September 29, 2009

United States: Utilities: Power - Electric Utilities

Goldman Sachs

Powering On: Tilting to commodity oriented utilities and IPPs

Upgrading IPPs from Neutral to Attractive; RRI Energy to CL Buy

With expected improvements in spot commodity prices, along with a continued uptick in power demand, we upgrade Independent Power Producers (IPPs) and reiterate our Attractive view on Diversified Utilities. Commodity levered utilities and IPPs lagged other energy/commodity sectors YTD, creating mean reversion potential going forward. While dividend yield spreads still remain attractive, we downgrade Regulated Utilities to Neutral, given limited average upside to larger cap targets. Within the regulated space, we tilt more towards smaller cap stocks.

We upgrade RRI Energy (RRI) to Conviction Buy, as the most un-hedged name in our universe. We also reiterate our Conviction Buy rating on large-cap nuclear generator Entergy (ETR) and remove small-cap Great Plains Energy (GXP) from the Conviction List, although we maintain our Buy rating. We downgrade Portland General (POR) to Neutral from Buy due to recent share price performance and concerns about 2010 guidance. Since being added to Americas Buy List on August 17, 2009 POR is up 5.7% and since being to the CL Buy List on the same date, GXP is up 4.9% vs. the KLU up 2.8% and the S&P500 up 8.5%.

Industry context and estimate changes

As weather-adjusted electricity demand declined 4%-5% YTD and industrial demand decreased over 10%, we now expect YoY comparisons for power demand to improve as GDP and industrial production accelerate. We revise our demand forecast slightly for 2010, from 0.6% to 0.4%, due to our new bottoms-up versus top-down demand forecast, but still expect a pick-up next year in industrial and residential demand.

Overall, we revise estimates to reflect this new demand forecast. We increase multiples to levels slightly below historical mean levels, given our gas/power price forecast levels remain in most areas near forward strip estimates.

Catalysts and risks

Key sector risks include (1) lower than expected commodity prices, (2) decreased power demand, (3) higher expected financing and capital spending needs, and (4) rising interest rates and inflation. Catalysts include an industry conference in November, auctions in various regional power markets and signs of improvement in weekly demand.

RELATED RESEARCH

Stepping up the voltage: Upgrading Regulated & Diversified Utilities. June 25, 2009.

Dimming the lights: Downgrading Utilities on relative outperformance and weak demand. December 11, 2008.

RATINGS, TARGETS, AND RETURNS

	Identification		Close		Tot Rtn
	Ticker	Rating	09/28/09	Target	to Target
Diversified Utilities					
Ameren	AEE	Sell	$25.74	$25	3%
Allegheny Energy	AYE	Neutral	$26.96	$31	17%
Edison International	EIX	Neutral	$34.01	$39	19%
Entergy	ETR	CL Buy	$79.64	$101	31%
Exelon	EXC	Buy	$50.12	$62	28%
Sempra Energy	SRE	Neutral	$50.17	$59	20%
Mean					20%
Median					19%
Large Cap Regulated Utilities					
American Elec Power	AEP	Buy	$31.13	$37	24%
Duke Energy	DUK	Neutral	$15.93	$15	0%
Consolidated Edison	ED	CL Sell	$41.40	$38	-3%
PG&E	PCG	Neutral	$40.91	$43	9%
Progress Energy	PGN	Neutral	$39.60	$40	7%
Mean					8%
Median					7%
Mid & Small-Cap Regulated Utilities					
Cleco	CNL	Neutral	$25.10	$25	3%
El Paso Electric	EE	Neutral	$17.84	$21	18%
Great Plains Energy	GXP	Buy	$18.17	$22	26%
NSTAR	NST	Sell	$32.09	$29	-5%
Northeast Utilities	NU	Neutral	$23.99	$26	12%
Portland General Electric	POR	Neutral	$20.07	$23	20%
SCANA Corporation	SCG	Neutral	$35.30	$40	19%
NV Energy	NVE	Neutral	$11.59	$14	24%
Wisconsin Energy	WEC	Neutral	$45.11	$48	9%
Westar Energy	WR	Neutral	$19.60	$23	23%
Mean					15%
Median					18%
Special Situation Utilities and IPPs					
NRG Energy	NRG	Buy	$27.20	$37	36%
Ormat Technologies	ORA	Neutral	$41.03	$41	1%
RRI Energy	RRI	CL Buy	$6.98	$9	29%
Mean					22%
Median					29%

Source: Goldman Sachs Research estimates

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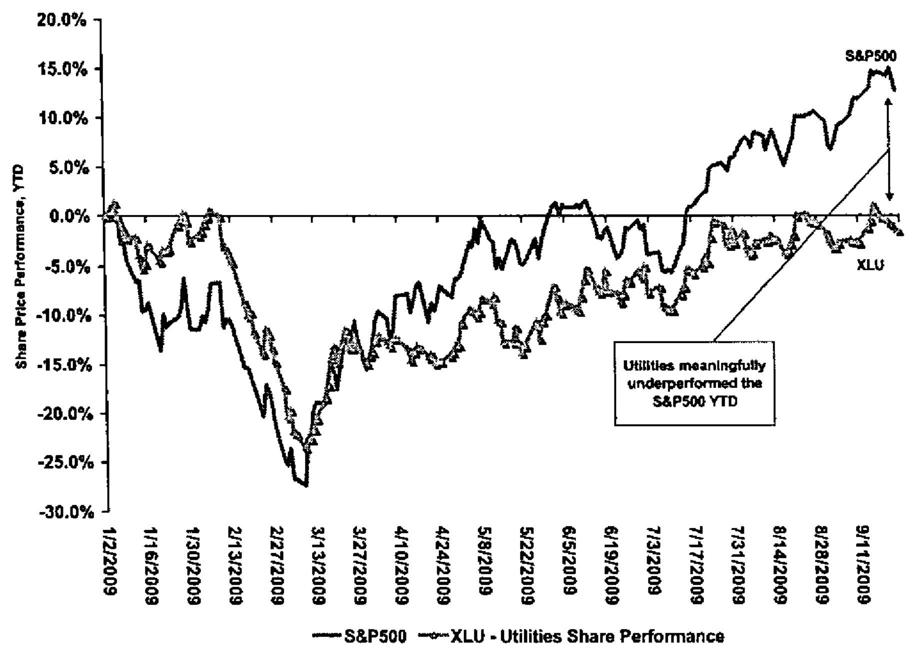
Portfolio Manager Summary – Own utilities, given improving fundamentals, relative under-performance and valuation

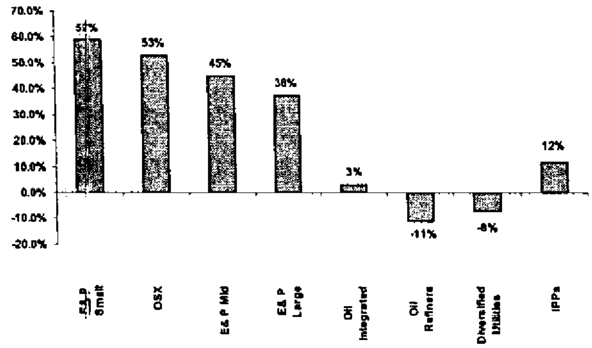
The broader utilities sector, especially the commodity levered names within the space, screen attractively after sizable underperformance YTD versus the S&P500 and since January 2008 versus other commodity oriented sectors. We reiterate our Attractive coverage view on Diversified Utilities, while upgrading the Independent Power Producer (IPP) sub-sector to Attractive, due to (1) improving YoY demand trend comparisons and improving spot commodity prices, (2) significant relative underperformance versus the S&P500 and commodity-exposed sectors, as shown in Exhibit 1-3 below, (3) valuation on longer term metrics, and (4) a continued low interest rate and inflationary environment, as forecast by the GS Economics team. We lower our coverage view on Regulated Utilities to Neutral, since few of the larger cap bell-weather names screen attractively here. Equity issuances, a significant sector-wide overhang entering 2009, no longer weigh on the group, as only a few names require infusions in 2010. We still expect YoY demand growth in 2010, with improving fundamentals, up 0.4% from 2009 levels, as well as forecasting a sizable increase in spot commodity prices next year from current levels.

Exhibit 1: Utilities sector screens attractively after significant YTD underperformance
share price performance, ytd



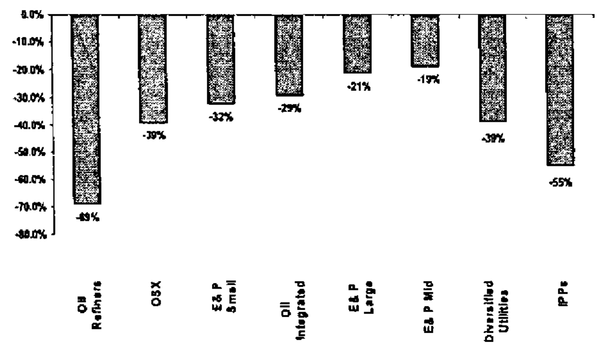
Source: Goldman Sachs Research.

Exhibit 2: IPPs and Diversified Utilities underperformed other commodity sensitive equities YTD...
share price performance, ytd



Source: Goldman Sachs Research.
Note: Performance is from equities under GS coverage

Exhibit 3: IPPs and Diversified Utilities underperformed other commodity sensitive equities January 2008
share price performance, since 1/1/2008



Source: Goldman Sachs Research.
Note: Performance is from equities under GS coverage

After a painful 2009 YTD trajectory for electricity demand, we revise our forecast to reflect a more bottoms up (versus top-down) approach – projecting consumption across the industrial, commercial and residential classes. Historically, a top-down approach tied to GDP accurately predicted electricity demand, where trends showed that every 1% change in real GDP growth drove a 0.6%-0.7% change in electricity demand. Entering 2009, we remained bearish on electricity demand fundamentals and therefore consensus estimates – our bearish forecasts still understated demand, as GDP weakened and industrial production collapsed. A GDP-based top down forecast holds long-term value in our view, but a more bottoms up approach appears more viable going forward to capture changes by customer class.

- **A series of correlation analyses show that Industrial Production (IP), total fixed investment and unemployment emerge as key drivers of power demand.** We analyzed a host of factors across each class, as shown in Exhibit 6, determining that forecasts for Industrial Production maintain a greater statistical correlation than GDP forecasts in terms of assessing MWh sales to industrial customers. Similarly, metrics tied to unemployment rates and total fixed investment – albeit as lagging indicators – drive sales to commercial customers. Weather drives residential demand growth, historically at 1.5%-2.0% annually, with minimal signs to date of efficiency gains on a national scale, although some level should emerge in the coming years given sizable stimulus-related investments.
- **Sentiment around electricity demand will improve, given better YoY comparisons and accelerating GDP growth.** Early signs should emerge that electricity demand will stabilize, with QoQ and then YoY comparisons improving. Demand for 2H2009 should decline only 2%-3% from 2H2008 levels – an improvement from trough-like levels in 1H2009, with a pick-up in industrial and residential MWh sales driving growth in 2010. Normalized demand growth for 2011-2012 could reach 1.5%-1.7% even with slight efficiency gains included, with sales to commercial customers presenting the biggest near-term risks

For merchant generators, improving demand fundamentals and spot commodity prices over the next 6-12 months should lead to multiple expansion. We raise multiples on pure-play IPPs in our universe – NRG Energy and RRI Energy – to reflect improved sentiment and the significant FCF generation likely in a $5.50-$7/MMBtu natural gas price environment. Applying a 7.0X multiple on these predominantly base-load generators remains somewhat below historical mean/median levels of approximately 7.25X, reflecting improving, but still below trend electricity demand growth in 2010.

Regulated Utilities still trade below historical multiples, but few large caps screen well, driving our change in coverage view. Regulated Utilities currently trade near 9.9X our 2012 expected EPS, implying an 8% discount to the long-term average of 10.9X (since 2005). On near-term multiples, Regulated Utilities trade at roughly 12.4X on our FY2 estimates and 11.9X on consensus– below historical levels closer to 12.5X. We anticipate a mean reversion toward the historic average over the next 12-months – given better demand fundamentals and higher earnings and rate base growth – driving our increase of P/E multiples from 9X to 10-10.5X on 2012 EPS. However, many of the bellwether names screen less attractively than small/mid cap regulated stocks, with less upside to target prices.

We add RRI Energy (RRI) to our Americas Conviction Buy list, while reiterating our Conviction Buy on Entergy (ETR) and removing Great Plains Energy (GXP) from the Conviction Buy list, although maintaining our Buy rating on this regulated name. We upgrade RRI Energy (RRI), an Independent Power Producer (IPP) from Neutral to Conviction Buy, as we raise estimates on lower expected coal costs at one of its key coal facility that burns waste coal, not traditional Appalachian based coal. RRI provides the best FCF profile within our universe and maintains the commodity leverage, with the shares still below historical levels, as RRI trades at 70%-75% below January 2008 levels and 50% below January 2007 pricing. We remove GXP from the Conviction Buy list, but maintain our Buy rating, given a lack of near-term catalysts and concern on 3Q weather impacting estimates.

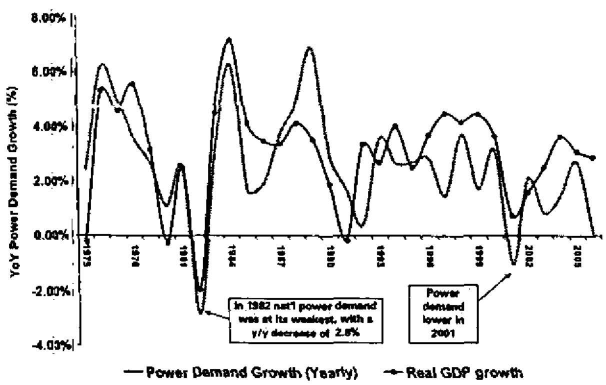
Given recent performance and concerns on 2010 guidance, we downgrade Portland General (POR), while reiterating a Buy rating on large-cap American Electric Power (AEP). After upgrading POR on August 17, the shares have outperformed other Regulated Utilities by 250-300bps, although lagging the S&P 500. We downgrade POR given our concerns that 2010 guidance will disappoint, given our forecast of $1.63 versus consensus levels of $1.75. We reiterate our Buy rating on AEP, the one large cap Regulated Utility we prefer, primarily on valuation, as AEP trades at a 16%-18% discount to peers on 2010-2011 estimates.

