

August 12, 2010

Industry View
In-Line

Elec. Utilities/Regulated California Regulatory Backdrop Appears Stable

What's new: Yesterday we held a video-conference with California Public Utility Commission President Michael Peevey to discuss the regulatory and political climate in California in light of current economic conditions. Our key takeaway is that the backdrop appears to be stable and we have no cause for concern that regulatory behavior will change demonstrably in PCCG's pending rate case, or the rate cases that will be filed shortly by both EIX and SRE.

Key Takeaway: Aggressive policy goals are achievable at a reasonable cost. The regulatory agenda in CA drives significant capital spending by the utilities infrastructure and prices will also see upward pressure over the next several years due to the state's aggressive renewable energy targets. However, President Peevey believes that as long as rate pressures are in line with growth in CPI that all of these aggressive policy goals can be met. He thinks this is feasible, especially with the recent decline in natural gas prices creating headroom for investment.

Key Takeaway: Authorized ROE's appear reasonable. President Peevey stated that it was his view that current allowed ROEs for the utilities in the state, while higher than the national average, appear "within the realm of reason" and commented that authorized returns in the state had been relatively stable for many years.

Governor's race creates some uncertainty but shouldn't impact longer term regulatory policy. While Meg Whitman appears less supportive of renewable energy development than Jerry Brown, President Peevey's view was that no matter the outcome of the election the broad policy goals of the state would not deviate demonstrably.

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Total	2,594		865		

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Industry Coverage: Elec. Utilities/Regulated

Company (Ticker)	Rating (as of)	Price* (08/11/2010)
Greg Gordon		
American Electric Power Company, Inc (AEP.N)	O (09/17/2009)	\$35.5
CMS Energy Corporation (CMS.N)	O (09/17/2009)	\$16.96
Consolidated Edison, Inc. (ED.N)	U (01/15/2010)	\$47.64
DTE Energy Company (DTE.N)	E (10/20/2009)	\$46.23
Duke Energy Corporation (DUK.N)	U (01/15/2010)	\$17.11
Hawaiian Electric Industries, Inc. (HE.N)	U (08/12/2010)	\$24.23
NSTAR (NST.N)	E (05/27/2010)	\$37.98
NV Energy, Inc. (NVE.N)	O (01/15/2010)	\$12.69
PG&E Corporation (PCG.N)	O (09/17/2009)	\$45.26
Pinnacle West Capital Corporation (PNW.N)	O (08/12/2010)	\$39.05
Progress Energy Inc. (PGN.N)	E (09/17/2009)	\$42.39
Southern Company (SO.N)	E (05/06/2010)	\$35.86
TECO Energy, Inc. (TE.N)	E (01/15/2010)	\$16.98
Westar Energy, Inc. (WR.N)	E (05/06/2010)	\$23.85
Wisconsin Energy Corporation (WEC.N)	O (11/16/2009)	\$55.19
Xcel Energy Inc. (XEL.N)	E (04/15/2010)	\$22.15

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