Rating Change

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Switching on to power stocks; Upgrade gencos vs regulateds

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Bullish call on power generation stocks

We believe the unregulated power stocks are poised to outperform their regulated peers after three and a half years of consistent underperformance. The power cycle has bottomed in our opinion, and we see increasing signs of a long-term recovery. Consensus estimates for power stocks now appear too conservative. On the other hand, regulated utility valuations are high reflecting low interest rates and investor defensiveness, and we see limited upside from here.

Upgrade CPN, EXC, FE, NRG, PPL to Buy; AEE to Neutral

We also reiterate Buy ratings on EIX, GEN, NEE, and PEG. Based on our higher power price forecasts, we are raising estimates and price objectives on all of our power generation stocks. Rating and PO changes are on the right. We highlight that EXC is a double upgrade – to Buy from Underperform. We view EXC, FE, PEG and GEN as most levered to higher power prices. EXC and CPN are best positioned to benefit from EPA's CSAPR rule.

Downgrade WEC to Neutral and POR to Underperform

These regulated downgrades are primarily on valuation and strong relative performance. These follow several other regulated downgrades over the past few months including ED, TE and UIL, which are all rated Underperform.

Why now? Not a 2015 story anymore thanks to CSAPR

The power story has had a timing problem in that the main bullish event – the shutdown of old coal under the EPA mercury rule (HAPS MACT) – is not effective until 2015/2016. However, the EPA's recently finalized Cross State Air Pollution Rule (CSAPR) had tougher than expected emission caps and trading limitations and is effective in 2012. We are already seeing the potential for rising power prices starting in 2012. CSAPR also highlighted that the EPA will not be easily swayed to water down its new rules, at least for coal fired plants.

Consensus estimates for 2013/2014 too low

For the first time in years, consensus earnings estimates for the power generation stocks now appear to be too low relative to current forward power prices. For 2013/2014 our estimates had been 4%/2% above consensus and now we are 8%/15% above consensus, respectively. Rising forward power prices and higher capacity prices from recent PJM auctions give increased visibility on earnings recovery from a 2012 trough.

Risks to bullish power call - gas, economy and EPA

Risks to the bullish power call are an economic double-dip and a further collapse in natural gas due to shale supply. That said, higher demand for nat gas for power plants has buffered gas prices and we expect this demand to accelerate. Legal/political challenges to EPA rules are another risk though we view these more as a timing issue, not outcome. Finally, the 2012 presidential election will be important as a Republican EPA could delay implementation of new rules.

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Table 1: Ratings at a glance

Company	Ticker	Rating	New PO	Old PO
Underperform to Buy				
Exelon	EXC	B-1-7	$48	$38
Neutral to Buy				
Calpine	CPN	C-1-9	20	17
FirstEnergy	FE	B-1-7	52	47
NRG Energy	NRG	B-1-9	31	25
PPL Corp	PPL	B-1-7	31	28
Reiterate Buy				
Edison Intl	EIX	B-1-7	43	43
GenOn Energy	GEN	C-1-9	5	5
NextEraEnergy	NEE	B-1-7	61	60
PSEG Corp	PEG	B-1-7	39	38
Underperform to Neutral				
Ameren Corp.	AEE	B-2-7	30	29
Buy to Neutral				
Wisconsin Energy	WEC	A-2-7	33	33
Neutral to Underperform				
Portland Gen.	POR	B-3-7	25	25
Maintain Neutral				
Dominion	D	B-2-7	51	50
Reiterate Underperform				
Entergy Corp.	ETR	B-3-7	69	68
No Rating				
Constellation	CEG	-6-		

Source: BofA Merrill Lynch Global Research

Refer to important disclosures on page 44 to 46. Analyst Certification on Page 42. Price Objective Basis/Risk on page 36. Link to Definitions on page 42. 11071016

Utility Comparables

Table 2: Diversified Utilities Comparables

Company Name	Ticker	Current Price	BofAML Rating	Mkt Cap ($M)	EPS 2011E	EPS 2012E	EPS 2013E	EPS 2014E	P/E 2011E	P/E 2012E	P/E 2013E	P/E 2014E	Div Yield
Ameren	AEE	$29.35	B-2-7	$6,469	$2.35	$2.40	$2.08	$2.39	12.5x	12.3x	14.1x	12.3x	5.2%
Constellation	CEG	38.94	-6-	7,788	3.13	2.49	3.00	3.36	12.4x	15.6x	13.0x	11.6x	2.5%
Dominion	D	49.78	B-2-7	29,554	3.10	3.36	3.62	3.83	16.1x	14.8x	13.8x	13.0x	4.0%
Edison Intl.	EIX	39.23	B-1-7	12,828	2.79	2.87	2.85	3.58	14.1x	13.7x	13.8x	11.0x	3.3%
Entergy	ETR	68.31	B-3-7	13,378	6.50	6.07	6.19	6.99	10.5x	11.3x	11.0x	9.8x	4.9%
Exelon	EXC	43.70	B-1-7	28,908	4.16	3.08	3.16	3.54	10.5x	14.2x	13.8x	12.3x	4.8%
FirstEnergy	FE	44.36	B-1-7	13,574	3.38	3.44	3.60	4.57	13.1x	12.9x	12.3x	9.7x	5.0%
NextEra	NEE	57.46	B-1-7	23,270	4.47	4.75	4.94	5.31	12.9x	12.1x	11.6x	10.8x	3.8%
PPL Corp.	PPL	28.01	B-1-7	10,543	2.58	2.60	2.69	2.93	10.9x	10.8x	10.4x	9.6x	5.0%
PSEG	PEG	32.81	B-1-7	16,601	2.64	2.68	3.09	3.31	12.4x	12.2x	10.6x	9.9x	4.2%
Average									**12.5x**	**13.0x**	**12.4x**	**11.0x**	**4.3%**

Source: BofA Merrill Lynch Global Research

Table 3: IPP Comparables

Company Name	Ticker	Current Price	BofAML Rating	Mkt Cap ($M)	BofAML EBITDA 2011E	BofAML EBITDA 2012E	BofAML EBITDA 2013E	BofAML EBITDA 2014E	BofAML EV/EBITDA 2011E	BofAML EV/EBITDA 2012E	BofAML EV/EBITDA 2013E	BofAML EV/EBITDA 2014E
Calpine	CPN	$16.19	C-2-9	$7,894	$1,704	$1,617	$1,941	$2,079	9.5x	9.9x	8.2x	7.3x
GenOn	GEN	4.01	C-1-9	3,100	657	746	1,192	1,296	9.7x	8.8x	5.1x	4.1x
NRG Energy	NRG	24.75	B-2-9	6,268	1,922	1,935	1,917	2,027	7.5x	7.2x	6.8x	6.0x
Average									**8.9x**	**8.7x**	**6.7x**	**5.8x**

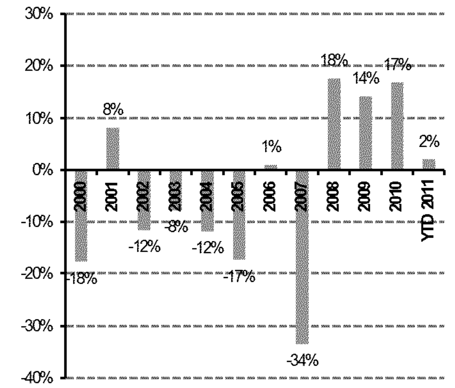
Source: BofA Merrill Lynch Global Research
Note: GEN EBITDA includes $130M of lease expense add back

Table 4: Regulated Utilities Comparables

Company Name	Ticker	Current Price	BofAML Rating	Mkt Cap ($M)	EPS 2011E	EPS 2012E	EPS 2013E	EPS 2014E	P/E 2011E	P/E 2012E	P/E 2013E	P/E 2014E	Div Yield
Alliant Energy	LNT	$40.98	B-2-7	$4,546	$2.85	$2.90	$3.12	$3.23	14.4x	14.1x	13.1x	12.7x	4.1%
American Electric	AEP	37.71	B-1-7	18,168	3.11	3.15	3.25	3.45	12.1x	12.0x	11.6x	10.9x	4.9%
CMS Energy	CMS	19.93	B-2-7	5,029	1.44	1.52	1.62	1.71	13.8x	13.1x	12.3x	11.6x	4.2%
CenterPoint Energy	CNP	20.26	B-1-7	8,619	1.10	1.27	1.34	1.39	18.5x	16.0x	15.2x	14.6x	3.9%
Consolidated Edison	ED	53.58	A-3-7	15,676	3.56	3.68	3.76	3.86	15.1x	14.6x	14.3x	13.9x	4.5%
DTE Energy	DTE	51.23	B-3-7	8,676	3.62	3.79	3.99	4.19	14.2x	13.5x	12.8x	12.2x	4.6%
Duke Energy	DUK	18.95	A-2-7	25,229	1.35	1.41	1.45	1.55	14.0x	13.4x	13.1x	12.2x	5.3%
Hawaiian Electric	HE	24.71	B-3-7	2,355	1.50	1.75	1.91	2.10	16.5x	14.1x	12.9x	11.8x	5.0%
Northeast Utilities	NU	35.34	A-2-7	6,247	2.33	2.44	2.66	2.90	15.2x	14.5x	13.3x	12.2x	3.1%
NSTAR	NST	45.94	A-2-7	4,759	2.70	2.80	2.90		17.0x	16.4x	15.8x	NA	3.7%
NV Energy	NVE	15.27	B-1-7	3,601	0.97	1.24	1.31	1.39	15.7x	12.3x	11.7x	10.9x	3.1%
PG&E	PCG	42.76	A-1-7	17,016	3.55	3.61	3.60	3.78	12.0x	11.8x	11.9x	11.3x	4.3%
Pinnacle West	PNW	44.39	B-2-7	4,839	3.10	3.45	3.49	3.52	14.3x	12.9x	12.7x	12.6x	4.7%
Portland General	POR	25.86	B-3-7	1,931	2.00	1.88	2.02	1.98	12.8x	13.6x	12.7x	12.9x	4.1%
Progress Energy	PGN	47.90	-6-	14,108	3.15	3.26	3.39		15.2x	14.7x	14.1x	NA	5.2%
SCANA	SCG	40.54	B-3-7	5,206	3.07	3.16	3.35	3.58	13.2x	12.8x	12.1x	11.3x	4.8%
Southern Company	SO	40.58	A-1-7	34,457	2.53	2.69	2.86	3.03	16.0x	15.1x	14.2x	13.4x	4.7%
TECO Energy	TE	19.25	B-3-7	4,138	1.35	1.54	1.55	1.48	14.3x	12.5x	12.4x	13.0x	4.5%
UIL Holdings	UIL	33.29	B-3-7	1,682	1.99	2.12	2.23	2.31	16.7x	15.7x	14.9x	14.4x	5.2%
Westar Energy	WR	26.66	A-2-7	3,031	1.74	2.03	2.16	2.21	15.3x	13.1x	12.3x	12.0x	4.8%
Wisconsin Energy	WEC	31.74	A-1-7	7,419	2.07	2.25	2.33	2.42	15.3x	14.1x	13.6x	13.1x	3.3%
Xcel Energy	XEL	24.54	A-1-7	12,348	1.70	1.80	1.92	2.01	14.4x	13.6x	12.8x	12.2x	4.2%
Average									**14.8x**	**13.8x**	**13.2x**	**12.5x**	**4.4%**

Source: BofA Merrill Lynch Global Research

Chart 1: Regulated Utilities versus Diversified Utilities Performance



Source: BofA Merrill Lynch Global Research

We are raising estimates and price objectives for all power generators;

Raising to Buy - CPN, EXC, FE, NRG, PPL

Reiterating Buys- EIX, GEN, NEE and PEG

Boom Boom Pow(er)

We believe the unregulated power stocks are poised to outperform their regulated peers after three and a half years of consistent underperformance (see Chart 1). The power cycle has bottomed in our opinion and we see increasing signs of a long-term recovery. Consensus estimates for power stocks now appear too conservative. On the other hand, regulated utility valuations are high reflecting low interest rates and investor defensiveness and we see limited upside from here.

Based on higher power price forecasts that we discuss below, we are raising estimates and price objectives for all power generators. We are also raising the following ratings to Buy – CPN, EXC, FE, NRG and PPL – and reiterating Buys on EIX, GEN, NEE and PEG. A summary of our changes is below:

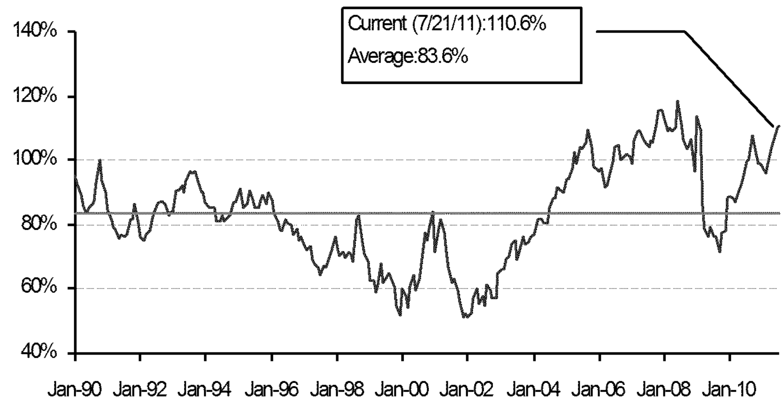
- **Calpine – rating to Buy from Neutral; price objective to $20 from $17.** Our new 2011-2014 EBITDA estimates are $1,704M, $1,617M, $1,941M and $2,079M. Our prior estimates were $1,704M, $1,700M, $1,978M and $1,935M.
- **Constellation – No rating;** Our new 2011-2014 EPS estimates are $3.13, $2.49, $3.00, and $3.37. Our prior estimates were $3.13, $2.40, $2.77 and $2.72 per share.
- **Exelon – rating to Buy from Underperform; price objective to $48 from $38.** Our new 2011-2014 EPS estimates are $4.16, $3.08, $3.16 and $3.54. Our prior estimates were $4.16, $2.99, $2.97 and $2.88.
- **FirstEnergy – rating to Buy from Neutral; price objective to $52 from $47.** Our new 2011-2014 EPS estimates are $3.38, $3.44, $3.60 and $4.57. Our prior estimates were $3.38, $3.34, $3.32 and $3.90.
- **NRG – rating to Buy from Neutral; price objective to $31 from $25.** Our new 2011-2014 EBITDA estimates are $1,922M, $1,935M, $1,917M and $2,027M. Our prior estimates were $1,922M, $1,997M, $1,913M, and $1,823M.
- **PPL – rating to Buy from Neutral; price objective to $31 from $28.** Our new 2011-2014 EPS estimates are $2.58, $2.60, $2.69 and $2.93. Our prior estimates were $2.66, $2.58, $2.54 and $2.57.
- **Edison International – reiterating Buy; price objective of $43.** Our new 2011-2014 EPS estimates are $2.79, $2.87, $2.85 and $3.58. Our prior estimates were $2.79, $2.93, $2.92 and $3.41.
- **GenOn – reiterating Buy; price objective of $5.** Our new 2011-2014 EBITDA estimates are $527M, $616M, $1,062M and $1,166M. Our prior estimates were $527M, $599M, $983M, and $990M.
- **NextEra Energy – reiterating Buy; price objective to $61 from $60.** Our new 2011-2014 estimates are $4.47, $4.75, $4.94 and $5.31. Our prior estimates were $4.47, 4.75, $4.94 and $5.24.
- **PSEG – reiterating Buy; price objective to $39 from $38.** Our new 2011-2014 estimates are $2.64, $2.68, $3.09 and $3.31. Our prior estimates were $2.64, $2.59, $2.90 and $2.94.

Lowering our ratings on WEC to Neutral POR to Underperform based on valuation. Reiterate Underperform on ED, TE, UIL

Regulated valuation well above normal versus the market

On the regulateds, we are lowering our ratings on WEC to Neutral from Buy and POR to Underperform from Neutral based on valuation. This follows our recent downgrades to Underperform on ED, TE and UIL. While the regulateds still provide safe dividends for those seeking income, the valuations are well above normal versus the market reflecting the current low interest rates and investor defensiveness. This may continue, but we see little upside opportunity at current valuations (see Chart 2 below).

Chart 2: Utility Sector Forward P/E Relative to the S&P 500



Source: BofA Merrill Lynch Global Research, FactSet

Regulateds are trading at a wide margin versus the diversifieds by 2014

As shown in Tables 16 and 30, unregulated and regulated valuations are relatively even in 2012 (see below as well). However, as we move to 2014 and the unregulateds begin to see some recovery benefits, the valuation spread widens drastically.