Lighten up with a deep dive into electricity demand fundamentals

Top-down, GDP-based demand forecasts – a good long-term forecasting tool, but less effective in the near-term

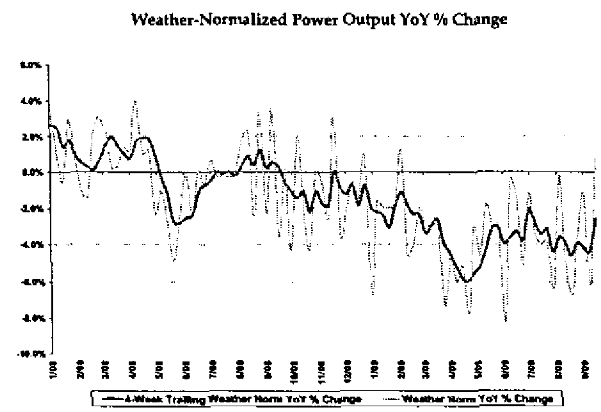
The historical top-down relationship between real GDP growth and electricity demand "broke down" earlier this year. As outlined in our December 11, 2008 note, *"Dimming the Lights,"* annual weather-adjusted electricity demand growth historically correlates well to YoY real GDP growth, as detailed in Exhibit 4. Over time, every 1% change in GDP growth drove a 0.6%-0.7% change in electricity demand. We entered 2009 assuming a 1% YoY decline in weather-normalized demand, driven by an expected 1.6% decline in real GDP. However, real GDP decelerated faster than expected, down 3-4% in 1H2009, but the historical correlation with power demand "broke down" in 1H2009, with actual power demand down 4%, worse than the 2-2.5% that a top-down GDP-driven model would imply.

Exhibit 4: 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.

Exhibit 5: ...but, the historical correlation with power demand broke down in 2009, with actual power demand worse than a top-down GDP model would imply
yoy weekly power demand, weather-normalized



Source: Goldman Sachs Research, EEI.

We primarily attribute the 2009 dislocation of GDP-to-electric sales from this historical trend to the steep fall off in industrial electricity demand. The industrial customer class represents a disproportionately high share of total electric consumption relative to industrial-related activity as a percentage of the total economy. Therefore, the recent sharp fall off of in usage by industrial customers appears to be understated in a GDP-based model.

A top-down model approach remains relevant, particularly as a sanity check in more normal GDP environments. As industrial demand normalizes in 2010 and 2011, we expect electricity demand to converge with its historical relationship with GDP. Weather-adjusted demand growth under a US real GDP forecast of 2.0% in 2010 would be 1.25% under our top-down model – a modestly higher outcome near-term than our new model approach (discussed below) derives – and 1.5-2% in 2011 and beyond, given a long-term real GDP growth rate of 2.5-3%.

Bottom-up demand forecasts – implementing a more granular electricity demand forecast

Our new demand deck, based on a bottoms-up approach by customer class, also shows electricity demand should improve in 2010. We adopt a new bottoms-up approach to forecasting electricity demand by customer class for industrial, commercial and residential customers – through 2012 and expect 0.4% YoY weather normal growth in 2010. As highlighted in Exhibit 6 below, after assessing a variety of factors and variables for industrial MWh demand, industrial production assumptions – and not GDP – emerge as the most highly correlated. For commercial demand, total fixed investment and unemployment drive our bottoms-up approach and show continued risk in demand for this segment, while a more basic trend analysis, incorporating efficiency gains, remains the best method for estimating residential demand.

Exhibit 6: Industrial production is the key driver for industrial electricity demand, while total fixed investment and unemployment rates are among the best predictors for commercial demand
correlation of various macroeconomic statistics to customer class-specific electricity demand

		Coefficient of Determination (R^2) (Low / Medium / High)	Metric Definition	Comments
Industrial MWh	Industrial Production	67%	IP measures domestic output by manufacturing, mining, and utility firms	Relationship with industrial production is statistically significant on a coincidental
Industrial MWh	GDP	54%	Aggregate market value of all final goods/services = consumer + investment + net exports + government	Industrial sales maintains highest correlation with GDP among customer classes
Commercial MWh	Unemployment Rate (3m lag)	48%	The percentage of the labor force that is not employed but is actively seeking work	Correlation on a one quarter lag is strongest
Commercial MWh	GDP	27%	Aggregate market value of all final goods/services = consumer + investment + net exports + government	
Commercial MWh	Total Fixed Investment (9m lag)	58%	Fixed capital spent for residential and business purposes, including equipment and structures	Correlation is tightest on a 9 month lag likely due to delay between initial fixed investment and time that equipment/structure actually goes into operation
Commercial MWh	Occupied Retail & Commercial Space	52%	Occupied retail/office space = stock (total square footage outstanding) x (1 - vacancy rate)	Vacancy rates are likely to move higher from current levels
Commercial MWh	Personal Consumer Expenditures	28%	Gauge of changes in price of consumer services and goods	
Commercial MWh	Retail Sales	23%	This report tracks sales by retail establishments, including food services	Based on the GS Composite Comparable-Store Sales Index
Residential MWh	GDP	3%	Aggregate market value of all final goods/services = consumer + investment + net exports + government	Lowest relationship with GDP among customer classes
Residential MWh	Unemployment Rate	7%	The percentage of the labor force that is not employed but is actively seeking work	
Residential MWh	Household Growth	23%	Growth of occupied housing units	Household growth is a reasonable indicator, but does not drive a statistically significant correlation

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

Electricity demand growth will rebound via three key stages, with the first stage occurring in 2H2009. As outlined in Exhibit 7, the trajectory of the recovery in electricity demand will likely experience three stages: (1) exiting a cyclical bottom, with YoY demand declines improving from 1H2009 trough-like levels even with continued industrial weakness, (2) a more steady recovery of electricity sales in 2010, with modest growth of 0.4% even though commercial MWh sales will disappoint, and (3) more "normalized" for 2011-2012, although pressured somewhat by efficiency gains. We adjust our weather normalized estimates to factor in the YoY impact of weather, as detailed in Exhibit 8.

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

	3Q2009	4Q2009	1Q2010	2Q2010	3Q2010	4Q2010	FY2010	FY2011	FY2012
National	**-2.9%**	**-2.2%**	**-0.6%**	**0.0%**	**0.8%**	**1.3%**	**0.4%**	**1.5%**	**1.7%**
Industrial	-9.2%	-6.1%	-1.5%	1.4%	1.6%	1.4%	0.7%	0.2%	0.1%
Residential	0.1%	0.9%	1.4%	0.9%	1.4%	1.4%	1.3%	1.9%	1.9%
Commercial	-2.2%	-2.6%	-2.4%	-1.9%	-0.3%	1.1%	-0.9%	1.9%	2.6%

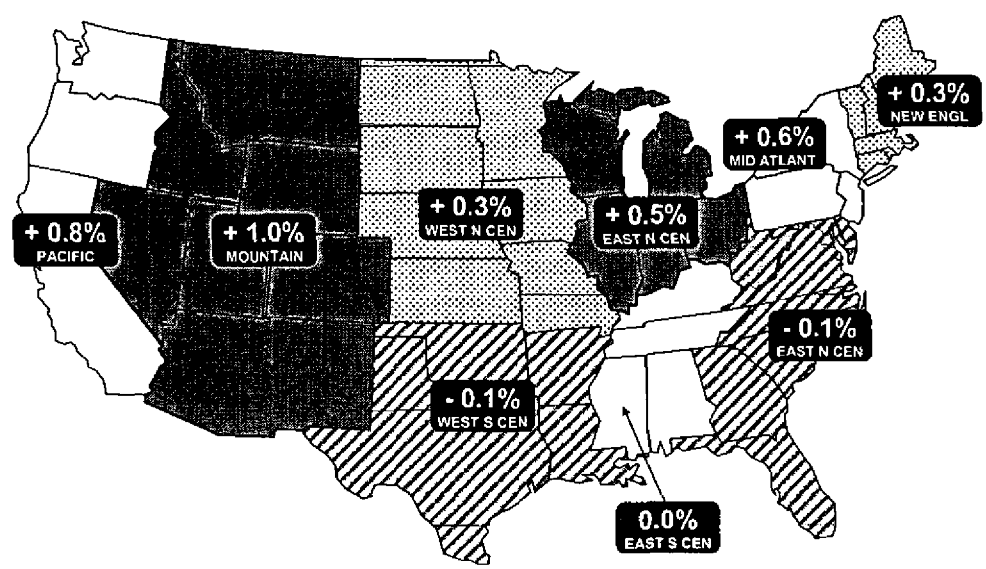
Phase 1:
Exiting Demand Bottom
Industrial sales improving significantly, driving us out of the cyclical bottom in demand

Phase 2:
Steady Recovery
Residential and industrial sales are positive YoY, while commercial to remain weak

Phase 3:
Return to Normal
Return to long-run growth rate of 1.5 - 1.7%, with commercial demand growth outpacing industrial and residential sales

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

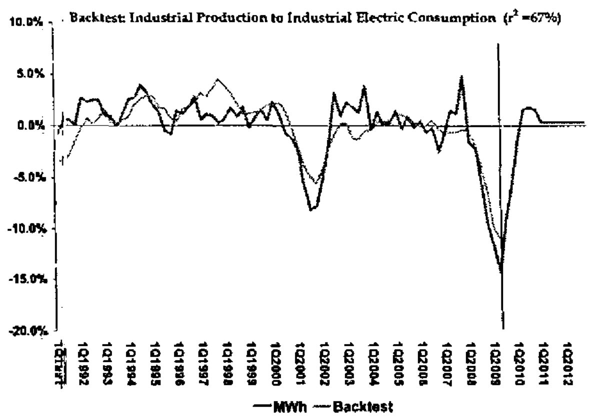
Exhibit 8: We normalize for weather impacts in our electricity demand forecasts, driving various regional forecasts and a national forecast of +0.4% YoY in 2010
2010 weather-normalized demand by EIA region



Source: Goldman Sachs Research, EIA.

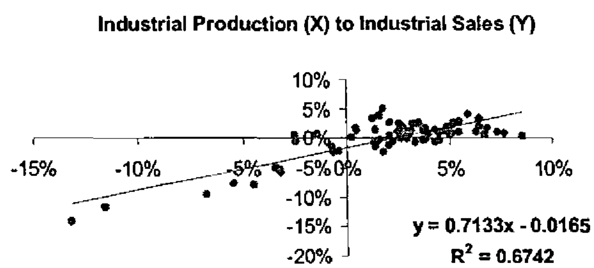
Industrial MWh sales should increase in 2010 with a rebound in Industrial Production, but longer-term trends in industrial MWh sales remain challenging. As shown in Exhibit 9-10 below, industrial MWh sales appear highly correlated with Industrial Production (IP) with an R-squared of approximately 67%. IP declined approximately 13% in 2Q2009, leading to a significant downtick in industrial electricity demand. The Goldman Sachs Global ECS team projects a robust IP recovery in 2Q-4Q2010, likely leading to an increase of 1-2% in electricity consumption by industrial customers. However, in a more normalized production environment post-2010, we believe industrial electricity demand will once again lag other customer classes, as we believe it takes at least a YoY 3.7% increase in IP (above historical trend) to drive just a 1% increase in industrial MWh sales.

Exhibit 9: Economists forecast a strong increase in industrial production will drive the economic recovery – a positive for 2010 industrial MWh demand
backtest of industrial production-based forecasting methodology to industrial electric consumption



Source: Goldman Sachs Research.

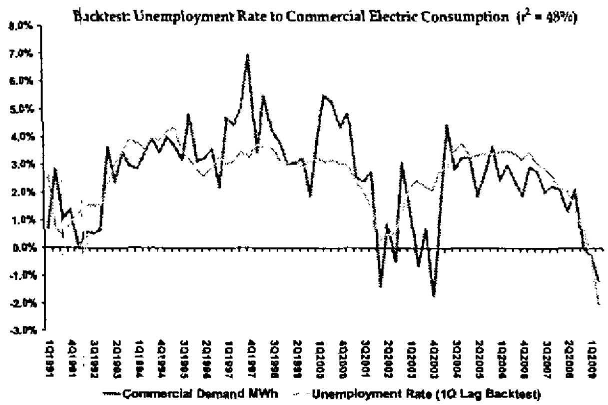
Exhibit 10: However, it takes above trend US production growth to drive a just 1% increase in industrial MWh sales – a long-term risk to industrial demand
correlation between IP and industrial sales



Source: Goldman Sachs Research.

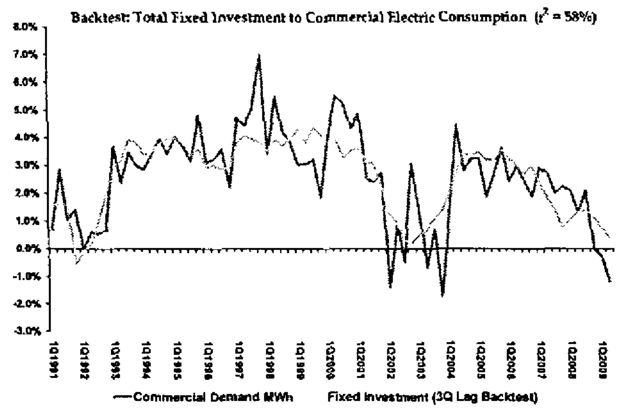
Commercial demand growth appears closely correlated with total fixed business investment and unemployment rate variables. Unemployment rate levels and total fixed investment, at a 3 month and 9 month lag, respectively, emerge as the best predictors of electricity demand for commercial customers. Long-term commercial demand growth will likely outpace growth rates for industrial and residential customers, but risk exists for 2010 expectations, as continued high unemployment and below-trend investment levels will weigh on demand from this segment. We expect a YoY increase in weather-normalized sales to commercial customers of 0.9% versus a historical growth rate closer to 2.5%.

