

North America

Industrials Utilities and Power

19 June 2011

DB Utilities and Power

Revisiting regulated utility valuations

Jonathan ArnoldResearch Analyst
(+1) 212 250-3182
jonathan.arnold@db.com**Lauren Duke**Associate Analyst
(+1) 212 250-8204
lauren.duke@db.com

Mid-year update - regulated utility values revisited

With this mid-year update we are refreshing target valuations for our regulated utility names. We have also refreshed the regulated utility component of the valuations for our less-regulated (diversified) coverage although we have generally not made adjustments to merchant and non-regulated components today. In terms of highlights our core target regulated multiple moves from 12x to 12.5x 2013E reflecting mostly time value. We have also downgraded one name – Dominion (D) – from Buy to Hold after recent outperformance.

Raising average 2013E multiple to 12.5x largely on time value

As noted we have raised our average regulated utility target multiple from 12x to 12.5x 2013E. This largely reflects a mid-year time value adjustment (2013 is now six months closer at hand) rather than a broad call for sector multiple expansion. Reflecting this we would note that the recent 2013 average multiple for regulated names on our 28-name watch list is closer to 13x, so our updated target does still continue to embed a modest contraction in multiple which we still believe is likely to occur assuming the broader stock market regains its footing and bond yields rebound from recent lows.

Calling time on D Buy after strong performance; raising most targets

As noted above, we are downgrading one name – Dominion Resources (D) – from Buy to Hold – although we have raised our price target from \$46.50 to \$48.50 (+4%) reflecting our valuation update. Buy-rated regulated names where we have raised our price targets are CMS (from \$20.50 to \$21), AEP (from \$39 to \$40.50) and ITC Holdings (from \$74 to \$76.50). Among our less-regulated Buys we have raised our target for EIX (from \$42 to \$44) while our target for PEG remains unchanged at \$38 as a higher regulated valuation is offset by a slight reduction in our 2012-13 estimates at Power. We have made numerous other adjustments to price targets as summarized in Figure 1 on page 2.

Relative values extended – less so if yields end up low for longer

The S&P Utilities currently trade at 13.3x on 12-month forward earnings or a premium of ~9% versus the S&P 500 at 12.1x. This premium compares to a 15% discount over the long-run (25-year) average and valuations are clearly being bolstered by the current low interest rate environment, with dividend yield relatives to bonds still looking attractive on both a pre-tax and tax-adjusted basis. While investors should certainly be aware of this extended relative valuation – recent macro data would suggest that the period of slower growth and low interest rates may be with us for longer than previously thought.

Premiums are the “new normal” for regulated values in era of low rates

While we are naturally skeptical of calling for a “new normal” in any context, we do believe it is reasonable to assume that relative valuations for regulated utilities may remain higher for longer to the extent that growth and rates also stay lower for longer. Supporting this thesis we include some new charts in this note which focus on relative regulated utility valuations over the shorter-term (since 2006) during which time average valuation versus the market has been a premium of ~4% and against which current trading levels – while still relatively high – look much less extended than versus their long-run average.

Deutsche Bank Securities Inc.

All prices are those current at the end of the previous trading session unless otherwise indicated. Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies. Deutsche Bank does and seeks to do business with companies covered in its research reports. Thus, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. DISCLOSURES AND ANALYST CERTIFICATIONS ARE LOCATED IN APPENDIX 1. MICA(P) 146/04/2011.

Deutsche Bank



Forecast Change

Top picks

American Electric Power (AEP.N),USD37.64	Buy
CMS Energy (CMS.N),USD19.68	Buy
Edison International (EIX.N),USD39.24	Buy
ITC Holdings (ITC.N),USD70.28	Buy
PSEG (PEG.N),USD31.56	Buy

Companies featured

American Electric Power (AEP.N),USD37.64	Buy
CMS Energy (CMS.N),USD19.68	Buy
CenterPoint Energy (CNP.N),USD18.74	Hold
Dominion Resources (D.N),USD47.66	Hold
DTE Energy (DTE.N),USD49.24	Hold
Duke Energy (DUK.N),USD18.74	Hold
Con Edison (ED.N),USD52.78	Hold
Edison International (EIX.N),USD39.24	Buy
Energy Corp. (ETR.N),USD69.35	Hold
Exelon (EXC.N),USD41.74	Hold
FirstEnergy (FE.N),USD43.74	Hold
ITC Holdings (ITC.N),USD70.28	Buy
NextEra Energy (NEE.N),USD56.63	Hold
NSTAR (NST.N),USD45.26	Hold
Northeast Utilities (NU.N),USD34.73	Hold
PG&E Corp (PCG.N),USD42.18	Hold
PSEG (PEG.N),USD31.56	Buy
Progress Energy (PGN.N),USD47.79	Hold
PPL Corp. (PPL.N),USD27.08	Hold
Southern Company (SO.N),USD39.81	Hold
TECO Energy (TE.N),USD18.61	Sell
Xcel Energy (XEL.N),USD24.56	Hold

DB Utilities and Power Research

Jonathan Arnold	212-250-3182
Caroline Bone, CFA	212-250-8253
Lauren Duke	212-250-8204
Keith Stanley, CFA	212-250-3890

This report changes ratings, price targets, and/or estimates for several companies under coverage. For a detailed listing of these changes, see Figure 1.

Revisiting regulated utility valuations

With this mid-year update we are refreshing target valuations for our regulated utility names. Where appropriate we have also refreshed the regulated utility component of the valuations for our less-regulated (aka diversified) coverage although we have generally not made adjustments to merchant and non-regulated components. In terms of highlights our core target regulated multiple moves from 12x to 12.5x 2013E reflecting mostly time value. We have also downgraded one name – Dominion (D) – from Buy to Hold after recent outperformance. A summary of our rating change and price target adjustments can be found in Figure 1 below.

Figure 1: Summary of Rating and Price Target Changes

	Stock Ticker	Current Price	DB Rating		Price Target		% Change
			New	Old	New	Old	
MOSTLY REGULATED							
AMERICAN ELECTRIC POWER	AEP	37.64	Buy	Buy	40.50	39.00	3.8%
CMS ENERGY	CMS	19.68	Buy	Buy	21.00	20.50	2.4%
ITC HOLDINGS	ITC	70.28	Buy	Buy	76.50	74.00	3.4%
CENTERPOINT ENERGY	CNP	18.74	Hold	Hold	19.50	19.00	2.6%
CON EDISON	ED	52.78	Hold	Hold	50.00	48.00	4.2%
DTE ENERGY	DTE	49.24	Hold	Hold	51.00	48.00	6.3%
DUKE ENERGY	DUK	18.74	Hold	Hold	19.00	18.00	5.6%
NORTHEAST UTILITIES	NU	34.73	Hold	Hold	35.50	34.00	4.4%
NSTAR	NST	45.26	Hold	Hold	46.50	44.50	4.5%
PG&E CORP	PCG	42.18	Hold	Hold	45.00	45.00	0.0%
PROGRESS ENERGY	PGN	47.79	Hold	Hold	49.50	47.00	5.3%
SOUTHERN COMPANY	SO	39.81	Hold	Hold	40.00	39.00	2.6%
XCEL ENERGY	XEL	24.56	Hold	Hold	25.50	25.00	2.0%
LESS REGULATED							
EDISON INTERNATIONAL	EIX	39.24	Buy	Buy	44.00	42.00	4.8%
PSEG	PEG	31.56	Buy	Buy	38.00	38.00	0.0%
DOMINION RESOURCES	D	47.66	Hold	Buy	48.50	46.50	4.3%
ENTERGY CORP.	ETR	69.35	Hold	Hold	72.00	70.00	2.9%
EXELON	EXC	41.74	Hold	Hold	44.00	42.50	3.5%
FIRSTENERGY	FE	43.74	Hold	Hold	45.00	43.00	4.7%
NEXTERAENERGY	NEE	56.63	Hold	Hold	57.00	55.00	3.6%
PPL CORP.	PPL	27.08	Hold	Hold	29.00	29.00	0.0%
TECO ENERGY	TE	18.61	Sell	Sell	17.00	16.50	3.0%

Source: Deutsche Bank

Raising our target regulated multiple – largely for time value

As highlighted on page 1, we are raising our core target multiple for regulated utilities from 12x 2013E to 12.5x. This mostly reflects an additional six months of time value (2013 is now closer at hand) and we also implicitly capture some – but by no means all – of the relative multiple expansion which regulated utilities have seen over the past several weeks.

Recent performance largely driven by macro and falling bond yields

As discussed below, we believe this has been largely coincident with the surprising reversal in 10-Year bond yields. Back in early April 10-Year yields seemed poised to move higher from their mid-3% level at the time, but instead confounded expectations and dropped back sub-3% in conjunction with a marked deterioration in the trajectory of macroeconomic data – the so-called “soft patch”. It may be coincidence but it intrigues us to note that the turning point in the relative fortunes of the S&P Utilities coincided to the day – April 11 – with the renewed downturn in 10-Year yields.

Relative yield support may last longer than we thought but our overall positioning within regulated utilities remains cautious

Current relative values unlikely to be sustained indefinitely

Coincidence or not, it now seems that the era of slower growth and low yields may be with us for longer than we thought – given which we expect regulated utility valuations to remain underpinned for longer by a strong bid for their relatively defensive growth plus yield profile. This said, our thesis remains that regulated utility stocks are trading at relative levels they are unlikely to sustain indefinitely – particularly as and when the market regains a growth footing and yields eventually move higher. While timing appears to be pushed out by the recent data, we continue to reflect an overall cautious stance towards the regulated group in 1) our assumed contraction in current trading multiples; 2) our limited list of Buy-rated names; and 3) our lack of Buys among classic larger-cap defensives which include ED, SO and DUK along with merger partner PGN.

DB regulated Buys focused on lower values and/or growth

Based on our 2013 estimates our regulated coverage universe currently trades at 13.0x 2013E so our target multiple continues to reflect a modest reversion in the group’s overall trading level. While earnings-based valuations have largely been overshadowed by yields in recent weeks – we continue to believe that regulated utilities will struggle to sustain current valuation levels as and when bond yields inevitably move higher again. With our valuations incorporating a modest contraction in the average regulated utility multiple, we continue to focus our recommendations on a relatively short list of names, which we believe offer above-average value and/or growth.

AEP: Attractive valuation with transmission growth opportunities

We are reiterating our Buy rating on AEP based on its attractive valuation and potential transmission growth opportunities. While we believe that AEP should trade at a discount to its mostly regulated peers based on regulatory uncertainty (Ohio) and its coal-heavy generation fleet, we view the current 15% discount as too significant. We also believe there could be potential positive catalysts for AEP if an environmental compliance agreement is reached with the EPA or if asset sales are announced.

CMS: Solid growth backed by Michigan’s constructive regulatory framework

We are reiterating our Buy on CMS based on solid growth opportunities, management’s execution track record, and the constructive regulatory framework established by Michigan’s 2008 energy legislation. We expect Michigan regulatory mechanisms (file-and-use rates and forward test years) to allow CMS’ utilities to earn their authorized returns and recover new investments to drive earnings growth for the next several years.

ITC: Sector standout as only public transmission company with top-tier growth

We are raising our ITC price target to \$76.50 from \$74 and maintaining our Buy rating. ITC continues to stand out among utility stocks as the only publicly-traded transmission company with earnings growth that is nearly four times as fast as the average regulated utility (16%/year through 2015). With the stock down close to 7% from its all time high reached in mid May and having underperformed regulated utilities by close to 100 basis points in the recent market malaise, we see an attractive entry point.

Bellwether large-cap regulated names look fairly/fully valued to us

Investors positioning for more than a temporary lull in the economic recovery may be more inclined to look at some of the bellwether larger-cap utility names where we do not see compelling near-term value, but defensive qualities may drive continued relative performance in a difficult macro tape. Within this group we would prefer Southern Company (SO) and the Duke Energy (DUK)/Progress Energy (PGN) combination and would be least inclined towards Consolidated Edison (ED) and PG&E Corp. (PCG). SO's relative valuation has suffered post-Fukushima (SO is trying to build the first new nuclear units in the US in close to 30 years) and currently offers one of the highest dividend yields in the regulated space (5.0%). The stock is trading at a 10% premium vs. peers as compared to its 15% historical average. The Duke Energy (DUK)/Progress Energy (PGN) combination, which will become the largest regulated utility in the US, also looks relatively more attractive than others (DUK is trading at a discount to the regulated utility average), offering strong dividend yields in the 5.3%-5.5% range. We see more limited upside in ED, as the stock is trading above its historical average premium and faces a potential ROE reset at CECONY to something in the low 9% range, which would negatively impact our outlook for the company. For PCG, we remain concerned that the aftermath of the San Bruno explosion will be an overhang on the stock, particularly while a new CEO has not yet been named.

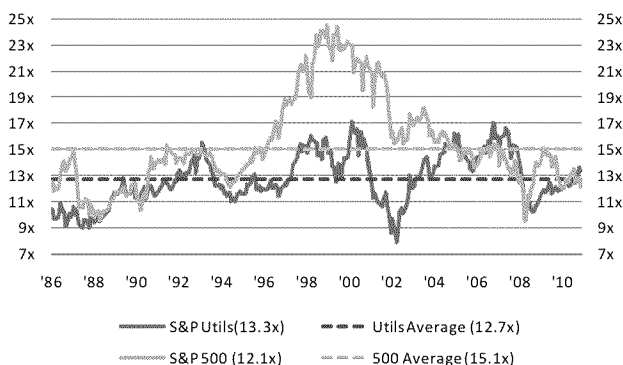
Within larger-cap classic defensives we would favor SO and DUK/PGN over ED and PCG

Valuations pushing towards long-run relative highs

Focusing on 12-month forward relative P/E, we currently show the S&P Utilities trading at 13.3x versus the S&P 500 at 12.1x. In absolute terms this puts the utilities sector at a ~5% premium to its long-run (25-year) average of 12.7x (Figure 2). Relative to the S&P 500 (Figure 3) the sector currently trades at a premium of ~9% or significantly above its long-run average of a 15% discount.