Table 5: Average P/E for Regulateds and Diversifieds

	P/E Ratio			
	2011	**2012**	**2013**	**2014**
Regulated Average	14.8x	13.8x	13.2x	12.5x
Diversified Average	12.5x	13.0x	12.4x	11.0x
Premium/(Discount)	**18%**	**7%**	**6%**	**13%**

Source: BofA Merrill Lynch Global Research

Power – from Bear to Bull

From bear…

One year ago natural gas prices were falling, investors did not appreciate earnings downside in 2012, worried about credit pressures

Looking back a year ago, we had a bearish view of the unregulated power stocks. Our main concern was that investors did not appreciate the earnings downside for the companies in 2012/2013 as favorable hedges rolled off to a very low power price environment. Moreover, we were concerned that the companies could face credit rating pressures and potentially even need to consider equity issuance or dividend cuts. Natural gas prices could not seem to find a floor, and the impact on power from EPA initiatives seemed too far off to matter.

…to neutral…

A number of factors made us less worried about the downside risk in 2011 for power.

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Bonus D&A eliminated credit ratings pressure, consensus earnings came down

- **Bonus depreciation law** – the 100% bonus depreciation law for 2011 and 50% for 2012 provided companies with substantial additional cash in the near-term that supported credit ratings.
- **M&A synergies –** Savings from the completed GenOn merger (RRI and Mirant) and FirstEnergy merger provided an offset to near-term margin pressure. EXC and CEG are pursuing the same strategy.
- **Consensus expectations more in line with reality** - Consensus estimates came down to levels that were consistent or even below our estimates and current power market realities.

...to cautious optimism...

A number of events have occurred during 2011 that have provided better visibility on a long-term power turnaround.

Reasons to be more optimistic
1. All PJM generators now have a capacity uplift to earnings starting in 2013 or 2014
2. increased demand drivers for nat gas: coal to gas switching, LNG export
3. HAPS MACT forcing some coal retirements

- **PJM capacity auction for 2014/2015** – The large increase in RTO west pricing ($126 /MW-day up from $28/ MW-day) showed the potential upside to capacity prices from proposed EPA HAPS MACT rule. Even though Eastern PJM (Pennsylvania, New Jersey Maryland) capacity prices fell versus the last auction, pricing is still above the 2012 lows. From a bottom line standpoint, all PJM generators now have a capacity uplift to their earnings starting in 2013 or 2014. This gives visibility on an earnings turnaround.
- **More visibility on natural gas demand growth** – While natural gas prices remain depressed, there has become a lot more visibility on potential demand drivers to offset new shale supply. These include coal-to-gas switching for power markets, a rebound in gas intensive industrial facilities coming to the US, and even the potential for LNG export. Finally, more shale drilling has moved to oil from natural gas as oil prices have continued to rise. As a result of these factors, the potential for a further natural gas collapse from here seems less likely.
- **EPA mercury rule (HAPS MACT) proposed –** In March, the EPA proposed its long awaited hazardous pollutant rule to reduce mercury and acid gases. While the rule was more flexible than feared, it still requires most if not all coal generators to review their fleet and either shut or retrofit all of their plants outside of a handful of the cleanest coal plants. The rule is scheduled to be finalized in November 2011 and implemented in 2015 with the potential for at least a year of extra time. The rule has caused companies to start announcing more definitive retirement plans for older coal plants and has had some positive impact on long-term power forwards. We continue to expect that this rule will cause potentially 30GW of coal plants to retire, or roughly 3% of overall power supply.

...to bullish

The two main reasons to buy generators now are CSAPR and a stale consensus view

These events made us more convinced on a long-term turnaround in power. However, 2014-2016 is a long time away so why buy stocks now? The two main reasons are CSAPR and a stale consensus view.

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Cross State Air Pollution Rule (CSAPR)

In early July, the EPA issued a final rule related to reducing SOx and NOx emissions across states. CSAPR is effective in 2012 and thus will begin impacting power markets in a much closer time frame than HAPS MACT

In early July, the EPA issued a final rule related to reducing SOx and NOx emissions across states. Formerly known as CATR and before that CAIR, the EPA renamed it the Cross State Air Pollution Rule (CSAPR). In a surprise, the final rule had a number of different provisions from the initial rule proposed one year earlier. The main differences were: 1) stricter emission reductions levels and penalties; 2) more limits on emission trading particularly for states that are short credits such as Ohio, Pennsylvania, Indiana, and Texas; 3) the inclusion of the state of Texas. Importantly, CSAPR is effective in 2012 and thus will begin impacting power markets in a much closer time frame than HAPS MACT.

Our initial take on CSAPR is that it will create an uplift in power prices due to the return of emission allowances being priced into power. Most impacted areas are PJM and ERCOT.

Our initial take on CSAPR is that it will create an uplift in power prices due to the return of emission allowances being priced into power, and the potential for coal plants to need to shut down temporarily or permanently in certain regions. Areas most affected include the Midwest/MidAtlantic (PJM) area where there is a lot of unscrubbed coal plants that use higher sulfur coal; and Texas (ERCOT), which is already starting to become tight on power due to strong demand growth and has a number of lignite plants that could be impacted. Nuclear-based EXC is the best positioned to benefit from CSAPR in PJM and gas-based CPN is best positioned in ERCOT. While coal utilities could see higher costs, most will see offsets through higher power prices on their nuclear and scrubbed coal plants.

Since CSAPR was issued, around-the-clock power prices in PJM have risen by $2-$3/MWH in 2012-2014. We believe this potentially goes further

Since CSAPR was issued, around-the-clock power prices in PJM have risen by $2-$3/MWH in 2012-2014 (less in 2012 and more in 2014). We believe this change is likely sustained and potentially goes further, leading to an earlier than expected improvement in power prices. We have updated our power price forecasts to reflect the impact of CSAPR and resulting higher power market heat rates.

Table 6 below, summarizes the surplus/(deficit) for SOx emissions for each company with coal generation exposure. We note this data does not highlight the net impact of coal emissions on power prices and does not consider how much of these costs will be passed through higher power prices. In addition, it is difficult to determine what the end market price will be when these credits trade, thus we have not shown a dollar impact for the companies.

Table 6: Emissions data summarized by company

Company	Ticker	Total Coal Impacted(MW)	2010 total SO2 emissions (tons)	2012 SOx emissions cap (tons)	Surplus/(Deficit)	2014 SOx emissions cap (tons)	Surplus/(Deficit)
Ameren	AEE	4,497	70,575	74,399	3,824	38,783	(31,792)
Dominion	D	1,158	15,191	16,491	1,300	8,597	(6,594)
Edison International	EIX	7,459	184,103	98,814	(85,289)	49,130	(134,973)
FirstEnergy	FE	12,113	163,702	170,758	7,056	75,403	(88,299)
GenOn	GEN	5,813	92,061	60,879	(31,182)	32,736	(59,326)
NRG Energy	NRG	5,546	84,832	51,172	(33,659)	48,787	(36,045)
PPL Corp	PPL	3,567	38,980	53,485	14,504	19,527	(19,453)
PSEG Corp	PEG	2,540	20,824	12,007	1,423	7,051	(6,512)

Source: BofA Merrill Lynch Global Research, Environmental Protection Agency

(1) We assume GEN closes about 1,726MW of capacity. Including those plants, the total emissions would be a (71,021) ton deficit in 2012 and a (110,035) ton deficit in 2014

(2) PEG surplus/deficit takes into account FGDs installed at Mercer in 2011 and late 2012

We believe the change from generators being serial earnings estimate reduction stories to earnings estimate increase stories is very significant and not appreciated by the market

Consensus now too low

Even before CSAPR and any estimate changes, our 2013/2014 earnings estimates for the unregulated generators were 4%/2% above consensus. With CSAPR and our new price deck, our estimates are now 8%/15% above consensus. We believe this change from generators being serial earnings estimate reduction stories to earnings estimate increase stories is very significant and not appreciated by the market.

Table 7: BofAML EPS Estimates versus Consensus

					2011E		2012E		2013E		2014E	
Company Name	Ticker	Price	PO	Rating	BofAML	Cons	BofAML	Cons	BofAML	Cons	BofAML	Cons
Ameren	AEE	$29.46	$30	B-2-7	$2.35	$2.33	$2.40	$2.21	$2.08	$1.90	$2.39	$2.00
Constellation	CEG	38.94	N/A	-6-	3.13	3.20	2.49	2.47	3.00	3.01	3.37	3.27
Dominion	D	49.78	51	B-2-7	3.10	3.14	3.36	3.25	3.62	3.45	3.83	3.56
Edison International	EIX	39.23	43	B-1-7	2.79	2.76	2.87	2.65	2.85	2.75	3.58	2.84
Entergy	ETR	68.31	69	B-3-7	6.50	6.59	6.07	6.11	6.19	5.95	6.99	6.57
Exelon	EXC	43.70	48	B-1-7	4.16	4.07	3.08	3.01	3.16	2.89	3.54	2.63
FirstEnergy	FE	43.36	52	B-1-7	3.38	3.30	3.44	3.32	3.60	3.25	4.57	3.85
NextEra Energy	NEE	57.46	61	B-1-7	4.47	4.48	4.75	4.74	4.94	5.02	5.31	5.43
PPL Corp	PPL	28.01	31	B-1-7	2.58	2.60	2.60	2.47	2.69	2.41	2.93	2.52
PSEG Corp	PEG	32.81	39	B-1-7	2.64	2.65	2.68	2.51	3.09	2.89	3.31	3.07

Source: BofA Merrill Lynch Global Research, First Call

Table 8: BofAML EBITDA Estimates versus Consensus

					2011E		2012E		2013E		2014E	
Company Name	Ticker	Price	PO	Rating	BofAML	Cons	BofAML	Cons	BofAML	Cons	BofAML	Cons
Calpine	CPN	$16.19	$20	C-1-9	$1,704	$1,704	$1,617	$1,676	$1,941	$1,927	$2,079	$2,000
GenOn	GEN	4.02	5	C-1-9	527	571	616	535	1,062	759	1,166	983
NRG Energy	NRG	24.75	31	B-1-9	1,922	1,959	1,935	1,861	1,917	1,809	2,027	1,582

Source: BofA Merrill Lynch Global Research, Bloomberg
Note: GEN EBITDA estimates exclude add back of $130M of lease expense

We see three main areas of risk to power recovery story:

1. economic double-dip
2. natural gas collapse
3. political or legal delays to EPA rules on coal

Risks to power recovery

We see three main areas of risk to power recovery story: 1) economic double-dip; 2) natural gas collapse; 3) political or legal delays to EPA rules on coal – both CSAPR and HAPS MACT. Overall, we view these risks as mainly impacting timing of power recovery, not the ultimate outcome.

- **Economy** – A double-dip would not only hurt power demand growth, but could also negatively impact natural gas prices. Moreover, a double-dip would likely raise even more political pressure to delay EPA rules on coal plants. If the economy is very weak, investors may move away from the higher beta generators, particularly the IPPs.
- **Natural Gas** – While we are more bullish on long-term gas as discussed above, there is still an oversupply of shale gas in the near-term that could worsen as more Marcellus gas gets access to market.
- **Legal and political risks to EPA rules; 2012 election is key** - There is substantial opposition to the CSAPR and HAPS MACT rules from politicians

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at coal based states, their local utilities, unions, and the Republican party. Since CSAPR is a final rule, the courts will be the main avenue to fight it at this point. Historically, the courts have not issued a stay on any EPA rule during the appeals process. Assuming that happens again, CSAPR will be effective potentially for years before a final legal ruling. We expect the inclusion of Texas to be the main issue of contention.

On HAPS MACT, the EPA is expected to issue a final rule by November 2011 and the main issue of opposition is the need for more time to comply. Generally, coal utilities believe they need an additional two years beyond the current 2015/2016 to implement needed retrofits and to address shutdowns while maintaining reliability. Given EPA's action on CSAPR, we are doubtful that the agency will allow extra time.

In the political arena, the Republican led House of Representatives has already been considering legislation that would delay the implementation of both CSAPR and HAPS MACT. However, there does not appear to be sufficient support for this in the Senate and President Obama is also opposed to it.

The outcome of the 2012 election will be critical as a Republican win could lead to a very different EPA. The rules will already be final but timelines for implementation could be extended

While this is a partisan issue, there is bipartisan support for EPA delays in a number of the coal-based states in the Midwest and Southeast. Given that some of the coal based states such as Ohio and Pennsylvania could be swing states in the presidential election, there may be increased political pressure on the Obama administration to seek compromise. The administration has compromised on a number of other EPA issues, but has shown no willingness on HAPS MACT and CSAPR. Finally, the outcome of the 2012 election will be critical as a Republican win could lead to a very different EPA. The rules will already be final but timelines for implementation could be extended.

Retail margins: what goes up must come down

Given our more bullish view on wholesale power prices, we warn investors that companies with large retail businesses could see margin pressure. Companies where we would be watchful of retail margin pressure include FE, NRG and EXC/CEG.

One of the few businesses that has benefited from the collapse in power prices is the competitive retail supply business. This business sees its best margins when the headroom between retail rates and wholesale prices widens. Moreover, due to the financial crisis, the number of competitors shrunk until recently. Given our more bullish view on wholesale power prices and increased retail competition, we warn investors that companies with large retail businesses could see margin pressure that offsets part of their generation upside. Companies where we would be watchful of retail margin pressure include FE, NRG and EXC/CEG. We note that PEG has been hurt by lack of a retail business recently since they have not played in it and thus could benefit if investors take a more cautious view on retail.

Updating price deck and valuation

Our new natural gas assumptions for 2012-2014 are now $5/MMBtu, $5.25/MMBtu and $5.50/MMBtu

We have updated our natural gas and heat rate assumptions in our commodity price deck along with rolling our valuations to 2013, which has driven our earnings and price objective revisions. Below we highlight some of the changes:

- **Adjusted natural gas prices**: Our new natural gas assumptions for 2012-2014 are now $5/MMBtu, $5.25/MMBtu and $5.50/MMBtu. Our prior assumptions were $5.50/MMBtu for 2012-2014.
- **Raised coal prices in 2012-2014:** Our new CAPP coal price in 2012-2014 is $80/ton versus our previous estimate of $75/ton. Our new PRB coal prices for 2012-2014 are $13.50/ton, $13.75/ton and $13.75/ton. Our previous estimate was $12.25/ton for 2012-2014.
- **Adjusted heat rates for 2012-2014:** On average, our power prices were about 6% above market in 2012, 2% above market in 2013 and 5% below market in 2014. We are now about 3% above market across 2012-2014.

For more detail, please see Tables 24-29.

Stock Strategy

We do not see one clear superior theme to play within the unregulated generation sector

We think all unregulated generators will benefit from higher power prices, even those that may need to shut down some older coal plants for new EPA rules. To that end, we do not see one clear superior theme to play within the unregulated generation sector. Some stock themes that we believe investors should consider are highlighted below. Pages 12-13 also show a description of each company's generation asset base as well as some of the positive and negative attributes we see for each stock.

Power market sensitivity - EXC, FE, GEN, NRG, PEG, CPN

EXC and FE are the most sensitive of the integrated companies and GEN and NRG are the most sensitive among the IPPs to a rise in power prices

With our more bullish view on power prices, we think one factor to consider is sensitivity to rising power prices. Most of these companies have been hit worst on the downside and thus might get the most benefit on the upside. Earnings sensitivity is largely driven by the size of the generation fleet relative to the overall company as well as the type of generation. As shown in Table 9, EXC and FE are the most sensitive of the integrated companies and GEN and NRG are among the most sensitive in the IPPs. As we discuss below, EXC, FE and NRG all have large retail businesses that mitigate this sensitivity some and could seem margin pressure in a higher wholesale price market. To that end, we would also highlight PEG as being sensitive to power prices but with no retail businesses.

Table 9: $1 Change in Natural Gas Sensitivity 2014 Earnings

Ticker	2014 EPS	$1 Change	% Change
EXC	$3.54	$1.06	30%
CEG	$3.36	$0.79	23%
AEE	$2.39	$0.55	23%
FE	$4.57	$0.94	20%
PEG	$3.31	$0.63	19%
EIX	$3.58	$0.64	18%
PPL	$2.93	$0.46	16%
ETR	$6.99	$0.93	13%
D	$3.83	$0.25	7%
NEE	$5.31	$0.15	3%

Source: BofA Merrill Lynch Global Research

Table 10: $1 Change in Natural Gas Sensitivity 2014 EBITDA

Ticker	2014 EBITDA	$1 Change	% Change
NRG	$2,027	$479	24%
GEN	$1,296	$275	21%
CPN	$2,079	$329	16%

Source: BofA Merrill Lynch Global Research

Location - ERCOT and PJM look most attractive

ERCOT plays - CPN and NRG

ERCOT has the best long term supply/demand dynamics as strong demand growth will likely lead to tight markets in the next 3-4 years, or sooner with CSAPR rule; we would play this through CPN and NRG

The ERCOT market in Texas has the best long term supply/demand dynamics as strong demand growth will likely lead to tight markets in the next 3-4 years, or sooner with CSAPR rule. One negative in ERCOT is the lack of a capacity market so generators are not receiving any capacity payments in the interim as they do in PJM, NEPOOL, etc. However, that means that pricing could spike higher in the future as the market gets close to needing new generation. Texas generation plays mainly include CPN and NRG and to a lesser extent EXC/CEG and NEE.