Exhibit 11: We use a 50-50 blend of unemployment ...
backtest of unemployment rate-based forecasting methodology to commercial electric consumption



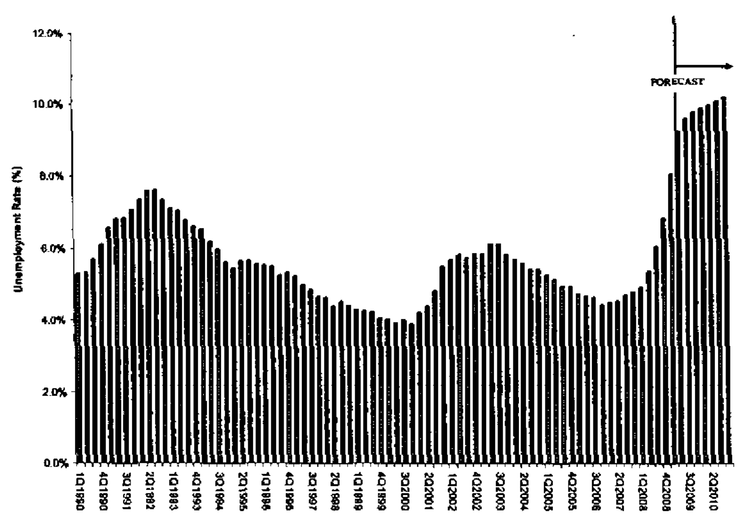
Source: Goldman Sachs Research.

Exhibit 12: ...and total fixed investment to drive our commercial customer class MWh demand forecasts
backtest of total fixed investment-based forecasting methodology to commercial electric consumption



Source: Goldman Sachs Research.

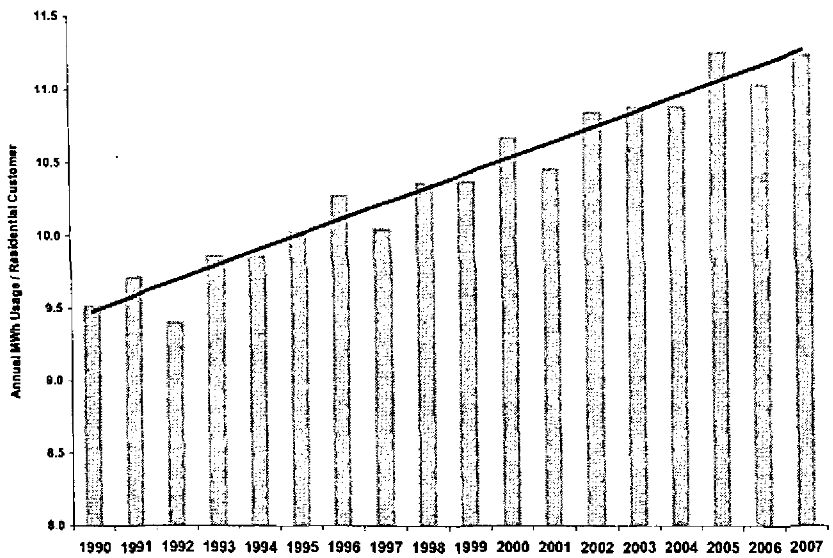
Exhibit 13: GS Global ECS forecast unemployment rates will be near or above 10% through 2010, weighing on commercial electricity demand
unemployment rate forecasts



Source: GS Global ECS Research, Goldman Sachs Research.

Historically, residential electricity demand increased annually by 2.0%-2.5% and upside to our expectation exists if efficiency gains do not emerge. We utilize a trend based analysis to predict weather-normalized power demand for the residential customer class and assume 1.9% growth for 2011/2012. This incorporates a rough estimate for efficiency gains – gains we incorporate to reflect the significant spending brought by the American Recovery and Reinvestment Act. We note that usage per residential customers, especially over the last 5-10 years, continued to increase, not decrease, so upside to our forecasts for residential demand growth for 2011-2012 exists if even modest 10-20 bps efficiency gains that we assume do not emerge.

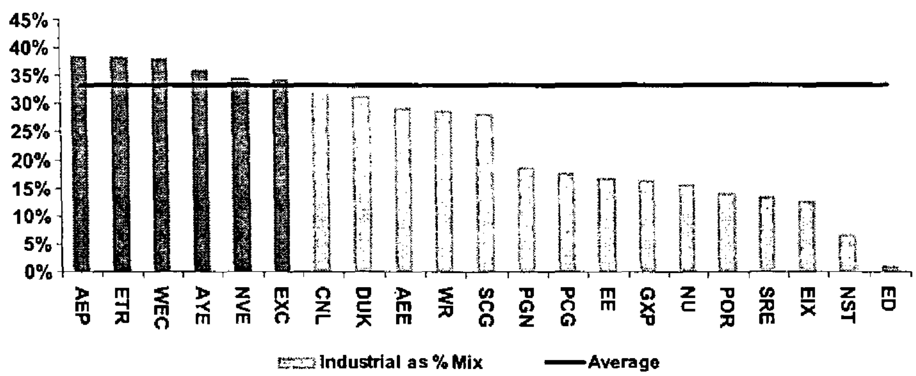
Exhibit 14: From 1990-2007, we observed MWh usage per residential customer increase, so upside to our demand growth forecasts exist if efficiency gains do not materialize
annual MWh usage per residential customer

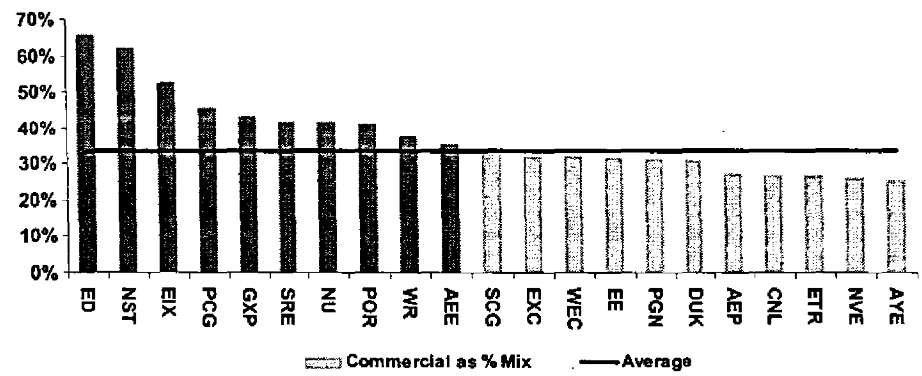


Source: Goldman Sachs Research.

Utilities in the Midwest, the South and the Plains states should benefit in 2010 as industrial MWh sales respond to higher industrial production levels. In our universe, on 2007 estimates, Conviction Buy-rated ETR and Buy-rated AEP remain among the most levered to electricity sales to industrial customers, given a greater proportion of total sales to this segment, as highlighted in Exhibit 15 below. We note companies with sizable exposure to commercial customer demand – including Sell-rated NSTAR (NST) – may experience demand weakness above peer levels given higher-than-average exposure to MWh sales to commercial customers. California and NY based utilities, even though they maintain sizable exposure to the commercial segment, maintain rate structures that include decoupling from demand, thus significantly less exposed to demand trends overall.

Exhibit 15: American Electric Power and Entergy are among the most levered to industrial demand, while NSTAR is among the most commercially-exposed
2007 customer class breakdown by regulated utility segment





Source: SNL.

We revise estimates to reflect our new demand forecast and minor changes to power price assumptions

For both Regulated Utilities and Diversified Utilities, we update our estimates to reflect new electricity demand assumptions for their regulated businesses. As detailed above and summarized in Exhibit 16 below, we revise our electricity demand growth assumptions, impacting EPS estimates for regulated segments prior to rate case adjustments in future periods. On average, our 2010 estimates for Regulated Utilities remain approximately 4% below consensus – with below consensus views on Duke Energy (DUK-Neutral), Portland General (POR-Neutral) and NSTAR (NST-Sell) and an above consensus view for Great Plains Energy (GXP-Buy).

Exhibit 16: Old versus new demand forecasts
weather-normalized YoY demand forecasts

	Weather-Normal YoY Nat'l. Demand Forecasts (%)		
	Old	New	Differ.
3Q2009	0.0%	-2.9%	-2.9%
4Q2009	-0.3%	-2.2%	-1.9%
1Q2010	0.6%	-0.6%	-1.2%
2Q2010	0.6%	0.0%	-0.6%
3Q2010	0.6%	0.8%	0.2%
4Q2010	0.6%	1.3%	0.7%
FY2010	0.6%	0.4%	-0.2%
FY2011		1.5%	
FY2012		1.7%	

Source: Goldman Sachs Research.

For Diversified Utilities and the IPPs, we also make modest changes to power price forecasts. In addition to revising demand estimates for regulated segments, we also implement minor power price adjustments in the Midwest and industrial portions of the Mid-Atlantic/Northeast. Natural gas prices continue to drive power price assumptions – as forecast by the Goldman Sachs E&P research team, we continue to expect a significant uplift in 2010/2011 power prices, driven by higher natural gas levels. Among commodity levered names, our 2010 forecasts differ significantly for Sell-rated Ameren (AEE) and for Buy-rated Exelon (EXC), although we recognize that a large portion of the upside inherent in EXC remains tied to eventual implementation of carbon regulations, as detailed in our June 25 note, "Carbonomics: Measuring impact of US carbon regulation on select industries."

Exhibit 17: Old versus new commodities forecasts

	WTI Oil		Henry Hub Gas		CAPP Coal	PRB Coal
	new	old	new	old	unchanged	unchanged
3Q 2009E	$67.00	$65.00	$3.40	$4.00	$50.00	$10.50
4Q 2009E	$77.00	$70.00	$4.00	$4.50	$55.00	$11.00
FY 2009E	$61.72	$59.47	$3.98	$4.25	$52.23	$10.22
1Q 2010E	$85.00	$80.00	$5.00	$5.00	$55.00	$12.00
2Q 2010E	$85.00	$80.00	$5.00	$5.00	$55.00	$12.00
3Q 2010E	$90.00	$80.00	$5.50	$5.50	$55.00	$12.50
4Q 2010E	$100.00	$80.00	$6.50	$6.50	$55.00	$13.00
FY 2010E	$90.00	$80.00	$5.50	$5.50	$55.00	$12.38
2011E	$110.00	$100.00	$7.00	$7.00	$60.00	$14.00
2012E	$105.00	$105.00	$6.50	$6.50	$65.00	$14.00
2013N	$85.00	$85.00	$6.50	$6.50	$70.00	$13.00

Source: Goldman Sachs Research.

We forecast significant FCF yields for the IPPs, providing opportunities for debt reduction, buybacks, or growth. Based on our commodity price forecasts and capital spending estimates, we expect from 2010-2012 RRI will deliver FCF/sh of $0.86-$1.18 and NRG will generate FCF/sh of $3.84-2.40, representing average FCF yields of 17% and 12%, respectively. This 2010-2012 free cash flow equals roughly 51% and 38% of the current market capitalizations for RRI and NRG, or 48% and 30% of their respective debt outstanding. We expect capital deployment across the balance sheet over the next few years, barring significant new investments in growth, M&A, or environmental projects.

Exhibit 18: We forecast 13% and 17% 2010-2012 FCF yields for NRG and RRI
independent power producers FCF forecast

Independent Power Producers FCF Forecasts	2010	2011	2012	Average
RRI				
FCF/share	$0.86	$1.64	$1.04	$1.18
FCF Yield	12.3%	23.5%	15.0%	16.9%
NRG				
FCF/share	$3.84	$3.19	$3.30	$3.44
FCF Yield	14.1%	11.7%	12.1%	12.7%

Source: Goldman Sachs Research estimates

Exhibit 19: GS EPS estimates versus consensus forecasts

GS EPS estimates versus consensus

Ticker	2009 GS EPS	2009 Cons EPS	2009 % Ch	2010 GS EPS	2010 Cons EPS	2010 % Ch	2011 GS EPS	2011 Cons EPS	2011 % Ch
Large Cap Regulated									
AEP	$2.70	$2.87	-6%	$2.99	$3.03	-1%	$3.33	$3.22	3%
DUK	$1.11	$1.21	-8%	$1.17	$1.30	-10%	$1.30	$1.36	-4%
ED	$2.99	$3.11	-4%	$3.21	$3.29	-2%	$3.31	$3.41	-3%
PCG	$3.08	$3.16	-3%	$3.45	$3.40	2%	$3.81	$3.70	3%
PGN	$2.88	$3.03	-5%	$2.99	$3.20	-6%	$3.32	$3.34	-1%
Mean			-5%			-4%			-3%
Small&Mid Cap Regulated									
CNL	$1.64	$1.65	0%	$2.14	$2.07	3%	$2.27	$2.27	0%
EE	$1.34	$1.32	2%	$1.28	$1.55	-17%	$1.47	$1.66	-11%
GXP	$1.17	$1.19	-2%	$1.54	$1.45	6%	$2.01	$1.82	11%
NST	$2.33	$2.36	-1%	$2.29	$2.48	-8%	$2.50	$2.62	-5%
NU	$1.68	$1.84	-8%	$1.85	$1.98	-7%	$2.00	$2.18	-8%
POR	$1.45	$1.39	4%	$1.63	$1.75	-7%	$2.21	$2.09	6%
SCG	$2.85	$2.83	1%	$2.98	$3.05	-2%	$3.35	$3.28	2%
NVE	$0.69	$0.92	-25%	$0.94	$1.13	-17%	$1.12	$1.19	-6%
WEC	$3.05	$3.12	-2%	$4.01	$3.76	7%	$4.13	$4.10	1%
WR	$1.45	$1.71	-15%	$1.64	$1.83	-11%	$1.57	$1.84	-15%
Mean			-5%			-5%			-3%
Diversified Utilities									
AEE	$2.21	$2.72	-19%	$2.12	$2.59	-18%	$2.50	$2.50	0%
AYE	$2.15	$2.22	-3%	$2.47	$2.49	-1%	$3.57	$3.25	10%
ETR	$6.50	$6.52	0%	$6.67	$6.91	-3%	$7.95	$7.25	10%
EIX	$2.92	$3.04	-4%	$3.56	$3.49	2%	$3.84	$3.61	6%
EXC	$4.02	$4.11	-2%	$3.58	$4.03	-11%	$4.11	$4.60	-11%
SRE	$4.46	$4.53	-1%	$4.93	$5.14	-4%	$5.55	$5.55	-3%
Median			-3%			-4%			3%
Mean			-5%			-6%			2%
Independent Power Producers									
NRG	$1.86	$2.94	-37%	$2.34	$2.72	-14%	$2.25	$2.33	-4%
ORA	$1.23	$1.32	-7%	$1.27	$1.54	-17%	$1.25	$1.68	-26%
RRI	($0.77)	($0.55)	-40%	$0.19	$0.06	224%	$0.64	$0.32	101%
Median			-37%			-14%			-4%
Mean			-28%			64%			24%

