SRE	Neutral	SoP	Lower-than-expected earnings from trading business; Commodity price risk; legislative risk
Regulated Utilities				
Large-Cap				
American Elec Power	AEP	Buy	DDM & P/E	Regulatory risk, environmental regulations, electricty demand
Duke Energy	DUK	Sell	DDM & P/E	Better than expected regulatory results, lenient environmental regulations, improving customer switching trends, demand upswing
Consolidated Edison	ED	Sell	DDM & P/E	Less than expected equity financing
PG&E	PCG	Neutral	DDM & P/E	Regulatory risk
Progress Energy	PGN	Neutral	DDM & P/E	Regulatory risk, environmental regulations, electricty demand, reduced capex forecasts
Mid and Small-Cap				
Cleco	CNL	Neutral	DDM & P/E	Better than expected regulatory results, larger than expected dividend increases
El Paso Electric	EE	Neutral	DDM & P/E	Operational risk at Palo Verde may lead to less FCF
Great Plains Energy	GXP	Neutral	DDM & P/E	Project risk with Iatan 2, project costs and completion
Northeast Utilities	NU	Neutral	DDM & P/E	Regulatory approval of transmission projects, construction risk, and general regulatory and rate case risk
NSTAR	NST	NR	DDM & P/E	
NV Energy	NVE	Buy	DDM & P/E	Lower-than-expected rate base or load growth, long-term rate case risk
Portland General Electric	POR	Buy	DDM & P/E	Regulatory risk from the OPUC; long-term rate base growth that varies from our estimates
SCANA Corporation	SCG	Neutral	DDM & P/E	Rate case risk, lower-than-expected gross margins, customer growth or market share at Scana Energy
Wisconsin Energy	WEC	Neutral	DDM & P/E	Construction delays; Regulatory environment may become less friendly
Westar Energy	WR	Neutral	DDM & P/E	Regulatory risk
Special Situation Utilities and IPPs				
NRG Energy	NRG	Buy	SoP	LT Commodity price risk; Lower-than-expected retail margins
Ormat Technologies	ORA	Neutral	DCF	Elimination or reduction of Production Tax Credits; decreased capacity factors at existing plants; lower long-term commodity prices
RRI Energy	RRI	Buy	SoP	Lower L T commodity prices; Higher coal to gas switching; Higher than expected environmental capital spending

Source: Goldman Sachs Research.

Reg AC

I, Michael Lapides, hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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The precise calculation of each metric may vary depending on the fiscal year, industry and region but the standard approach is as follows:

Growth is a composite of next year's estimate over current year's estimate, e.g. EPS, EBITDA, Revenue. **Return** is a year one prospective aggregate of various return on capital measures, e.g. CROCI, ROACE, and ROE. **Multiple** is a composite of one-year forward valuation ratios, e.g. P/E, dividend yield, EV/FCF, EV/EBITDA, EV/DACF, Price/Book. **Volatility** is measured as trailing twelve-month volatility adjusted for dividends.

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Quantum is Goldman Sachs' proprietary database providing access to detailed financial statement histories, forecasts and ratios. It can be used for in-depth analysis of a single company, or to make comparisons between companies in different sectors and markets.

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