PJM plays - EXC, FE, PEG, EIX, PPL, GEN, CPN

The main driver of higher power prices in PJM is supply reduction from coal shutdowns; for PJM exposure: EXC, FE, PEG, EIX, PPL, GEN, CPN

In PJM, demand growth is modest so the main driver of higher prices is supply reduction from coal shutdowns. This could be particularly impactful in the low priced markets of NIHub (Illinois) and AD Hub (Ohio) where a lot of older coal plants exist. Moreover, PJM has the most robust capacity market of any region with payments set through mid-2015. After bottoming in 2012 or 2013 (depends on region), these capacity payments are rebounding for all the companies in 2013 or 2014. The one offset to this capacity benefit is political risk related to opposition to the PJM capacity market which has particularly been an overhang on eastern generators such as PEG and GEN.

CSAPR beneficiaries - EXC, CPN, others

CSAPR will create upward pressure on power prices either through emission allowance costs being incorporated in power prices or though temporary coal plant shutdowns. We expect off peak nuclear generators to be the main beneficiary led by EXC.

CSAPR will create upward pressure on power prices either through emission allowance costs being incorporated in power prices or though temporary coal plant shutdowns. We expect off peak nuclear generators to be the main beneficiary led by EXC. In Texas, we believe CPN's all gas fleet should be the main beneficiary of the surprise inclusion of CSAPR and the fact that Texas is short credits.

A number of companies that have coal units that require emission allowances could still be large beneficiaries of this rule given the benefit of higher power prices to their nuclear and scrubbed coal plants. These include FE, PEG and PPL.

Compelling valuation - FE, PEG and GEN

We continue to see FE, PEG and GEN trading at compelling valuations relative to other generators

We continue to see FE, PEG and GEN trading at compelling valuations relative to other generators despite their leverage to improving power market fundamentals. We believe the valuation discount for PEG and FE is unwarranted. Similarly we think the valuation discount for GEN is too great and offers investors asymmetric risk/reward as power markets improve.

Coal to gas switching - CPN and PEG

We expect a further move toward CCGT usage away from coal due to rising coal costs and environmental costs; should benefit CPN and PEG

We expect a further move toward CCGT usage away from coal due to rising coal costs and environmental costs. This should benefit the larger gas generators such as CPN (though they have most of their exposure in gas driven markets) and PEG which is the largest gas generator in PJM.

Option value plays - GEN, EIX, AEE

EIX and AEE are essentially receiving zero or negative value in their stocks for merchant gen. A rebound in power prices could create value.

EIX and AEE are essentially receiving zero or negative value in their stocks for their troubled coal-based plant fleets. While this may be deserved, a rebound in power prices could bring those fleets into the money. GEN also has a large fleet with a low level of debt that we view as valued as a cheap option on any power recovery. We believe that all three of these companies could benefit from better clarity on their environmental compliance plans.

Areas of concern

Retail power exposure - EXC/CEG, FE, NRG

While retail has been a key growth and margin driver for these companies, we think margins in the business have peaked and will likely come down due to higher wholesale prices and increased competition. We believe these companies are all still big net beneficiaries of higher power prices, but investors need to be aware that retail earnings will likely come down.

Darkspread exposure - GEN, FE, PPL, EIX

Coal generators using eastern coal have been particularly exposed to the jump in international coal demand and prices relative to low power prices. Moreover, coal transport costs continue to grind higher. This remains a significant pressure on these companies' results in the near-term, but at some point could moderate with either higher power prices or weakening coal demand due to shutdowns.

Summary of Generation Companies

Generation Company Summaries

Diversifieds	Description	Positives	Concerns
Ameren **AEE; $29.46** **B-2-7** **Neutral** **PO:$30**	■ 90% regulated ■ 4,500MW of merchant coal generation, 1,500MW of gas generation ■ primarily located in IL (MISO)	■ Stock trading slightly below value of utility/parent ■ Generation is a cheap option value ■ Merchant segment margins highly levered to recovery in power prices with full-service requirements capability ■ High dividend yield ■ Generation portfolio is a mix of baseload, intermediate, peaking ■ Mainly PRB coal; Transport costs already at market	■ Environmental exposure could be meaningful; little visibility ■ Generation in MISO with no capacity market ■ Significant oversupply in Illinois market ■ Not clear how fund environmental needs
Dominion **D; $49.78** **B-2-7** **Neutral** **PO:$51**	■ 75% regulated ■ 3,092MW of coal generation, but shutting down 829MW by mid 2014; 2,572MW of nuclear generation; 2,340MW of gas generation ■ Primarily located in NEPOOL	■ Very attractive electric and gas utility growth ■ Generation earnings bottom in 2011/2012 and turn up ■ Millstone nuclear plant highly valuable ■ Proactively addressed environmental exposure and underperforming assets	■ Kewaunee earnings going away ■ Political risk in Connecticut ■ Capacity payments in NEPOOL declining ■ Dark spread exposure in NEPOOL
Edison International **EIX; $39.23** **B-1-7** **Buy** **PO:$43**	■ 100% regulated, CA utility earnings drive value ■ 1,884 MW of coal generation in Pennsylvania, 5,290MW of coal generation in Illinois, 1,400MW of wind, 964MW of gas generation in California	■ Stock trading well below value of the utility ■ Edison Mission is a free option; lot of restructuring noise ■ Wind power business is highly valuable with growth potential ■ Using trona to address Midwest coal retrofits	■ Homer City plants have large SOx exposure ■ High debt levels ■ Sale leasebacks complicate restructuring options ■ Large coal transport cost increase at Midwest Gen coming in 2012
Entergy **ETR; $68.31** **B-3-7** **Underperform** **PO:$69**	■ 74% regulated ■ 4,998MW of nuclear generation ■ Primarily located in NEPOOL, NY	■ Utility business is worth most of current stock value ■ All nuclear fleet with no coal-related environmental exposure ■ Nuclear cash flow funds utility growth ■ High dividend yield	■ Relicensing and shutdown risk at Vermont Yankee and Indian Point ■ IP represents more than half of non-regulated earnings ■ Capacity payments in NEPOOL and NY not meaningful ■ Pure nuclear portfolio gets below market power prices
Exelon **EXC; $43.70** **B-1-7** **Buy** **PO:$48**	■ 40% regulated (standalone) ■ Largest nuclear generator in US – 17,000 MWs ■ 11,000 MWs nuclear capacity in NI HUB, 6,000 MWs in PJM ■ Pending merger with CEG , largest retail US electric provider	■ Largest nuclear fleet located in a coal exposed power market ■ Merger is accretive with long-term synergies opportunity ■ Matching of largest generation fleet and largest retail position ■ Rising PJM capacity payments ■ Earnings highly sensitive to rising power prices ■ High dividend yield	■ Retail margin pressure at CEG retail segment (New Energy) ■ Risks to closing CEG merger, particularly Maryland approval ■ Illinois market still well oversupplied
FirstEnergy **FE; $44.36** **B-1-7** **Buy** **PO:$52**	■ 65% regulated ■ 15,000 MW of coal, 4,000 MW of nuclear, 2,300 MW of gas generation ■ located in PJM-West	■ Generation fleet 90% nuclear and scrubbed coal ■ Most exposed to PJM RTO West capacity - big upside in 2014/2015 ■ Retail strategy off generation position has been successful ■ High sensitivity to rising power prices ■ high dividend yield	■ Execution risk on aggressive merger synergies ■ Retail margin pressure likely ■ Environmental exposure ($2B) ■ Darkspread exposure
NextEra Energy **NEE; $57.46** **B-1-7** **Buy** **PO:$61**	■ 55% regulated ■ 8,300 MW of wind, 6,600 MW of natural gas, 2,600 MW of nuclear generation ■ located in NEPOOL, MISO, ERCOT, and the West	■ Large, growing utility business ■ Leader in renewables - wind/solar ■ Renewable backlog is improving ■ Generation business is highly contracted ■ Above average dividend growth ■ No coal exposure	■ Roll off of renewable tax credits over time ■ Trading earnings ■ Limited sensitivity to power prices for those playing power rebound

Generation Company Summaries

Diversifieds	Description	Positives	Concerns
PPL Corp **PPL; $28.01** **B-1-7** **Buy** **PO:$31**	▪ 75% regulated ▪ 3,500 MWs of scrubbed PJM coal capacity, 2,250 MWs PJM nuclear capacity ▪ Also own 680 MWs of Montana coal capacity largely scrubbed and 604 MWs of Montana hydro assets	▪ Large and growing utility earnings base ▪ UK merger synergies and accretion ▪ Generation is mainly nuclear, hydro and scrubbed coal ▪ PJM capacity payments rise in 2013 ▪ High dividend yield	▪ Exposure to generation upside moderated by utility acquisitions ▪ Darkspread exposure ▪ International risk ▪ Roll off of favorable hedges in 2013
PSEG **PEG; $32.81** **B-1-7** **Buy** **PO:$39**	▪ 35% regulated ▪ 6,100 MW of natural gas, 3,600 MW of nuclear, 2,400 MW of coal generation ▪ located in eastern PJM, NYISO, and NEPOOL	▪ Very strong balance sheet ▪ High quality generation fleet - large nuclear and gas position ▪ Access to NYC power market ▪ PJM capacity payments jump in 2013 ▪ Strong utility ratebase growth ▪ High sentivity to rising power prices	▪ NJ political risk of subsidized new build plants ▪ Shopping risk of BGS load ▪ Downside fears in future PJM auctions ▪ Questions on why not involved in retail business
IPPs	**Description**	**Positives**	**Concerns**
Calpine **CPN; $16.19** **C-1-9** **Buy** **PO:$20**	▪ 100% merchant ▪ Largest owner and operator of CCGT assets ▪ 28,000 MW of capacity; 725 MWs geothermal capacity rest is natural gas primarily CCGT ▪ 7,200 MWs ERCOT, 6,800 MW West (largely California), 7,900 MWs (60% is PJM) and 6,100 MWs Southeast	▪ Generation is all nat gas and geothermal ▪ Positioned to benefit from tightening Texas power market ▪ Management very successful in both asset purchases and sales ▪ Beneficiary of coal to gas switching	▪ California power market could be pressured by renewables ▪ Current speak spreads still below contract prices ▪ Technical overhang from disputed claim shares
GenOn **GEN; $4.01** **C-1-9** **Buy** **PO:$5**	▪ 100% merchant ▪ 24,000 MWs of Merchant generation, which includes nearly 7,500 MWs of coal capacity in PJM, 14,000 total PJM Capacity ▪ 5,100 MWs of coal capacity has advanced SOx controls ▪ 5,400 MWs in CA	▪ Strong balance sheet ▪ Merger synergies ▪ highly sensitive to improving power prices ▪ PJM capacity payments jump in 2013 ▪ Marsh Landing project creates upside in 2013-14	▪ Large environmental exposure - no clarity on plan ▪ Darkspread exposure ▪ Large portion of California capacity remains uncontracted ▪ Timing of shut-downs vs forward power price response
NRG Energy **NRG; $24.75** **C-1-9** **Buy** **PO:$31**	▪ 100% merchant ▪ Large baseload generator in TX (4,200 MWs Coal and 1,200 MWs Nuclear) ▪ Large retail presence in TX ▪ 10, 980 MWs ERCOT, 3,400 MWs in Louisiana, 6,600 MWs of capacity of Northeast ▪ 900 MWs of Solar Generation under advanced development	▪ Strong free cash flow ▪ Attractive position in growing Texas power market ▪ Likely larger share buy-back program starting in 2012 ▪ Potential brownfield generation development opportunities in New York	▪ Potential margin pressure in retail business ▪ Potential increases in PRB coal prices due to CSAPR rules ▪ Uncertainty in New York Capacity markets ▪ Short SOx credits in TX; uncertainty of emission price

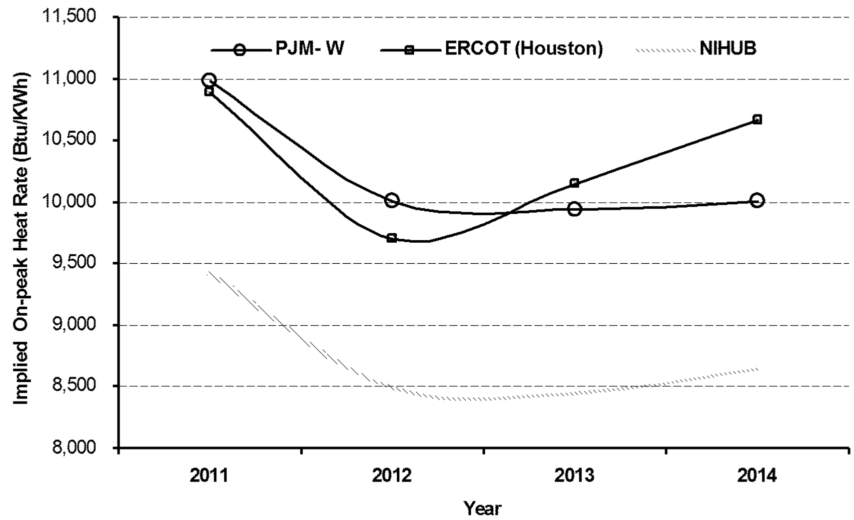
Source: BofA Merrill Lynch Global Research

Leaving the trough behind

We believe power market fundamentals have finally begun to show tangible signs of improvement

Although we acknowledge that power market conditions in the near-term may appear challenging, we believe that fundamentals have finally begun to show tangible signs of improvement. However, as we have discussed in our prior work, we think that the lack of liquidity in forward power markets somewhat masks the likely tightening in power demand/supply. As shown in Chart 3 we see market heat rates as being largely flat over the 2011-2014 timeframe despite looming increases in environmental compliance costs and potential losses of generation capacity.

Chart 3: Forward market heat rates and power prices do not yet reflect tightening conditions



Source: BofA Merrill Lynch Global Research, Bloomberg, Platts

We see power prices rising based on two primary factors:

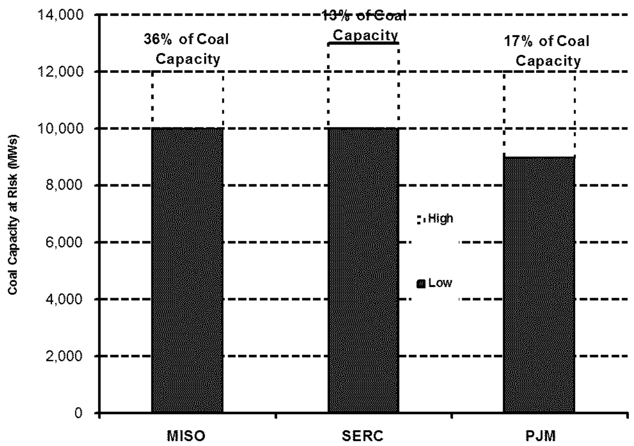
1. Rising marginal cost of production due to CSAPR
2. CSAPR and HAPS MACT will lead to plant shut downs

The relative infancy of the merchant power industry makes comparing prior cyclical up-turns challenging, with no two cycles driven by the same set of fundamentals. The movement out of the current three-year down-cycle will also differ from prior up-turns. As highlighted earlier, our revised estimates currently utilize above market power prices assumptions as we see power prices rising based on two primary factors in most regions of the country:

- **Rising marginal cost of production from coal generation:** We believe the CSAPR rules will lead to substantial cost escalations in marginal costs for regions where unscrubbed coal capacity is currently a meaningful part of the supply curve, particularly in off-peak hours. In addition, we believe that higher-cost gas peaking assets may be needed to dispatch with more frequency, which should also lead to higher power prices. We see this benefitting nuclear, gas-fired and scrubbed coal generation assets, particularly in more heavily coal on the margin markets.

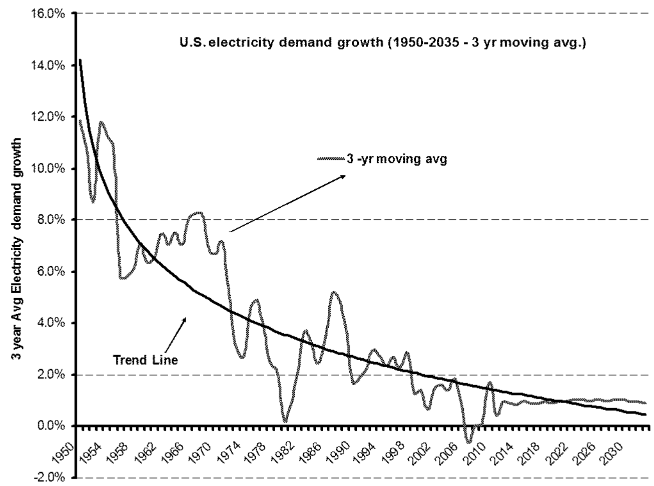
- **Generation capacity declines:** Longer-term, the impact of the CSAPR rules along with soon to be finalized Hazardous Air Pollutant regulations/Maximum Achievable Control Standards (HAPS/ MACT) will lead to certain coal-fired power plants being retired. Chart 4 below highlights the range of coal capacity by region we see at risk of being shut along with the % of the total coal capacity that could be lost. We believe that this reduction in supply will result in higher forward power prices, which will be needed to incentivize additional gas fired capacity to be constructed. Whereas prior power market recovery has often been driven by demand growth we see the catalyst as a reduction in supply in most parts of the US with the exception of ERCOT (Texas).