Note: NRG EPS assumes contract amortizations associated with the acquisition of Reliant

GS EBITDA estimates versus consensus

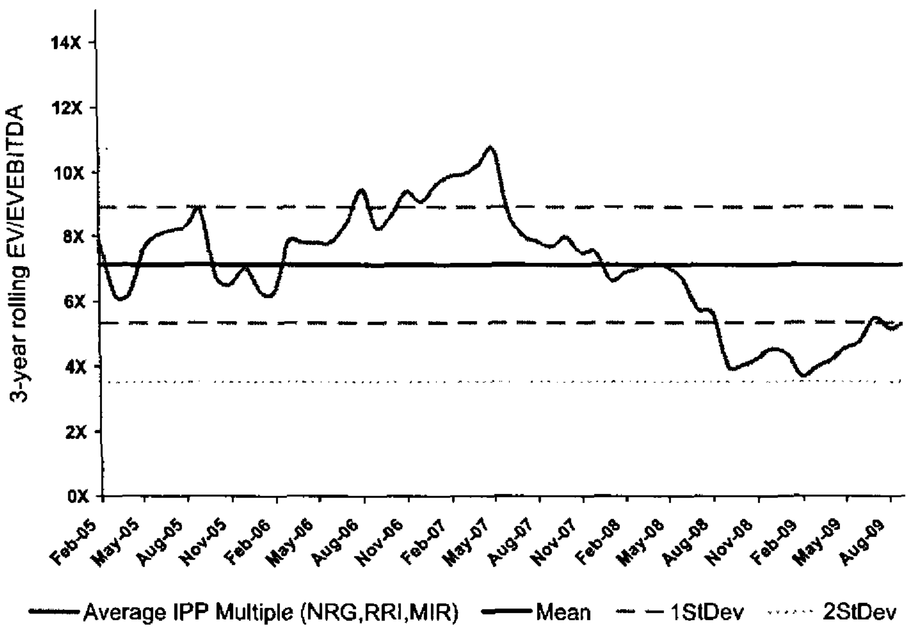
Ticker	2009 GS EBITDA	2009 Cons EBITDA	2009 % Ch	2010 GS EBITDA	2010 Cons EBITDA	2010 % Ch	2011 GS EBITDA	2011 Cons EBITDA	2011 % Ch
Independent Power Producers									
NRG	$2,448	$2,280	7%	$2,620	$2,358	11%	$2,513	$2,467	2%
ORA	$148	$151	-2%	$180	$185	-3%	$248	$223	11%
RRI	$141	$331	-57%	$567	$582	-3%	$664	$727	-9%
Median			-2%			-3%			2%
Mean			-17%			2%			2%

Source: Goldman Sachs Research estimates, Factset.
Note: *EBITDA estimates are Adjusted EBITDA, not GAAP EBITDA.*

We upgrade Independent Power Producers to Attractive and remain Attractive on commodity oriented Diversified Utilities

As power demand and commodity prices improve, IPP multiples should continue to expand – and we upgrade RRI Energy from Neutral to Conviction Buy. Improving natural gas prices, power prices and electricity demand all should support and enhance valuations for merchant generators and the merchant generation segments owned by Diversified Utilities. We raise multiples on pure-play IPPs in our universe – NRG Energy and RRI Energy – to reflect improved sentiment and the significant FCF generation likely in a $5.50-$7/MMBtu natural gas price environment. Applying a 7.0x multiple on these predominantly base-load generators remains somewhat below historical mean/median levels of 7.25x-7.5x, reflecting improving, but still below trend electricity demand growth in 2010.

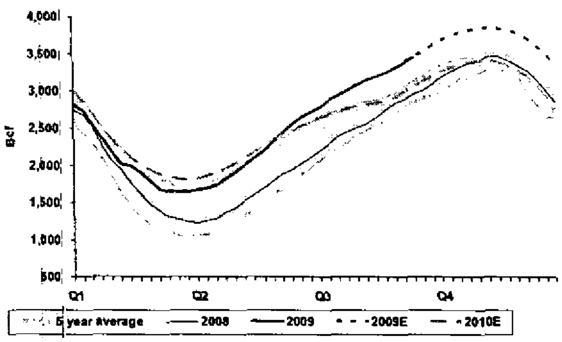
Exhibit 20: Base-load IPPs still trade one standard deviation below their LT mean despite recent multiple expansion
3YR forward EV/EBITDA multiples of base-load IPPs (NRG, RRI, MIR) on consensus estimates



Source: GS Research Estimates, Factset

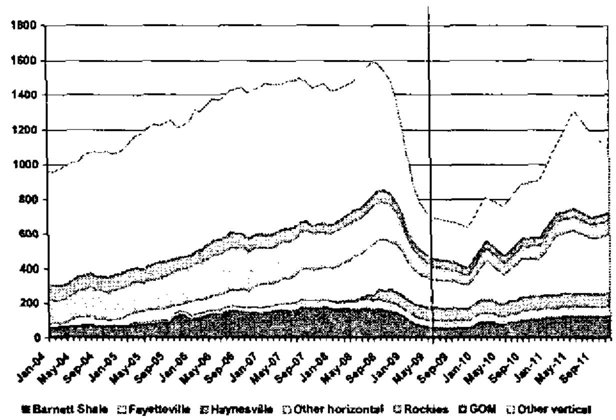
Natural gas prices should improve and will likely emerge over the coming 12 months as a catalyst, not a headwind, for IPPs and merchant generation. The Goldman Sachs E&P team sees the potential for near term bullish weekly data builds due to (1) industrial demand improvements, (2) lower production due to natural declines and lower rig count, (3) lower production due to maintenance, shut ins, and/or drilled but not completed wells, and (4) coal-to-gas substitution. We continue to focus on 1H2010 gas prices as a key driver for FY2011. Assuming gas prices stay below $5.00/MMBtu Henry Hub gas in 1H2010, our E&P team forecasts a normalization of gas storage in 2Q/3Q 2010, leading to tightness and a spike in prices during Winter 2010-2011.

Exhibit 21: Near term storage data could turn bullish
natural gas storage



Source: Goldman Sachs Research estimates, US DOE

Exhibit 22: ....and further rig count declines should lead to $6+/MMBtu gas beyond 2010
US natural gas rig count



Source: Baker Hughes

Within our universe, RRI maintains the most sensitivity to changes in commodity prices, although others maintain sizable commodity leverage. As highlighted in Exhibit 23 below, RRI Energy maintains the greatest exposure to natural gas and power prices, given minimal hedges for its generation output. Above-market coal contracts weigh on 2009 significantly and have a modest impact on 2010, but roll-off by 2011. Diversified Utilities also maintain sizable exposure to natural gas and power prices, with hedges rolling off at different times for each – Allegheny Energy (AYE) remains significantly unhedged for 2011, while few maintain hedges beyond 2011.

Exhibit 23: RRI and NRG remain the most sensitive to a $1.00 change in Gas, AYE is most sensitive Diversified Utility
EPS Sensitivity to + or - $1.00/mmbtu of natural gas in 2010,2011

EPS sensitivity + or - $1.00/mmbtu of Natural Gas

	2010	2011	2012
Indepent Power Producers			
NRG	12%	17%	208%
RRI	167%	60%	36%
Average	90%	39%	122%
Diversified Utilities			
AEE	4%	7%	10%
AYE	9%	23%	37%
EIX	10%	13%	15%
ETR	3%	7%	11%
EXC	2%	9%	26%
SRE	1%	1%	2%
Average	5%	10%	17%

***Our "base-case" implies our E&P Team's forecast of $5.50/mmbtu in 2010 and $7.00/mmbtu in 2011**

Source: Goldman Sachs Research estimates.

We raise estimates for RRI and increase target prices for IPPs, upgrading RRI to CL Buy, with around 30-35% upside in both RRI and NRG. We continue to apply a sum of the parts valuation methodology for IPPs and the IPP segments within Diversified Utilities, now utilizing a 7.0x base-line EV/EBITDA multiple on average 2011/2012 EBITDA, then making adjustments for expected average FCF yields, returns on invested capital, anticipated carbon impact, and broader attractiveness of regional markets. For RRI, we increase estimates to reflect lower than previously forecast coal costs for its Seward unit, a waste coal facility competitively advantaged due to coal that costs roughly half the cost of traditional Appalachian coal. We lower our 12-month, DCF based, price target on Neutral-rated ORA from $43 to $41, on (1) lower forecasted backlog, (2) lower gross margins forecasts, and (3) lower power prices in Hawaii, implying 5% upside.

Exhibit 24: We upgrade RRI from Neutral to Buy and remain buyers of NRG
SoTP Valuation of IPPS ($mn unless per share estimates)

Company	RRI	NRG
Average 2011-2012 EBITDA	**$560**	**$2,434**
Baseline EV/EBITDA Multiple	7.0x	7.0x
Adjustments to Baseline Multiple		
Attractiveness of Regional Markets	0.0x	-0.3x
Carbon Exposure	-1.5x	-1.0x
Returns on Capital	0.0x	0.0x
Free Cash Flow Yield	1.75x	1.25x
Target EV/EBITDA Multiple	**7.2x**	**7.0x**
Enterprise Value	**$4,056**	**$17,019**
Net debt	$1,053	$6,465
Equity Value - Generation & Other Non-Utility	**$3,002**	**$10,266**
Current Diluted Share Count	351	275
Equity Value per Share - Generation & Other Non-Utility	**$8.56**	**$37.33**
Target Price per Share	**$9**	**$37**
Current Share Price	$6.98	$27.20
Dividend yield	0.0%	0.0%
Total Return to Target	**29%**	**36%**
Carbon NPV, $/sh	**$ (2)**	**$ (9)**
Generation Returns on Capital 2011-2012	3.4%	5.7%
Generation Free Cash Flow Yield 2011-2012	19.2%	11.9%

Source: Goldman Sachs Research estimates.

Multiple expansions will also benefit Diversified Utilities, as we forecast improving valuations for their non-regulated subsidiaries and regulated segments. We value the "parts" of Diversified Utilities using two methodologies: (1) P/E metrics on regulated earnings power, and (2) an EV/EBITDA multiple on the non-regulated merchant generation or IPP segments, with adjustments for (a) returns of capital, (b) free cash flow, (c) exposure to potential carbon regulations, and (d) attractiveness of regional markets.

Exhibit 25: Multiple expansion benefits Diversified Utilities at both segments
SoTP valuation methodology

Company	AEE	AYE	EIX	EXC
Utility 2012 EPS	$2.44	$1.44	$3.48	$1.08
Applied Target PE Multiple	10.0x	10.0x	10.5x	10.5x
Utility Equity Value per Share	**$24**	**$14**	**$36**	**$11**
Average EBITDA on Generation (2011-2012)	$410	$690	$849	$3,604
Other 2011-2012 EBITDA	$0	$0	($30)	($102)
Total Generation & Other Non-Utility EBITDA	**$410**	**$690**	**$819**	**$3,502**
Baseline EV/EBITDA Multiple	7.0x	7.0x	7.0x	7.0x
Adjustments to Baseline Multiple				
Attractiveness of Regional Markets	-0.8x	-1.0x	-0.3x	-0.5x
Carbon Exposure	-1.3x	-0.5x	0.2x	3.7x
Returns on Capital	-0.3x	0.5x	0.0x	0.3x
Free Cash Flow Yield	-0.3x	0.8x	0.0x	0.0x
Target EV/EBITDA Multiple	**4.5x**	**6.8x**	**7.0x**	**10.5x**
Enterprise Value - Generation & Other Non-Utility	**$1,835**	**$4,675**	**$5,699**	**$36,661**
Generation & Non-Utility Net Debt	$1,682	$1,795	$4,942	$3,140
Equity Value - Generation & Other Non-Utility	**$153**	**$2,880**	**$757**	**$33,521**
Current Diluted Share Count	214	170	327	659
Equity Value per Share - Generation & Other Non-Utility	**$1**	**$17**	**$2**	**$51**
Target Price per Share	**$25**	**$31**	**$39**	**$62**
Current Share Price	$25.74	$26.96	$34.01	$50.12
Dividend yield	6.0%	2.2%	3.8%	4.2%
Total Return to Target	**3%**	**17%**	**19%**	**28%**
Carbon NPV, $/sh	-$2	-$2	$1	$20
Generation Returns on Capital 2011-2012	2.9%	8.7%	3.6%	8.0%
Generation Free Cash Flow Yield 2011-2012	-0.8%	7.3%	1.1%	0.1%

CL Buy rated Entergy target price is $101/sh, while Neutral rated Sempra target price is $59/sh

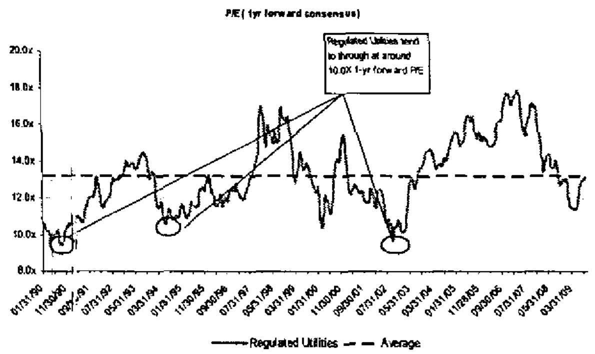
Source: Goldman Sachs Research estimates.