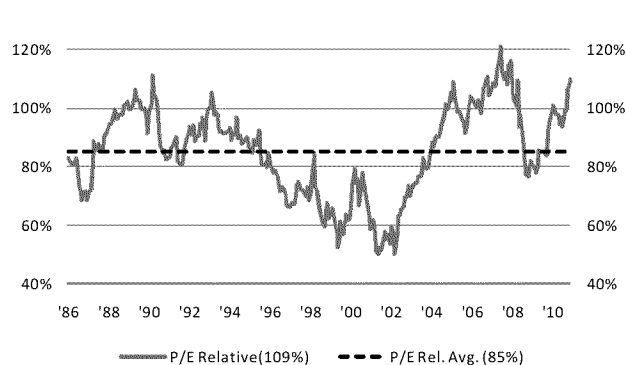
Relative multiple nearing 10% premium vs. long-run average 15% discount

Figure 2: S&P Utils and S&P 500 12M Forward P/E



Source: FactSet, CapitalIQ and DB Research

Figure 3: S&P Utils 12M Forward P/E Relative



Source: FactSet, CapitalIQ and DB Research

Regulated valuations at 16% relative premium

If we focus solely on the regulated group the current multiple is 14.1x or about 6% higher than the sector as a whole. This implies a premium of 16% versus the market or around 10% lower than the long-run average premium discussed above. While this suggests significant downside potential in relative valuations a significant mean reversion seems highly unlikely to occur so long as a macro environment with lower growth expectations and historically low interest rates persists.

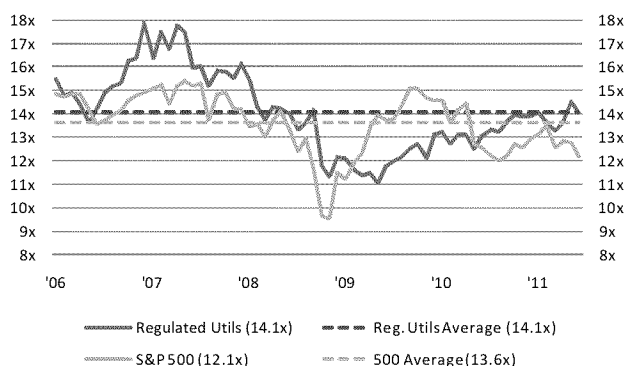
Decent case for an adjusted relative (excluding 1997-2002 anomaly)

Looking back at our 25-year history chart we would also note that utilities traded at their greatest relative discount in the five-year period from 1997-2002 when market multiples were peaking due to the dotcom bubble while utilities were facing up to their own sector-specific challenges in the shape of the California energy crisis, Enron’s bankruptcy and the subsequent power market bust. In many ways this period was the power sector’s “2008 moment” and it happened to occur at a time of much higher P/E’s in the broader market. Pulling out the period 1997-2002 from our relative analysis we calculate a long-run utility multiple closer to a 7% discount to the market than the 15% we see including all years.

Short-run average may be more meaningful guide in current macro environment

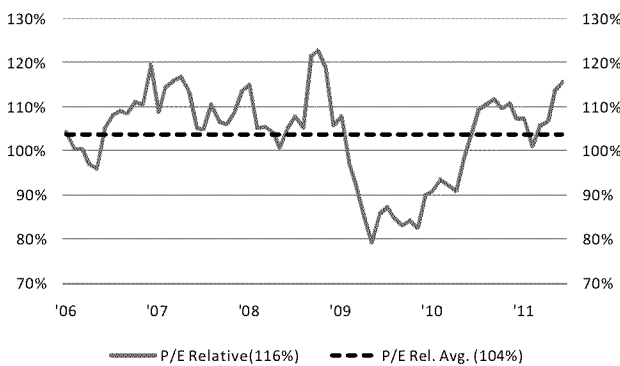
Similarly, if we look at the regulated utility group and confine ourselves to recent history (since 2006) rather than the long-run data, the current 14.1x multiple is more or less on par with the average in absolute terms (Figure 4) and the 16% premium compares to an average premium of 4% versus the market (Figure 5). So while we are generally reluctant to argue that “it’s different this time” or that utilities have somehow arrived at some kind of “new normal” in terms of relative value – we do believe that current valuations look far less extended when viewed against the context of the recent past and prevailing macro conditions (i.e. lower growth and low bond yields).

Figure 4: Regulated Utilities 12M Forward P/E vs. S&P 500



Source: FactSet, CapitalIQ and DB Research
Regulated Utilities: SO, DUK, AEP, PCG, ED, PGN, XEL, DTE, CNP, WEC, NU, NI, CMS, PNW and SCG

Figure 5: Regulated Utilities 12M Forward P/E Relative to S&P 500

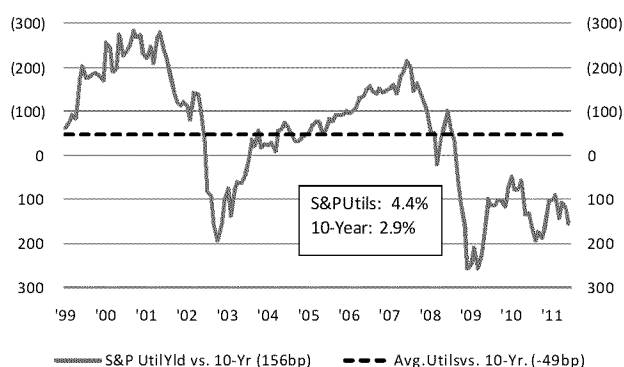


Source: FactSet, CapitalIQ and DB Research
Regulated Utilities: SO, DUK, AEP, PCG, ED, PGN, XEL, DTE, CNP, WEC, NU, NI, CMS, PNW and SCG

Yield relative still suggests significant headroom vs. normal

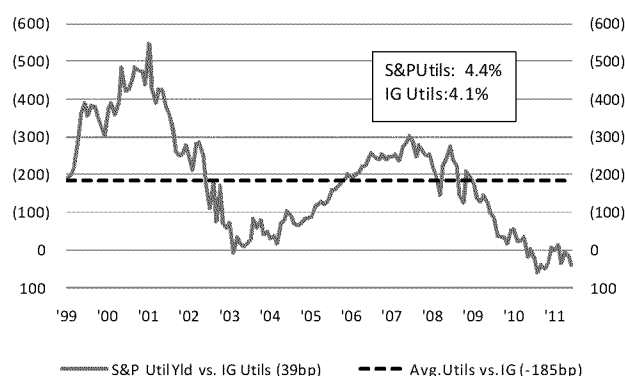
Turning our attention to yield – regulated and diversified names alike currently offer average pre-tax dividend yields of 4.4% on a 2012 basis. This yield clearly remains a key component of the investment case for most of our names and current levels are continuing to look attractive versus both 10-Year Treasuries as well as comparable investment grade utility bonds. Utility dividend yield spreads versus 10-Year Treasury bonds are currently ~156bps positive versus a long-run average of 49bps negative (Figure 6) suggesting that bond yields could move up ~205bps before utilities looked fundamentally expensive on relative yield. Headroom is greater still versus investment grade utility corporate bonds where the current spread is ~39bps positive versus an average of ~185bps negative.

Figure 6: S&P Utilities Yield vs. 10 Year Treasury



Source: FactSet, CapitalIQ and DB Research

Figure 7: S&P Utilities Yield vs. IG Utility Bonds

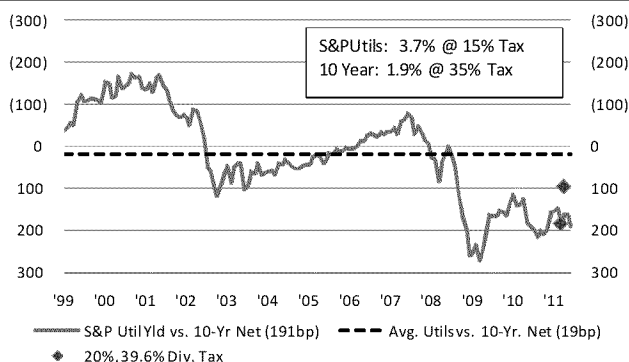


Source: FactSet, CapitalIQ and DB Research

Yield relatives still more likely to normalize via higher tax and higher yields than higher P/E we believe

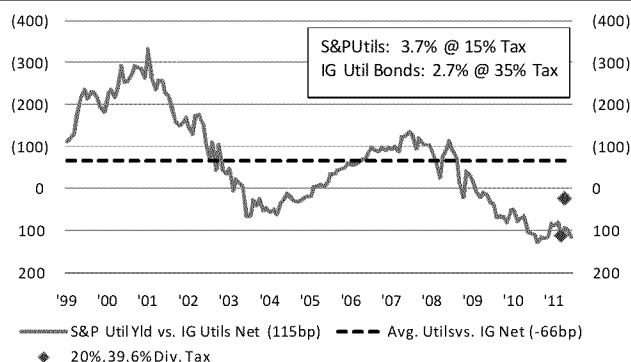
We also look at an after-tax analysis as it seems unlikely in the current fiscal environment that the favorable tax rate on dividends ends up being further extended beyond its current sunset in 2012. Figure 8 plots our yield relative history at prevailing top federal rates for both interest income and dividends with the red diamonds showing the effect of raising income tax rates from 35% to 39.6% (i.e. letting the Bush tax cuts expire) while raising dividend taxation to 20% (lower diamond) and a full 39.6% (upper diamond), respectively. Based on this tax adjusted analysis, we think utilities still have significant room for yields to move higher before looking fundamentally expensive. This said, from our point of view it continues to seem much more likely that current abnormal yield spreads inevitably normalize courtesy of higher interest rates than via significantly higher utility stock valuations.

Figure 8: Tax-Adjusted S&P Utilities Dividend Yield vs. 10 Year Treasury



Source: FactSet, CapitalIQ and DB Research

Figure 9: Tax-Adjusted S&P Utilities Dividend Yield vs. IG Utility Bonds



Source: FactSet, CapitalIQ and DB Research

Figure 10: Summary of Estimates and Estimate Changes

	Stock Ticker	2011E		2012E		2013E	
		New	Old	New	Old	New	Old
MOSTLY REGULATED							
AMERICANELECTRICPOWER	AEP	3.10	3.10	3.25	3.25	3.40	3.40
CENTERPOINTENERGY	CNP	1.07	1.07	1.15	1.15	1.23	1.23
CMS ENERGY	CMS	1.45	1.45	1.55	1.55	1.65	1.65
CON EDISON	ED	3.55	3.55	3.65	3.65	3.75	3.75
DTE ENERGY	DTE	3.55	3.55	3.75	3.75	3.95	3.95
DUKE ENERGY	DUK	1.40	1.40	1.40	1.40	1.45	1.45
ITC HOLDINGS	ITC	3.25	3.25	4.15	4.15	4.90	4.90
NORTHEASTUTILITIES	NU	2.35	2.35	2.45	2.45	2.65	2.65
NSTAR	NST	2.65	2.65	2.80	2.80	2.90	2.90
PG&E CORP	PCG	3.50	3.50	3.70	3.70	3.60	3.65
PROGRESS ENERGY	PGN	3.10	3.10	3.15	3.15	3.20	3.20
SOUTHERN COMPANY	SO	2.50	2.50	2.65	2.65	2.80	2.80
XCELENERGY	XEL	1.70	1.70	1.80	1.80	1.90	1.90
LESS REGULATED							
DOMINION RESOURCES	D	3.10	3.10	3.25	3.25	3.45	3.45
EDISON INTERNATIONAL	EIX	2.70	2.70	2.45	2.45	2.45	2.45
ENTERGY CORP.	ETR	6.60	6.60	6.00	6.00	6.05	6.05
EXELON	EXC	4.10	4.10	2.95	2.95	3.00	3.00
FIRSTENERGY	FE	3.30	3.30	3.20	3.20	3.20	3.20
NEXTERAENERGY	NEE	4.45	4.45	4.80	4.80	5.05	5.05
PPL CORP	PPL	2.60	2.65	2.35	2.35	2.45	2.45
PSEG	PEG	2.65	2.65	2.45	2.50	2.80	2.85
TECO ENERGY	TE	1.35	1.35	1.65	1.65	1.80	1.80