Chart 4: Supply reductions will more than offset…



Source: BofA Merrill Lynch Global Research

Chart 5: …continued anemic power demand growth



Source: EIA, BofA Merrill Lynch Global Research

Peaks and valleys: what drives power market cycles

We believe power markets are driven by two separate cyclical drivers:
1. Market heat rates: we see further upside to market heat rates
2. Natural gas: we see the potential for natural gas stability in the near-term and potential for modest recovery longer-term

We believe that power markets are essentially driven by two separate cyclical drivers:

1. **Market heat rates (and capacity pricing in certain regions)** – We believe that increasing power prices will be driven in coming years by rising market heat rates (i.e. power prices relative to fuel costs). We believe 2012 power prices and market heat rates still largely reflect trough conditions rather than mid-cycle power economics. That said, we note market heat rates optically look high relative to historic levels (See Chart 6 below). In our view higher heat rate environment is a reflection of a very different fuel price (natural gas and coal) environment relative to the prior mid and peak-cycles. Quite simply heat rates have risen to incentivize fuel switching between gas and coal generation. With that being said and as we will demonstrate later in the report, we see further upside to market heat rates.

2. **Natural gas pricing** – The combination of weakening power demand across most of the US has coincided with steep decline in natural gas prices as natural gas productive capacity has been significantly enhanced since 2008. Abundant natural gas resources from shale formations will likely continue to present a challenge to merchant power generators. That said, we see the potential for natural gas price stability in the near-term and potential for modest recovery longer-term. Factors that could help allow gas prices to recover modestly include potential US exports of LNG, rising industrial demand for natural gas and a greater reliance on natural gas fired generation.

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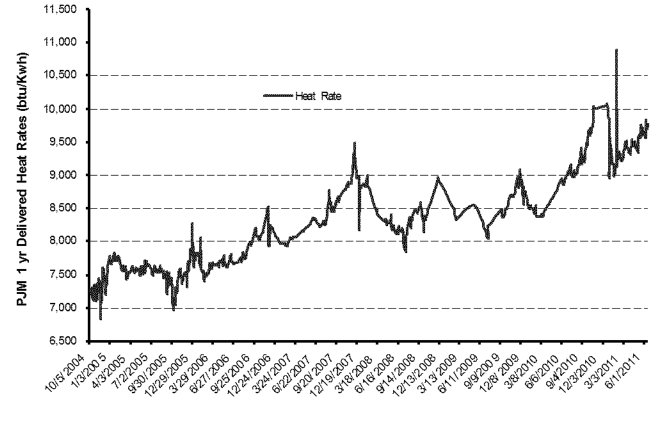
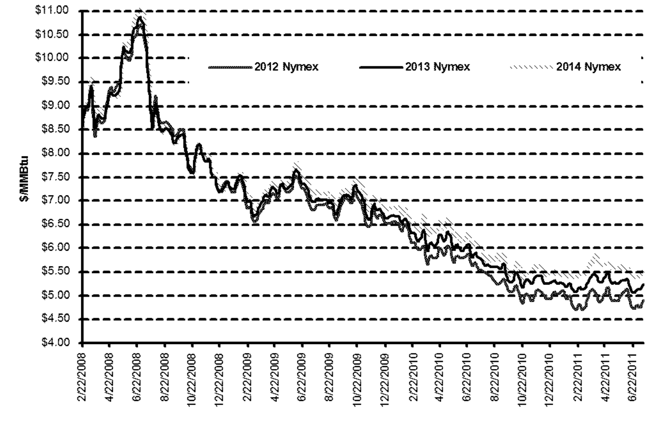
Chart 6: Forward PJM market heat rates appear high, but….



Source: BofA Merrill Lynch Global Research, Bloomberg

Chart 7: …reflect a very different natural gas price environment



Source: BofA Merrill Lynch Global Research, Bloomberg

We see the CSAPR rule increasing costs for marginal, unscrubbed coal units and accelerating a rise in power prices in the 2012 timeframe

CSAPR should cause power marginal cost to rise

Like most commodity industries, power prices are determined by the marginal unit of production. As discussed earlier in this report, we believe that the final CSAPR rules were meaningfully more stringent then consensus expectations. As a result, we see the CSAPR rule increasing costs for marginal, unscrubbed coal units and accelerating a rise in power prices in the 2012 timeframe. We see this dynamic benefitting nuclear generation in particular as nuclear plants tend to run in off-peak hours.

Table 11: SOx compliance costs will lead to higher power prices

	NI Hub Unscrubbed	PJM-W Unscrubbed	PJM-W Unscrubbed
Coal Type	PRB	CAPP	NAPP
Sulfur Content (lbs/btu)	0.8	1.67	3.0
2012 Coal Price ($/MMBtu)	$0.89	$3.26	$3.05
Transporation Cost ($/MMBtu)	1.31	$1.00	0.92
Plant Heat Rate (Btu/KWh)	11,000	10,000	10,000
Marginal Cost	$24.18	$42.60	$39.77
Off Peak Price ($/MWh)	$27.00	$40.00	$40.00
Current Off-Peak Margin ($/MWh)	**$2.83**	**($2.60)**	**$0.23**
CSAPR SO2 Credit ($/Ton)	$1,100	$1,100	$1,100
SO2 Compliance Cost ($/MWh)	$4.84	$9.19	$16.50
Compliance adj. off-peak margin($/MWh)	**($2.02)**	**($11.79)**	**($16.27)**
Needed increase in off-peak power ($/MWh)	**$2.02**	**$11.79**	**$16.27**
Coal on the Margin	75%	63%	63%
Implied Increase in ATC Power Price	**$1.51**	**$7.43**	**$10.25**

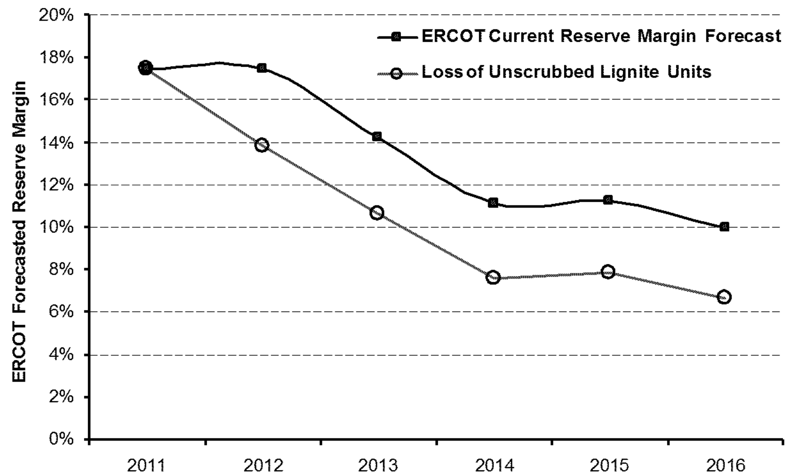
Source: BofA Merrill Lynch Global Research

Our analysis on Table 11 above highlights the impact on hourly prices when an unscrubbed coal generation unit that has no excess allocations is the marginal unit dispatched. That said, during hours when either emission credits or a scrubbed coal plant is on the margin we would expect that this impact may be diminished somewhat. On the other hand, in order to be conservative we have excluded variable O&M costs which also factor into the decision process of whether to dispatch generation. We believe this may signal that forward off-peak prices are likely too low to begin with and when combined with the additional implied increase in compliance related costs, may drive off-peak power prices meaningfully higher in the Midwest and Eastern power markets similar to the rally in NI Hub and PJM-W.

The power generation construction dilemma

As the supply reductions highlighted in Chart 4 earlier materialize, many power regions will see a substantial decrease in their lower cost sources of generation. Although we see US power demand growing at a fairly pedestrian rate of ~ 1.25% per year, the loss of capacity combined with few if any additional power projects (particularly unregulated or merchant generation) means that many of these markets will see market tightening. For markets such as ERCOT, which is likely to grow 100-175 bps faster, tight demand/supply conditions could become apparent as soon as 2013 if coal units retire in response to the CSAPR rules.

Chart 8: Forecasted ERCOT reserve margin



Source: ERCOT CDR report and BofA Merrill Lynch Global Research estimates

The perception of tightening power markets does not appear to be fully reflected forward prices. As a result we do not see adequate returns to construct additional generation at this point in time

As discussed earlier, the perception of tightening power markets does not appear to be fully reflected forward prices. As a result we do not see adequate returns to construct additional generation at this point in time. Furthermore, the inability to finance merchant power generation facilities without either long-term hedges (difficult due to liquidity in power markets) or long-term contracts (finding quality off-taker in de-regulated markets is difficult) also contributes to the lack of new generation construction. Finally, although power prices have remained in an extended trough, construction costs including labor and raw materials have remained at elevated levels through the recent trough in power markets.

In the following Tables we analyze the economics of building a new combined cycle gas generation asset (CCGT) in PJM - W and in ERCOT Houston zone based on a 30-year DCF analysis. In our examples we assume current power and gas prices through 2014. Starting in 2015 we utilize a $6.00/MMBtu terminal gas price assumption (please note 2015 gas is currently $5.64/MMBtu) and then calculate the needed spark spread and market Heat rate needed to earn at least the project's weighted average cost of capital (WACC). We assume a WACC of 7.7% in this exercise and concurrently assume the project moves forward if it generates an IRR of 7.7%. We believe most power development projects would likely target a double digit IRR, but we have assumed a lower hurdle rate to be conservative.

Chart 9 below highlights the returns generated for of a 500 MW, newly constructed CCGT power plant in PJM based on the criteria discussed above. We note our PJM projects assumes capacity payments of $137/MW-day, which helps lower the required on-peak power price. Cells that are shaded depict project returns in excess of the targeted hurdle rate of 7.7%. Chart 10 shows the corresponding implied power prices under various scenarios corresponding to the prior chart.

Chart 9: PJM CCGT return sensitivities to gas price and heat rate

Nymex Gas ($/MMBtu)	Terminal PJM Market Heat Rate (btu/Kwh)				
	8,500	9,500	10,500	11,500	12,500
$4.50	(0.9%)	1.9%	4.0%	5.8%	7.3%
$5.00	(0.5%)	2.4%	4.6%	6.5%	8.1%
$5.00	(0.5%)	2.4%	4.6%	6.5%	8.1%
$5.50	(0.1%)	2.9%	5.2%	7.1%	8.9%
$6.00	0.3%	3.4%	5.8%	7.8%	9.6%
$6.50	0.7%	3.8%	6.3%	8.4%	10.3%
$7.00	1.0%	4.3%	6.8%	9.0%	10.9%
$7.50	1.4%	4.7%	7.3%	9.6%	11.6%

Source: BofA Merrill Lynch Global Research

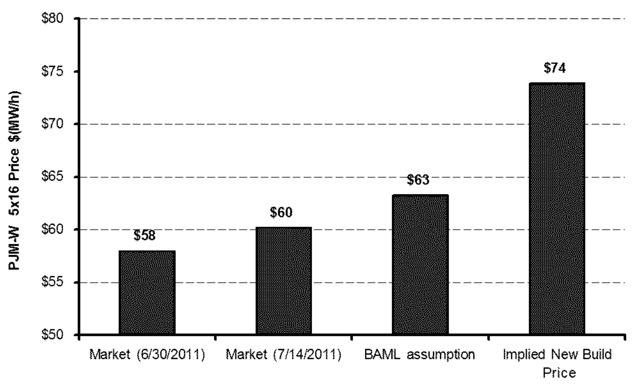
Chart 10: Implied PJM on-peak power prices to achieve hurdle rate

Nymex Gas ($/MMBtu)	Terminal PJM Market Heat Rate (btu/Kwh)				
	9,500	10,500	11,500	12,500	13,500
$4.50	$47	$52	$57	$62	$67
$5.00	$52	$57	$63	$68	$74
$5.00	$52	$57	$63	$68	$74
$5.50	$57	$62	$68	$74	$80
$6.00	$61	$68	$74	$81	$87
$6.50	$66	$73	$80	$87	$94
$7.00	$71	$78	$86	$93	$101
$7.50	$76	$83	$91	$99	$107

Source: BofA Merrill Lynch Global Research

Although we do not believe that we will necessarily see new-build economics emerge for the new construction of power plants in the near to medium term, Chart 11 below illustrates the potential upside from current market power prices relative to our current above market power price estimates and recent market prices.

Chart 11: 2014 PJM – W on-peak power price scenarios



Source: BofA Merrill Lynch Global Research

Chart 12: PJM – W new CCGT entrant return scenarios

New Build Cost ($/KW)	Terminal Sparkspread ($/MWh)				
	$20	$25	$30	$35	$40
$950	8.1%	8.1%	8.1%	8.1%	8.1%
$975	7.9%	7.9%	7.9%	7.9%	7.9%
$1,000	7.7%	7.7%	7.7%	7.7%	7.7%
$1,025	7.5%	7.5%	7.5%	7.5%	7.5%
$1,050	7.3%	7.3%	7.3%	7.3%	7.3%
$1,075	7.1%	7.1%	7.1%	7.1%	7.1%
$1,100	6.9%	6.9%	6.9%	6.9%	6.9%
$1,125	6.7%	6.7%	6.7%	6.7%	6.7%

Source: BofA Merrill Lynch Global Research

Chart 13 highlights the returns generated for of a 500 MW, newly constructed CCGT power plant in ERCOT – Houston zone based on the criteria discussed earlier. Unlike our hypothetical PJM CCGT project, our ERCOT analysis assumes no capacity payments as ERCOT remains an energy only market and which helps account for the higher necessary spark spread to justify new entry. Cells that are shaded depict project returns in excess of the targeted hurdle rate of 7.7%. Chart 14 shows the corresponding implied power prices under various scenarios corresponding to the prior chart.

Chart 13: ERCOT CCGT return sensitivities to gas price and heat rate

Nymex Gas ($/MMBtu)	Terminal ERCOT Market Heat Rate (btu/Kwj)				
	11,000	12,000	13,000	14,000	15,000
$4.50	0.3%	2.8%	4.9%	6.6%	8.2%
$5.00	1.5%	4.0%	6.0%	7.8%	9.4%
$5.00	1.5%	4.0%	6.0%	7.8%	9.4%
$5.50	2.5%	5.0%	7.1%	9.0%	10.6%
$6.00	3.5%	6.0%	8.1%	10.0%	11.8%
$6.50	4.3%	6.9%	9.1%	11.1%	12.9%
$7.00	5.1%	7.8%	10.0%	12.0%	13.9%
$7.50	5.9%	8.6%	10.9%	13.0%	14.9%

Source: BofA Merrill Lynch Global Research

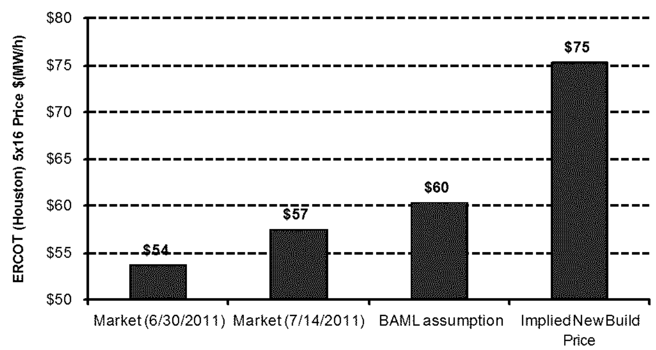
Chart 14: ERCOT CCGT return sensitivities to gas price and heat rate

Nymex Gas ($/MMBtu)	Terminal ERCOT Market Heat Rate (btu/Kwj)				
	11,000	12,000	13,000	14,000	15,000
$4.50	$48	$53	$57	$62	$66
$5.00	$54	$59	$64	$69	$74
$5.00	$54	$59	$64	$69	$74
$5.50	$59	$65	$70	$76	$81
$6.00	$65	$71	$77	$83	$89
$6.50	$70	$77	$83	$90	$96
$7.00	$76	$83	$90	$97	$104
$7.50	$81	$89	$96	$104	$111

Source: BofA Merrill Lynch Global Research

Chart 15 below illustrates the potential upside from current market power prices relative to our current above market power price estimate and current market prices be incentivized to be constructed in ERCOT. Our full DCF analyses and assumptions can be found on the next two pages.