We downgrade Regulated Utilities to Neutral, as few bell-weathers screen attractively

With large cap Regulated Utilities screening less attractive than small/mid cap peers, we downgrade this sub-sector to Neutral. While Regulated Utilities trade below historical levels on Price to Book and on longer term (2012) P/E multiples, multiples on FY2 screen less attractively. More importantly, upside on average in the sub-sector remains tilted toward smaller/mid cap names versus the large cap stocks, driving our sub-sector downgrade to Neutral. Dividend yield spreads remain attractive, but few sector-wide catalysts exist.

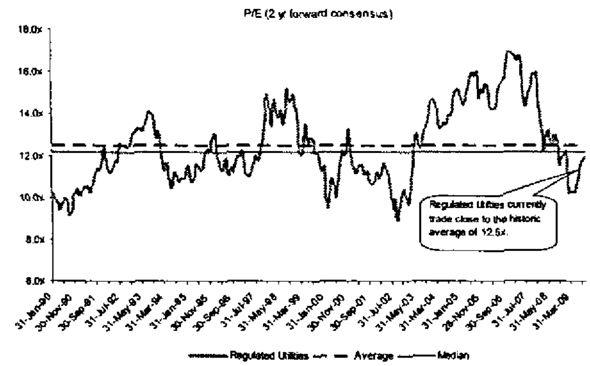
Regulated Utilities currently trade near long-term historic average P/E multiples on 2010 estimates. As shown in Exhibit 27 below, Regulated Utilities currently trade near 12.0x on FY2 or 2010 estimates, versus long-term average levels closer to 12.5x, only a modest discount. We note the long-term average includes trough levels from the high inflationary period in the 1970s and the "electricity crash" from 2001-2002, with the mean and median on FY2 much higher utilizing ranges from just the last 5-7 years, although expected rate base growth currently lags expected levels from 2005-2008 due to cuts in capital spending.

Exhibit 26: Regulated Utilities currently trade inline with the historic average of 13.2x on FY1 consensus estimates
Jan 1, 1990 - current



Source: Factset, Goldman Sachs Research estimates.

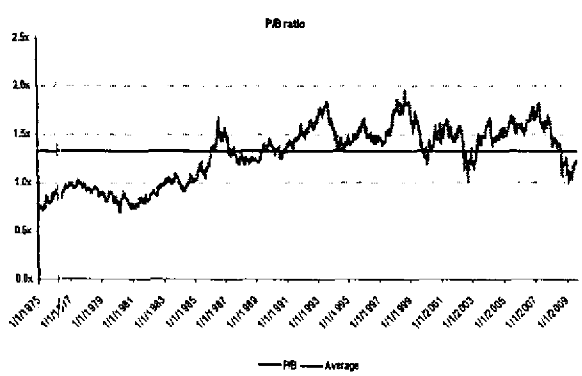
Exhibit 27: Regulated Utilities currently trade below the historic average of 12.5x on FY2 consensus estimates
Jan 1, 1990 - current



Source: Factset, Goldman Sachs Research estimates.

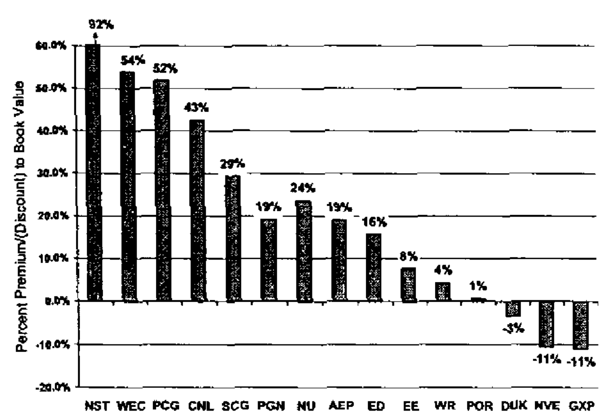
Regulated Utilities trade slightly below average Price to Book levels and equity issuances in 2010 are not a major overhang. As detailed in Exhibit 28 below, Regulated Utilities historically traded at Price/Book multiples on average near 1.3-1.4x, with group levels currently near 1.2x. Removing the 1970s trough period, the historical Price/Book level appears closer to 1.5x-1.6x, implying regulated names trade only slightly below historical levels, as outlined in Exhibit 29 below. Since we do not expect significant equity financing needs over 2010, with only a handful of companies likely issuing shares versus a broad wave of issuances in 2009, Regulated Utilities could close this gap on a Price to Book basis, although many key names already have done so.

Exhibit 28: Regulated Utilities currently trade below historic P/B average of 1.3x – which includes the trough period of the 1970s
Jan 1, 1975 - current



Source: Factset, Goldman Sachs Research estimates.

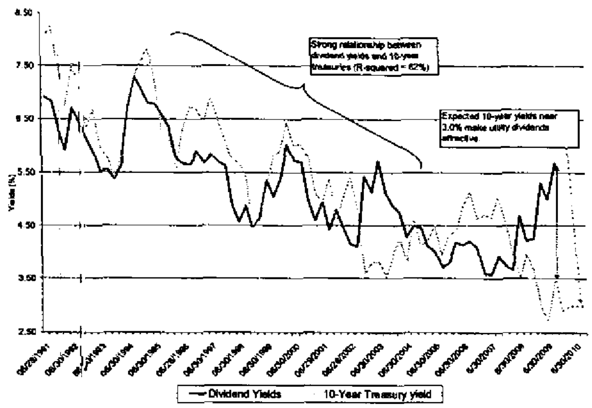
Exhibit 29: Companies like GXP and NVE trading below book provides opportunities for mean reversion
Percent premium/(discount) to book value



Source: Factset, Goldman Sachs Research estimates.

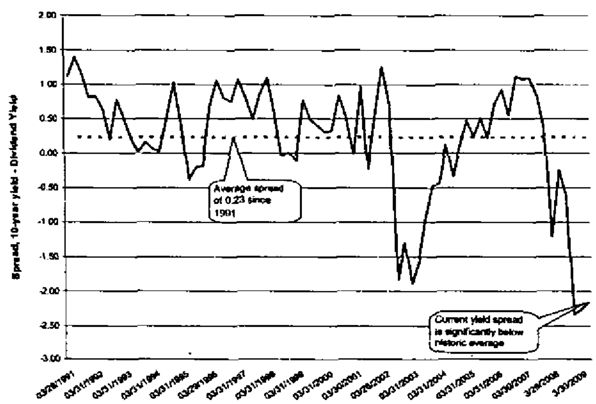
Relative to treasury yields, regulated names and the broader group appear attractive. The Goldman Sachs Global ECS team forecasts lower interest rates over the next 12-months, with 10-year Treasury yield expected to decline from the current levels near 3.5% to approximately 3% through 1H2010, as shown in Exhibit 30. Under this scenario, the average dividend yields of Regulated Utilities appear attractive versus the near-term expected 10-year yield. Historically, for Regulated Utilities, lower dividend yields implied higher share prices. As detailed in Exhibit 31, the spread between the dividend yield and the 10-year yield is at a historic low, versus the long-term average of 0.23. We believe that the current spread levels provide a potential for mean reversion, resulting into lower dividend yield for the Regulated Utilities and implying upside to share prices.

Exhibit 30: Low 10-year Treasury yields indicate share price upside for Regulated Utilities
Yields, 10-year Treasury note and dividends on Regulated Utilities



Source: Factset, Goldman Sachs Research estimates.

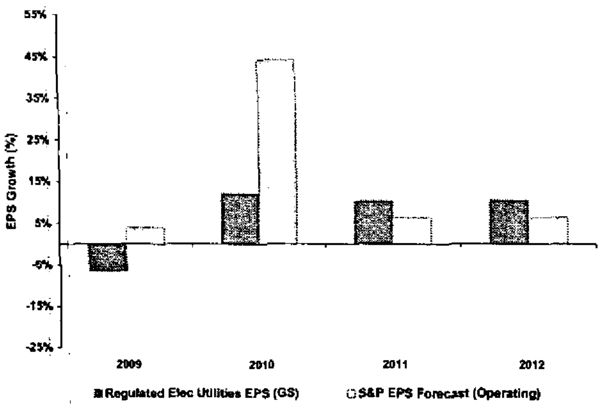
Exhibit 31: The current yield spread is significantly below the historic average
Spread, 10-year Treasury yield and average dividend yield on Regulated Utilities



Source: Factset, Goldman Sachs Research estimates.

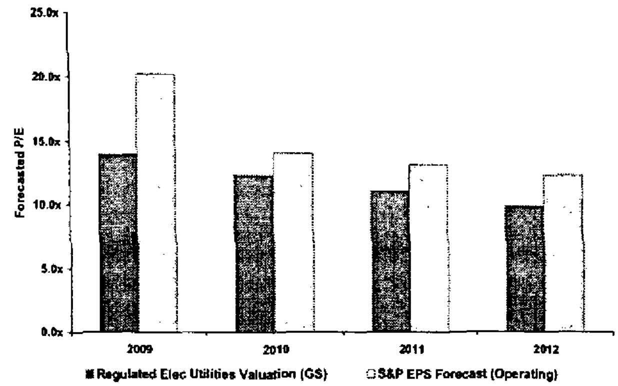
Regulated Utilities screen attractively relative to S&P 500, trading at a 12%-20% discount despite stable multi-year average earnings growth. As shown in Exhibit 32 below, we expect a CAGR EPS growth of approximately 12% through 2012 for Regulated Utilities, below the earnings growth for the S&P 500 of 21%. However, the Regulated Utilities have a less volatile earnings growth profile, with a 5% decline in 2009 given the weak demand fundamentals in 1H2009, followed by a 11%-12% yearly growth over 2010-2012 . The S&P 500 index currently trades at 14.0/13.2/12.4X on forecasted 2010-2012 earnings, versus Regulated Utilities at 12.4/11.1/9.9X , implying a 1.0x-1.6x or 12%-20% discount for the regulated group, as shown in Exhibit 33 below. However, the S&P estimates assume a more normal 6%-6.5% growth after 2010, likely conservative given economic improvements and therefore potentially overstating the relative valuation of Regulated Utilities.

Exhibit 32: We expect Regulated Utilities to post 12% CAGR growth in EPS...
Annual forecasted EPS growth, 2009E-2012E



Source: Goldman Sachs Research estimates.

Exhibit 33: ...while Regulated Utilities trade at a discount to S&P 500 on P/E multiples
P/E of Regulated Utilities and the S&P 500, 2009E-2012E



Source: Goldman Sachs Research estimates.

Given expected improvements in utility demand and broader/improved market views overall, we adjust our target prices for Regulated Utilities. We continue to utilize a dual approach for valuing Regulated Utilities, a blend of dividend discount model analysis (assuming a 9% cost of equity and a 2.5% terminal growth rate) and a P/E multiple on projected longer-term 2012 earnings power. We increase our baseline target P/E multiples for Regulated Utilities to reflect improving fundamentals for the group. We also apply a differential in target multiples for the two sub-groups: large cap and small/mid cap regulated utilities-- to reflect the historic premium exhibited by the large cap regulated utilities on long-term earnings power.

- **On longer-term earnings power, large cap group trades at a 7%-13% premium versus the small/mid cap peers.** As shown in Exhibit 34, we observe a trading disparity between the two sub groups, with large cap regulated utilities trading at a note worthy premium to its small/mid cap peers on longer-term earnings power. We expect this pattern to hold going forward, and alter our P/E based valuation methodology by introducing a 5% differential between the target multiples for the two groups.

Exhibit 34: Yearly comparison of the trading multiples for large cap and small/mid cap Regulated Utilities, on FY3 consensus estimates
Over years 2005-2009

Year	Large cap	Small/cap	Pre/(disc.) (%)
Over 2005	14.2x	13.3x	7%
Over 2006	14.2x	14.1x	0%
Over 2007	14.6x	13.0x	13%
Over 2008	12.0x	11.1x	8%
Over 2009	10.4x	9.6x	8%

Source: Factset, Goldman Sachs Research estimates.

- **Our new target prices imply a 12% average upside from current levels for Regulated Utilities.** As shown in Exhibit 35, we value regulated utilities using a 50/50 weighting on: (1) P/E multiples for longer-term regulated earnings power, and (2) a DDM model. Given the improving demand fundamentals and historic trading patterns, we increase our expected base-line P/E multiple from 9.0x to 10.5x for large cap group and 10.0x small/mid cap group, a 5% valuation differential between the two sub-sectors. While we increase the P/E side of our valuation, we maintain our DDM model which incorporates a 2.5% terminal growth rate, roughly in line with expected long-term GDP growth trends.

Exhibit 35: We use a blend of P/E on 2012 EPS and DDM, with a discounted target multiple for the small/mid group versus large cap Regulated Utilities
Our price target methodology

2012 P/E x 50%	+	DDM x 50%	=	Price Target
10.5x - Large caps 10.0x-Small/mid caps		9.0% cost of equity 2.5% terminal growth		

Source: Goldman Sachs Research.