Source: Deutsche Bank

Figure 11: DB Price Targets, Total Returns and Valuation Methodologies

	Stock Ticker	DB Rating	Price 6/17/11	DB Price Target				2013E EPS	Actual P/E	Target P/E	Valuation Methodology
				Target	Return	Yld '12	TSR '12				
MOSTLY REGULATED											
AMERICAN ELECTRIC POWER	AEP	Buy	\$37.64	\$40.50	7.6%	5.0%	12.6%	3.40	11.1x	11.9x	Average 2013E multiple less 5% discount
CMS ENERGY	CMS	Buy	\$19.68	\$21.00	6.7%	4.5%	11.2%	1.65	11.9x	12.7x	Average 2013E multiple plus 3% premium
CENTERPOINT ENERGY	CNP	Hold	\$18.74	\$19.50	4.1%	4.4%	8.4%	1.23	15.3x	15.9x	Sum-of-parts: Electric 12.6x 2013E (1% premium); Gas Utilities 8x EV/EBITDA; Midstream 8.5x; Gas Services 6.5x
DTE ENERGY	DTE	Hold	\$49.24	\$51.00	3.6%	4.8%	8.4%	3.95	12.5x	12.9x	Sum-of-parts: Utilities at average multiple of 12.5x 2013E; Gas Midstream at 8.5x EV/EBITDA; P&I at 6x; Trading at 4x; E&P at blended \$0.79/mcfe
DUKE ENERGY	DUK	Hold	\$18.74	\$19.00	1.4%	5.4%	6.8%	1.45	12.9x	13.1x	Average 2013E multiple plus 4% premium
CON EDISON	ED	Hold	\$52.78	\$50.00	-5.3%	4.6%	-0.7%	3.75	14.1x	13.3x	Average 2013E multiple plus 7% premium
ITC HOLDINGS	ITC	Buy	\$70.28	\$76.50	8.9%	2.1%	10.9%	4.90	14.3x	15.6x	Average 2013E multiple plus 25% premium
NSTAR	NST	Hold	\$45.26	\$46.50	2.7%	4.0%	6.7%	2.90	15.6x	16.1x	Derivative of value for NU (1.312 x NU PT)
NORTHEAST UTILITIES	NU	Hold	\$34.73	\$35.50	2.2%	3.3%	5.5%	2.65	13.1x	13.4x	Average 2013E multiple plus 7% premium
PG&E CORP	PCG	Hold	\$42.18	\$45.00	6.7%	4.6%	11.3%	3.60	11.7x	12.5x	Average 2013E multiple
PROGRESS ENERGY	PGN	Hold	\$47.79	\$49.50	3.6%	5.2%	8.8%	3.20	14.9x	15.4x	Derivative of value for DUK (2.6125 x DUK PT)
SOUTHERN COMPANY	SO	Hold	\$39.81	\$40.00	0.5%	4.9%	5.4%	2.80	14.2x	14.3x	Average 2013E multiple plus 15% premium
XCEL ENERGY	XEL	Hold	\$24.56	\$25.50	3.8%	4.4%	8.2%	1.90	12.9x	13.4x	Average 2013E multiple plus 8% premium
LESS REGULATED											
DOMINION RESOURCES	D	Hold	\$47.66	\$48.50	1.8%	4.3%	6.1%	3.45	13.8x	14.1x	Sum-of-parts: VA utility 14.4x 2013E (15% premium); Generation at 8.75x (9% premium); Gas Distribution at 8x; Gas Transmission at 8.5x
EDISON INTERNATIONAL	EIX	Buy	\$39.27	\$44.00	12.0%	3.3%	15.4%	2.45	16.0x	17.9x	Sum-of-parts: SCE utility & parent 13.4x 2013E (7% premium); EME \$1/sh conservative recovery value
ENTERGY CORP.	ETR	Hold	\$69.35	\$72.00	3.8%	4.8%	8.6%	6.05	11.5x	11.9x	Sum-of-parts: Utilities at average multiple of 12.5x 2013E; Nuclear at 9.0x EV/EBITDA (13% premium)
EXELON	EXC	Hold	\$41.74	\$44.00	5.4%	5.0%	10.4%	3.00	13.9x	14.7x	Sum-of-parts: Utilities at average multiple of 12.5x 2013E; Generation at 9.5x EV/EBITDA (19% premium)
FIRSTENERGY	FE	Hold	\$43.74	\$45.00	2.9%	5.0%	7.9%	3.20	13.7x	14.1x	Based on 14.0x P/E multiple on 2013E, a meaningful premium to diversified utility group average given leverage to recovery and visible '14 EPS growth
NEXTERA ENERGY	NEE	Hold	\$56.63	\$57.00	0.7%	4.1%	4.7%	5.05	11.2x	11.3x	Sum-of-parts: Utilities at average 2013E multiple plus 4% premium; Resources at 8.75x EV/EBITDA (9% premium) plus NPV of tax benefits
PPL CORP.	PPL	Hold	\$27.08	\$29.00	7.1%	5.4%	12.4%	2.45	11.1x	11.8x	Sum-of-parts: KY/Int'l utilities at 13x 2013E (4% premium); PA at avg multiple of 12.5x; Generation at 8.5x EV/EBITDA; 3% discount for convert dilution
PSEG	PEG	Buy	\$31.56	\$38.00	20.4%	4.4%	24.8%	2.80	11.3x	13.6x	Sum-of-parts: PSE&G at average utility multiple of 12.5x 2013E; Power at 8.5x EV/EBITDA (6% premium) and Holdings at 5x EV/EBITDA
TECO ENERGY	TE	Sell	\$18.61	\$17.00	-8.7%	4.8%	-3.8%	1.80	10.4x	9.5x	Sum-of-parts: FL utilities at average multiple of 12.5x 2013E; Guatemala at 9x 2013E; TECO Coal at 4x EV/EBITDA; <\$1 for tax benefits
IPPs & MERCHANT											
CALPINE	CPN	Hold	\$15.55	\$17.00	9.3%	0.0%	9.3%	0.95	NM	NM	Applies 9.25x EV/EBITDA multiple (16% premium) to uncontracted (open) 2013 EBITDA; gives credit for value for LT contracts, NOLs, '14 growth
GENON ENERGY	GEN	Hold	\$3.79	\$4.00	5.5%	0.0%	5.5%	0.08	NM	NM	Applies an 8.75x EV/EBITDA multiple (9% premium) to uncontracted (open) 2013 EBITDA; includes NPV of potential environmental costs
NRG ENERGY	NRG	Hold	\$23.31	\$24.00	3.0%	0.0%	3.0%	0.01	NM	NM	Applies an 8.0x EV/EBITDA multiple to 2013 uncontracted (open) EBITDA; includes NPV of tax benefits, potential environmental costs, '14 growth

Source: Deutsche Bank

Figure 12: DB Utilities & Power Comparative Valuation Sheet (1)

DEUTSCHE BANK SECURITIES UTILITIES & POWER	Basic Ticker	Price 6/17/11	DB Rating	DB Price Target			52 Week		Shs (MM)	M. Cap. (\$Mn.)	EPS				P/E				DPS		Div. Yield		Payout Ratio	
				Target	Return	TSR '11	Low	High			2010	2011	2012	2013	2010	2011	2012	2013	2011	2012	2011	2012	2011	2012
MOSTLY REGULATED																								
AMERICAN ELECTRIC POWER	AEP	\$37.64	Buy	\$40.50	7.6%	12.5%	\$31.87	\$38.99	482	18,135	3.03	3.10	3.25	3.40	12.4x	12.2x	11.6x	11.1x	1.86	1.90	4.9%	5.0%	60%	58%
CMS ENERGY	CMS	\$19.88	Buy	\$21.00	6.7%	11.0%	\$14.47	\$20.46	252	4,966	1.36	1.45	1.55	1.65	14.5x	13.6x	12.7x	11.9x	0.84	0.89	4.3%	4.5%	58%	57%
CENTERPOINT ENERGY	CNP	\$18.74	Hold	\$19.50	4.1%	8.3%	\$12.96	\$19.57	425	7,972	0.98	1.07	1.15	1.23	19.1x	17.5x	16.3x	15.3x	0.80	0.82	4.3%	4.4%	75%	71%
DTE ENERGY	DTE	\$49.24	Hold	\$51.00	3.6%	8.1%	\$44.27	\$52.78	169	8,339	3.60	3.55	3.75	3.95	13.7x	13.9x	13.1x	12.5x	2.24	2.36	4.5%	4.8%	63%	63%
DUKE ENERGY	DUK	\$18.74	Hold	\$19.00	1.4%	6.7%	\$15.87	\$19.50	1,331	24,949	1.43	1.40	1.40	1.45	13.1x	13.4x	13.4x	12.9x	1.00	1.02	5.3%	5.4%	71%	73%
CON EDISON	ED	\$52.78	Hold	\$50.00	-5.3%	-0.7%	\$42.50	\$54.36	293	15,442	3.43	3.55	3.65	3.75	15.4x	14.9x	14.5x	14.1x	2.40	2.42	4.5%	4.6%	68%	66%
ITC HOLDINGS	ITC	\$70.28	Buy	\$76.50	8.9%	10.8%	\$61.65	\$74.67	51	3,587	2.84	3.25	4.15	4.90	24.7x	21.6x	16.9x	14.3x	1.40	1.47	2.0%	2.1%	43%	35%
NORTHEAST UTILITIES	NU	\$34.73	Hold	\$35.50	2.2%	5.4%	\$25.24	\$36.47	177	6,139	2.17	2.35	2.45	2.65	16.0x	14.8x	14.2x	13.1x	1.10	1.16	3.2%	3.3%	47%	47%
NSTAR	NST	\$45.26	Hold	\$46.50	2.7%	6.5%	\$34.46	\$47.45	104	4,688	2.56	2.65	2.80	2.90	17.7x	17.1x	16.2x	15.6x	1.70	1.80	3.8%	4.0%	64%	64%
PG&E CORP	PCG	\$42.18	Hold	\$45.00	6.7%	11.0%	\$40.52	\$48.63	398	16,786	3.42	3.50	3.70	3.60	12.3x	12.1x	11.4x	11.7x	1.82	1.96	4.3%	4.6%	52%	53%
PROGRESS ENERGY	PGN	\$47.79	Hold	\$49.50	3.6%	8.8%	\$38.96	\$49.03	295	14,075	3.06	3.10	3.15	3.20	15.6x	15.4x	15.2x	14.9x	2.48	2.48	5.2%	5.2%	80%	79%
SOUTHERN COMPANY	SO	\$39.81	Hold	\$40.00	0.5%	5.2%	\$33.00	\$40.87	849	33,804	2.36	2.50	2.65	2.80	16.9x	15.9x	15.0x	14.2x	1.89	1.96	4.7%	4.9%	76%	74%
XCEL ENERGY	XEL	\$24.56	Hold	\$25.50	3.8%	8.1%	\$20.47	\$26.39	484	11,891	1.62	1.70	1.80	1.90	15.2x	14.4x	13.6x	12.9x	1.04	1.07	4.2%	4.4%	61%	59%
ALLIANT ENERGY	LNT	\$39.73	--	--	--	--	\$31.12	\$42.14	111	4,408	1.96	2.89	2.99	3.12	20.3x	13.7x	13.3x	12.7x	1.70	1.79	4.3%	4.5%	59%	60%
DPL INC	DPL	\$30.06	--	--	--	--	\$23.73	\$30.45	117	3,515	2.01	2.42	2.46	--	15.0x	12.4x	12.2x	NA	1.31	1.40	4.4%	4.7%	54%	57%
GREAT PLAINS ENERGY	GXP	\$20.84	--	--	--	--	\$16.75	\$21.21	136	2,833	1.14	1.52	1.67	1.81	18.3x	13.7x	12.5x	11.5x	0.85	0.87	4.1%	4.2%	56%	52%
IDACORP	IDA	\$38.70	--	--	--	--	\$32.46	\$40.38	50	1,918	2.64	2.92	3.01	3.15	14.7x	13.3x	12.9x	12.3x	1.20	1.34	3.1%	3.5%	41%	44%
NISOURCE	NI	\$19.50	--	--	--	--	\$14.19	\$20.67	280	5,452	1.07	1.33	1.44	1.51	18.2x	14.6x	13.6x	13.0x	0.92	0.93	4.7%	4.7%	69%	64%
NV ENERGY INC	NVE	\$15.45	--	--	--	--	\$11.53	\$15.96	236	3,644	0.78	0.96	1.24	1.29	19.8x	16.0x	12.5x	11.9x	0.49	0.56	3.2%	3.6%	51%	45%
NORTHWESTERN CORP.	NWE	\$32.16	--	--	--	--	\$25.83	\$33.24	96	1,166	2.02	2.34	2.42	2.51	15.9x	13.7x	13.3x	12.8x	1.44	1.50	4.5%	4.7%	61%	62%
PS NEW MEXICO	PNM	\$16.54	--	--	--	--	\$10.81	\$16.57	91	1,513	0.94	0.83	1.23	1.40	17.6x	19.9x	13.5x	11.8x	0.50	0.55	3.0%	3.3%	60%	45%
PINNACLE WEST CAPITAL	PNW	\$43.85	--	--	--	--	\$35.71	\$45.64	109	4,780	0.91	3.08	3.37	3.51	48.2x	14.2x	13.0x	12.5x	2.12	2.23	4.8%	5.1%	69%	66%
PEPCO HOLDINGS	POM	\$19.27	--	--	--	--	\$15.40	\$20.36	226	4,351	1.31	1.23	1.30	1.39	14.7x	15.7x	14.9x	13.8x	1.09	1.09	5.6%	5.7%	89%	84%
PORTLAND GENERAL ELEC.	POR	\$25.45	--	--	--	--	\$18.08	\$26.04	75	1,917	2.85	2.03	1.90	2.01	8.9x	12.5x	13.4x	12.6x	1.06	1.09	4.2%	4.3%	52%	58%
SCANA	SCG	\$38.76	--	--	--	--	\$35.23	\$42.83	128	4,978	2.85	3.06	3.19	3.36	13.6x	12.7x	12.2x	11.5x	1.94	1.96	5.0%	5.1%	63%	62%
INTEGRYS	TEG	\$50.39	--	--	--	--	\$42.92	\$54.45	78	3,923	2.69	3.39	3.61	3.76	18.7x	14.9x	14.0x	13.4x	2.73	2.75	5.4%	5.5%	81%	76%
WISCONSIN ENERGY	WEC	\$31.21	--	--	--	--	\$24.71	\$31.89	234	7,295	3.20	2.09	2.27	2.35	9.8x	14.9x	13.7x	13.3x	1.03	1.18	3.3%	3.8%	49%	52%
AVERAGE - SIMPLE									Total	225,484					17.2x	14.8x	13.5x	13.0x			4.3%	4.5%	62%	61%
GROUP HIGH									DB Rated	170,774					48.2x	21.6x	16.9x	15.6x			5.6%	5.7%	89%	84%
GROUP LOW															8.9x	12.1x	11.4x	11.1x			2.0%	2.1%	41%	35%
LESS REGULATED																								
DOMINION RESOURCES	D	\$47.66	Hold	\$48.50	1.8%	5.9%	\$38.59	\$48.55	576	27,443	3.34	3.10	3.25	3.45	14.3x	15.4x	14.7x	13.8x	1.97	2.05	4.1%	4.3%	64%	63%
EDISON INTERNATIONAL	EIX	\$39.24	Buy	\$44.00	12.1%	15.4%	\$31.06	\$40.15	326	12,785	3.48	2.70	2.45	2.45	11.3x	14.5x	16.0x	16.0x	1.28	1.30	3.3%	3.3%	47%	53%
ENTERGY CORP.	ETR	\$69.35	Hold	\$72.00	3.8%	8.6%	\$64.72	\$80.80	178	12,342	7.10	6.60	6.00	6.05	9.8x	10.5x	11.6x	11.5x	3.32	3.32	4.8%	4.8%	50%	55%
EXELON	EXC	\$41.74	Hold	\$44.00	5.4%	10.4%	\$37.63	\$44.49	662	27,648	4.06	4.10	2.95	3.00	10.3x	10.2x	14.1x	13.9x	2.10	2.10	5.0%	5.0%	51%	71%
FIRSTENERGY	FE	\$43.74	Hold	\$45.00	2.9%	7.9%	\$34.51	\$45.80	418	18,293	3.61	3.30	3.20	3.20	12.1x	13.3x	13.7x	13.7x	2.20	2.20	5.0%	5.0%	67%	69%
NEXTERA ENERGY	NEE	\$56.63	Hold	\$57.00	0.7%	4.5%	\$47.96	\$58.98	422	23,896	4.30	4.45	4.80	5.05	13.2x	12.7x	11.8x	11.2x	2.20	2.30	3.9%	4.1%	49%	48%
PPL CORP.	PPL	\$27.08	Hold	\$29.00	7.1%	12.3%	\$24.10	\$28.38	577	15,629	3.13	2.60	2.35	2.45	8.7x	10.4x	11.5x	11.1x	1.42	1.45	5.2%	5.4%	54%	62%
PSEG	PEG	\$31.56	Buy	\$38.00	20.4%	24.7%	\$30.15	\$34.93	506	15,966	3.12	2.65	2.45	2.80	10.1x	11.9x	12.9x	11.3x	1.37	1.40	4.3%	4.4%	52%	57%
TECO ENERGY	TE	\$18.61	Sell	\$17.00	-8.7%	-4.0%	\$14.78	\$19.66	215	4,000	1.28	1.35	1.65	1.80	14.5x	13.8x	11.2x	10.4x	0.86	0.90	4.6%	4.8%	64%	54%
AMEREN	AEE	\$28.39	--	--	--	--	\$23.45	\$30.14	241	6,846	2.79	2.33	2.23	1.92	10.2x	12.2x	12.7x	14.8x	1.54	1.54	5.4%	5.4%	66%	69%
CONSTELLATION ENERGY	CEG	\$36.69	--	--	--	--	\$27.64	\$37.85	201	7,364	3.36	3.22	2.45	2.99	10.9x	11.4x	15.0x	12.3x	0.97	0.99	2.7%	2.7%	30%	40%
SEMPRA ENERGY	SRE	\$53.21	--	--	--	--	\$46.25	\$55.97	239	12,741	4.52	4.24	4.49	4.84	11.8x	12.6x	11.9x	11.0x	1.64	1.76	3.1%	3.3%	39%	39%
AVERAGE - SIMPLE									Total	184,952					11.4x	12.4x	13.1x	12.6x			4.3%	4.4%	53%	57%
GROUP HIGH									DB Rated	158,001					14.5x	15.4x	16.0x	16.0x			5.4%	5.4%	67%	71%
GROUP LOW															8.7x	10.2x	11.2x	10.4x			2.7%	2.7%	30%	39%
MERCHANT & IPPs																								
CALPINE	CPN	\$15.55	Hold	\$17.00	9.3%	9.3%	\$11.88	\$17.10	446	6,933	0.64	0.49	0.47	0.95	24.3x	31.7x	33.1x	16.4x	--	--	--	--	--	--
GENON ENERGY	GEN	\$3.79	Hold	\$4.00	5.5%	5.5%	\$3.49	\$4.35	771	2,924	0.37	(0.24)	(0.19)	0.08	10.2x	NM	NM	47.4x	--	--	--	--	--	--
NRG ENERGY	NRG	\$23.31	Hold	\$24.00	3.0%	3.0%	\$18.22	\$25.54	241	5,620	2.90	0.70	0.68	0.01	8.0x	33.3x	34.3x	NM	--	--	--	--	--	--
AES CORPORATION	AES	\$12.27	--	--	--	--	\$8.82	\$13.50	782	9,595	1.08	1.06	1.28	1.33	11.4x	11.6x	9.6x	9.2x	--	--	--	--	--	--
DYNEGY INC.	DYN	\$5.93	--	--	--	--	\$2.76	\$6.67	122	724	(1.25)	(1.59)	(1.47)	(1.14)	NM	NM	NM	NM	--	--	--	--	--	--
ORMAT TECHNOLOGIES	ORA	\$22.47	--	--	--	--	\$20.54	\$31.23																