Chart 15: 2014 ERCOT- Houston on-peak power price scenarios



Source: BofA Merrill Lynch Global Research Estimates

Chart 16: ERCOT – Houston new CCGT entrant return scenarios

New Build Cost ($/KW)	Terminal Sparkspread($/MWh)				
	$15	$20	$25	$30	$35
$875	8.9%	8.9%	8.9%	8.9%	8.9%
$900	8.6%	8.6%	8.6%	8.6%	8.6%
$925	8.4%	8.4%	8.4%	8.4%	8.4%
$950	8.1%	8.1%	8.1%	8.1%	8.1%
$975	7.9%	7.9%	7.9%	7.9%	7.9%
$1,000	7.7%	7.7%	7.7%	7.7%	7.7%
$1,025	7.5%	7.5%	7.5%	7.5%	7.5%
$1,050	7.3%	7.3%	7.3%	7.3%	7.3%

Source: BofA Merrill Lynch Global Research Estimates

Table 12: PJM – W CCGT new entrant DCF analysis

PJM CCGT Project Assumptions			
Capacity (MWs)	500	Beta	1.75
Plant Heat Rate	7,200	Risk Free	3.5%
Fixed O&M ($/Kw - Year)	$12.00	Risk Premi	7.5%
Variable O&M ($/MWh)	$2.25	Equity	10.5%
Inflation Rate	2.5%	Debt	7.5%
Capital Cost ($/Kw)	$1,000	WACC	7.7%
Capacity Factor	50.0%	Debt/Cap	50.0%
Hours	8,760	Tax	35.0%

	0	1	2	3	4	5	28	29	30	31	32
	2012	**2013**	**2014**	**2015**	**2016**	**2017**	**2040**	**2041**	**2042**	**2043**	**2044**
Market Assumptions											
Natural Gas ($/MMBtu)	$4.82	$5.19	$5.47	$6.00	$6.00	$6.00	$6.00	$6.00	$6.00	$6.00	$6.00
Transportation ($/MMBtu)	0.64	0.55	0.55	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45
Market Heat Rate (Btu/KWh)	9,813	9,529	9,476	**11,450**	11,450	11,450	11,450	11,450	11,450	11,450	11,450
On-Peak Power Price	$53.60	$54.65	$57.05	$73.85	$73.85	$73.85	$73.85	$73.85	$73.85	$73.85	$73.85
Fuel Cost	$39.32	$41.29	$43.35	$46.44	$46.44	$46.44	$46.44	$46.44	$46.44	$46.44	$46.44
Spark Spread	$14.27	$13.36	$13.70	$27.41	$27.41	$27.41	$27.41	$27.41	$27.41	$27.41	$27.41
Volumes (TWhs)	0.0	0.0	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Capacity Prices ($/MW -Day)	$124	$187	$174	$137	$137	$137	$137	$137	$137	$137	$137
Fixed O&M ($/Kw - Year)	$12	$12	$13	$13	$13	$14	$24	$25	$25	$26	$26
Variable O&M ($/MWh)	$2.25	$2.31	$2.36	$2.42	$2.48	$2.55	$4.49	$4.60	$4.72	$4.84	$4.96
Income Statement ($ MM)											
Revenues	$0	$0	$157	$187	$187	$187	$187	$187	$187	$187	$187
Fuel Cost	0	0	95	102	102	102	102	102	102	102	102
Gross Margin	**$0**	**$0**	**$62**	**$85**	**$85**	**$85**	**$85**	**$85**	**$85**	**$85**	**$85**
Variable O&M	$0	$0	$5	$5	$5	$5	$5	$5	$5	$5	$5
Fixed O&M	0	0	6	6	6	6	11	12	12	12	13
Depreciation	0	0	17	17	17	17	17	17	17	17	17
Opertaing Income	**$0**	**$0**	**$34**	**$57**	**$57**	**$57**	**$52**	**$52**	**$51**	**$51**	**$51**
Discounted Cash Flow											
EBIT	$0	$0	$34	$57	$57	$57	$52	$52	$51	$51	$51
Less: Taxes	0	0	(12)	(20)	(20)	(20)	(18)	(18)	(18)	(18)	(18)
+/(-) Change in Working Capital	0	0	0	0	0	0	0	0	0	0	0
Less: Capital Expenditures	(250)	(250)	(5)	(5)	(5)	(5)	(10)	(10)	(10)	(10)	(10)
Add: Depreciation	0	0	17	17	17	17	17	17	17	17	17
Unlevered FCF	**($250)**	**($250)**	**$34**	**$49**	**$49**	**$49**	**$40**	**$40**	**$40**	**$40**	**$40**
PV	**($250)**	**($232)**	**$29**	**$39**	**$36**	**$34**	**$5**	**$5**	**$4**	**$4**	**$4**
NPV	**($0)**										

IRR	**7.7%**

Source: BofA Merrill Lynch Global Research Estimates

Table 13: ERCOT CCGT new entrant DCF analysis

ERCOT CCGT Project Assumptions

Capacity (MWs)	500	Beta	1.75
Plant Heat Rate	7,200	Risk Free	3.5%
Fixed O&M ($/Kw - Year)	$12.00	Risk Premi	7.5%
Variable O&M ($/MWh)	$2.00	Equity	10.5%
Inflation Rate	2.5%	Debt	7.5%
Capital Cost ($/Kw)	$1,000	WACC	7.7%
Capacity Factor	60.0%	Debt/Cap	50.0%
Hours	8,760	Tax	35.0%

	0	1	2	3	4	5	28	29	30	31	32
	2012	**2013**	**2014**	**2015**	**2016**	**2017**	**2040**	**2041**	**2042**	**2043**	**2044**
Market Assumptions											
Natural Gas ($/MMBtu)	$4.82	$5.19	$5.47	$6.00	$6.00	$6.00	$6.00	$6.00	$6.00	$6.00	$6.00
Transportation ($/MMBtu)	(0.09)	(0.09)	(0.09)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)
Market Heat Rate (Btu/KWh)	9,849	10,192	10,666	**12,770**	12,770	12,770	12,770	12,770	12,770	12,770	12,770
On-Peak Power Price	$46.65	$51.98	$57.44	$75.34	$75.34	$75.34	$75.34	$75.34	$75.34	$75.34	$75.34
Fuel Cost	$34.10	$36.72	$38.77	$42.48	$42.48	$42.48	$42.48	$42.48	$42.48	$42.48	$42.48
Spark Spread	$12.55	$15.26	$18.66	$32.86	$32.86	$32.86	$32.86	$32.86	$32.86	$32.86	$32.86
Volumes (TWhs)	0.0	0.0	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6
Capacity Prices ($/MW -Day)	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Fixed O&M ($/Kw - Year)	$12	$12	$13	$13	$13	$14	$24	$25	$25	$26	$26
Variable O&M ($/MWh)	$2.00	$2.05	$2.10	$2.15	$2.21	$2.26	$3.99	$4.09	$4.20	$4.30	$4.41
Income Statement ($ MM)											
Revenues	$0	$0	$151	$198	$198	$198	$198	$198	$198	$198	$198
Fuel Cost	0	0	102	112	112	112	112	112	112	112	112
Gross Margin	**$0**	**$0**	**$49**	**$86**	**$86**	**$86**	**$86**	**$86**	**$86**	**$86**	**$86**
Variable O&M	$0	$0	$5	$5	$5	$5	$5	$5	$5	$5	$5
Fixed O&M	0	0	6	6	6	6	11	12	12	12	13
Depreciation	0	0	17	17	17	17	17	17	17	17	17
Opertaing Income	**$0**	**$0**	**$21**	**$58**	**$58**	**$58**	**$53**	**$53**	**$52**	**$52**	**$52**
Discounted Cash Flow											
EBIT	$0	$0	$21	$58	$58	$58	$53	$53	$52	$52	$52
Less: Taxes	0	0	(7)	(20)	(20)	(20)	(19)	(18)	(18)	(18)	(18)
+/(-) Change in Working Capital	0	0	0	0	0	0	0	0	0	0	0
Less: Capital Expenditures	(250)	(250)	(5)	(5)	(5)	(5)	(10)	(10)	(10)	(10)	(10)
Add: Depreciation	0	0	17	17	17	17	17	17	17	17	17
Unlevered FCF	**($250)**	**($250)**	**$25**	**$50**	**$49**	**$49**	**$41**	**$41**	**$41**	**$41**	**$40**
PV	**($250)**	**($232)**	**$22**	**$40**	**$37**	**$34**	**$5**	**$5**	**$4**	**$4**	**$4**
NPV	**($1)**										
IRR	**7.7%**										

Source: BofA Merrill Lynch Global Research Estimates

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Diversifieds/IPPs highlights

Ameren - Upgrading to Neutral; trading below utility value

AEE is trading slightly below utility value of $30. Merchant option highly levered to power prices.

We are upgrading AEE to Neutral from Underperform. AEE has both regulated utility and unregulated merchant segments. We find the stock is trading slightly below the value of the utility segment ($30), ignoring the option value of the merchant, whose margins are highly levered to power prices. Moreover, AEE's 5.2% yield helps limit the downside as the power price recovery manifests itself. We estimate the regulated segment will increase earned returns from ~8.2% on utility equity in 2011 to ~9.0% in 2014, based on rate relief and cost containment.

Risks to our rating are related to AEE's environmental exposure, oversupply in IL, potential for weakening demand, and unfavorable rate case outcomes. AEE's merchant is expected to spend almost $1B in environmental retrofitting to meet state and federal regulations. However, we lack further visibility on Ameren's exposure to EPA's new rules, including proposed air toxins rules, and the company's ability to fund environmental needs. A decline in demand would also weigh on Ameren's margins.

Calpine - Upgrading to Buy; CCGT optionality

CPN is the largest owner of CCGT assets in the US with a large asset position in ERCOT. We believe that CCGT assets will be one of the primary beneficiaries of more stringent environmental regulations

We are upgrading CPN to Buy from Neutral and raising our price objective to $20/share from $17/share. As the largest owner of combined cycle gas generation assets (CCGT) in the US with a large asset position in ERCOT/Texas. We believe that CPN is uniquely positioned to benefit from what we see as nascent signs of a power market recovery. We believe that CCGT assets will be one of the primary beneficiaries of more stringent environmental regulations on coal generation as spark spreads widen and allow CCGT assets to dispatch more frequently. We see this benefitting CPN's assets in PJM and the Southeast. In TX we see continued robust demand growth relative to the rest of US and the potential for several large coal-fired generation units to retire or curtail production. We note that our updated 2012-14 EBITDA estimates, which now stand at $1.617B (previously $1.7B), $1.941B ($1.938B) and $2.079B ($1.935B) utilize our updated commodity price assumptions and now adjust for incremental CO2 emissions costs for CPN's fleet in California.

Risks to our buy rating and price objective include a delay in implementation of proposed environmental regulations, declines in capacity prices, growing renewable generating capacity in California and expiration of favorable power supply contracts or tolling agreements. In addition, we note, although included in our valuation and diluted share count estimate, the release of 44 million shares to prior creditors of Calpine could present a technical overhang on CPN shares.

Dominion - Maintain Neutral on valuation; strong regulated

Dominion has one of the best regulated and growth stories in the industry. Rising commodity prices should help Dominion's LT earnings growth rate and it could push it to the 7%+ range.

We are raising our price objective on D to $51 from $50. Based on our new price deck, our new 2011-2014 earnings estimates are $3.10, $3.36, $3.62 and $3.83 per share. Our previous estimates were $3.10, $3.36, $3.60 and $3.74. The impact of the higher power prices is more muted for Dominion as it is much more regulated than its diversified peers, limiting its commodity sensitivity. That said, rising commodity prices should help Dominion's LT earnings growth rate. Currently D estimates a LT earnings growth rate of 5-6%, but that is based on flat merchant earnings. With growth in merchant earnings, we believe LT earnings growth could be in the 7%+ range.

D is currently in the market to sell its Kewaunee nuclear plant, located in Wisconsin. Power prices have been relatively low in the region due to lower industrial demand and new generation coming online. That said, if CSAPR and MACT force the shutdown of many older coal plants in the region, Kewaunee's value could increase, providing upside to the current expected sale price.

Our primary reason for maintaining a Neutral rating is due to valuation. We believe Dominion has one of the best regulated and growth stories in the industry and see the current premium in the stock as deserved. That said, even giving these businesses premium multiples, the stock looks close to fairly valued at current levels, even versus a large cap regulated peer group

Edison International - Reiterate Buy; EME option value

We are reiterating our Buy on EIX due to a strong utility growth story, compelling valuation, and our belief that California remains a constructive regulatory environment longer-term.

We are reiterating our Buy on EIX due to a strong utility growth story, compelling valuation, and our belief that California remains a constructive regulatory environment longer-term. EIX's utility, SCE, trades at a meaningful discount (14%) versus its regulated peers. We believe this valuation discount is too high. EIX is our top California pick.

Based on our price deck changes, our new 2011-2014 earnings estimates are $2.79, $2.87, $2.85 and $3.58. Our previous estimates were $2.79, $2.93, $2.92 and $3.41. Given the meaningful emissions deficit at Homer City, we have adjusted our model to include $60M of emission costs at Homer City over the 2012-2014 timeframe. We see an average emissions cost of around $100M; we then assume 40% is passed through higher power prices and recognize only 60% as a direct expense. Admittedly, the EPA Group 1 emission cost assumption could be too low, with the actual emissions credit cost being more meaningful. We could see EIX considering an option to significantly reduce the generation of Homer City for the next few years until a scrubber is built, or trying to negotiate a plant sale. Moreover, this could force an EME restructuring. As we assign $0 value to EME and see EME's debt as structurally separate from SCE, these costs do not impact our valuation for the company.

Our SCE earnings net of parent drag did not change and remain $2.93/$3.29/$3.44/$3.74 over the 2011-2014 timeframe. We apply a 12.5x multiple to 2013 earnings to arrive at our $43 price objective. Our multiple is a discount to the group to reflect rate case overhang.

Entergy - Maintain Underperform on relicensing risk

Entergy is our only Underperform rating in our generation universe; ETR faces relicensing risk at half its power plants. We see the relicensing risks for Vermont Yankee and Indian Point as the most significant.

We are maintaining our Underperform on Entergy. It is our only Underperform rating in our generation universe, but that is because Entergy faces unique risks. Entergy is facing relicensing risk at half its power plants in the next few years. Of these, we believe the risks for Vermont Yankee and Indian Point are the most significant. We see an even chance of Entergy prevailing in its court case to keep Vermont Yankee open, however this will not be known until late fall. The license renewal process for Indian Point has gotten noisier and more contentious over the past few months, with Governor Cuomo strongly opposed to the license extension. Indian Point is worth about $10/sh to Entergy's value, and accounts for about half the generation earnings. We do not believe we will see resolution to Indian Point relicensing at least for another year. License renewal for Pilgrim is also outstanding.

Based on our new price deck, our new 2011-2014 earnings estimates are $6.50, $6.07, $6.19 and $6.99 per share. Our previous estimates were $6.50, $6.04, $6.19 and $6.41. Please note our estimates include Vermont Yankee earnings of about $0.20-$0.24/sh in 2013 and 2014. Entergy is among the most highly hedged companies in our coverage universe in the 2012-2014 timeframe. This insulates earnings from commodity downside risk, but also limits upside.

Exelon - Upgrading to Buy from Underperform; outsized leverage to power recovery

As the largest nuclear generator in the US, EXC offers investors outsized leverage to a recovery in power prices as well as an attractive 4.8% dividend yield.

We are upgrading EXC two notches to Buy from Underperform and raising our PO to $48/sh from $38/sh. As the largest nuclear generator in the US, EXC offers investors outsized leverage to a recovery in power prices as well as an attractive 4.8% dividend yield. Besides the sheer size of EXC's 17,000+ MW nuclear generation fleet we believe the location of the majority of this capacity in the largely coal driven market of NI HUB uniquely positions EXC to benefit from rising off-peak power prices once the CSAPR rules go into effect and marginal costs for coal generation increase.

Our valuation and rating are largely based on our favorable view of EXC's current standalone generation assets, however, we are now including some incremental value ($2.60/sh) from cost synergies that will result from the merger with CEG in our PO. While our view on generation margins is incrementally positive we continue to view retail margins as coming under pressure. However, combining the largest wholesale generation fleet (EXC) with the largest retail provider (CEG) could produce additional upside we have not yet included in our valuation. Our updated estimates now also reflect our assumptions for some additional retail margins realized at EXC generation.

FirstEnergy - Upgrading to Buy; highly leveraged to power market recovery

We see material earnings upside in 2014 for FE. Along with Exelon, FirstEnergy is one of the best-positioned companies in a rising power price environment.