Exhibit 36: Valuation of Regulated Utilities on a dividend discount model basis are attractive and our blended target prices imply a 12% total return potential

	Ticker	Rating	9/28 Close	DDM Value	Current Yield	Total Return, DDM Only	2012 EPS	Multiple Applied	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	$31.13	$38	5.3%	27%	$3.45	10.5x	$36	22%	$37	24%
Consolidated Edison	ED	Sell	$41.40	$39	5.7%	1%	$3.45	10.5x	$36	-7%	$38	-3%
Duke Energy	DUK	Neutral	$15.93	$15	5.8%	2%	$1.34	10.5x	$14	-6%	$15	0%
PG&E	PCG	Neutral	$40.91	$43	4.1%	10%	$4.02	10.5x	$42	7%	$43	9%
Progress Energy	PGN	Neutral	$39.60	$43	6.3%	14%	$3.55	10.5x	$37	0%	$40	7%
Large-Cap Mean					*5.4%*	*11%*				*3%*		*8%*
Large-Cap Median					*5.7%*	*10%*				*0%*		*7%*
Mid & Small-Cap												
Cleco	CNL	Neutral	$25.10	$26	3.6%	7%	$2.39	10.0x	$23.87	-1%	$25	3%
El Paso Electric	EE	Neutral	$17.84	$20	0.0%	12%	$2.10	10.0x	$21	18%	$21	18%
Great Plains Energy	GXP	Buy	$18.17	$22	4.6%	28%	$2.13	10.0x	$21	22%	$22	26%
Northeast Utilities	NU	Neutral	$23.99	$28	4.0%	19%	$2.51	10.0x	$25	8%	$26	12%
NSTAR	NST	Sell	$32.09	$32	4.7%	3%	$2.55	10.0x	$26	-16%	$29	-5%
NV Energy	NVE	Neutral	$11.59	$15	3.5%	31%	$1.41	9.0x	$13	13%	$14	24%
Portland General	POR	Neutral	$20.07	$24	5.1%	24%	$2.20	10.0x	$22	15%	$23	20%
SCANA	SCG	Neutral	$35.30	$42	5.3%	24%	$3.80	10.0x	$38	13%	$40	19%
Westar	WR	Neutral	$19.60	$24	6.0%	28%	$2.18	10.0x	$22	17%	$23	23%
Wisconsin Energy	WEC	Neutral	$45.11	$49	3.0%	12%	$4.63	10.0x	$46	6%	$48	9%
Mid & Small-Cap Mean					*4.0%*	*19%*				*9%*		*15%*
Mid & Small-Cap Median					*4.3%*	*21%*				*13%*		*18%*
Regulated Utilities Mean					*4.5%*	*16%*				*7%*		*12%*
Regulated Utilities Median					*4.7%*	*14%*				*8%*		*12%*

Source: Goldman Sachs Research estimates.

As investors begin to gain visibility on the improving power fundamentals in 2010, we believe multiples will expand for Regulated Utilities and the regulated segments within Diversified Utilities. We utilize a dual approach for valuing Regulated Utilities, applying a 50% weighting to our dividend discount model analysis (assuming a 9% cost of equity and a 2.5% terminal growth rate) and a 50% weighting to P/E multiples on projected longer-term 2012 earnings power. We raise our baseline P/E multiple on 2012 from 9.0X to 10.0X for Small & Mid Cap Regulated Utilities and 10.5X for large cap Regulated Utilities.

- **We reiterate our BUY rating on large-cap American Electric Power (AEP), our favorite large-cap regulated name, while affirming our Conviction Sell rating on Con Edison (ED).** AEP trades at a 16%-18% discount on projected 2010-2012 earnings power and provides an attractive dividend yield. We maintain our Conviction Sell rating on Con Edison given (1) relative valuation, (2) a projected $400mm equity issuance, which is at the high end of management guidance, and which we believe is imminent, and (3) unimpressive earnings growth.

We reiterate our Buy rating on Great Plains Energy (GXP), but remove it from the Conviction Buy list, and downgrade Portland General Electric (POR) from Buy to Neutral. We believe GXP trades at a substantial discount to peers on LT normalized estimates despite its top quartile earnings growth trajectory. We downgrade POR because we remain (1) below consensus estimates on 2010, and (2) see a better a better opportunity in CL Buy-rated GXP.

Primary catalysts and key risks

Catalysts:

In our view, a series of events, including various regulatory proceedings, a major industry conference and 3Q2009 reporting season will drive share prices in the near-term.

- **A number of rate cases and regulatory proceedings in the next 90-120 days are key to monitor:** Multiple companies within our universe – both among Regulated and Diversified Utilities – currently face key decision dates or interim recommendations on requests for revenue increases in rate case proceedings. Large cap names such as Progress Energy (Florida), Duke Energy (Carolinas) and Ameren (Missouri) will receive PSC staff recommendations or final orders in key rate cases that impact 2010.
- **A major industry conference – the EEI conference – in November will provide greater insight into 2010-2011 outlooks.** We expect many Regulated and Diversified Utilities in our universe to introduce guidance at the Edison Electric Institute's (EEI) Conference in early November. Given our 2010 forecasts, we anticipate guidance ranges for most companies reporting to be within the range of consensus expectations, with only a handful of disappointments or surprises.
- **Third quarter earnings presents a risk, although with EEI approaching, investors likely will focus more on 2010-2011:** While we are positioned below consensus into the 3Q2009 earnings season, our conversations with investors suggest the buy-side is ahead of sell-side estimates in anticipating that weak weather and commodity pricing will weigh on the quarter. We believe investors are more likely to be focused on long-term earnings potential and growth, and should react favorably to management commentary on (1) lower-than-expected equity financing needs in 2010, and (2) stabilizing demand fundamentals.

Exhibit 37: We are below consensus on Q3 2009 after incorporating new gas and demand forecasts, however we are increasingly confident investors will look through the quarter

	EPS GS FY 2009 Q3	EPS Cons FY 2009 Q3	% Dif.
NVE	$0.59	$0.74	-19.6%
NST	$0.80	$0.83	-2.6%
PGN	$1.11	$1.18	-5.5%
DUK	$0.36	$0.40	-8.3%
AEP	$0.80	$0.86	-6.3%
POR	$0.27	$0.27	1.3%
NU	$0.32	$0.38	-16.9%
PCG	$0.91	$0.92	-1.4%
CNL	$0.75	$0.76	-1.6%
SCG	$0.83	$0.79	4.5%
WEC	$0.49	$0.57	-14.6%
EE	$0.52	$0.58	-10.6%
GXP	$0.68	$0.78	-12.4%
WR	$0.81	$0.91	-10.6%
Average			-7.5%
AEE	$0.89	$1.00	-11.0%
EIX	$1.12	$1.03	8.7%
EXC	$0.92	$0.98	-6.0%
SRE	$1.17	$1.21	-2.7%
ETR	$2.58	$2.55	1.1%
Average			-2.0%

	EBITDA GS FY 2009 Q3	EBITDA Cons FY 2009 Q3	% Dif.
NRG	$699	$848	-17.5%
ORA	$38	$40	-5.7%
RRI	$133	$90	47.3%
Average			8.0%

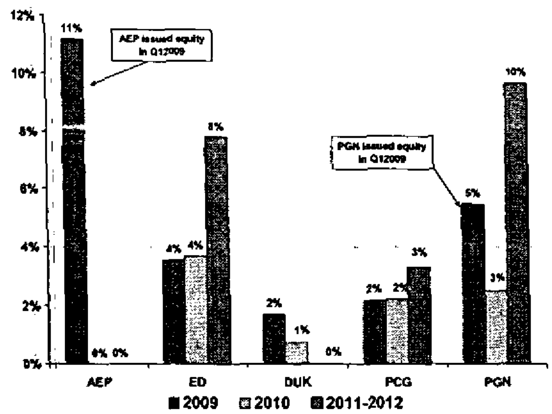
Source: Goldman Sachs Research, Quantum.

Risks:

Primary risks for utilities and power generators include (1) lower than expected power demand or power pricing, (2) increased environmental spending, and (3) higher than forecast financing needs.

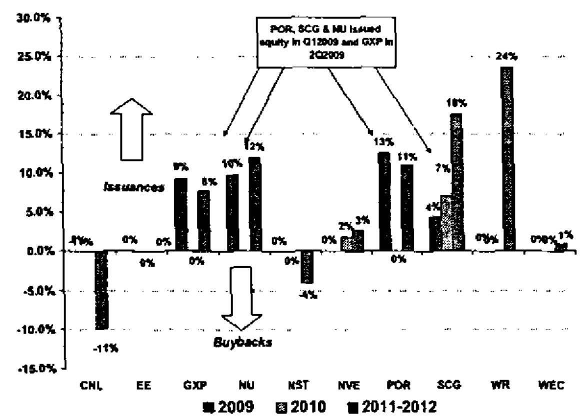
- **Demand risk** – Lower-than-expected electricity demand could decrease earnings for regulated segments and weaken overall commodity prices, negatively impacting IPPs and Diversified Utilities.
- **Environmental capital risk** – Increased requirements for pollution controls to reduce SOx, NOx or mercury emissions could drive higher spending or litigation risk for companies with coal fired generation.
- **Financing risk** – Unlike when entering 2009, where we forecast a sizable level of equity issuances for 1H2009, we do not see a broader "wave" of equity issuances in 2010, primarily due to company efforts to reduce spending levels. Higher than expected equity financing needs or rising cost of debt would negatively impact utility shares.

Exhibit 38: Among the large cap Regulated Utilities, ED has significant equity financing needs over 2009/2010
Net equity issuances among large cap regulated utilities as a percentage of market capitalization



Source: Goldman Sachs Research estimates.

Exhibit 39: Among the mid/small cap regulated utilities, there are few with significant equity needs
Net equity issuances among small/mid cap regulated utilities as a percentage of market capitalization



Source: Goldman Sachs Research estimates.

Appendices

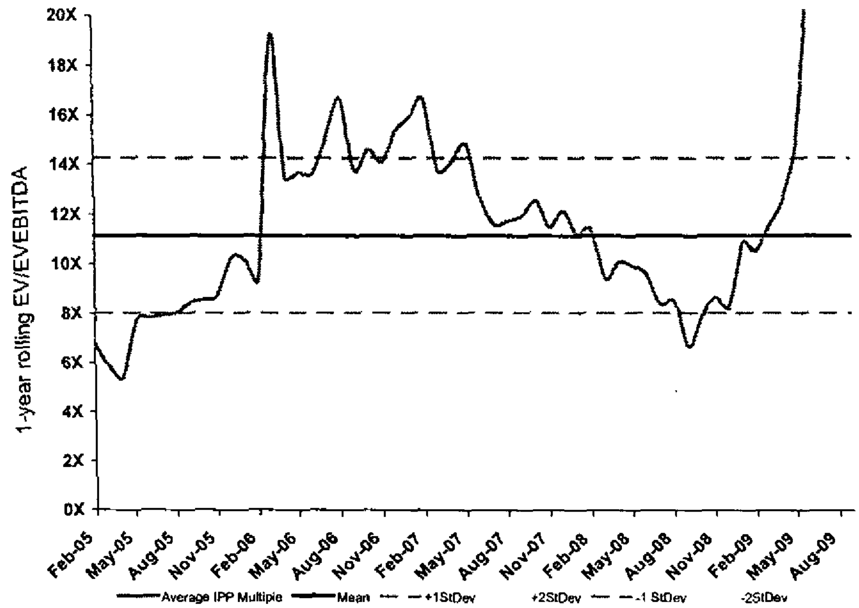
Appendix A: Sum of the parts valuation for Sempra Energy

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	$2.01			
SoCalGas 2012E EPS	$1.11			
Total	**$3.13**	**10.5x**	**(P/E)**	**$33**
Generation				
2011/2012 EBITDA	274	7.0x	(EV/EBITDA)	
Implied EV	$1,921			
Debt	$0			
Equity Value	**$1,921**			**$8**
Pipelines & Storage				
2012 EBITDA Forecast	$549	6.5x	(EV/EBITDA)	
Implied EV	$3,569			
Equity Value	**$3,569**			**$14**
LNG				
Cameron and Energia Costa Azul			(DCF)	**$11**
Commodities				
Book Value, SRE Portion	$1,600	1.0x	(P/B)	**$6**
Parent/Other				
Net Debt	$3,179			**($13)**
Total SoP Value				**$59**

Source: Goldman Sachs Research estimates.

Appendix B: One year forward EV/EBITDA multiples are extremely volatile

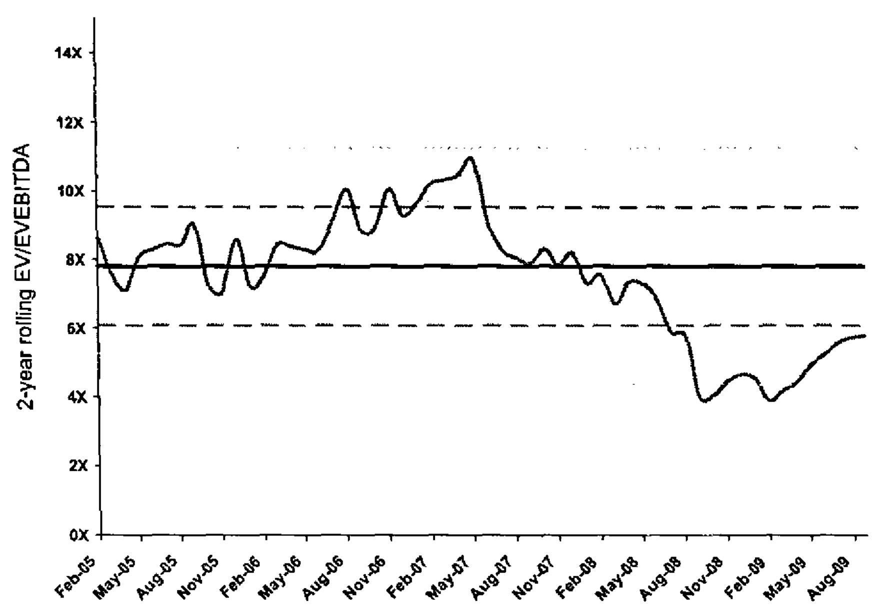
1 yr forward EV/EBITDA multiples of base-load IPPs (NRG, RRI, and MIR)



Source: Goldman Sachs Research Estimates, Factset.