Figure 13: DB Utilities & Power Comparative Valuation Sheet (2)

UTILITIES & POWER	Consensus EPS			Consensus P/E			EBITDA \$MM			EV/EBITDA			FCF Yield			Net Debt: Capital			Net Debt: EBITDA			EBITDA/Interest		
	2011	2012	2013	2011	2012	2013	2011	2012	2013	2011	2012	2013	2011	2012	2013	2011	2012	2013	2011	2012	2013	2011	2012	2013
MOSTLY REGULATED																								
AMERICANELECTRICPOWER	3.14	3.23	3.36	12.0x	11.7x	11.2x	4,729	4,911	5,093	7.6x	7.3x	7.1x	7.9%	4.1%	2.6%	55%	54%	53%	3.7x	3.6x	3.6x	4.8x	5.0x	5.1x
CMS ENERGY	1.46	1.55	1.65	13.5x	12.7x	12.0x	1,584	1,659	1,737	7.7x	7.6x	7.6x	1.5%	-3.8%	-5.6%	71%	71%	71%	4.6x	4.7x	4.7x	3.7x	3.8x	3.8x
CENTERPOINTENERGY	1.11	1.22	1.30	16.9x	15.3x	14.4x	2,147	2,238	2,279	8.0x	6.9x	6.8x	5.3%	5.5%	5.9%	73%	69%	67%	4.2x	3.4x	3.3x	3.7x	4.0x	4.5x
DTE ENERGY	3.59	3.78	3.98	13.7x	13.0x	12.4x	2,533	2,608	2,710	6.5x	6.2x	6.0x	1.9%	4.3%	2.7%	54%	52%	50%	3.2x	3.0x	2.9x	4.6x	4.7x	4.9x
DUKE ENERGY	1.37	1.40	1.44	13.6x	13.4x	13.0x	5,109	5,315	5,583	8.5x	8.3x	8.0x	-1.6%	4.0%	3.4%	45%	45%	45%	3.6x	3.6x	3.5x	5.6x	5.7x	6.0x
CON EDISON	3.54	3.69	3.84	14.9x	14.3x	13.7x	3,075	3,249	3,420	8.7x	8.4x	8.2x	-1.8%	-1.2%	-1.4%	49%	49%	50%	3.6x	3.7x	3.7x	5.1x	5.1x	5.1x
ITC HOLDINGS	3.31	4.03	4.80	21.2x	17.4x	14.6x	497	600	703	12.6x	11.2x	10.0x	-7.1%	-10.5%	-5.6%	69%	70%	69%	5.4x	5.3x	4.9x	3.8x	4.4x	4.6x
NORTHEAST UTILITIES	2.33	2.45	2.61	14.9x	14.2x	13.3x	1,311	1,383	1,455	8.9x	8.8x	8.7x	-3.4%	-4.2%	-7.3%	58%	58%	58%	4.2x	4.3x	4.4x	4.7x	4.5x	4.4x
NSTAR	2.65	2.77	2.81	17.1x	16.4x	16.1x	862	879	892	8.5x	8.3x	8.2x	6.5%	5.7%	5.2%	56%	55%	54%	3.1x	3.0x	3.0x	8.6x	7.8x	7.1x
PG&E CORP	3.51	3.70	3.70	12.0x	11.4x	11.4x	4,889	5,169	5,239	6.1x	5.9x	6.0x	2.9%	0.6%	0.4%	52%	51%	53%	2.7x	2.6x	2.8x	7.0x	7.3x	7.0x
PROGRESS ENERGY	3.13	3.21	3.34	15.3x	14.9x	14.3x	2,972	3,090	3,334	9.1x	9.0x	8.5x	3.1%	2.2%	1.8%	56%	56%	57%	4.4x	4.4x	4.3x	3.7x	3.7x	3.9x
SOUTHERN COMPANY	2.52	2.70	2.85	15.8x	14.7x	14.0x	5,816	6,175	6,651	9.5x	9.2x	8.8x	0.2%	-1.4%	-1.6%	54%	54%	54%	3.7x	3.7x	3.7x	6.3x	6.6x	6.7x
XCEL ENERGY	1.72	1.82	1.92	14.3x	13.5x	12.8x	2,698	2,813	2,945	8.2x	8.0x	7.8x	-1.8%	-0.1%	-4.4%	54%	54%	53%	3.8x	3.8x	3.8x	4.6x	4.7x	4.9x
ALLIANT ENERGY	2.89	2.99	3.12	13.7x	13.3x	12.7x	913	967	1,028	7.7x	7.3x	6.9x	NA	NA	NA	49%	NA	NA	2.9x	NA	NA	5.1x	NA	NA
DPL INC.	2.42	2.46	-	12.4x	12.2x	NA	624	632	-	7.5x	7.4x	NA	NA	NA	NA	50%	NA	NA	1.9x	NA	NA	8.8x	NA	NA
GREAT PLAINS ENERGY	1.52	1.67	1.81	13.7x	12.5x	11.5x	856	905	933	7.6x	7.2x	7.0x	NA	NA	NA	57%	NA	NA	4.3x	NA	NA	4.6x	NA	NA
IDACORP	2.92	3.01	3.15	13.3x	12.9x	12.3x	340	423	405	9.4x	7.6x	6.9x	NA	NA	NA	48%	NA	NA	3.8x	NA	NA	4.5x	NA	NA
NISOURCE	1.33	1.44	1.51	14.6x	13.6x	13.0x	1,524	1,623	1,692	7.7x	7.2x	6.9x	NA	NA	NA	56%	NA	NA	4.1x	NA	NA	3.9x	NA	NA
NV ENERGY INC	0.96	1.24	1.29	16.0x	12.5x	11.9x	1,002	1,132	1,153	9.1x	8.1x	7.9x	NA	NA	NA	63%	NA	NA	5.5x	NA	NA	2.9x	NA	NA
NORTHWESTERN CORP.	2.34	2.42	2.51	13.7x	13.3x	12.8x	272	282	283	7.8x	7.5x	7.4x	NA	NA	NA	54%	NA	NA	3.5x	NA	NA	4.0x	NA	NA
PS NEW MEXICO	0.83	1.23	1.40	19.9x	13.5x	11.8x	411	471	510	8.4x	7.3x	6.7x	NA	NA	NA	53%	NA	NA	4.7x	NA	NA	3.9x	NA	NA
PINNACLE WEST CAPITAL	3.08	3.37	3.51	14.2x	13.0x	12.5x	1,180	1,251	1,313	7.2x	6.8x	6.5x	NA	NA	NA	54%	NA	NA	3.1x	NA	NA	4.9x	NA	NA
PEPCO HOLDINGS	1.23	1.30	1.39	15.7x	14.9x	13.8x	1,078	1,157	1,206	9.2x	8.6x	8.2x	NA	NA	NA	57%	NA	NA	5.2x	NA	NA	3.2x	NA	NA
PORTLAND GENERAL ELEC.	2.03	1.90	2.01	12.5x	13.4x	12.6x	556	553	587	6.5x	6.5x	6.2x	NA	NA	NA	52%	NA	NA	3.1x	NA	NA	4.8x	NA	NA
SCANA	3.08	3.19	3.36	12.7x	12.2x	11.5x	1,140	1,248	1,282	8.3x	7.6x	7.4x	NA	NA	NA	56%	NA	NA	3.9x	NA	NA	4.3x	NA	NA
INTEGRYS	3.39	3.61	3.76	14.9x	14.0x	13.4x	773	814	839	7.7x	7.3x	7.1x	NA	NA	NA	42%	NA	NA	2.6x	NA	NA	4.8x	NA	NA
WISCONSIN ENERGY	2.09	2.27	2.35	14.9x	13.7x	13.3x	1,264	1,365	1,371	9.6x	8.9x	8.9x	NA	NA	NA	57%	NA	NA	3.9x	NA	NA	6.4x	NA	NA
AVERAGE - SIMPLE				14.8x	13.6x	12.9x				8.3x	7.8x	7.5x	1.1%	0.4%	-0.3%	55%	57%	56%	3.8x	3.8x	3.7x	4.9x	5.2x	5.2x
GROUP HIGH				21.2x	17.4x	16.1x				12.6x	11.2x	10.0x	7.9%	5.7%	5.9%	73%	71%	71%	5.5x	5.3x	5.3x	8.8x	7.8x	7.1x
GROUP LOW				12.0x	11.4x	11.2x				6.1x	5.9x	6.0x	-7.1%	-10.5%	-7.3%	42%	45%	45%	1.9x	2.6x	2.8x	2.9x	3.7x	3.8x
LESS REGULATED																								
DOMINION RESOURCES	3.15	3.24	3.46	15.2x	14.7x	13.8x	4,868	5,147	5,499	9.7x	9.4x	9.2x	0.0%	-2.4%	-3.4%	62%	62%	62%	4.0x	4.1x	4.2x	5.4x	5.2x	4.9x
EDISON INTERNATIONAL	2.78	2.66	2.72	14.1x	14.7x	14.4x	3,658	3,715	3,884	7.0x	7.4x	7.4x	-5.4%	-9.9%	-6.7%	54%	56%	58%	3.5x	3.9x	4.1x	4.7x	4.3x	4.2x
ENTERGY CORP.	6.59	6.14	5.97	10.5x	11.3x	11.6x	3,307	3,231	3,287	7.0x	7.4x	7.4x	7.5%	6.0%	9.4%	54%	55%	55%	3.3x	3.6x	3.7x	6.4x	5.5x	5.4x
EXELON	4.07	3.07	2.89	10.2x	13.6x	14.5x	6,121	5,095	5,318	6.5x	8.1x	8.0x	7.4%	0.5%	1.2%	45%	47%	48%	2.0x	2.7x	2.8x	8.3x	6.7x	6.5x
FIRSTENERGY	3.32	3.28	3.24	13.2x	13.3x	13.5x	4,165	4,264	4,276	7.3x	6.9x	6.7x	11.3%	10.3%	9.6%	58%	55%	52%	2.9x	2.6x	2.4x	5.7x	6.0x	6.5x
NEXTERA ENERGY	4.48	4.75	5.03	12.6x	11.9x	11.2x	4,839	5,208	5,885	9.7x	9.4x	8.4x	-8.9%	-8.8%	1.4%	60%	60%	59%	4.7x	4.9x	4.4x	4.9x	4.8x	5.2x
PPL CORP.	2.62	2.48	2.42	10.3x	10.9x	11.2x	4,036	4,180	4,504	7.9x	8.0x	7.6x	-0.2%	-7.0%	-8.8%	59%	59%	58%	4.1x	4.3x	4.2x	5.2x	4.8x	4.6x
PSEG	2.66	2.57	2.85	11.8x	12.3x	11.1x	3,774	3,630	3,999	6.4x	6.8x	6.3x	3.0%	0.8%	1.6%	44%	45%	45%	2.2x	2.4x	2.3x	7.7x	6.9x	7.2x
TECO ENERGY	1.37	1.56	1.61	13.6x	12.0x	11.6x	951	1,039	1,074	7.4x	6.6x	6.1x	7.1%	10.2%	12.8%	57%	54%	50%	3.2x	2.8x	2.4x	4.5x	5.3x	6.0x
AMEREN	2.33	2.23	1.92	12.2x	12.7x	14.8x	2,132	2,126	2,032	6.8x	6.8x	7.1x	NA	NA	NA	49%	NA	NA	3.6x	NA	NA	4.3x	NA	NA
CONSTELLATION ENERGY	3.22	2.45	2.99	11.4x	15.0x	12.3x	1,762	1,554	1,731	5.6x	6.4x	5.7x	NA	NA	NA	23%	NA	NA	1.4x	NA	NA	4.2x	NA	NA
SEMPRA ENERGY	4.24	4.49	4.84	12.6x	11.9x	11.0x	2,821	3,101	3,269	7.4x	6.8x	6.4x	NA	NA	NA	48%	NA	NA	2.9x	NA	NA	6.6x	NA	NA
AVERAGE - SIMPLE				12.3x	12.9x	12.6x				7.4x	7.5x	7.2x	2.4%	0.0%	1.9%	51%	55%	54%	3.2x	3.5x	3.4x	5.7x	5.5x	5.6x
GROUP HIGH				15.2x	15.0x	14.8x				9.7x	9.4x	9.2x	11.3%	10.3%	12.8%	62%	62%	62%	4.7x	4.9x	4.4x	8.3x	6.9x	7.2x
GROUP LOW				10.2x	10.9x	11.0x				5.6x	6.4x	5.7x	-8.9%	-9.9%	-8.8%	23%	45%	45%	1.4x	2.4x	2.3x	4.2x	4.3x	4.2x
MERCHANT & IPPs																								
CALPINE	0.17	0.20	0.66	89.7x	77.9x	23.6x	1,645	1,620	1,875	9.7x	9.9x	8.0x	-0.1%	1.4%	8.2%	66%	66%	61%	5.5x	5.6x	4.3x	2.1x	2.1x	2.5x
GENON ENERGY	(0.21)	(0.21)	0.04	NM	NM	84.9x	570	570	840	9.9x	10.4x	6.7x	-19.8%	-10.5%	2.7%	33%	36%	34%	4.7x	5.2x	3.2x	1.5x	1.6x	2.3x
NRG ENERGY	0.90	1.15	0.61	25.9x	20.3x	38.5x	1,900	1,885	1,770	7.2x	7.6x	7.8x	-34.0%	-10.4%	-5.2%	50%	51%	50%	4.2x	4.6x	4.6x	2.6x	2.7x	2.4x
AES CORPORATION	1.06	1.28	1.33	11.6x	9.6x	9.2x	4,713	4,641	5,664															

