

UBS Investment Research

US Electric Utilities & IPPs

Global Equity Research

Americas

Electric Utilities

Sector Comment

No. 5

■ Gov. Brown names fifth and final commissioner to CPUC

Mark Ferron, the former COO of Deutsche Bank's Global Markets Division, was named as the fifth CPUC commissioner yesterday. Mr. Ferron's appointment fills the one remaining chair left to be filled by Gov. Brown. According to press reports, Ferron is well-known within Democratic circles in the Bay Area and the State, but is largely unknown elsewhere.

■ What does Mark Ferron bring to the table?

We think Gov. Brown has carefully selected a commission comprised of balance: President Peevey's background includes a respected track record in labor law and as a corporate executive (at EIX) while Simon's expertise is natural gas, infrastructure, and investments. Recent CPUC appointees Florio and Sandoval added consumer advocacy and telecommunications insight. And finally, Mark Ferron brings capital markets expertise. In the glass is half full category, Ferron should provide a voice of reason that understands where the tipping point is between investment appeal and consumer interests.

■ For now, PCG rate case still on tomorrows agenda

As of 4 pm (ET), PCG's pending general rate case remained on the agenda for a decision during tomorrows CPUC meeting. While the proposed and alternate decisions were largely supportive of PCG's negotiated settlement, which should suggest a smoother commission decision, we would not be surprised if a decision in the case was postponed to a subsequent meeting.

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www.ubs.com/investmentresearch**Jim von Rieseemann**

Analyst

jim.vonriesemann@ubs.com

+1-212-713-4260

Julien Dumoulin-Smith

Analyst

julien.dumoulin-smith@ubs.com

+1 212-713 9848

Aileen Long

Associate Analyst

aileen.long@ubs.com

+1 212 713 3475

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Risks for Utilities and Independent Power Producers (IPPs) primarily relate to volatile commodity prices for power, natural gas, and coal. Risks to IPPs also stem from load variability, and operational risk in running these facilities. Rising coal and, to a certain extent, uranium prices could pressure margins as the fuel hedges roll off Competitive Integrators. Further, IPPs face declining revenues as in the money power and gas hedges roll off. Other non-regulated risks include weather and for some, foreign currency risk, which again must be diligently accounted in the company's risk management operations. Major external factors, which affect our valuation, are environmental risks. Environmental capex could escalate if stricter emission standards are implemented. We believe a nuclear accident or a change in the Nuclear Regulatory Commission/Environment Protection Agency regulations could have a negative impact on our estimates.

Risks for regulated utilities include the uncertainty around the composition of state regulatory Commissions, adverse regulatory changes, unfavorable weather conditions, variance from normal population growth, and changes in customer mix. Changes in macroeconomic factors will affect customer additions/subtractions and usage patterns

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UBS 12-Month Rating	Rating Category	Coverage ¹	IB Services ²
Buy	Buy	49%	40%
Neutral	Hold/Neutral	42%	35%
Sell	Sell	8%	21%
UBS Short-Term Rating	Rating Category	Coverage ³	IB Services ⁴
Buy	Buy	less than 1%	14%
Sell	Sell	less than 1%	0%

1: Percentage of companies under coverage globally within the 12-month rating category.

2: Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3: Percentage of companies under coverage globally within the Short-Term rating category.

4: Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 31 December 2010.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	Definition
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

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Equity Price Targets have an investment horizon of 12 months.

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UBS Securities LLC: Jim von Riesemann; Julien Dumoulin-Smith; Aileen Long.

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

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