We are upgrading FirstEnergy to Buy from Neutral. We see material earnings upside in 2014, driven by the 2014/2015 RPM capacity auction and the significant contango in the AEP-Dayton Hub power pricing. Along with Exelon, FirstEnergy is one of the best-positioned companies in a rising power price environment. Based on out new pricing assumptions we are boosting our 2012-2014 earnings estimates to $3.44/$3.60/$4.57 from $3.34/$3.32/$3.90. Notably, our new 2013E is above FE's current guidance range of $3.20-$3.50/sh. Since FE gave guidance in early May, power prices have generally risen about $2/MWh across the forward curve, suggesting some upside in 2013. FE, as of March 31, was 33% hedged in 2013, so the company is well positioned to capture price upside. We are boosting our price objective to $52 from $47.

Uncertainties remain on FE's ability to execute on its cost reduction targets and the makeup of the coal fleet in the context of the EPA transport and toxics rule. FE is targeting $450M of merger benefits and an incremental $75M-$175M of O&M savings through 2013. These benefits are already incorporated in our estimates, so there could be some downside if FE is not able to meet these goals. Finally, FirstEnergy has made significant progress on environmental controls on its coal fleet and is well positioned in front of the EPA rules. Currently, Eastlake 5 is the only supercritical coal plant not scrubbed. The rest of the fleet – about 2,500 MW of unscrubbed subcritical coal – is likely to shut down at some point.

We see GEN as the most leveraged company in our coverage universe on a percentage of equity value to a power market recovery

GenOn - Reiterating Buy; outsized leveraged to power

We are reiterating our Buy rating on GEN shares as we see GEN as the most leveraged company in our coverage universe on a percentage of equity value to a power market recovery. While it may seem counterintuitive over the long-term we see more stringent emission regulations such as the CSAPR rules as potentially benefitting a coal-fired generator such as GEN. Although the company may be forced to retire some of its coal-fired generation (we currently assume the company retires 1,700 MWs by 2013 and an incremental 1,200 MWs in the 2015+ timeframe) we would expect the company's remaining 5,000 MWs of coal assets with advanced emission controls to more than offset this loss of capacity. We view GEN as a cheap call option on dark spread recovery as forward prices have continued to lag forward coal prices and reflect negative margins in futures years, but given the likely retirement of older coal assets that lack environmental controls we would expect dark spreads to eventually recover.

Our new 2011-2014 EBITDA estimates are $527M, $616M, $1,062M and $1,166M. Our prior estimates were $527M, $599M, $983M, and $990M. We note our updated estimates do not include SOx emission credit purchases. That said, we have analyzed GEN's likely SOx emission credit position in 2012-2014 under the new limits set by the CSAPR and believe that the impact will be only a slight negative to GEN EBITDA and if power prices rise in response to the rule may be neutral to positive. That said, we have included the potential negative impact under CSAPR in our valuation as incremental debt and note our valuation of GEN excludes all value from plants we assume are shut-down and includes over $1 billion in potential environmental costs as incremental debt.

NEE is not as directly levered to power markets due to the highly contracted nature of its unregulated generation; despite the limited direct sensitivity to power prices, rising prices have positive impacts on renewable PPAs

NextEra Energy - Reiterating Buy; renewables drive growth

We are raising our price objective on NEE to $61 from $60. This is primarily based on a shift of our sum-of-parts valuation to be based on 2013 rather than 2012, bringing it in line with the group. NEE is not as directly levered to power markets due to the highly contracted nature of its unregulated generation strategy, and our new commodity price deck only affects our 2014E, raising it to $5.31 vs. $5.24 previously. Despite the limited direct sensitivity to power prices, rising prices have positive impacts on renewable PPAs. All else equal, higher market prices could lead to higher PPA prices and make wind generation more attractive to utility counterparties. We have seen signs already that NEE's renewable pipeline is improving from contract announcements in Q2. NEE has no exposure to EPA regulations on coal at the unregulated operation. Finally, NEE has above-average dividend growth over the next several years, a departure from many integrated peers.

Our main concerns on NEE center around the power price sensitivity, tax credit roll-offs, and the amount of earnings from trading and marketing. As power prices rise over the next few years, investors may favor more levered names at the expense of NEE. Additionally, there is some concern on the timing of the roll-off of benefits from production tax credits, though the roll-offs are included in the company's 5%-7% long-term earnings growth rate. Finally, about 10% of NEE's unregulated EBITDA comes from marketing and trading, which could be seen as a riskier business line compared to the rest of the operation.

NRG Energy - Upgrading to Buy; cash flow cowboy

With over 5,000MWs of baseload generation (coal and nuclear) we see NRG as a primary beneficiary from potential tightening power market conditions in Texas.

We are upgrading NRG to Buy from Neutral and raising our PO to $31/sh from $25/sh. With over 5,000MWs of baseload generation (coal and nuclear) we see NRG as a primary beneficiary from potential tightening power market conditions in Texas where we see continued robust demand growth relative to the rest of the US. We acknowledge that the final CSAPR rules introduces some uncertainty for a portion of NRG's TX baseload fleet (35% of baseload capacity, but believe the potential for several other large lignite-fired generation units to retire or curtail production (please see our recent report "Sorry Texas, Ms. Jackson is for real") should help mitigate some or all of this risk. Our base case valuation conservatively includes negative value related to TX emission costs ($1.70/share) based on the average cost of utilizing TrONA injections and purchasing emissions credits at $1,000/ton.

Despite declining hedge levels we continue to see NRG generating a substantial amount of free cash flow over the 2012-2014 timeframe particularly as it completes construction of its ~900 MW solar development pipeline. In addition we note that NRG's 2017 senior notes, the last of its senior notes with restrictive covenants, become callable at the beginning of the year which could result in a substantial increase from its current $180M share repurchase program.

PPL Corp - Upgrading to Buy; quality, favorable location

PPL's merchant generation assets are of high quality in a favorable location. All of PPL's ~3,500 MWs of PJM coal generation is already scrubbed.

PPL purposely shifted its business mix away from merchant power towards its regulated utility businesses by making two large scale utility acquisitions in the span of a year. That said, the high quality and favorable location of PPL's merchant generation assets is undeniable. Against a back drop of what see as a nascent recovery in power markets we are upgrading PPL to a Buy rating and raising our PO to $31/sh from $28/sh. We see PPL's baseload coal and nuclear assets benefitting from more stringent environmental regulations. All of PPL's ~3,500 MWs of PJM coal generation is already scrubbed and PPL owns and operates the Susquehanna nuclear power plant that provides another 2,250 MWs of emission free generation in PJM. As a reminder PJM is heavily reliant on coal generation assets many of which do not have advanced environmental controls like scrubbers in place.

Our new 2011-2014 EPS estimates are $2.58, $2.60, $2.69 and $2.93. Our updated estimates reflect our revised commodity price assumptions as well as the inclusion of addition environmental capital expenditures contemplated by PPL's ECR filing for its KY utilities.

PSEG - Reiterating Buy; attractive value

PEG is one of the best diversified utilities in a difficult market. PEG operates a solid utility with above-average growth along with a generation company that operates in high-value, constrained regions. We believe that this geographic advantage of its generation fleet will drive better margins with the potential for upside.

We are boosting our price objective on PEG to $39 from $38 and reiterate our Buy rating. This increase in PO reflects our new pricing assumptions and stronger earnings outlook over 2012-2014, primarily stemming from higher PJM-East power prices. Our new earnings estimates for PEG are $2.68/$3.09/$3.31 for 2012-2014 compared to $2.59/$2.90/$2.94 previously. Even though PEG does face some headwinds as capacity prices fall in late 2014, we believe that the uplift in energy prices will more than offset this. The company's generation fleet is mostly nuclear, natural gas, and scrubbed coal generation, and has minimal negative exposure to the EPA rules. The company has the opportunity to access the New York City market through the new Hudson River transmission line. Finally, PEG's utility has above-average (high single-digit growth) rate base growth opportunities through transmission and distribution projects in New Jersey.

On the downside, political risk continues in New Jersey as the state Board of Public Utilities actively seeks to add new generation in the state which could serve to depress capacity or energy prices in eastern PJM. Shopping of BGS load could also pressure margins. Even though shopping levels have shown signs of stabilizing, PEG does face questions as to why it has not developed a retail operation. Finally, following the weak results of the 2014/2105 PJM capacity auction in the East, there is additional concern that capacity prices could continue to fall in subsequent auctions.

Regulateds highlights

Portland General - Downgrading to Underperform; discount warranted

We are downgrading POR to Underperform based on valuation. We like the fundamental rate base story of POR, but believe it has some risks that warrants a discount valuation.

We are downgrading POR to Underperform from Neutral based on valuation and our move towards a portfolio with more commodity leveraged companies. We like the fundamental rate base story of Portland General, but believe it has some risks that warrants a discount valuation. Risks include 1) Power cost adjustment mechanism with a wide bandwidth and 2) Below average realized ROEs due to unrecoverable costs. Due to one of the strongest hydro conditions seen in over 25 years, POR's earnings have been very strong in 2011 and the company raised its 2011 earnings guidance 5% in 1Q 2011, entirely due to weather. The stock has had a great run this year, and is now trading largely in-line with the regulated group. Maintain 2011-2014 earnings estimates of $2.00/$1.88/$2.02/$1.98 per share and $25 price objective.

Wisconsin Energy - Downgrading to Neutral on valuation

We are downgrading Wisconsin Energy to Neutral. The downgrade is due to valuation, as the stock trades at a 5% premium to the regulated group and we do not see significant upside at this point.

We are downgrading Wisconsin Energy to Neutral from Buy. The downgrade is due to valuation, as the stock trades at a 5% premium to the regulated group. However, given our view on utility valuations being high, we do not see significant upside at this point. We believe that the stock largely reflects the upside from growth projects and free cash generation over the next several years, and management's strong track record. Additionally, despite material increases, WEC's yield remains below the utility average. We continue to believe that WEC warrants a premium valuation to the group, and our unchanged $33 price objective incorporates a 1-turn premium to the utility group. Upside risks are new rate base opportunities and increases in the free cash flow outlook. Downside risks are the current rate proceeding in Wisconsin and ability to find new rate base projects.

Raising our numbers: updated estimates

Tables 14-15 below highlight our updated 2011-2014 estimates for the competitive power sector under our new commodity price assumptions. Our 2014 estimates for the diversified utilities are more impacted by the change in commodity price assumptions as many of these companies are relatively more unhedged in 2014 relative to 2011-2013.

Table 14: BofAML EPS Estimate Revisions for Diversified Utilities

					2011E		2012E		2013E		2014E	
Company Name	Ticker	Price	PO	Rating	New	Prior	New	Prior	New	Prior	New	Prior
Ameren	AEE	$29.46	$30	B-3-7	$2.35	$2.35	$2.40	$2.35	$2.08	$2.02	$2.39	$2.07
Constellation	CEG	38.94	N/A	-6-	3.13	3.13	2.49	2.40	3.00	2.77	3.37	2.72
Dominion	D	49.78	51	B-2-7	3.10	3.10	3.36	3.36	3.62	3.60	3.83	3.74
Edison International	EIX	39.23	43	B-1-7	2.79	2.79	2.87	2.93	2.85	2.92	3.58	3.41
Entergy	ETR	68.31	69	B-3-7	6.50	6.50	6.07	6.04	6.19	6.01	6.99	6.41
Exelon	EXC	43.70	48	B-3-7	4.16	4.16	3.08	2.99	3.16	2.97	3.54	2.88
FirstEnergy	FE	44.36	52	B-2-7	3.38	3.38	3.44	3.34	3.60	3.32	4.57	3.90
NextEra Energy	NEE	57.46	61	B-1-7	4.47	4.47	4.75	4.75	4.94	4.94	5.31	5.24
PPL Corp	PPL	28.01	31	B-2-7	2.58	2.66	2.60	2.58	2.69	2.54	2.93	2.57
PSEG Corp	PEG	32.81	39	B-1-7	2.64	2.64	2.68	2.59	3.09	2.90	3.31	2.94

Source: BofA Merrill Lynch Global Research

Below, we show our Adjusted EBITDA estimates for the Independent Power Producers (IPPs).

Table 15: BofAML EBITDA Estimate Revisions for IPPs

					2011E		2012E		2013E		2014E	
Company Name	Ticker	Price	New PO	Rating	New	Prior	New	Prior	New	Prior	New	Prior
Calpine	CPN	$16.19	$20	C-1-9	$1,704	$1,704	$1,617	$1,700	$1,941	$1,978	$2,079	$1,935
GenOn	GEN	4.01	5	C-1-9	527	527	616	599	1,062	983	1,166	990
NRG Energy	NRG	24.75	31	B-1-9	1,922	1,922	1,935	1,997	1,917	1,913	2,027	1,823

Source: BofA Merrill Lynch Global Research
Note: Our EBITDA estimates for GEN include lease expense

Diversified Utilities Comparables

Below, please find our diversified comps. In 2013 and 2014 we have the diversifieds trading below (well below by 2014) our regulated comps.

Table 16: Diversified Comparables, BofAML earnings estimates

Company		Current	BofAML	Mkt Cap	P/E				Implied EV/EBITDA				FCF / Yield				Div
Name	Ticker	Price	Rating	($M)	2011E	2012E	2013E	2014E	2011E	2012E	2013E	2014E	2011E	2012E	2013E	2014E	Yield
Ameren	AEE	$29.35	B-2-7	$6,469	12.5x	12.3x	14.1x	12.3x	4.2x	4.3x	9.3x	6.4x	5.6%	(1.7%)	(3.8%)	(1.7%)	5.2%
Constellation	CEG	38.94	-6-	7,788	12.4x	15.6x	13.0x	11.6x	6.8x	6.9x	5.9x	5.4x	2.7%	(1.3%)	(2.9%)	(2.2%)	2.5%
Dominion	D	49.78	B-2-7	29,554	16.1x	14.8x	13.8x	13.0x	11.4x	9.4x	7.8x	6.9x	2.4%	0.6%	(1.1%)	1.2%	4.0%
Edison Intl.	EIX	39.23	B-1-7	12,828	14.1x	13.7x	13.8x	11.0x	12.0x	15.1x	21.6x	8.4x	(7.0%)	(14.7%)	(12.2%)	25.8%	3.3%
Entergy	ETR	68.31	B-3-7	13,378	10.5x	11.3x	11.0x	9.8x	5.4x	6.7x	7.2x	5.8x	5.7%	4.6%	5.5%	28.6%	4.9%
Exelon	EXC	43.70	B-1-7	28,908	10.5x	14.2x	13.8x	12.3x	6.1x	8.9x	8.7x	7.6x	(2.5%)	0.1%	0.7%	3.0%	4.8%
FirstEnergy	FE	44.36	B-1-7	13,574	13.1x	12.9x	12.3x	9.7x	5.5x	4.6x	4.5x	2.8x	7.1%	5.9%	5.0%	7.6%	5.0%
NextEra	NEE	57.46	B-1-7	23,270	12.9x	12.1x	11.6x	10.8x	8.5x	8.6x	8.7x	10.5x	(6.9%)	(9.7%)	(2.5%)	0.0%	3.8%
PPL Corp.	PPL	28.01	B-1-7	10,543	10.9x	10.8x	10.4x	9.6x	6.8x	7.3x	7.3x	6.5x	(4.5%)	(6.4%)	(6.2%)	(3.9%)	5.0%
PSEG	PEG	32.81	B-1-7	16,601	12.4x	12.2x	10.6x	9.9x	6.3x	6.1x	5.0x	4.4x	6.5%	3.6%	6.4%	10.2%	4.2%
Average					**12.5x**	**13.0x**	**12.4x**	**11.0x**	**7.3x**	**7.8x**	**8.6x**	**6.5x**	**0.9%**	**(1.9%)**	**(1.1%)**	**6.9%**	**4.3%**

Source: BofA Merrill Lynch Global Research

Table 17: Diversified Comparables, Mark to Market earnings estimates

Company		Current	BofAML	Mkt Cap	Mark to Market EPS				Mark to Market P/E			
Name	Ticker	Price	Rating	($M)	2011E	2012E	2013E	2014E	2011E	2012E	2013E	2014E
Ameren	AEE	$29.46	B-2-7	$7,009	$2.36	$2.38	$2.00	$2.31	12.4x	12.3x	14.6x	12.7x
Constellation	CEG	38.94	-6-	7,780	3.23	2.43	2.70	2.92	12.1x	16.0x	14.4x	13.4x
Dominion	D	49.78	B-2-7	29,375	3.15	3.32	3.53	3.73	15.8x	15.0x	14.1x	13.3x
Edison Intl.	EIX	39.23	B-1-7	12,907	2.90	2.89	2.75	3.43	13.5x	13.6x	14.3x	11.4x
Entergy	ETR	68.31	B-3-7	12,830	6.54	6.03	6.00	6.72	10.4x	11.3x	11.4x	10.2x
Exelon	EXC	43.70	B-1-7	28,940	4.17	3.06	3.00	3.32	10.5x	14.3x	14.6x	13.2x
FirstEnergy	FE	44.36	B-1-7	13,485	3.32	3.33	3.41	4.41	13.3x	13.3x	13.0x	10.1x
NextEra	NEE	57.46	B-1-7	23,754	4.57	4.76	4.91	5.29	12.6x	12.1x	11.7x	10.9x
PPL Corp.	PPL	28.01	B-1-7	12,088	2.60	2.58	2.55	2.72	10.8x	10.9x	11.0x	10.3x
PSEG	PEG	32.81	B-1-7	16,637	2.77	2.62	2.94	3.13	11.9x	12.5x	11.1x	10.5x
Average									**12.3x**	**13.1x**	**13.0x**	**11.6x**

Source: BofA Merrill Lynch Global Research, commodity prices as of July 14, 2011

IPP adjusted valuation metrics

Our adjusted EV/EBITDA analysis on BofAML estimates and MTM estimates are shown in Tables 18 and 19. We have rolled our analysis forward to 2014 in order to better capture the benefit from additional contango in forward curves. Our adjusted EV/EBITDA analysis is consistent with our open valuation approach, but we also make the following additional adjustments:

- Add the NPV of power and where applicable, coal hedges as an adjustment to our net debt calculation. In the money hedges are treated as an offset to net debt, whereas out of the money hedges are treated as incremental debt
- Deduct the present value of any remaining tax credits or Net Operating Loss carry-forwards as an offset to debt
- Where applicable, we add back operating lease expense to EBITDA and treat the remaining lease payments as incremental debt
- Add the present value of required capital spending for environmental upgrades to enterprise value as debt
- Finally, we also consider the NPV of ongoing development programs, which can be monetized.