Company updates

American Electric Power (AEP)

We are raising our price target for AEP to \$40.50 from \$39 and are maintaining our Buy rating, based on attractive valuation, transmission growth opportunities, and potential positive catalysts. AEP trades at a 15% discount to regulated peers on 2013 versus our target 5% discount based on regulatory uncertainty and AEP's coal-heavy generation fleet. We also expect AEP to move forward on transmission growth opportunities, which we believe will drive growth for the next several years. Over the medium term, we also see potential positive catalysts (or at least the removal of an overhang) for AEP through the resolution of the Ohio ESP (particularly if a settlement is reached), an environmental compliance agreement with the EPA, or asset sales (Kentucky Power has been mentioned as a possible sale target by AEP management).

Valuation

We value AEP by applying an 11.9x P/E multiple to our 2013 EPS estimate of \$3.40. Our multiple reflects a 5% discount versus our target 12.5x regulated utility P/E multiple, which we view as reasonable given AEP's heavy reliance on coal generation, regulatory uncertainty, and less favorable service territories. These negative factors are partially offset by AEP's diversity in regulatory jurisdictions, growth opportunities (primarily transmission), and large cap premium.

Risks

AEP faces numerous regulatory events over the next several years, with capital spending and earnings growth dependent in large part on the outcome of regulatory proceedings. While we believe AEP's regulated investments could provide attractive long-term growth, the regulatory drag could delay the realization of those earnings increases. In the short term a slower economic recovery in its territories could depress growth at the utilities. The generation fleet is exposed to unplanned outages risk, which can reduce the company's ability to sell excess generation into the wholesale spot and forward markets. In addition, AEP's coal baseload generation facilities are susceptible to potentially costly carbon and other environmental legislation.

CenterPoint Energy (CNP)

We are raising our price target to \$19.50 from \$19 and are maintaining our Hold rating on CNP, as we believe CNP's current growth outlook and expected cash inflow from the Texas true-up remand proceeding (expected later this year) are mostly priced in. We believe investor focus for CNP is on the use of the expected cash from the true-up proceeding. We continue to expect CNP to target an electric utility acquisition based on management comments and additional midstream growth opportunities. CNP continues to consider forming an MLP for its midstream assets, but we do not believe a decision is imminent.

Valuation

We value CNP on a sum-of-the-parts basis. We apply a 12.6x P/E multiple to CNP's Houston Electric business, a 1% premium to our target multiple for regulated electric utilities reflecting CNP's attractive service territory. We apply an 8x EV/EBITDA multiple to the Natural Gas Distribution segment, in line with peers; 8.5x to the Interstate Pipelines segment, reflecting its supportive FERC regulation and higher average returns; and 8.5x to the Field Services segment, which we view as appropriate given its lack of regulation but supportive new contracts and significant growth opportunities. We value the Competitive Natural Gas Sales & Services segment at 6.5x and apply a 12.6x P/E to CNP's equity earnings from unconsolidated subsidiaries.

Figure 14: CNP 2013 Sum-of-the-Parts Valuation

Business Segment	Valuation Metric	2013E	Multiple	Value
Electric T&D	P/E	219	12.6x	2,760
Electric Utility Equity Value				2,760
Natural Gas Distribution	EV/EBITDA	437	8.0x	3,496
Comp. Natural Gas Sales & Services	EV/EBITDA	34	6.5x	224
Interstate Pipelines	EV/EBITDA	314	8.5x	2,668
Field Services	EV/EBITDA	264	8.5x	2,248
Parent/Other	EV/EBITDA	41	8.0x	328
Equity in Earnings	P/E	30	12.6x	379
Total Non-Utility Enterprise Value				9,342
Less: Non-Utility Net Debt (2013E)				(3,746)
Non-Electric Utility Equity Value				5,596
Total Equity Value				8,357
Diluted Average Shares Outstanding (2013E)				428
Equity Value Per Share				\$19.50

Source: Deutsche Bank

Risks

Upside risks for CNP include the formation of an MLP for CNP's midstream assets and an announcement of a major new growth project. Higher commodity prices would drive some upside to our EPS estimates. Weakening sales growth at the utilities without decoupling, sharply lower gas and NGL prices, and inability to execute on CNP's current growth outlook could also be downside risks to our EPS estimates.

CMS Energy (CMS)

We are raising our price target to \$21 from \$20.50 and are reiterating our Buy rating on CMS. We continue to view CMS as a relatively low risk, solid growth regulated utility with a constructive regulatory framework in Michigan and strong execution track record. We expect CMS' regulatory mechanisms (file-and-implement rates and forward test years) to allow the utility to earn its authorized return and will help minimize the impact of the weaker-than-average Michigan economy.

Valuation

We value CMS by applying a 12.9x P/E multiple (a 3% premium to our target 12.5x regulated utility multiple) to our 2013 EPS estimate of \$1.65. In our view, a slight premium for CMS is justified based on CMS' execution track record, Michigan's strong regulatory construct, and above-average growth partially offset by the impact of the less favorable Michigan economy and CMS' relatively high parent debt load.

Risks

The key downside risks for CMS include the disallowance of major capital spending projects, as we expect roughly \$6.4B of spending for 2011-2015 to drive rate base growth, and the inability of the utilities to earn their authorized returns. A renewed deterioration in Michigan's economy is also a downside risk for CMS, even if it is not as directly exposed since it has decoupling. A significant deepening of the recession in the state would likely further increase rate pressure and could restrict growth opportunities. Rising natural gas prices would be a risk since they would push CMS' expected annual electric rate increases higher.

Con Edison (ED)

We are raising our price target to \$50 from \$48, reflecting a higher target regulated utility P/E multiple, but are maintaining our Hold rating. ConEdison is arguably one of the lowest risk companies in our sector, with more than 90% of earnings generated by energy delivery and very limited exposure to pending Environmental Protection Agency regulations. In addition, ED has negotiated multi-year rate plans lasting through 2013 for its largest utility, CECONY, which minimizes any regulatory risk facing the company until then and should support earnings growth on par with the regulated utility average. While the stock is currently trading at a premium to peers that is slightly above what we believe is justified, we are reiterating our Hold rating. ED's stable dividend yield offsets the downside that we currently see in the stock price.

Valuation

Our price target is based on a 13.4x P/E multiple applied to our 2013E of \$3.75, which reflects a 7% premium to our target 12.5x regulated target multiple. We believe this premium is appropriate given ED's lower risk business model (mostly regulated T&D), above average regulatory certainty, history of delivering on guidance, and strong environmental and financial position.

Risks

Upside risks to our valuation and financial projections include better-than-anticipated performance under current rate plans at Con Edison of New York, stronger-than-anticipated earnings at the competitive business, faster-than-anticipated rate base growth/capital spending, lower-than-anticipated debt financing, reduced pension plan contribution requirements, and lower market interest rates. Downside risks include worse-than-expected rate case outcomes (particularly in CECONY's next electric rate case in 2012/2013), higher-than-expected financing needs, slower-than-anticipated rate base growth, weaker demand growth outlook for the region, and higher market interest rates.

Dominion Resources (D)

We are raising our price target to \$48.50 from \$46.50, but we are downgrading D to Hold from Buy as we believe D's strong regulated growth outlook and constructive regulatory framework are now mostly priced in. We continue to view D as a high quality utility with significant and relatively low risk regulated growth opportunities, as well as an attractively-positioned New England merchant generation fleet. We now believe D has a more balanced risk/reward based on 2011 guidance and D's future growth targets (our estimates are near the midpoint of these ranges) and believe D would need to drive earnings to the high end of these ranges (implying 2013 earnings power of ~\$3.70 versus our \$3.45 estimate) for there to be significant upside to D's current stock price based on our valuation methodology. We continue to believe D should trade at a premium to utility peers based on the growth opportunities in Virginia (electric transmission and generation) and near the Marcellus shale basin (gas transmission) and its solid regulatory construct, but note that our valuation implies a 12% premium to our target regulated utility multiple (D currently trades at a 7% premium).

Valuation

We value D on a 2013 sum-of-the-parts basis. We apply a premium 14.4x P/E multiple to D's Virginia Electric & Power Company subsidiary (electric distribution, transmission, and regulated generation), which reflects a 15% premium to our target 12.5x regulated multiple. We believe this premium is appropriate given the supportive regulatory environment and favorable recovery mechanisms in Virginia, as well as the state's mandate for D to invest in new generation. We apply an 8x EV/EBITDA multiple to D's gas distribution segment, a premium to the regulated average reflecting the regulatory construct in Ohio, and an 8.5x multiple to the gas transmission segment. We believe this premium is warranted given

FERC's recovery mechanisms and above-average ROEs. We apply a premium 8.75x multiple to the merchant generation fleet, reflecting D's net clean portfolio, its attractive market position in New England, exposure to future commodity/power improvements, and strong financial position as part of a large cap utility. We value the retail business using a 6.5x multiple, and Producer Services at 7.5x. Lastly, we apply an 8.75x multiple to the parent segment EBITDA.

Figure 15: D 2013 Sum-of-the-Parts Valuation

Business Segment	Valuation Metric	2013E	Multiple	Value
Virginia Electric & Power Co	P/E	\$2.15	14.4x	17,582
Gas Distribution	EV/EBITDA	410	8.00x	3,277
Gas Transmission	EV/EBITDA	974	8.50x	8,279
Utility Value				29,138
Merchant Generation	EV/EBITDA	714	8.75x	6,249
Dominion Retail	EV/EBITDA	142	6.50x	924
Producer Services	EV/EBITDA	35	7.50x	259
Corporate and Other	EV/EBITDA	21	8.75x	183
Non-Utility Enterprise Value				7,615
Total Enterprise Value				36,753
Less: Total Non-VEPCO Net Debt (2013E)				(9,158)
Total Equity Value				27,594
Diluted Average Shares Outstanding (2013E)				570
Equity Value Per Share				\$48.50

Source: Deutsche Bank

Risks

The key downside risk for D would be the disallowance of major capital spending projects, which drive our earnings growth outlook. Unfavorable changes to Virginia's regulatory framework, which continue to be proposed periodically in the legislature, would also be a negative. At the merchant generation segment, weaker gas and/or power prices would negatively impact our estimates and D's consolidated growth rate. Upside risks include higher gas and/or power prices than we assume at the merchant generation segment and significant additional growth opportunities at the regulated segments.

DTE Energy (DTE)

We are raising our price target to \$51 from \$48 and are maintaining our Hold rating on DTE based on our view that DTE's growth outlook and constructive Michigan regulatory framework are already mostly reflected in the current valuation. We continue to believe that the Michigan regulatory framework established by the 2008 state energy legislation (establishing file-and-use rates and forward test years) should allow DTE's utilities to earn their authorized returns. In our view, the key uncertainty is DTE's execution of the non-utility businesses, particularly at the Power & Industrial segment and the Gas Pipelines & Storage segment, which are driving growth. At P&I, we expect additional clarity over the next several months about the projected earnings power of the Reduced Emissions Fuel (REF) business, to help narrow the \$25M-\$75M earnings potential range that DTE has provided for 2013-15.

Valuation

We value DTE on a sum-of-the-parts basis. We value Detroit Edison and MichCon at \$44-\$45 by applying a P/E multiple of 12.5x to our 2013 EPS estimates, which is in line with our target regulated utility multiple. In our view, the utilities' supportive Michigan regulatory construct and slightly above-average growth offset a relatively weak service territory. We value DTE's

non-utility businesses at \$6-\$7. We apply an 8.5x EV/EBITDA multiple to the Gas Pipelines and Storage segment, which is a premium to the average regulated utility multiple. In our view, this premium is justified given the segment's FERC-regulated gas pipeline and storage assets that are allowed a higher ROE than the average utility and growth opportunities in the Marcellus shale region. We apply a 6x multiple to the Power and Industrial segment and 4x to the volatile Energy Trading segment. We also add in the NPV (using a 10% discount rate) of our estimate of the future tax credits from DTE's Reduce Emissions Fuel (REF) business, which last for 10 years. We value DTE's western Barnett Shale E&P assets by applying a blended \$0.79/Mcfe value to 2010 proved and probable reserves of 555 Bcfe.