Appendix C: Two year forward EV/EBITDA multiples remain one standard deviation below mean

2 yr forward EV/EBITDA multiples of base-load IPPs (NRG, RRI, and MIR)



Source: Goldman Sachs Research Estimates, Factset.

Appendix D: Old versus new EPS and EBITDA estimates

EPS Revisions		2009			2010			2011			2012		
	Ticker	Old	New	%	Old	New	%	Old	New	%	Old	New	%
Large Cap Regulated Utilities													
American Elec Power	AEP	$2.85	$2.70	-5%	$3.09	$2.99	-3%	$3.39	$3.33	-2%	$3.47	$3.45	-1%
Duke Energy	DUK	$1.19	$1.11	-7%	$1.17	$1.17	0%	$1.32	$1.30	-2%	$1.34	$1.34	0%
Consolidated Edison	ED	$3.03	$2.99	-1%	$3.22	$3.21	0%	$3.31	$3.31	0%	$3.45	$3.45	0%
PG&E	PCG	$3.08	$3.08	0%	$3.45	$3.45	0%	$3.81	$3.81	0%	$4.02	$4.02	0%
Progress Energy	PGN	$2.92	$2.88	-1%	$3.05	$2.99	-2%	$3.31	$3.32	0%	$3.46	$3.55	3%
Large Cap Average				-3%			-1%			-1%			0%
Mid & Small Cap Regulated Utilities													
Cleco	CNL	$1.68	$1.64	-2%	$2.14	$2.14	0%	$2.29	$2.27	-1%	$2.38	$2.39	0%
El Paso Electric	EE	$1.40	$1.34	-4%	$1.34	$1.28	-4%	$1.52	$1.47	-3%	$2.10	$2.10	0%
Great Plains Energy	GXP	$1.24	$1.17	-6%	$1.56	$1.54	-1%	$2.01	$2.01	0%	$2.13	$2.13	0%
NSTAR	NST	$2.32	$2.33	1%	$2.25	$2.29	2%	$2.49	$2.50	1%	$2.53	$2.55	1%
Northeast Utilities	NU	$1.76	$1.68	-4%	$1.89	$1.85	-2%	$2.02	$2.00	-1%	$2.52	$2.51	-1%
Portland General Electric	POR	$1.43	$1.45	1%	$1.66	$1.63	-2%	$2.21	$2.21	0%	$2.20	$2.20	0%
SCANA Corporation	SCG	$2.85	$2.85	0%	$3.07	$2.98	-3%	$3.35	$3.35	0%	$3.82	$3.80	-1%
NV Energy	NVE	$0.80	$0.69	-14%	$1.03	$0.94	-9%	$1.24	$1.12	-10%	$1.42	$1.41	0%
Wisconsin Energy	WEC	$3.14	$3.05	-3%	$3.98	$4.01	1%	$4.55	$4.13	-9%	$4.60	$4.63	1%
Westar Energy	WR	$1.75	$1.45	-17%	$1.80	$1.64	-9%	$1.79	$1.57	-13%	$2.36	$2.18	-8%
Mid & Small Cap Average				-5%			-3%			-4%			-1%
Regulated Average				-4%			-2%			-3%			0%
Diversified Utilities													
Ameren	AEE	$2.35	$2.21	-6%	$2.23	$2.12	-5%	$2.65	$2.50	-5%	$2.72	$2.60	-4%
Allegheny Energy	AYE	$2.15	$2.15	0%	$2.52	$2.47	-2%	$3.78	$3.57	-6%	$2.64	$2.42	-8%
Edison International	EIX	$2.97	$2.92	-2%	$3.57	$3.56	0%	$3.91	$3.84	-2%	$3.45	$3.33	-3%
Entergy	ETR	$6.56	$6.50	-1%	$6.82	$6.67	-2%	$8.07	$7.95	-1%	$8.35	$8.21	-2%
Exelon	EXC	$4.03	$4.02	0%	$3.62	$3.58	-1%	$4.11	$4.11	0%	$3.10	$3.04	-2%
Sempra Energy	SRE	$4.48	$4.46	0%	$4.95	$4.93	0%	$5.54	$5.55	0%	$5.60	$5.61	0%
Average				-2%			-2%			-2%			-3%
Independent Power Producers (IPPs)													
NRG Energy	NRG	$1.89	$1.86	-2%	$2.34	$2.34	0%	$2.31	$2.25	-3%	$2.11	$2.05	-3%
Ormat Technologies	ORA	$1.29	$1.23	-4%	$1.56	$1.27	-18%	$1.49	$1.25	-16%	$1.77	$1.35	-24%
RRI Energy	RRI	($0.84)	($0.77)	9%	$0.10	$0.19	103%	$0.53	$0.64	21%	$0.05	$0.21	NA
Average				1%			28%			1%			-13%

EBITDA Revisions		2009			2010			2011			2012		
IPPs	Ticker	Old	New	%	Old	New	%	Old	New	%	Old	New	%
NRG Energy	NRG	$2,462	$2,448	-1%	$2,620	$2,620	0%	$2,534	$2,513	-1%	$2,377	$2,355	-1%
Ormat Technologies	ORA	$151	$148	-2%	$197	$180	-9%	$263	$248	-6%	$297	$272	-8%
RRI Energy	RRI	$98	$141	44%	$513	$567	10%	$604	$664	10%	$386	$455	18%
Average				14%			1%			1%			3%

Source: Goldman Sachs Research Estimates, Factset; EBITDA estimates are Adjusted EBITDA, not GAAP EBITDA

Appendix E: Old versus new price targets

	Ticker	Old Price Target	New Price Target
Large Cap Regulated			
American Elec Power	AEP	$34	$37
Duke Energy	DUK	$14	$15
Consolidated Edison	ED	$35	$38
PG&E	PCG	$40	$43
Progress Energy	PGN	$36	$40
Small / Mid Cap Regulated			
Cleco	CNL	$24	$25
El Paso Electric	EE	$19	$21
Great Plains Energy	GXP	$21	$22
Northeast Utilities	NU	$25	$26
NSTAR	NST	$27	$29
NV Energy	NVE	$13	$14
Portland General Electric	POR	$22	$23
SCANA Corporation	SCG	$38	$40
Westar Energy	WR	$23	$23
Wisconsin Energy	WEC	$45	$48
Diversified Utilities			
Ameren	AEE	$23	$25
Allegheny Energy	AYE	$30	$31
Edison International	EIX	$33	$39
Entergy	ETR	$93	$101
Exelon	EXC	$60	$62
Sempra Energy	SRE	$54	$59
IPPs			
NRG Energy	NRG	$32	$37
Ormat Technologies	ORA	$43	$41
RRI Energy	RRI	$6	$9

Source: Goldman Sachs Research estimates, Factset.

Appendix F: National and regional weather-adjusted demand – YoY weather a headwind in 3Q09, but benefit in 4Q09/1Q10

Demand Forecasts		3Q2009	4Q2009	1Q2010	2Q2010	3Q2010	4Q2010	2010	2011	2012
National Weather Adjusted		**-2.9%**	**-2.2%**	**-0.6%**	**0.0%**	**0.8%**	**1.3%**	**0.4%**	**1.5%**	**1.7%**
National Non-Weather Adjusted		**-2.7%**	**-2.4%**	**-0.9%**	**0.3%**	**0.8%**	**1.3%**	**0.4%**	**1.5%**	**1.7%**
Mountain	NVE	-4.7%	-1.8%	0.5%	1.3%	0.8%	1.3%	1.0%	1.5%	1.7%
Pacific	POR	-1.9%	-2.4%	-0.5%	1.6%	0.8%	1.3%	0.8%	1.5%	1.7%
Middle Atlantic	EXC*	-3.0%	-2.3%	-1.4%	1.7%	0.8%	1.3%	0.6%	1.5%	1.7%
E. N. Central	EXC* AEP* DUK* WEC	-4.9%	-3.3%	-1.3%	1.2%	0.8%	1.3%	0.5%	1.5%	1.7%
W. N. Central	AEE GXP WR	-4.3%	-2.6%	-0.9%	0.0%	0.8%	1.3%	0.3%	1.5%	1.7%
New England	NST NU	-3.2%	-2.5%	-2.2%	1.2%	0.8%	1.3%	0.3%	1.5%	1.7%
East South Central	ETR*	-3.4%	-2.3%	0.71%	-3.01%	0.85%	1.28%	0.0%	1.5%	1.7%
South Atlantic	DUK* PGN SCG	-2.2%	-1.4%	-0.3%	-2.1%	0.8%	1.3%	-0.1%	1.5%	1.7%
West South Central	ETR* AEP* CNL EE	-0.2%	-1.4%	0.4%	-3.2%	0.9%	1.3%	-0.1%	1.5%	1.7%

* OPERATES IN MULTIPLE EIA JURISDICTIONS

NOTE - ASSUME HIGHER LONG-TERM GROWTH RATES FOR EE AND NVE GIVEN CUSTOMER GROWTH IN JURISDICTIONS

Source: GS Research Estimates, Factset.

Appendix G: AEP and GXP screen as Buys, while NST and ED screen as Sells

Target price and EPS summary

Target Price and EPS Summary	Ticker	Rating	Close 09/28/09	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	$31.13	$37	24%	$2.70	$2.99	$3.33	$3.45	11.5x	10.4x	9.3x	9.0x	5.3%
Duke Energy	DUK	Neutral	$15.93	$15	0%	$1.11	$1.17	$1.30	$1.34	14.4x	13.7x	12.3x	11.9x	5.8%
Consolidated Edison	ED	Sell	$41.40	$38	-3%	$2.99	$3.21	$3.31	$3.45	13.8x	12.9x	12.5x	12.0x	5.7%
PG&E	PCG	Neutral	$40.91	$43	9%	$3.08	$3.45	$3.81	$4.02	13.3x	11.8x	10.7x	10.2x	4.1%
Progress Energy	PGN	Neutral	$39.60	$40	7%	$2.88	$2.99	$3.32	$3.55	13.7x	13.2x	11.9x	11.2x	6.3%
Large-Cap Mean					8%					13.3x	12.4x	11.4x	10.8x	5.4%
Large-Cap Median					7%					13.7x	12.9x	11.9x	11.2x	5.7%
Mid & Small-Cap														
Cleco	CNL	Neutral	$25.10	$25	3%	$1.64	$2.14	$2.27	$2.39	15.3x	11.7x	11.0x	10.5x	3.6%
El Paso Electric	EE	Neutral	$17.84	$21	18%	$1.34	$1.28	$1.47	$2.10	13.3x	13.9x	12.1x	6.5x	0.0%
Great Plains Energy	GXP	Buy	$18.17	$22	26%	$1.17	$1.54	$2.01	$2.13	15.5x	11.8x	9.0x	8.5x	4.6%
NSTAR	NST	Sell	$32.09	$29	-5%	$2.33	$2.29	$2.50	$2.55	13.7x	14.0x	12.8x	12.6x	4.7%
Northeast Utilities	NU	Neutral	$23.99	$26	12%	$1.68	$1.85	$2.00	$2.51	14.2x	13.0x	12.0x	9.6x	4.0%
NV Energy	NVE	Neutral	$11.59	$14	24%	$0.69	$0.94	$1.12	$1.41	16.8x	12.3x	10.3x	8.2x	3.5%
Portland General Electric	POR	Neutral	$20.07	$23	20%	$1.45	$1.63	$2.21	$2.20	13.9x	12.3x	9.1x	9.1x	5.1%
SCANA Corporation	SCG	Neutral	$35.30	$40	19%	$2.85	$2.98	$3.35	$3.80	12.4x	11.8x	10.5x	9.3x	5.3%
Wisconsin Energy	WEC	Neutral	$45.11	$48	9%	$3.05	$4.01	$4.13	$4.63	14.8x	11.2x	10.9x	9.7x	3.0%
Westar Energy	WR	Neutral	$19.60	$23	23%	$1.45	$1.64	$1.57	$2.18	13.5x	12.0x	12.5x	9.0x	6.0%
Small / Mid Cap Mean					15%					14.3x	12.4x	11.0x	9.5x	4.0%
Small / Mid Cap Median					18%					13.8x	12.0x	11.0x	9.2x	4.3%
Regulated Utilities Mean					12%					14.0x	12.4x	11.1x	9.9x	4.5%
Regulated Utilities Median					12%					13.8x	12.3x	11.0x	9.6x	4.7%

Note: ED is on the Conviction List

Source: Goldman Sachs Research Estimates, Factset.

Appendix H: We reiterate Buy ratings on ETR and EXC, while upgrading RRI
target price and eps summary

P/E Multiples Summary														
			Close	Price	Tot Ret	Estimates				P/E Multiples			
	Ticker	Rating	09/28/09	Target	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	$25.74	$25	3%	$2.21	$2.12	$2.50	$2.60	11.7x	12.2x	10.3x	9.9x
Allegheny Energy	AYE	Neutral	$26.96	$31	17%	$2.15	$2.47	$3.57	$2.42	12.5x	10.9x	7.6x	11.1x
Edison International	EIX	Neutral	$34.01	$39	19%	$2.92	$3.56	$3.84	$3.33	11.6x	9.6x	8.9x	10.2x
Entergy	ETR	Buy	$79.64	$101	31%	$6.50	$6.67	$7.95	$8.21	12.3x	11.9x	10.0x	9.7x
Exelon	EXC	Buy	$50.12	$62	28%	$4.02	$3.58	$4.11	$3.04	12.5x	14.0x	12.2x	16.5x
Sempra Energy	SRE	Neutral	$50.17	$59	20%	$4.46	$4.93	$5.55	$5.61	11.2x	10.2x	9.0x	8.9x
		Diversified Utilities Mean			20%					12.0x	11.5x	9.7x	11.1x
		Diversified Utilities Median			19%					12.0x	11.4x	9.5x	10.0x
IPP's													
NRG Energy	NRG	Buy	$27.20	$37	36%	$1.86	$2.34	$2.25	$2.05	14.7x	11.6x	12.1x	13.3x
RRI Energy	RRI	Buy	$6.98	$9	29%	($0.77)	$0.19	$0.64	$0.21	NA	35.9x	10.9x	33.1x
		Special Situation and IPP Median			22%					24.0x	26.6x	18.6x	25.6x
		Special Situation and IPP Mean			29%					24.0x	32.2x	12.1x	30.5x

Note: ETR and RRI are on the Conviction List
Source: Goldman Sachs Research estimates, Factset.