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Table 18: 2014 Adjusted EV/EBITDA Valuation

Adjusted EV/EBITDA	CPN	NRG	GEN
($MM, Except Where Noted)			
Adjusted Market Capitalization	$7,319	$5,096	$3,100
Net Debt	7,911	7,013	2,237
Cash Collateral/Restricted Cash	(148)	(147)	(1,045)
Add/(Subtract): Convertible & Preferred Securities, other debt	-	248	-
Add: Minority Interest	35	-	-
Less: PV of Future Tax Benefits Including NOLs	(953)	-	(320)
Add: PV of Environmental Capital Obligations	0	396	1,061
Add: PV of Operating Leases	95	-	812
Add/Subtract Development Programs and other	0	(150)	-
Add/Subtract NPV of Carbon Legislation	0	-	-
NPV of (in)/out of the money hedges	50	-	-
Adjusted Enterprise Value	**$14,310**	**$12,457**	**$5,844**
Hedged EBITDA	$1,857	$2,027	$1,166
Add/Subtract Adjustments	198	-	130
Adjusted EBITDA (Hedged)	**$2,055**	**$2,027**	**$1,296**
Add/Subtract out/(in) the money Power hedges	35	(39)	(98)
Add/Subtract out/(in) the money Coal hedges	0	0	(3)
Unhedged Adjusted EBITDA	**$2,090**	**$1,989**	**$1,195**
Adjusted EV/EBITDA	**6.8x**	**6.3x**	**4.9x**

Source: BofA Merrill Lynch Global Research Estimates

Table 19: 2014 Mark to Market Adjusted EV/EBITDA Valuation

Adjusted EV/EBITDA	CPN	NRG	GEN
($MM, Except Where Noted)			
Adjusted Market Capitalization	$7,419	$5,105	$3,138
Net Debt	8,055	7,158	2,585
Cash Collateral/Restricted Cash	(148)	(147)	(1,045)
Add/(Subtract): Convertible & Preferred Securities, other debt	-	248	-
Add: Minority Interest	35	-	-
Less: PV of Future Tax Benefits Including NOLs	(953)	-	(320)
Add: PV of Environmental Capital Obligations	0	396	1,061
Add: PV of Operating Leases	95	-	812
Add/Subtract Development Programs and other	0	(150)	-
Add/Subtract NPV of Carbon Legislation	0	-	-
NPV of (in)/out of the money hedges	10	-	-
Adjusted Enterprise Value	**$14,513**	**$12,609**	**$6,232**
Hedged EBITDA	$1,739	$1,905	$985
Add/Subtract Adjustments	198	-	130
Adjusted EBITDA (Hedged)	**$1,937**	**$1,905**	**$1,115**
Add/Subtract out/(in) the money Power hedges	7	(43)	(111)
Add/Subtract out/(in) the money Coal hedges	0	0	(18)
Unhedged Adjusted EBITDA	**$1,943**	**$1,862**	**$986**
Adjusted EV/EBITDA	**7.5x**	**6.8x**	**6.3x**

Source: BofA Merrill Lynch Global Research Estimates

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BofAML Estimates vs. Consensus

As shown in Tables 20-21 below, our new estimates are materially above consensus in 2013 and 2014.

Table 20: BofAML EPS Estimates versus Consensus

					2011E		2012E		2013E		2014E	
Company Name	Ticker	Price	PO	Rating	BofAML	Cons	BofAML	Cons	BofAML	Cons	BofAML	Cons
Ameren	AEE	$29.35	$30	B-2-7	$2.35	$2.33	$2.40	$2.21	$2.08	$1.90	$2.39	$2.00
Constellation	CEG	38.94	N/A	-6-	3.13	3.20	2.49	2.47	3.00	3.01	3.37	3.27
Dominion	D	49.78	51	B-2-7	3.10	3.14	3.36	3.25	3.62	3.45	3.83	3.56
Edison International	EIX	39.23	43	B-1-7	2.79	2.76	2.87	2.65	2.85	2.75	3.58	2.84
Entergy	ETR	68.31	69	B-3-7	6.50	6.59	6.07	6.11	6.19	5.95	6.99	6.57
Exelon	EXC	43.70	48	B-1-7	4.16	4.07	3.08	3.01	3.16	2.89	3.54	2.63
FirstEnergy	FE	44.36	52	B-1-7	3.38	3.30	3.44	3.32	3.60	3.25	4.57	3.85
NextEra Energy	NEE	57.46	61	B-1-7	4.47	4.48	4.75	4.74	4.94	5.02	5.31	5.43
PPL Corp	PPL	28.01	31	B-1-7	2.58	2.60	2.60	2.47	2.69	2.41	2.93	2.52
PSEG Corp	PEG	32.81	39	B-1-7	2.64	2.65	2.68	2.51	3.09	2.89	3.31	3.07

Source: BofA Merrill Lynch Global Research, First Call

We are also above consensus for the IPPs.

Table 21: BofAML EBITDA Estimates versus Consensus

					2011E		2012E		2013E		2014E	
Company Name	Ticker	Price	PO	Rating	BofAML	Cons	BofAML	Cons	BofAML	Cons	BofAML	Cons
Calpine	CPN	$16.19	$20	C-1-9	$1,704	$1,704	$1,617	$1,676	$1,941	$1,927	$2,079	$2,000
GenOn	GEN	4.01	5	C-1-9	527	571	616	535	1,062	759	1,166	983
NRG Energy	NRG	24.75	31	B-1-9	1,922	1,959	1,935	1,861	1,917	1,809	2,027	1,582

Source: BofA Merrill Lynch Global Research, Bloomberg
Note: GEN EBITDA estimates include add back of $130M of lease expense

BofAML Estimates vs. Mark to Market Estimates

Our estimates are on average 4% above market in 2013 and 5% above market in 2014. Our mtm estimates are 4% above consensus in 2013 and 10% above consensus in 2014.

Although we have raised estimates for our generation universe based on a higher price deck, our estimates are only slightly above our mark to market estimates, which utilize current forward prices rather than our price deck. Our estimates are on average 4% above market in 2013 and 5% above market in 2014. Our mark to market estimates are 4% above consensus in 2013 and 10% above consensus in 2014.

Our mark-to-market analysis continues to highlight cases of near-term downside in 2012 earnings giving way to longer-term upside due to combination of hedge roll-offs and rising power prices.

Our mark to market estimates are shown in Tables 22-23 below.

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Table 22: BofAML EPS Estimates versus MTM estimates for Diversified Utilities

					2011E		2012E		2013E		2014E	
Company Name	Ticker	Price	PO	Rating	BofAML	MTM	BofAML	MTM	BofAML	MTM	BofAML	MTM
Ameren	AEE	$29.35	$30	B-2-7	$2.35	$2.36	$2.40	$2.38	$2.08	$2.00	$2.39	$2.31
Constellation	CEG	38.94	N/A	-6-	3.13	3.23	2.49	2.43	3.00	2.70	3.37	2.92
Dominion	D	49.78	51	B-2-7	3.10	3.15	3.36	3.32	3.62	3.53	3.83	3.73
Edison International	EIX	39.23	43	B-1-7	2.79	2.90	2.87	2.89	2.85	2.75	3.58	3.43
Entergy	ETR	68.31	69	B-3-7	6.50	6.54	6.07	6.03	6.19	6.00	6.99	6.72
Exelon	EXC	43.70	48	B-1-7	4.16	4.17	3.08	3.06	3.16	3.00	3.54	3.32
FirstEnergy	FE	44.36	52	B-1-7	3.38	3.32	3.44	3.33	3.60	3.41	4.57	4.41
NextEra Energy	NEE	57.46	61	B-1-7	4.47	4.57	4.75	4.76	4.94	4.91	5.31	5.29
PPL Corp	PPL	28.01	31	B-1-7	2.58	2.60	2.60	2.58	2.69	2.55	2.93	2.72
PSEG Corp	PEG	32.81	39	B-1-7	2.64	2.77	2.68	2.62	3.09	2.94	3.31	3.13

Source: BofA Merrill Lynch Global Research

Table 23: BofAML EBITDA Estimates versus MTM estimates for Competitive Power

					2011E		2012E		2013E		2014E	
Company Name	Ticker	Price	PO	Rating	BofAML	MTM	BofAML	MTM	BofAML	MTM	BofAML	MTM
Calpine	CPN	$16.19	$20	C-1-9	$1,704	$1,774	$1,617	$1,570	$1,941	$1,822	$2,079	$1,961
GenOn	GEN	4.01	5	C-1-9	657	704	746	712	1,192	1,069	1,296	1,115
NRG Energy	NRG	24.75	31	B-1-9	1,922	1,962	1,935	1,902	1,917	1,810	2,027	1,905

Source: BofA Merrill Lynch Global Research
Note: GEN EBITDA estimates include add back of $130M of lease expense.

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Market commodity prices versus BofA Merrill Lynch assumptions

In the following Tables we highlight our current published commodity and power assumptions and compare them to weekly market prices. Please note the market prices are as of 7/14/2011.

Table 24: BofAML 7x24 power price estimates

	2011	2012	2013	2014
PJM West	$41.79	$48.95	$51.50	$54.77
PJM East	$46.93	$53.18	$56.08	$59.27
NEPOOL	$48.34	$53.10	$54.48	$56.66
NY Zone A	$35.40	$41.02	$43.49	$46.41
NY Zone G	$48.51	$55.23	$57.75	$60.91
NY Zone J	$55.16	$60.48	$63.61	$67.24
NI Hub	$30.77	$34.43	$37.48	$40.37
Cinergy	$32.23	$36.00	$39.35	$42.59
ERCOT(Houston)	$37.44	$41.07	$47.09	$50.97
ERCOT(South)	$34.72	$38.65	$42.38	$45.36
ERCOT(North)	$36.12	$39.78	$43.79	$46.87
ERCOT (West)	$28.16	$32.19	$36.58	$39.62
NP-15	$39.80	$41.15	$48.32	$52.05
SP-15	$39.96	$41.69	$49.63	$52.97
Mid-C	$32.77	$35.82	$40.12	$43.74
Entergy	$32.31	$35.30	$37.97	$40.72
A/D Hub	$37.19	$42.44	$45.74	$49.10
Nymex Gas	$5.00	$5.00	$5.25	$5.50
CAPP Coal	$65.00	$80.00	$80.00	$80.00

Source: BofA Merrill Lynch Global Research, prices as of 7/14/2011

Table 25: Market 7x24 power price estimates

	2011	2012	2013	2014
PJM West	$44.96	$46.82	$49.11	$52.50
PJM East	$49.97	$51.83	$54.12	$57.51
NEPOOL	$48.06	$50.31	$51.73	$54.05
NY Zone A	$38.43	$39.88	$41.53	$44.59
NY Zone G	$51.01	$53.34	$55.57	$58.64
NY Zone J	$55.33	$58.12	$60.88	$64.33
NI Hub	$32.78	$34.02	$35.92	$38.93
Cinergy	$34.29	$35.42	$37.79	$41.48
ERCOT (Houston)	$37.73	$39.51	$43.79	$48.19
ERCOT (South)	$37.09	$37.85	$40.89	$44.06
ERCOT (North)	$37.20	$39.49	$43.30	$46.83
ERCOT (West)	$30.61	$31.96	$35.61	$38.73
NP-15	$30.95	$38.74	$47.33	$52.18
SP-15	$32.64	$39.33	$48.76	$53.12
Mid-C	$25.80	$34.32	$38.73	$44.19
Entergy	$31.17	$34.30	$37.06	$39.37
A/D Hub	$36.70	$41.52	$44.13	$48.07
Nymex Gas	$4.33	$4.82	$5.19	$5.47
CAPP Coal	$76.00	$81.24	$85.85	$89.48

Source: BofA Merrill Lynch Global Research, prices as of 7/14/2011

Table 26: Market 7x24 versus BofAML 7x24

	2011	2012	2013	2014
PJM West	7.0%	(4.6%)	(4.9%)	(4.3%)
PJM East	6.1%	(2.6%)	(3.6%)	(3.1%)
NEPOOL	(0.6%)	(5.5%)	(5.3%)	(4.8%)
NY Zone A	7.9%	(2.9%)	(4.7%)	(4.1%)
NY Zone G	4.9%	(3.5%)	(3.9%)	(3.9%)
NY Zone J	0.3%	(4.1%)	(4.5%)	(4.5%)
NI Hub	6.1%	(1.2%)	(4.3%)	(3.7%)
Cinergy	6.0%	(1.6%)	(4.1%)	(2.7%)
ERCOT (Houston)	0.8%	(3.9%)	(7.5%)	(5.8%)
ERCOT (South)	6.4%	(2.1%)	(3.7%)	(2.9%)
ERCOT (North)	2.9%	(0.7%)	(1.1%)	(0.1%)
ERCOT (West)	8.0%	(0.7%)	(2.7%)	(2.3%)
NP-15	(28.6%)	(6.2%)	(2.1%)	0.2%
SP-15	(22.4%)	(6.0%)	(1.8%)	0.3%
Mid-C	(27.0%)	(4.4%)	(3.6%)	1.0%
Entergy	(3.7%)	(2.9%)	(2.4%)	(3.4%)
A/D Hub	(1.3%)	(2.2%)	(3.6%)	(2.2%)
Nymex Gas	(15.5%)	(3.7%)	(1.3%)	(0.5%)
CAPP Coal	14.5%	1.5%	6.8%	10.6%

Source: BofA Merrill Lynch Global Research, prices as of 7/14/2011

Table 27: BofAML on-peak power price estimates

	2011	2012	2013	2014
PJM West	$49.78	$56.50	$59.45	$63.22
PJM East	$55.55	$62.15	$65.54	$69.27
NEPOOL	$54.63	$60.00	$61.56	$64.03
NY Zone A	$41.11	$45.94	$48.13	$51.35
NY Zone G	$56.35	$63.75	$66.25	$69.88
NY Zone J	$66.13	$72.50	$76.25	$80.60
NI Hub	$38.89	$42.93	$46.11	$49.67
Cinergy	$39.39	$43.43	$47.17	$51.06
ERCOT(Houston)	$45.17	$48.61	$55.73	$60.32
ERCOT(South)	$42.72	$45.17	$49.54	$53.02
ERCOT(North)	$42.75	$46.79	$51.50	$55.13
ERCOT (West)	$36.58	$41.80	$47.50	$51.45
NP-15	$45.39	$46.92	$55.11	$59.36
SP-15	$45.57	$48.02	$57.17	$61.02
Mid-C	$36.81	$40.85	$45.75	$49.88
Entergy	$38.00	$41.00	$44.10	$47.30
A/D Hub	$42.93	$48.99	$52.47	$56.33

Source: BofA Merrill Lynch Global Research, prices as of 7/14/2011

Table 28: Market on-peak power price estimates

	2011	2012	2013	2014
PJM West	$53.60	$54.65	$57.05	$60.25
PJM East	$60.04	$61.09	$63.49	$66.69
NEPOOL	$55.29	$57.05	$58.60	$61.00
NY Zone A	$42.70	$44.45	$46.10	$49.00
NY Zone G	$59.99	$61.90	$64.50	$68.00
NY Zone J	$67.30	$69.40	$72.75	$76.50
NI Hub	$41.33	$42.10	$44.45	$47.75
Cinergy	$41.85	$42.35	$45.25	$49.50
ERCOT (Houston)	$46.04	$46.65	$51.98	$57.44
ERCOT (South)	$44.86	$44.36	$47.83	$52.24
ERCOT (North)	$46.08	$46.46	$51.07	$55.66
ERCOT (West)	$42.23	$41.71	$45.52	$49.87
NP-15	$38.50	$44.10	$54.25	$58.95
SP-15	$39.68	$45.35	$57.00	$61.45
Mid-C	$31.75	$38.85	$44.00	$49.20
Entergy	$38.01	$40.05	$42.60	$45.25
A/D Hub	$41.39	$47.15	$50.00	$54.00

Source: BofA Merrill Lynch Global Research, prices as of 7/14/2011

Table 29: Market on-peak versus BofAML on-peak

	2011	2012	2013	2014
PJM West	7.1%	(3.4%)	(4.2%)	(4.9%)
PJM East	7.5%	(1.7%)	(3.2%)	(3.9%)
NEPOOL	1.2%	(5.2%)	(5.1%)	(5.0%)
NY Zone A	3.7%	(3.3%)	(4.4%)	(4.8%)
NY Zone G	6.1%	(3.0%)	(2.7%)	(2.8%)
NY Zone J	1.7%	(4.5%)	(4.8%)	(5.4%)
NI Hub	5.9%	(2.0%)	(3.7%)	(4.0%)
Cinergy	5.9%	(2.6%)	(4.2%)	(3.2%)
ERCOT (Houston)	1.9%	(4.2%)	(7.2%)	(5.0%)
ERCOT (South)	4.8%	(1.8%)	(3.6%)	(1.5%)
ERCOT (North)	7.2%	(0.7%)	(0.8%)	1.0%
ERCOT (West)	13.4%	(0.2%)	(4.3%)	(3.2%)
NP-15	(17.9%)	(6.4%)	(1.6%)	(0.7%)
SP-15	(14.8%)	(5.9%)	(0.3%)	0.7%
Mid-C	(15.9%)	(5.1%)	(4.0%)	(1.4%)
Entergy	0.0%	(2.4%)	(3.5%)	(4.5%)
A/D Hub	(3.7%)	(3.9%)	(4.9%)	(4.3%)

Source: BofA Merrill Lynch Global Research, prices as of 7/14/2011

Regulated comps

Below please see our regulated comps.