Figure 16: DTE 2013 Sum-of-the-Parts Valuation

Business Segment	Valuation		Multiple	Value
	Metric	2013E		
Detroit Edison	P/E	\$2.91	12.5x	6,339
MichCon	P/E	\$0.66	12.5x	1,430
Utility Equity Value				7,769
Gas Pipelines and Storage	EV/EBITDA	101	8.50x	858
Power & Industrial(Excl. REF)	EV/EBITDA	112	6.00x	670
Reduced Emissions Fuel Tax Credit NPV				184
Energy Trading	EV/EBITDA	51	4.00x	205
Unconventional Gas Production	\$/Mcfe	555	\$0.79	440
Total Non-Utility Enterprise Value				2,357
Less: Non-Utility Net Debt (2013E)				(1,179)
Non-Utility Equity Value				1,178
Total Equity Value				8,947
Diluted Average Shares Outstanding (2013E)				174
Equity Value Per Share				\$51.00

Source: Deutsche Bank

Risks

Upside risks include stronger rate base growth than we assume and a stronger economic recovery, which could increase capital spending opportunities. Detroit Edison earning above their authorized ROE would also be an upside risk. Asset sales, particularly the Barnett Shale assets, would offset some of our expected equity issuance assumptions. Stronger than expected earnings from the Reduced Emissions Fuel (REF) business is also a risk. Downside risks include less favorable rate case outcomes than we assume, especially if they disallow capital spending, and a renewed economic downturn in Michigan.

Duke Energy (DUK)

We are increasing our price target for Duke Energy by \$1 to \$19 to reflect a higher target regulated utility base P/E multiple and are maintaining our Hold rating. While we view DUK's planned merger with Progress Energy (PGN) favorably, we believe the market is already pricing in most, if not all, of the potential earnings upside associated with the merger. Once merged, DUK and PGN expect to deliver EPS growth of 4-6% per year off DUK's standalone 2011 EPS. While the deal makes strategic sense given the opportunity for merger synergies and the creation of a stronger platform to cope with more stringent environmental regulations, the new DUK will still be a utility with an average growth profile and a relatively full valuation. We also continue to believe the outlook for DUK standalone for 2012 could be negatively impacted by unresolved issues in Indiana regarding the Edwardsport IGCC plant and in Ohio regarding a new Standard Service Offer agreement. In addition, we see risks that DUK and PGN could be forced to promise savings to ratepayers in the Carolinas through the merger approval process and future rate cases, which would negatively impact the economics of the deal.

Valuation

We value DUK by applying a 13.0x P/E multiple to our 2013E of \$1.45. We believe DUK deserves a modest premium (4%) versus regulated peers, reflecting its position as one of the largest market capitalization utilities in the sector with above average regulatory diversity. These positive attributes are tempered by regulatory uncertainty facing its utilities in Indiana and Ohio, a below average environmental position given a heavy reliance on coal-fired generation (48% of total capacity), below normal growth potential, and perceived execution and consistency challenges (problems meeting long-term growth targets).

Risks

Upside risks to our Hold rating and price target include better-than-expected regulatory outcomes in future rate cases, a faster-than-anticipated economic recovery, and stronger results from DUK's non-utility operations. Downside risks include the potential for regulatory disappointments and continued margin compression at Commercial Power. Additionally, the company's international assets are subject to sovereign risk and foreign currency exchange volatility.

Edison International (EIX)

We are raising our price target to \$44 from \$42 and are reiterating our Buy on EIX as we continue to view Southern California Edison (EIX's utility) as a premium utility with above-average growth that is aligned with state policy goals and a strong management execution track record. Edison Mission (EIX's merchant generation subsidiary) is an out of the money option on a power price recovery, but we continue to believe that management is focused on value creation, either by working the issues over time to wait out a power market recovery or by monetizing the assets. We also note that management is focusing more on highlighting Edison Mission's option value, as shown in recent presentations and meetings (such as at our conference in May). We believe Edison Mission could provide a catalyst for the stock, if an asset sale is announced or resolutions to the credit-related challenges or environmental capex financing are reached.

Valuation

We value EIX on a sum-of-the-parts basis. We apply a premium 13.4x P/E multiple to our 2013 estimate for Southern California Edison (SCE) to value the utility at ~\$45 per share. Our multiple reflects a 7% premium to our target 12.5x regulated utility multiple, which we believe is appropriate given SCE's relatively favorable environmental position, above-average growth expectations, the utility's attractive Southern California service territory, and management's execution track record. We then subtract parent expenses of \$2 per share. We value EME at zero plus the potential value we believe could be extracted from the business (~\$1 per share). In our view, EME should not be valued at less than zero despite the fact that our estimate of its obligations (including future environmental spending) outweighs the value we see provided by EME's cash flows. This is because its debt is non-recourse to EIX, and we do not expect management to provide additional capital to the business while it faces such challenging conditions and until there is greater clarity on eventual environmental requirements.

Risks

In our view, the primary downside risk for EIX is disallowance or delays of major capital spending at SCE, which drives EIX consolidated EPS. We view this risk as most significant for SCE's transmission projects, which have historically had problems with delays throughout the regulatory review process. The inability of EIX management to extract or rebuild value from within EME or to add leverage on the wind assets (restricting cash flexibility) are also risks for EIX. We also view the regulatory uncertainty in California as a lingering concern for SCE as Governor Jerry Brown has appointed three new commissioners this year, including two with consumer advocacy backgrounds.

Entergy Corp (ETR)

We are raising our price target by \$2 to \$72, reflecting a higher regulated utility multiple embedded in our sum-of-the-parts valuation, but are maintaining our Hold rating given limited upside and continued nuclear relicensing overhangs. We expect above average growth at Entergy's utilities in the South (6-8% net income growth per year), but expect challenged forward power prices and nuclear plant relicensing hurdles, including the potential shutdown of the Vermont Yankee nuclear plant, to weigh on Entergy's merchant nuclear business. While ETR remains well positioned in the current market environment relative to some other integrated utilities, with an above average utility earnings weighting and decent cash flow, we would feel more comfortable constructing a bull case for ETR stock if it were discounting a more unfavorable outcome regarding relicensing risks for some of its nuclear units.

Valuation

Our valuation is based on a sum-of-the-parts analysis that attributes \$66 to the Utilities and \$6 to Non-utility Nuclear and Parent & Other. We calculate the Utility value by applying a 12.5x multiple to our 2013 EPS estimate of \$5.29. Our valuation for Non-Utility Nuclear is based on 2013E adjusted EBITDA and 9.0x EV/EBITDA multiple. Our EBITDA forecast for the nuclear segment is adjusted for the non-cash Palisades PPA accrual (\$18M in 2013), and projected NYPA value sharing payments of \$72M. The former is a non-cash revenue item while the latter is a cash expense booked in the investing section of the cash flow statement. Both relate to accounting treatment of the acquired assets and are not typically adjusted in company presentations of EBITDA. Given that in 2013 they represent around 20% of Entergy Nuclear's EBITDA we believe investors should adjust for them in valuation work. Finally, we subtract estimated non-utility net debt of \$2.5B to get to our non-utility equity value of \$1.0B or about \$6/sh.

Figure 17: ETR Sum-of-the-Parts Valuation

Business Segment	Valuation Metric	2013E	Multiple	Value
Utility	P/E	\$5.29	12.50x	11,335
Utility Equity Value				11,335
Adjusted Nuclear Generation	EV/EBITDA	356	9.00x	3,204
Parent & Other	EV/EBITDA	40	8.00x	319
Total Non-Utility Enterprise Value				3,523
Less: Non-Utility Net Debt (2013E)				(2,505)
Non-Utility Equity Value				1,018
Total Equity Value				12,353
Diluted Average Shares Outstanding (2013E)				172
Equity Value Per Share				\$72.01

Source: Deutsche Bank

Risks

We see the following upside risks to our Hold rating and price target: better-than-expected regulatory outcomes, stronger-than-expected power markets in the Northeast, a faster-than-anticipated economic recovery, and benefits from pending environmental regulations. Downside risks include: negative rate case decisions (especially in light of historical challenges in some of the company's jurisdictions), nuclear plant license renewal challenges, weaker-than-expected power prices, delays on major capital projects and a weaker economic environment.

Exelon (EXC)

We are raising our price target to \$44 from \$42.50, reflecting a higher regulated utility multiple, and are maintaining our Hold rating. EXC stock remains somewhat challenged by a weak forward power price and natural gas outlook. In 2012, we expect EPS to fall 28% as favorable above market hedges roll off and would not expect earnings to recover to 2011 levels anytime soon absent a power market recovery. That being said, we see limited downside given EXC's stable dividend yield and believe there could be greater upside opportunity longer-term given the potential for synergies from the planned merger with Constellation Energy (CEG) and for higher power prices as new environmental regulations take effect.

Valuation

Our price target of \$44 attributes \$14.50 to the Utilities and \$29.50 to the Non-Utility segments (Exelon Generation and Corporate/Other drag). We arrive at our utility value by applying a target regulated utility P/E multiple of 12.5x to our 2013 estimates for ComEd and PECO. We believe EXC's utilities warrant an average regulated utility valuation at best given modest growth prospects. Our valuation for the merchant business is based on our EBITDA estimate for 2013 at Exelon Generation and a 9.5x EV/EBITDA multiple, the highest multiple we afford to merchant businesses in our coverage. We value Exelon Generation at an 18% premium to our target baseline merchant generation multiple of 8.0x, reflecting EXC's strong environmental and market position as the largest nuclear generator in the country with plants in favorable markets, and relatively strong cash flow and financial position. We then subtract \$80M reflecting parent overhead and our estimate for non-utility net debt of \$6.8B to get to our non-utility equity value of \$19.6B or \$44/sh.

Figure 18: EXC Sum-of-the-Parts Valuation

Business Segment	Valuation			Value
	Metric	2013E	Multiple	
PECO Utility Value	P/E	\$0.50	12.5x	4,174
ComEd Utility Value	P/E	\$0.66	12.5x	5,547
Utility Equity Value				9,721
Adjusted Merchant Generation	EV/EBITDA	2,779	9.5x	26,399
Parent Overhead	EV/EBITDA	(10)	8.0x	(80)
Total Non-Utility Enterprise Value				26,319
Less: Non-Utility Net Debt (2013E)				(6,755)
Less: Off-Balance Sheet Debt				-
Non-Utility Equity Value				19,565
Total Equity Value				29,286
Diluted Average Shares Outstanding (2013E)				669
Equity Value Per Share				\$ 43.78

Source: Deutsche Bank

Risks

We see the following upside risks to our rating and price target: higher-than-anticipated power market prices in the Mid-Atlantic and Midwest, including a stronger than expected impact on forward prices from pending environmental regulations, lower-than-anticipated costs, better-than-anticipated rate case outcomes for ComEd and PECO, a faster-than-anticipated recovery in electric sales, and better-than-anticipated PJM capacity prices. Downside risks include: lower-than-expected forward power prices, including the impact from delays in the implementation of EPA regulations or generally less stringent regulations, the potential for new water intake regulations requiring the installation of costly cooling towers at some of EXC's nuclear plants (Clinton, Dresden, Quad Cities, Peach Bottom, and Salem) and other NRC regulations, higher-than-anticipated costs, worse-than-anticipated rate case outcomes, slower-than-anticipated recovery in electric sales, and higher-than-anticipated financing requirements.

FirstEnergy (FE)

We are raising our price target on FE to \$45/share from \$43 to reflect our now higher valuation multiple on regulated businesses. While investors often focus their attention on FE's levered merchant power business, the company's ten regulated distribution utilities and its transmission businesses provide a large percentage of the company's earnings (64% of 2011 EPS guidance before corporate costs). We are maintaining our Hold rating on FE stock. We continue to believe that FE's assumptions embedded in its 3-year financial guidance are fairly optimistic and will require solid execution to achieve, creating some risk in the event that results come in below expectations. That said, following the most recent RPM capacity auction results for the 2014-15 delivery year, we believe FE offers investors significant and now more visible leverage to power market recovery over the medium term.

Valuation and risks

Our \$45 price target is based on a 14.0x P/E multiple applied to our 2013 EPS estimate of \$3.20/share. This represents a meaningful premium to the less regulated average multiple of 12.6x to account for FE's significant upside potential to power market recovery and visible 2014 earnings growth given the strong RTO price in the most recent RPM capacity auction. Upside risks include a stronger than expected economic recovery, which would result in higher prices at the competitive business and greater distribution volumes at the utilities, as well as the ability to successfully execute on the assumptions embedded in FE's somewhat arguably optimistic financial guidance. Downside risks include lower than expected merger synergies and a slower than expected economic recovery.

ITC Holdings (ITC)

We are raising our ITC price target to \$76.50 from \$74 and are maintaining our Buy rating. The stock has pulled back around 7% from its all time high of \$74.50 reached in mid May and has underperformed the utility sector by about 100 basis points over the past month creating an attractive entry point. ITC continues to stand out in our sector from an earnings growth perspective and as the only-publicly traded independent transmission company. Through 2015, we expect the company to deliver EPS growth in the range of 16%, which is nearly four times as fast as the average regulated utility. While this growth rate will be sensitive to whether or not ITC will be able to deliver on its five-year capital program of \$3.9B, which will require more than doubling the amount of capital it has invested over the past five years, ITC has so far delivered or over-delivered on growth promises. We also continue to believe that ITC faces fewer risks than the average growth stock and arguably fewer risks than the average regulated utility. While it is not clear to us how ITC's growth rate or capital plan might change when the company rolls out its new financial plan through 2016 at its upcoming September Analyst Day, we would not expect a change that would negatively impact the company's relative premium valuation versus peers in any significant way. However, we do believe it would be unlikely to see the company bump its five-year EPS growth rate of 15-17% as it becomes increasingly difficult to maintain that level of growth as the earnings base upon which the target is set increases.

Valuation

Our price target for ITC is based on a 15.6x P/E multiple applied to our 2013E \$4.90. We apply a 25% premium, which assumes ITC's growth will slow beyond the 16% we project through 2015. This eventual moderation in growth rate seems reasonable as ITC's base becomes larger and competition for additional growth opportunities increases.

Risks

Downside risks to our Buy rating and price target include transmission project delays, greater-than-anticipated financing needs, lower-than-anticipated spending on generator interconnects, and reduced support for transmission at the FERC. Our earnings outlook for

ITC is dependent on the company successfully acquiring all necessary regulatory approvals and permits in order to move forward with transmission projects. A delay in starting construction or bringing a line into service would negatively impact ITC's valuation. We also highlight greater-than-anticipated financing needs and lack of future progress on development projects as risks. Finally, our outlook assumes that the FERC will continue providing incentives for companies to invest in transmission.

NextEra Energy (NEE)

We are raising our price target on NEE to \$57/share from \$55 to reflect a higher valuation multiple applied to FP&L and the Lone Star transmission business. We are maintaining our Hold rating on NEE stock. The company offers investors more predictable earnings growth over the next several years compared to less regulated peers, but also offers less exposure to an eventual recovery in power markets given its highly contracted power business (Energy Resources). The large FP&L utility should provide strong earnings growth over the next several years given solid rate base growth, with some risk in 2013 given the need to receive a meaningful rate increase. The outlook for Energy Resources remains somewhat uncertain and largely dependent on the ability of NEE to continue its steady pace of renewable project development.