Appendix I: Action Off: Americas Buy List – Portland General

Since being added to Americas Buy List on August 17, 2009 POR is up 5.7% versus the XLU up 2.8% and the S&P500 up 8.5%. In the last 12 months, POR is down 17.5% versus the S&P500 down 12.4%.

Company	Ticker	Primary analyst	Price currency	Price as of 09/28/09	Price performance since 08/17/09	3 month price performance	6 month price performance	12 month price performance
Americas Power & Utilities Peer Group								
Portland General Electric Co.	**POR**	**Michael Lapides**	$	20.09	5.7%	2.4%	16.9%	-17.5%
AGL Resources Inc.	AGL	Theodore Durbin	$	35.08	3.3%	11.2%	30.5%	8.6%
Allegheny Energy, Inc.	AYE	Michael Lapides	$	27.01	9.3%	4.0%	15.4%	-29.4%
Ameren Corp.	AEE	Michael Lapides	$	25.74	-1.3%	4.9%	10.4%	-35.9%
American Electric Power	AEP	Michael Lapides	$	31.18	0.9%	9.0%	18.7%	-16.1%
Atmos Energy Corp.	ATO	Theodore Durbin	$	28.31	2.6%	12.8%	19.9%	3.1%
Cleco Corp.	CNL	Michael Lapides	$	25.14	3.8%	15.3%	12.7%	-1.5%
Consolidated Edison, Inc.	ED	Michael Lapides	$	41.41	5.2%	11.8%	7.9%	-5.2%
Duke Energy Corporation	DUK	Michael Lapides	$	15.94	4.4%	10.6%	11.5%	-11.6%
Edison International	EIX	Michael Lapides	$	34.07	7.5%	8.9%	17.7%	-15.0%
El Paso Electric Co.	EE	Michael Lapides	$	17.84	13.3%	25.5%	29.7%	-16.8%
Entergy Corp.	ETR	Michael Lapides	$	79.80	2.1%	4.4%	17.4%	-11.9%
Exelon Corp.	EXC	Michael Lapides	$	50.22	1.9%	-0.9%	9.8%	-25.2%
Great Plains Energy Inc.	GXP	Michael Lapides	$	18.17	4.9%	17.8%	32.1%	-19.1%
Northeast Utilities	NU	Michael Lapides	$	24.02	1.7%	8.6%	10.7%	-7.3%
NRG Energy Inc.	NRG	Michael Lapides	$	27.15	-2.0%	14.1%	54.3%	2.8%
NSTAR	NST	Michael Lapides	$	32.11	1.0%	1.7%	2.3%	-6.3%
NV Energy, Inc.	NVE	Michael Lapides	$	11.60	-1.7%	7.7%	21.0%	14.7%
Ormat Technologies, Inc.	ORA	Michael Lapides	$	41.18	12.4%	4.5%	48.3%	-0.9%
PG&E Corporation	PCG	Michael Lapides	$	40.96	2.5%	7.9%	5.6%	6.8%
Progress Energy Inc.	PGN	Michael Lapides	$	39.66	1.3%	5.0%	10.0%	-9.6%
RRI Energy, Inc.	RRI	Michael Lapides	$	7.00	26.6%	54.2%	105.9%	-42.7%
SCANA Corp.	SCG	Michael Lapides	$	35.32	5.2%	10.0%	14.2%	-13.0%
Sempra Energy	SRE	Michael Lapides	$	50.24	-0.2%	0.9%	12.2%	-5.5%
Westar Energy Inc.	WR	Michael Lapides	$	19.62	-3.3%	6.5%	12.1%	-17.7%
WGL Holdings, Inc.	WGL	Theodore Durbin	$	33.60	1.7%	4.3%	1.2%	0.9%
Wisconsin Energy Corp.	WEC	Michael Lapides	$	45.16	0.9%	11.0%	10.5%	-1.2%
S&P 500				**1062.98**	**8.5%**	**15.7%**	**30.3%**	**-12.4%**
Index performance in stock price currency				**1062.98**	**8.5%**	**15.7%**	**30.3%**	**-12.4%**

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 database.

Appendix J: Action Off: Americas Conviction Buy List – Great Plains Energy

Since being added to Americas Conviction Buy List on August 17, 2009 GXP is up 4.9% versus the XLU up 2.8% and the S&P500 up 8.5%. In the last twelve months, GXP is down 19.1% versus the S&P500 down 12.4%.

Company	Ticker	Primary analyst	Price currency	Price as of 09/28/09	Price performance since 08/17/09	3 month price performance	6 month price performance	12 month price performance
Americas Power & Utilities Peer Group								
Great Plains Energy Inc.	**GXP**	**Michael Lapides**	**$**	**18.17**	**4.9%**	**17.8%**	**32.1%**	**-19.1%**
AGL Resources Inc.	AGL	Theodore Durbin	$	35.08	3.3%	11.2%	30.5%	8.6%
Allegheny Energy, Inc.	AYE	Michael Lapides	$	27.01	9.3%	4.0%	15.4%	-29.4%
Ameren Corp.	AEE	Michael Lapides	$	25.74	-1.3%	4.9%	10.4%	-35.9%
American Electric Power	AEP	Michael Lapides	$	31.18	0.9%	9.0%	18.7%	-16.1%
Atmos Energy Corp.	ATO	Theodore Durbin	$	28.31	2.6%	12.8%	19.9%	3.1%
Cleco Corp.	CNL	Michael Lapides	$	25.14	3.8%	15.3%	12.7%	-1.5%
Consolidated Edison, Inc.	ED	Michael Lapides	$	41.41	5.2%	11.8%	7.9%	-5.2%
Duke Energy Corporation	DUK	Michael Lapides	$	15.94	4.4%	10.6%	11.5%	-11.6%
Edison International	EIX	Michael Lapides	$	34.07	7.5%	8.9%	17.7%	-15.0%
El Paso Electric Co.	EE	Michael Lapides	$	17.84	13.3%	25.5%	29.7%	-16.8%
Entergy Corp.	ETR	Michael Lapides	$	79.80	2.1%	4.4%	17.4%	-11.9%
Exelon Corp.	EXC	Michael Lapides	$	50.22	1.9%	-0.9%	9.8%	-25.2%
Northeast Utilities	NU	Michael Lapides	$	24.02	1.7%	8.6%	10.7%	-7.3%
NRG Energy Inc.	NRG	Michael Lapides	$	27.15	-2.0%	14.1%	54.3%	2.8%
NSTAR	NST	Michael Lapides	$	32.11	1.0%	1.7%	2.3%	-6.3%
NV Energy, Inc.	NVE	Michael Lapides	$	11.60	-1.7%	7.7%	21.0%	14.7%
Ormat Technologies, Inc.	ORA	Michael Lapides	$	41.18	12.4%	4.5%	48.3%	-0.9%
PG&E Corporation	PCG	Michael Lapides	$	40.96	2.5%	7.9%	5.6%	6.8%
Portland General Electric Co.	POR	Michael Lapides	$	20.09	5.7%	2.4%	16.9%	-17.5%
Progress Energy Inc.	PGN	Michael Lapides	$	39.68	1.3%	5.0%	10.0%	-9.6%
RRI Energy, Inc.	RRI	Michael Lapides	$	7.00	26.6%	54.2%	105.9%	-42.7%
SCANA Corp.	SCG	Michael Lapides	$	35.32	5.2%	10.0%	14.2%	-13.0%
Sempra Energy	SRE	Michael Lapides	$	50.24	-0.2%	0.9%	12.2%	-5.5%
Westar Energy Inc.	WR	Michael Lapides	$	19.62	-3.3%	6.5%	12.1%	-17.7%
WGL Holdings, Inc.	WGL	Theodore Durbin	$	33.60	1.7%	4.3%	1.2%	0.9%
Wisconsin Energy Corp.	WEC	Michael Lapides	$	45.16	0.9%	11.0%	10.5%	-1.2%
S&P 500				**1062.98**	**8.5%**	**15.7%**	**30.3%**	**-12.4%**
Index performance in stock price currency				**1062.98**	**8.5%**	**15.7%**	**30.3%**	**-12.4%**

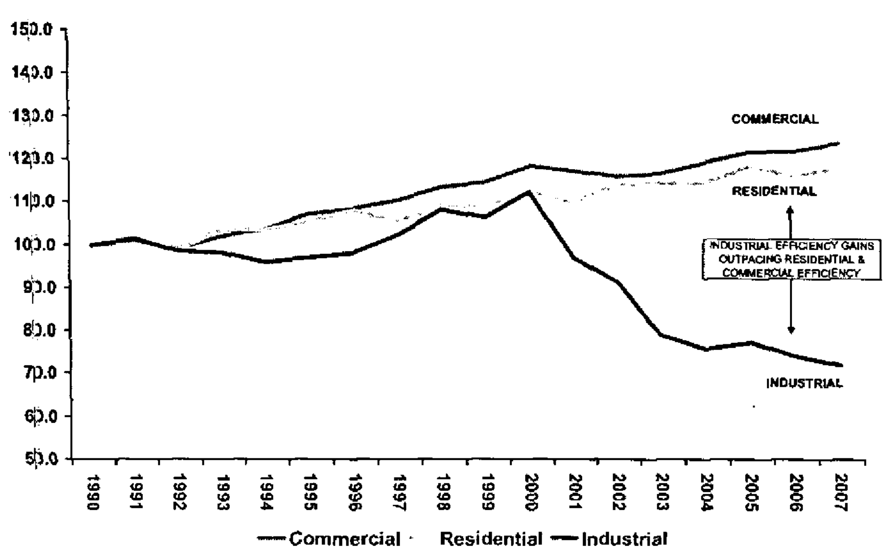
Note: Prices as of most recent available close, which could vary from the price date indicated above
This table shows movement in absolute share price and not total shareholder return. Results presented should not and cannot be viewed as an indicator of future performance.

Source: Factset, Quantum database.

Appendix K: We observed significant efficiency gains by the industrial customer class

electricity usage by customer, indexed to 1990 levels

Energy Efficiency By Customer Class: MWh per Customer Indexed to 1990 Levels



Source: Goldman Sachs Research estimates, Factset.

Appendix L: Valuation Methodology and Risks

Company	Ticker	Method.	Risks to Our Thesis
Diversified Utilities			
Ameren	AEE	SoP	Lower-than-expected environmental spending on its Illinois coal fleet, worse-than-expected outcome at the next Illinois power auction; Rate case risk
Allegheny Energy	AYE	SoP	LT Commodity prices as non-regulated business contributes bulk of earnings; higher-than-expected environmental spending at the coal plants
Edison International	EIX	SoP	Environmental capex potentially significant; Commodity risk due to minimal hedging
Entergy	ETR	SoP	LT Commodity prices put non-regulated earnings at risk; Hurricane cost recovery
Exelon	EXC	SoP	LT Commodity prices as company becomes increasingly dependent on nonregulated business; Regulatory risk in Illinois
Sempra Energy	SRE	SoP	Lower-than-expected earnings from trading business; Commodity price risk; SoCal utilities rate case risk
Regulated Utilities			
Large-Cap Regulated Utilities			
American Elec Power	AEP	DDM & P/E	Cost recovery of capital invested in major projects; Greater-than-expected wholesale margins and environmental capex; Above-average debt levels
Duke Energy	DUK	DDM & P/E	Rate case risk at DUK's regulated Franchise Electric business
Consolidated Edison	ED	DDM & P/E	Above-average growth; Equity issuances below guidance
PG&E	PCG	DDM & P/E	Delays in rate base growth
Progress Energy	PGN	DDM & P/E	Lower-than-expected rate base growth, regulatory proceedings, greater-than-anticipated financing requirements
Mid and Small-Cap Regulated Utilities			
Cleco	CNL	DDM & P/E	Rate case exposure in Louisiana after Rodemacher completion; worse-than-anticipated cash flows from non-regulated plants
El Paso Electric	EE	DDM & P/E	Operational risk at Palo Verde may lead to less FCF and lower-than-expected equity repurchases
Great Plains Energy	GXP	DDM & P/E	Risks to RoE in KS/MO; Greater-than-expected declines
Northeast Utilities	NU	DDM & P/E	Regulatory approval of transmission projects, construction risk, and general regulatory and rate case risk
NSTAR	NST	DDM & P/E	Higher-than-expected load growth, success in capturing incentive revenues, lower-than-expected O&M
NV Energy	NVE	DDM & P/E	Lower-than-expected rate base or load growth, long-term rate case risk
Portland General Electric	POR	DDM & P/E	Regulatory risk from the OPUC; long-term rate base growth that varies from our estimates
SCANA Corporation	SCG	DDM & P/E	Rate case risk, lower-than-expected gross margins, customer growth or market share at Scana Energy
Wisconsin Energy	WEC	DDM & P/E	Construction delays; Regulatory environment may become less friendly
Westar Energy	WR	DDM & P/E	Regulatory risk
Special Situation Utilities and IPPs			
NRG Energy	NRG	SoP	Delay/cost increases on planned construction; LT Commodity price risk; Lower-than-expected retail margins
Ormat Technologies	ORA	DCF	Elimination or reduction of Production Tax Credits; decreased capacity factors at existing plants; lower long-term commodity prices
RRI Energy	RRI	SoP	Lower LT 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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