Valuation and risks

Our \$57 price target is based on our SOTP analysis of NEE's utility and competitive businesses. We apply a 13.0x P/E multiple to our 2013 EPS estimate for FP&L and the Lone Star transmission business, and give NEE credit for the expected earnings contribution from the Riviera plant (COD 2014). This represents a premium to our baseline 12.5x regulated utility multiple given the utility's large capital base. We apply an 8.75x EV/EBITDA multiple to our 2013 estimate at the Energy Resources business, which is a premium to our baseline merchant multiple of 8.0x given NEE's net clean generation fleet. Upside risks to our Hold rating include a faster than expected economic recovery in Florida and an improved outlook for renewable energy development. Downside risks include regulatory and political risk in Florida, and a deterioration in the outlook for renewable development. See Figure 19.

Figure 19: NEE Valuation Analysis

Business Segment	Valuation Metric	2013E	Multiple	Value
FP&L	P/E	\$2.88	13.00x	15,963
Lone Star transmission	P/E	\$0.10	13.00x	563
Addl. plant	P/E	\$0.13	13.00x	715
Utility Equity Value				17,241
Energy Resources	EV/EBITDA	2,355	8.75x	20,609
Less: Non-Utility Net Debt (2013E)				(16,471)
Plus: NPV of future PTCs, MACRS, CITCs				2,737
Non-Utility Equity Value				6,874
Total Equity Value				24,115
Diluted Average Shares Outstanding (2013E)				426
Equity Value Per Share				\$57

Source: Deutsche Bank

Northeast Utilities (NU)

We are raising our price target on NU to \$35.50 from \$34 reflecting a higher target regulated utility multiple. We continue to view NU's planned merger with NST positively. NU will have less exposure to transmission, but also less exposure to what has historically been a challenging regulatory jurisdiction in CT, with the addition of NSTAR's more attractive, Boston-based distribution business. The combined company will also be better positioned to secure, as well as finance, future transmission growth opportunities in New England, and expects to deliver long-term EPS growth towards the top-end of NU's standalone target of 6-9% per year. While this puts NU and NST in a favorable position relative to other companies in our sector, and we view both as core utility holdings, we do not see enough upside in either company's stock to justify a change in rating at this time. We reiterate our Hold rating.

Valuation

We value Northeast Utilities by applying a P/E multiple of 13.4x to our 2013E of \$2.65. We believe NU merits a 7% premium to peers given above average growth potential and exposure to FERC-regulated transmission, regulatory diversity (albeit modest) with operations in three states, an attractive environmental position, and lower risk profile as a mostly T&D (transmission and distribution) utility in the Northeast. It is possible that we could justify a higher premium for the combined entity, but we would like greater clarity surrounding what conditions, if any, might be imposed in Massachusetts in the ongoing merger approval proceeding before doing so.

Risks

Upside risks to our target include better-than-anticipated rate case outcomes, accelerations in construction schedules for major transmission projects, additional transmission spending, higher-than-expected electric sales, and lower-than-anticipated financing needs. Downside risks include worse-than-anticipated rate case outcomes, transmission project delays or cancellations, lower-than-anticipated sales, higher-than-anticipated financing needs, and reduced support for transmission at the FERC.

NSTAR (NST)

We are raising our price target to \$46.50 from \$44.50 reflecting a higher valuation for Northeast Utilities (NU) upon which our valuation for NSTAR is based given the companies' planned merger. NU is expected to acquire NST in an all stock transaction based on a 1.312 exchange ratio. We continue to view the merger positively, which the companies expect to close in the second half of next year. ~~NU~~ have less exposure to transmission, but also less exposure to what has historically been a challenging regulatory jurisdiction in CT, with the addition of NSTAR's more attractive, Boston-based distribution business. The combined company will be better positioned to secure, as well as finance, future transmission growth opportunities in New England, and expects to deliver long-term EPS growth towards the top-end of NU's standalone target of 6-9% per year. While this puts NU and NST in a favorable position relative to other companies in our sector, we do not see enough upside in either company's stock to justify a change in rating at this time. We reiterate our Hold rating.

Valuation

We value NST based on the exchange ratio agreed to with Northeast Utilities (NU) in their planned merger. Per the merger agreement, NU will acquire NST in an all stock transaction, paying 1.312 NU shares for each NST share. We value NU at \$35.50/sh implying NST value of \$46.50 ($\35.50×1.312).

Risks

Upside risks to our target include better-than-anticipated NU stock price performance, better-than-anticipated regulatory outcomes, especially for NSTAR electric distribution, acceleration of planned transmission projects, higher-than-anticipated electric sales, greater-than-anticipated increases in the GDP-PI index through the end of their current electric rate plan, better-than-anticipated cost creep mitigation, and lower-than-anticipated financing needs. Downside risks include the failure for NU and NST to complete their planned merger (since we would attribute a lower value to NST absent its merger with NU), worse-than-anticipated regulatory outcomes, transmission project delays, lower sales, weaker GDP-PI growth, and higher-than-expected financing needs.

PG&E Corp. (PCG)

We are maintaining our \$45 price target and our Hold rating on PCG as we remain concerned that the aftermath of the San Bruno explosion will be an overhang on the stock, particularly while a new CEO has not yet been named. We continue to believe that the lack of clarity on projected costs from the multiple San Bruno investigations and pipeline safety proceedings (which will impact future equity needs), concern over PCG's ability to earn its authorized return, and the 2013 cost of capital reset will weigh on the stock near-term. We are trimming our 2013 EPS estimate by \$0.05 to \$3.60 to reflect our expectation that PCG will continue to underearn versus its authorized return, as management has discussed recently because certain offsets to unrecoverable costs (like advertising and some incentive compensation) are not expected to occur in the future (previously PCG benefitted from tax settlements and sizable energy efficiency incentive earnings).

Valuation

We value PCG by applying a 12.5x P/E multiple to our 2013 EPS estimate of \$3.60. The multiple reflects no premium to our target regulated utility peer group P/E multiple of 12.5x as we believe that ongoing concerns over the impact of the San Bruno explosion offset the historically constructive California regulatory framework and PCG's more favorable environmental position versus peers.

Risks

Upside risks include no ROE or equity adjustment in 2013, no major change in the CPUC's overall tone and direction, and greater than expected recovery of higher pipeline costs. A well-received new CEO announcement is also an upside risk to our call. Downside risks for PCG include disallowance or disapproval of capital spending projects that are needed to drive rate base and earnings growth. A more pronounced ROE or equity ratio adjustment in 2013 than we assume would also impact earnings. An increase in cost sensitivity by PCG's ratepayers (which could become politicized) could also force PCG to slow its growth plans. The inability to recover costs associated with the San Bruno explosion is also a risk.

PPL Corp. (PPL)

We are maintaining our \$29 price target and Hold rating on PPL. We view 2013 as a peak earnings year for a couple of years at least because in 2014 and 2015, we expect dilution from the equity units offerings that PPL completed to fund its two recent utility acquisitions to negatively impact earnings. The roll-off of hedges will also be a factor, with PPL mostly hedged on coal in 2013 at well below market prices. We remain concerned about PPL's earnings trajectory versus peers (we expect other companies in our coverage universe to be able to grow earnings over that time period) and believe it could be a challenge for the stock as investors focus on relative valuations based on earnings outlooks beyond 2013. The focus for PPL is now on execution of its merger integrations in Kentucky and the United Kingdom. We are reducing our 2011 EPS estimate by \$0.05 to \$2.60, reflecting the expected impact of the extended Susquehanna Unit 1 outage announced earlier this month.

Valuation

We value PPL based on a 2013 sum-of-the-parts analysis. We value the UK and KY utilities on a 13x P/E multiple, reflecting a half-turn premium versus our target regulated utility multiple based on their attractive regulatory constructs. We value Pennsylvania Regulated on a 12.5x P/E multiple, in line with our target 2013 regulated multiple. We apply an 8.5x EV/EBITDA multiple to our 2013 EBITDA outlook for the Supply segment, which is a half-turn premium to our baseline merchant multiple. We believe PPL's generation portfolio merits a premium based on its net clean fleet, attractive market position in PJM, and upside from higher capacity pricing in 2014 partially offset by its sizable coal hedging position in 2013. We then discount our valuation by 3% to account for coming dilution from the conversion of the remaining equity units used to fund PPL's recent acquisitions.

Figure 20: PPL 2013 Sum-of-the-Parts Valuation

Business Segment	Valuation			Value
	Metric	2013E	Multiple	
International Delivery	P/E	\$0.99	13.00x	7,952
Pennsylvania Delivery	P/E	\$0.28	12.50x	2,130
KU/LG&E	P/E	\$0.55	13.00x	4,438
Utility Equity Value				14,520
Adjusted Merchant Generation	EV/EBITDA	1,221	8.50x	10,379
Less: Non-Utility Net Debt (2013E)				(6,061)
Less: Off-Balance Sheet Debt				(600)
Non-Utility Equity Value				3,718
Total Equity Value				18,238
Diluted Average Shares Outstanding (2013E)				618
Equity Value Per Share				\$29.50
Future Convert Dilution Discount				3%
Price Target				\$29.00

Source: Deutsche Bank

Risks

Downside risks for PPL include weaker power prices or higher coal prices than we assume, weaker-than-expected generation performance, and inability to contain and manage risks at the marketing and trading subsidiary. Further delays in capital projects (such as the Susquehanna-Roseland transmission line) or unfavorable rate case outcomes are also risks. Inability to execute on targeted UK acquisition synergies is another risk. Upside risks for PPL include higher power prices or lower coal prices than we assume and the ability to earn higher ROEs at the regulated utilities.

Progress Energy (PGN)

We are raising our price target to \$49.50 from \$47, reflecting a higher valuation for Duke Energy (DUK) upon which our valuation for PGN is based given the companies' planned merger. Our new target suggests total return potential of about 10%, one of the highest of any of our Hold-rated stocks. This includes PGN's above average 5.3% dividend yield, modest upside we see in DUK stock and a current deal spread of about 2.6% (ex-dividends). Absent the planned merger with DUK, however, it would be difficult to justify PGN's current valuation due to below average standalone earnings growth potential. We reiterate our Hold rating.

Valuation

We value PGN as a derivative of our target value for Duke Energy (DUK) given their planned merger. Per the merger agreement, DUK will acquire PGN in an all stock transaction, paying 2.6125 DUK shares for each PGN share. We value DUK at \$19/sh implying PGN value of \$49.50 (\$19 x 2.6125).

Risks

Downside risks for PGN include the failure to complete their planned merger with DUK as we would value PGN at a lower stock price absent the offer from DUK, a weaker than expected economic environment, which would put further pressure on the company's ability to earn its allowed returns, weaker-than-anticipated future rate case outcomes in Florida and the Carolinas, and failure to complete major capital projects in the Carolinas. Upside risks for PGN include better than expected regulatory outcomes, lower than expected costs, a faster than expected economic recovery in the Carolinas and Florida, and stronger-than-expected synergies associated with their merger with DUK.

PSEG (PEG)

We are maintaining our Buy rating and \$38 price target on PEG. We are lowering our 2012 and 2013 EPS estimates by a nickel in each year to \$2.45/sh and \$2.80/sh on a modeling tweak related to RPM capacity revenues. However, the impact of this estimate reduction is offset by a now higher valuation multiple applied to the PSE&G utility, resulting in a steady valuation of \$38/sh on PEG stock. While we expect continued headline risks from potential actions by the state of NJ to subsidize new generation capacity, we believe such risks are more than priced into the stock at this point. We continue to view PEG as a lower risk and cheaper way to invest in power market recovery given its under-levered balance sheet at the Power business and significant exposure to a recovery in both gas and power prices due to its diverse and net clean generation fleet. We also see the potential for a positive near-term catalyst as PEG has recently indicated it is more pro-actively looking at how it may be able to use its balance sheet capacity to pursue an acquisition without issuing equity, or to directly repurchase stock.

Valuation and risks

We value PEG using a target 12.5x P/E multiple applied to our 2013 EPS estimate at the PSE&G utility, in line with our baseline regulated utility multiple. We apply an 8.5x EV/EBITDA multiple to our 2013 EBITDA estimate at the Power business, which is a modest premium to our 8.0x baseline merchant multiple. We believe a premium is appropriate to reflect PEG's upside to power market recovery through its net clean fleet of assets with substantial dispatch diversity near urban load centers, partially offset by risks related to subsidized new generation in NJ. We highlight that even if we reduced our EV/EBITDA multiple to 8.0x for the Power business to more conservatively account for risks related to new capacity in NJ, our valuation would still imply a \$36 PT and meaningful upside for the stock.

Figure 21: PEG Valuation Analysis

Business Segment	Valuation Metric	2013E	Multiple	Value
Utility	P/E	\$1.17	12.50x	7,441
Utility Equity Value				7,441
Adjusted Merchant Generation	EV/EBITDA	1,734	8.50x	14,741
Adjusted Energy Holdings	EV/EBITDA	75	5.00x	375
Total Non-Utility Enterprise Value				15,116
Less: Non-Utility Net Debt (2013E)				(3,360)
Non-Utility Equity Value				11,756
Total Equity Value				19,197
Diluted Average Shares Outstanding (2013E)				508
Equity Value Per Share				\$38

Source: Deutsche Bank

Southern Company (SO)

We are raising our price target on Southern Company to \$40 from \$39 and are reiterating our Hold rating given limited upside opportunity absent the company's 5.0% dividend yield. While the company's relative premium valuation has suffered somewhat post-Fukushima (SO plans to be the first company to build a new nuclear plant in the US in close to 30 years), we continue to believe SO merits a premium valuation close to its historical average of about 15%. We also continue to believe SO is a core regulated utility holding with modestly above average long-term EPS growth (5-7%/year) and an attractive dividend yield.

Valuation

We calculate our price target by applying a 14.4x P/E multiple to our 2013E of \$2.80. We believe SO merits a 15% premium to peers, reflecting (1) above average regulatory certainty given favorable formula rate plans in Alabama and Mississippi, as well as a history of negotiating constructive rate plans in Georgia; (2) regulatory diversity with utilities in four states; (3) a better than average service territory; (4) strong growth prospects (5-7%); (5) a history of delivering on or exceeding management targets; and (6) a strong financial position.

Risks

Upside risks to our target include better-than-anticipated rate case outcomes, accelerations in construction schedules for major capital projects, higher-than-expected electric sales, lower-than-expected market interest rates, and lower-than-anticipated financing needs. Downside risks include worse-than-anticipated rate case outcomes, capital project delays, including SO's new nuclear project, lower-than-anticipated sales, higher interest rates, higher-than-anticipated financing needs, and reduced electricity demand.

TECO Energy (TE)

We are raising our price target on TE to \$17 from \$16.50 but are maintaining our Sell rating. We continue to believe the market is attributing a higher value to the sum of TECO Energy's subsidiaries than we believe is warranted. While we continue to expect TE to deliver strong earnings growth through 2013, driven in large part by the coal business, we believe this upside is already more than reflected in TE's stock price.

Valuation

We value TECO Energy using a sum-of-the-parts analysis, which is consistent with how we value most other stocks in our diversified utility coverage universe. We attribute \$15/sh of value to the Florida utilities by applying an average regulated utility P/E multiple target of 12.5x to our 2013E for Tampa Electric and Peoples Gas. We value TECO Guatemala at about \$1/sh by applying a P/E multiple of 9x to our 2013E, a discount to the Florida utilities reflecting higher regulatory risk and lower visibility on the operations of this subsidiary. We calculate enterprise value of close to \$1B for TECO Coal by applying an EV/EBITDA multiple of 4.0x to our 2013 EBITDA estimate of \$242M. We note that US coal stocks are currently trading at EV/EBITDA multiples in the 5x range versus 3-4x in 2010, which could suggest that consensus forecasts have not been adjusted to reflect higher coal prices. We do not believe it is appropriate to apply an above average "peak" multiple to our new EBITDA forecast for TECO Coal since we believe our 2013 estimate could reflect top of the cycle earnings. We value parent company overhead at -\$64M by applying a 7x EV/EBITDA multiple to our estimate for corporate drag. We then subtract non-utility net debt of \$554M to get to our total non-utility equity value of \$350M or \$2/sh. Finally, we add \$11M or less than \$0.10/sh to reflect the net present value of the remaining NOLs and AMT carry forwards to get us to our \$17 price target.

Figure 22: TE Sum-of-the-Parts Valuation

BusinessSegment	Valuation			Value
	Metric	2013E	Multiple	
Florida Utilities	P/E	1.12	12.5x	3,049
TECO Guatemala	P/E	0.13	9.0x	250
Total Utility Equity Value				3,299
TECO Coal	EV/EBITDA	242	4.0x	968
Parent Overhead	EV/EBITDA	(9)	7.0x	(64)
Less: Non-Utility Net Debt				(554)
Total Non-Utility Equity Value				350
NPV of NOL				11
Total Equity Value				3,661
Diluted Average Shares Outstanding				218
Equity Value Per Share				\$16.81

Source: Deutsche Bank

Risks

We see the following upside risks to our valuation and rating: faster-than-anticipated economic recovery in Florida, faster-than-anticipated rate base growth at Tampa Electric and Peoples Gas, higher-than-forecast production and prices at TECO Coal, the sale of TECO Coal at a price above what we have included in our valuation, lower-than-expected operating expenses at all subsidiaries, and lower-than-expected financing needs.

Xcel Energy (XEL)

We are raising our price target to \$25.50 from \$25 and are maintaining our Hold rating on XEL as we believe the utility growth outlook, solid management track record, and jurisdictional diversity are mostly priced in. We expect XEL to continue to execute on its 5-year \$12.7B growth plan, with a focus on transmission and generation (as part of XEL's clean energy initiatives). We believe XEL is relatively well-positioned for upcoming EPA rules based on the progress made in Minnesota and with the Clean Air-Clean Jobs plan in Colorado, although we expect additional capex in Texas to comply with the rules.

Valuation

We value XEL by applying a 13.5x P/E multiple to our 2013 EPS estimate of \$1.90. Our multiple reflects an 8% premium to our target regulated utility multiple of 12.5x. In our view, XEL's service territory diversity helps reduce earnings volatility and reliance on a single regulatory agency and provides exposure to a variety of industries and economies. The different operating companies also allow XEL's capital spending program to not be dependent on any single project or state policy initiative. Among the various states in which XEL operates, we view their relationships with regulators to be generally constructive. We also believe that XEL's management team has established a solid track record of good execution and financial discipline. We also believe XEL merits a small premium for its proactive push to reduce the company's exposure to coal generation, though we acknowledge that XEL has the benefit of operating in states with attractive renewable development opportunities.

Risks

As a fully regulated utility, the most important downside risk for XEL is negative rate case decisions. XEL is also exposed to the general economic environment in its territories, and a continued sales decline would weaken earnings growth. XEL also faces a risk if any future CO₂ emissions regulation proves to be especially costly. Since XEL is fully regulated, we would view this as a risk more for the pressure it would put on regulators to find ways to mitigate potential rate impacts on customers. Upside risks include a faster or stronger economic recovery in XEL's service territories than we expect and better rate case outcomes than we forecast.

Appendix 1

Important Disclosures

Additional information available upon request

For disclosures pertaining to recommendations or estimates made on a security mentioned in this report, please see the most recently published company report or visit our global disclosure look-up page on our website at <http://gm.db.com/ger/disclosure/DisclosureDirectory.egsr>.

Analyst Certification

The views expressed in this report accurately reflect the personal views of the undersigned lead analyst about the subject issuers and the securities of those issuers. In addition, the undersigned lead analyst has not and will not receive any compensation for providing a specific recommendation or view in this report. Jonathan Arnold

Equity rating key **Equity rating dispersion and banking relationships**

Buy: Based on a current 12-month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield), we recommend that investors buy the stock.

Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock

Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

Notes:

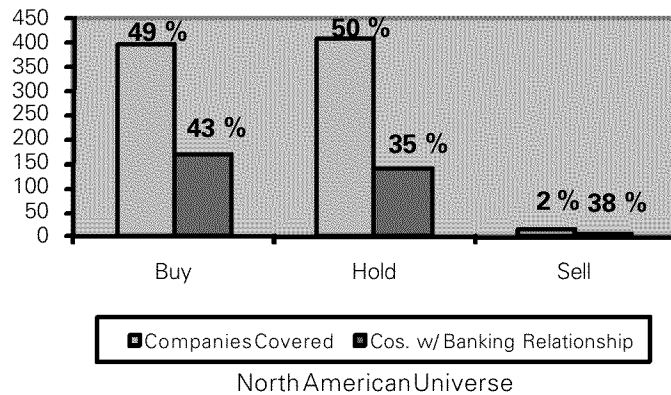
1. Newly issued research recommendations and target prices always supersede previously published research.

2. Ratings definitions prior to 27 January, 2007 were:

Buy: Expected total return (including dividends) of 10% or more over a 12-month period

Hold: Expected total return (including dividends) between -10% and 10% over a 12-month period

Sell: Expected total return (including dividends) of -10% or worse over a 12-month period



Regulatory Disclosures

1. Important Additional Conflict Disclosures

Aside from within this report, important conflict disclosures can also be found at <https://gm.db.com/equities> under the "Disclosures Lookup" and "Legal" tabs. Investors are strongly encouraged to review this information before investing.

2. Short-Term Trade Ideas

Deutsche Bank equity research analysts sometimes have shorter-term trade ideas (known as SOLAR ideas) that are consistent or inconsistent with Deutsche Bank's existing longer term ratings. These trade ideas can be found at the SOLAR link at <http://gm.db.com>.

3. Country-Specific Disclosures

Australia: This research, and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act.

Brazil: The views expressed above accurately reflect personal views of the authors about the subject company(ies) and its(their) securities, including in relation to Deutsche Bank. The compensation of the equity research analyst(s) is indirectly affected by revenues deriving from the business and financial transactions of Deutsche Bank.

EU countries: Disclosures relating to our obligations under MiFiD can be found at <http://globalmarkets.db.com/riskdisclosures>.

Japan: Disclosures under the Financial Instruments and Exchange Law: Company name - Deutsche Securities Inc. Registration number - Registered as a financial instruments dealer by the Head of the Kanto Local Finance Bureau (Kinsho) No. 117. Member of associations: JSDA, The Financial Futures Association of Japan. Commissions and risks involved in stock transactions - for stock transactions, we charge stock commissions and consumption tax by multiplying the transaction amount by the commission rate agreed with each customer. Stock transactions can lead to losses as a result of share price fluctuations and other factors. Transactions in foreign stocks can lead to additional losses stemming from foreign exchange fluctuations. "Moody's", "Standard & Poor's", and "Fitch" mentioned in this report are not registered credit rating agencies in Japan unless "Japan" is specifically designated in the name of the entity.

New Zealand: This research is not intended for, and should not be given to, "members of the public" within the meaning of the New Zealand Securities Market Act 1988.

Russia: This information, interpretation and opinions submitted herein are not in the context of, and do not constitute, any appraisal or evaluation activity requiring a license in the Russian Federation.

Deutsche Bank Securities Inc.

North American locations

Deutsche Bank Securities Inc.
60 Wall Street
New York, NY 10005
Tel: (212) 250 2500

Deutsche Bank Securities Inc.
One International Place
12th Floor
Boston, MA 02110
United States of America
Tel: (1) 617 217 6100

Deutsche Bank Securities Inc.
222 South Riverside Plaza
30th Floor
Chicago, IL 60606
Tel: (312) 537-3758

Deutsche Bank Securities Inc.
3033 East First Avenue
Suite 303, Third Floor
Denver, CO 80206
Tel: (303) 394 6800

Deutsche Bank Securities Inc.
1735 Market Street
24th Floor
Philadelphia, PA 19103
Tel: (215) 854 1546

Deutsche Bank Securities Inc.
101 California Street
46th Floor
San Francisco, CA 94111
Tel: (415) 617 2800

Deutsche Bank Securities Inc.
700 Louisiana Street
Houston, TX 77002
Tel: (832) 239-4600

International locations

Deutsche Bank Securities Inc.
60 Wall Street
New York, NY 10005
United States of America
Tel: (1) 212 250 2500

Deutsche Bank AG London
1 Great Winchester Street
London EC2N 2EQ
United Kingdom
Tel: (44) 20 7545 8000

Deutsche Bank AG
Große Gallusstraße 10-14
60272 Frankfurt am Main
Germany
Tel: (49) 69 910 00

Deutsche Bank AG
Deutsche Bank Place
Level 16
Corner of Hunter & Phillip Streets
Sydney, NSW 2000
Australia
Tel: (61) 2 8258 1234

Deutsche Bank AG
Filiale Hongkong
International Commerce Centre,
1 Austin Road West, Kowloon,
Hong Kong
Tel: (852) 2203 8888

Deutsche Securities Inc.
2-11-1 Nagatacho
Sanno Park Tower
Chiyoda-ku, Tokyo 100-6171
Japan
Tel: (81) 3 5156 6770

Global Disclaimer

The information and opinions in this report were prepared by Deutsche Bank AG or one of its affiliates (collectively "Deutsche Bank"). The information herein is believed to be reliable and has been obtained from public sources believed to be reliable. Deutsche Bank makes no representation as to the accuracy or completeness of such information.

Deutsche Bank may engage in securities transactions, on a proprietary basis or otherwise, in a manner inconsistent with the view taken in this research report. In addition, others within Deutsche Bank, including strategists and sales staff, may take a view that is inconsistent with that taken in this research report.

Opinions, estimates and projections in this report constitute the current judgement of the author as of the date of this report. They do not necessarily reflect the opinions of Deutsche Bank and are subject to change without notice. Deutsche Bank has no obligation to update, modify or amend this report or to otherwise notify a recipient thereof in the event that any opinion, forecast or estimate set forth herein, changes or subsequently becomes inaccurate. Prices and availability of financial instruments are subject to change without notice. This report is provided for informational purposes only. It is not an offer or a solicitation of an offer to buy or sell any financial instruments or to participate in any particular trading strategy. Target prices are inherently imprecise and a product of the analyst judgement.

As a result of Deutsche Bank's March 2010 acquisition of BHF-Bank AG, a security may be covered by more than one analyst within the Deutsche Bank group. Each of these analysts may use differing methodologies to value the security; as a result, the recommendations may differ and the price targets and estimates of each may vary widely.

In August 2009, Deutsche Bank instituted a new policy whereby analysts may choose not to set or maintain a target price of certain issuers under coverage with a Hold rating. In particular, this will typically occur for "Hold" rated stocks having a market cap smaller than most other companies in its sector or region. We believe that such policy will allow us to make best use of our resources. Please visit our website at <http://gm.db.com> to determine the target price of any stock.

The financial instruments discussed in this report may not be suitable for all investors and investors must make their own informed investment decisions. Stock transactions can lead to losses as a result of price fluctuations and other factors. If a financial instrument is denominated in a currency other than an investor's currency, a change in exchange rates may adversely affect the investment. Past performance is not necessarily indicative of future results. Deutsche Bank may with respect to securities covered by this report, sell to or buy from customers on a principal basis, and consider this report in deciding to trade on a proprietary basis.

Unless governing law provides otherwise, all transactions should be executed through the Deutsche Bank entity in the investor's home jurisdiction. In the U.S. this report is approved and/or distributed by Deutsche Securities Inc., a member of the NYSE, the NASD, NFA and SIPC. In Germany this report is approved and/or communicated by Deutsche Bank AG Frankfurt authorized by the BaFin. In the United Kingdom this report is approved and/or communicated by Deutsche Bank AG London, a member of the London Stock Exchange and regulated by the Financial Services Authority for the conduct of investment business in the UK and authorized by the BaFin. This report is distributed in Hong Kong by Deutsche Bank AG, Hong Kong Branch, in Korea by Deutsche Securities Korea Co., distributed in Singapore by Deutsche Bank AG, Singapore Branch, and recipients in Singapore of this report are to contact Deutsche Bank AG, Singapore Branch in respect of any matters arising from, or in connection with, this report. Where this report is issued or promulgated in Singapore to a person who is not an accredited investor, expert investor or institutional investor (as defined in the applicable Singapore laws and regulations), Deutsche Bank AG, Singapore Branch accepts legal responsibility to such person for the contents of this report. In Japan this report is approved and/or distributed by Deutsche Securities Inc. The information contained in this report does not constitute the provision of investment advice. In Australia, retail clients should obtain a copy of a Product Disclosure Statement (PDS) relating to any financial product referred to in this report before making any decision about whether to acquire the product. Deutsche Bank AG Johannesburg is incorporated in the Federal Republic of Germany (Branch Register Number in South Africa: 1998/003298/10). Additional information relative to securities, other financial products or issuers discussed in this report is available upon request. This report may not be reproduced, distributed or published by any person for any purpose without Deutsche Bank's prior written consent. Please cite source when quoting.

Copyright © 2011 Deutsche Bank AG