Table 30: Regulated Utilities Comparables

Company Name	Ticker	Current Price	Mkt Cap ($M)	P/E 2011E	P/E 2012E	P/E 2013E	P/E 2014E	Div Yield	Div Growth (E)	Payout Ratio	Price/ Book	Equity Ratio
Alliant Energy	LNT	$40.98	$4,546	14.4x	14.1x	13.1x	12.7x	4.1%	4.4%	62%	1.6x	53%
American Electric	AEP	37.71	18,168	12.1x	12.0x	11.6x	10.9x	4.9%	3.0%	61%	1.3x	43%
CMS Energy	CMS	19.93	5,029	13.8x	13.1x	12.3x	11.6x	4.2%	4.0%	62%	1.7x	29%
CenterPoint Energy	CNP	20.26	8,619	18.5x	16.0x	15.2x	14.6x	3.9%	1.3%	74%	2.6x	25%
Consolidated Edison	ED	53.58	15,676	15.1x	14.6x	14.3x	13.9x	4.5%	0.8%	70%	1.4x	51%
DTE Energy	DTE	51.23	8,676	14.2x	13.5x	12.8x	12.2x	4.6%	5.0%	65%	1.3x	45%
Duke Energy	DUK	18.95	25,229	14.0x	13.4x	13.1x	12.2x	5.3%	2.0%	69%	1.1x	55%
Hawaiian Electric	HE	24.71	2,355	16.5x	14.1x	12.9x	11.8x	5.0%	0.0%	102%	1.6x	48%
Northeast Utilities	NU	35.34	6,247	15.2x	14.5x	13.3x	12.2x	3.1%	6.8%	51%	1.6x	43%
NSTAR	NST	45.94	4,759	17.0x	16.4x	15.8x	NA	3.7%	5.9%	66%	2.5x	42%
NV Energy	NVE	15.27	3,601	15.7x	12.3x	11.7x	10.9x	3.1%	7.6%	50%	1.1x	39%
PG&E	PCG	42.76	17,016	12.0x	11.8x	11.9x	11.3x	4.3%	2.6%	53%	1.5x	46%
Pinnacle West	PNW	44.39	4,839	14.3x	12.9x	12.7x	12.6x	4.7%	3.3%	68%	1.3x	51%
Portland General	POR	25.63	1,931	12.8x	13.6x	12.7x	12.9x	4.1%	1.9%	64%	1.2x	47%
Progress Energy	PGN	47.90	14,108	15.2x	14.7x	14.1x	NA	5.2%	0.5%	82%	1.4x	44%
SCANA	SCG	40.54	5,206	13.2x	12.8x	12.1x	11.3x	4.8%	2.1%	65%	1.4x	43%
Southern Company	SO	40.58	34,457	16.0x	15.1x	14.2x	13.4x	4.7%	4.0%	80%	2.1x	45%
TECO Energy	TE	19.25	4,138	14.3x	12.5x	12.4x	13.0x	4.5%	2.4%	67%	1.9x	40%
UIL Holdings	UIL	33.29	1,682	16.7x	15.7x	14.9x	14.4x	5.2%	0.0%	88%	1.5x	57%
Westar Energy	WR	26.66	3,031	15.3x	13.1x	12.3x	12.0x	4.8%	3.1%	70%	1.3x	44%
Wisconsin Energy	WEC	31.74	7,419	15.3x	14.1x	13.6x	13.1x	3.3%	10.9%	54%	1.9x	43%
Xcel Energy	XEL	24.54	12,348	14.4x	13.6x	12.8x	12.2x	4.2%	2.9%	64%	1.5x	46%
Average				**14.8x**	**13.8x**	**13.2x**	**12.5x**	**4.4%**	**3.3%**	**68%**	**1.6x**	**45%**

Source: BofA Merrill Lynch Global Research

Investment thesis

Ameren Corp

Ameren has recently suffered through severe regulatory lag at its utility segment and falling power prices and higher costs at its merchant segment. Lately, the utility segment has improved earned returns. We expect it will continue to make progress toward closing the gap between earned and allowed returns. With stricter environmental compliance standards looming, the heavily coal-fired merchant plant segment faces difficulty in the near-term but is highly levered to improvement in power prices.

Calpine

CPN is differentiated from other generation companies by its modern, efficient and largely natural-gas fired fleet. We like CPN's asset position and see potential for longer-term upside, particularly as environmental regulations continue to become more stringent. In addition, we believe CPN's large and low-cost gas-fired generation position in TX is poised to benefit from a sooner than expected recovery in demand/supply. We rate CPN as a Buy.

Dominion Resources

We like the fundamental growth story of Dominion, particularly its regulated segments, such as the regulated utility VEPCO, Dominion Transmission, and Dominion Cove Point. VEPCO earns premier ROEs and has a robust ratebase growth profile. D also has a large merchant generation business, with the largest generation fleet in New England. D trades at a premium to its diversified and regulated peers. While we believe the premium is deserved, the current share price fully reflects this value.

Entergy

Entergy continues to face the same challenges as many of its diversified peers including declining EBITDA and earnings due to weak commodity prices. ETR also faces relicensing risk at Vermont Yankee and Indian Point. That said, we like ETR's clean generation story and free cash flow profile.

Exelon

We rate EXC as a Buy. As the US' largest nuclear generator EXC offers investors outsized leverage to a recovery in power prices as well as an attractive dividend yield. Besides the sheer size of EXC's 17,000+ MW nuclear generation fleet we believe the location of the majority of this capacity in the largely coal driven markets uniquely positions EXC to benefit from rising off-peak power prices once more stringent emission regulations go into place in 2012.

FirstEnergy

FE has completed the transition of its generation to market as well as the merger with Allegheny, and is now focused on optimizing its generation sales mix through wholesale and retail sales. FE remains one of the companies most levered to the power market, and the company should benefit from rising power and capacity prices over the next several years.

NRG Energy

We see several favorable aspects to the NRG story that differentiate it relative to its peers. NRG offers investors exposure to an integrated retail/wholesale generation strategy, well positioned baseload generation assets in Texas, attractive growth opportunities and a commitment to return capital to shareholders. We believe NRG will benefit from a sooner than expected power market recovery and may be poised to meaningfully increase its share repurchase program and rate the company as a Buy.

Portland General Electric Company ($25.86)
We like the fundamental ratebase story of POR, but believe it has some unique risks. Risk issues include: 1) Power cost adjustment mechanism has a wide bandwidth and 2) Sales decoupling does not offer protection from weather or industrial sales. We believe thse factors cause earnings volatility and a discount valuation for POR is warranted.

PPL Corporation
We rate PPL as a Buy. We like PPL's quality generation portfolio, growing regulated earnings mix and attractive dividend yield. The company's merchant generation assets are well positioned for more stringent environmental regulations. We see the company's newly acquired utility businesses based in the U.K and in Kentucky as provided an additional stable source of earnings as power markets recover.

Wisconsin Energy ($31.74)
WEC operates a solid utility in a constructive regulatory environment. It recently completed a large generation expansion program being built under a low-risk regulatory agreement. New wind generation, environmental spending, and use of free cash will drive earnings growth through 2015. However, much of these opportunities appear priced into the stock at current levels.

Price objective basis & risk
Alliant Energy (LNT)
Our $41 price objective uses group-average 13x multiples on 2013 earnings from IP&L and WP&L. Including parent losses, utility EPS of $2.68 would be worth $35/share. We use a premium 15x multiple on 2013E ATC earnings of $0.23 due to the stability of FERC regulation and solid rate base growth opportunities. This is in line with the multiples we use for other transmission assets. Finally, as the earnings stream from Resources is difficult to forecast, we use a 11x multiple on 2013E EPS of $0.22. This totals to a value of $41/sh. Risks to our price objective are regulatory outcomes, the potential for additional equity, and management execution.

Ameren Corp (AEE)
Our price objective is based on i) an average utility multiple of 13x our 2013E of utility earnings, net parent drag, of $2.23/share and ii) a transmission multiple of 15x our 2013E of $0.05/share for ATX earnings. We estimate the regulated segment is worth $30/share. We estimate the merchant segment does not add value, but it is highly levered to power prices. Therefore, our price objective is $30/share. The upside /downside risks to our price objective are the utilities earning/not earning their allowed returns and a strong/weak recovery of Midwestern power and capacity prices.

American Electric Power (AEP)
Our $41 price objective is based on a sum-of-parts valuation. For all of the utilities outside of Ohio we use group-average regulated utility earnings multiples of 13x 2012 estimated earnings. For the Ohio utilities, due to the uncertainties over the next rate plan and the interconnection agreement, we use a discounted 12.5x multiple on 2012 estimated earnings. For the growing transmission business we use a 15x earnings multiple, consistent with the premium valuation of transmission-focused businesses. We value the River, Texas generation and marketing, and modest parent drag at 9x 2012 estimated EBITDA. Finally, we subtract net parent debt to come to an overall value of $41. Downside risks are Ohio rate uncertainty, power pool restructuring, and off-system sales volatility.

Calpine (CPN)

Our $20 price objective is based on our sum-of-the-parts-valuation, which uses an 8.75x EBITDA multiple to our adjusted 2013 EBITDA estimate. Our 8.75x adjusted EBITDA multiple represents a slight premium (0.25x) to CPN's generation leveraged peers. We believe this premium is warranted given CPN's generation assets longer-useful lives relative to its coal and nuclear generator competitors and the likelihood CPN's assets will generate more volumes than we currently forecast. Our EBITDA estimate used in our sum of-the-parts valuation adjusts for our estimate for CPN's in-the-money hedges and future capacity payments. Our valuation treats the NPV of the company's remaining NOL balance as an offset to net debt. In addition, our valuation accounts for the FY contribution of the company's Russell City power project currently under construction.
Downside risks to our price objective are CPN's exposure to volatile natural gas and power prices, a delay in implementation of proposed environmental regulations, declines in capacity prices, growing renewable generating capacity in California and expiration of favorable power supply contracts or tolling agreements. In addition, we note although included in our valuation and diluted share count estimate the release of 44 million shares to prior creditors of Calpine could present a technical overhang on CPN shares.

CenterPoint Energy, Inc. (CNP)

Our PO on CNP is $21. Our valuation assumes an average P/E of 13x for CEHE (in-line with the average multiple for regulated utility companies) and a weighted average 8.4x EBITDA multiple to the other segments. Our sum of parts valuation includes $1.2B in cash from the True-Up decision, or about $3/share. Upside risks: higher commodity prices, faster-than expected economic recovery, increased drilling. Downside risks: slower-than-expected economic recovery, lack of incremental Field Services growth projects.

CMS Energy (CMS)

Our price objective of $21 assumes an average regulated multiple P/E of 13x 2013 utility and parent earnings estimate. We apply a 13x multiple to 2013 earnings in-line with the regulated peer group. We also value CMS post 2013 NOLs at about $1/share. Risks to our price objective are: 1) the parent balance sheet is more levered than peers, 2) Michigan regulation needs to stay balanced.

Consolidated Edison (ED)

In our view, ED shares deserve a valuation in line with other large regulated utilities due to its current three-year rate plan and the company's low risk profile. However, there is potential for lower allowed returns on equity starting in 2013, meaning ED should not trade at premium to other high-quality large regulated utilities. Our price objective of $53 is based on 14x our 2013E of $3.76/share.

The upside risks are the utility earning above its allowed ROE in 2013 and higher earnings growth at the competitive businesses. The downside risk to our price objective is the utility not earning its allowed ROE under its current rate plan.

Constellation Energy Group (CEG)

We have removed the investment opinion on the company's stock. Investors should no longer rely on our previous opinions or price objectives.

Dominion Resources (D)
Our price objective is $51. We apply a premium 14x multiple (versus group average of 13x) to 2013E earnings (versus a peer average multiple of 13x) due to strong regulatory environment and quality growth pipeline. Downside risks: change in regulatory environment in Virginia, North Carolina, Ohio, lower than projected commodity prices. Upside risks: power market recovery, lower than expected coal prices, better than expected generation operational performance.

DTE Energy (DTE)
Our price objective is $50. We apply a 13x multiple to our 2013 EPS estimate for Detroit Edison and MichCon, in-line with the average multiple for regulated utility companies. We assume an average valuation as we believe the benefit of constructive Michigan regulation is offset by continued economic weakness. We apply a 14x multiple to the gas midstream business to reflect higher quality pipeline earnings. We use a 8x multiple to the P&I segment, a discount to the regulated utility earnings multiple to reflect its increased economic sensitivity and earnings volatility. We employ a 5x multiple to the energy trading business due to its inherent uncertainty and volatility. We also assume $290M of after-tax Barnett asset valuation in our SOP. Downside/upside risks are worse/better-than-expected outcomes at the rate cases, changes in the regulatory environment, and earnings volatility from trading.

Duke Energy (DUK)
Our price objective is $19 based on a sum of parts valuation. We use a premium 14x multiple on the utility operations, a one-turn premium to the group average, but the 14x multiple is more in line with the large cap utility average. For Commercial Power and International we use a 8.5x multiple on 2013 EBITDA, in line with our generation company target multiples. Risks to our price objective are a strong turnaround in the power markets or stronger than expected economic growth. Downside risks are more economic weakness, lower power prices, and regulatory risk.

Dynegy (DYN)
We have removed the investment opinion on the company's stock. Investors should no longer rely on our previous opinions or price objectives.

Edison International (EIX)
Our EIX price objective is $43. We value SCE at $43/share, based on 12.5x 2013E earnings, a discount to the regulated industry average multiple of 13x to account for rate case risk. We see zero equity value at EME at current power prices even before adding environmental capex at the coal plants. For EME, in our view, the company cannot be worth negative value to EIX, but we also see a slim chance of material positive value barring a dramatic power market recovery. The downside risk for EIX is an unforeseen negative turn in California regulation. On the upside, a strong power market recovery could cause EME to be worth more than we currently expect.

Entergy (ETR)
Our price objective for ETR is $69. We use an average utility multiple of 13x 2013E utility earnings and 8.5x 2013E adjusted EBITDA for nuclear. Our nuclear EBITDA is adjusted for an assumed shut down of Vermont Yankee and a 33% probability of an Indian Point shut down. Our average utility multiple represents steady regulated growth and improving jurisdictions. Upside risks: 1) faster-thanexpected economic recovery, 2) faster-than-expected power price recovery, and 3) better-than-expected regulatory actions. Downside risks: 1) nuclear relicensing risk 2) weaker than expected commodity prices 3) regulatory risk in service territories.

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Exelon (EXC)

Our $48 price objective is based on our sum-of-the-parts valuation, where we assume a 13x P/E multiple for our 2013 EPS estimates for EXC's regulated utility businesses. We value EXC's generation business in our sum-of-the-parts analysis using an 8.5x EBITDA multiple for our 2013 adjusted EBITDA estimate for the generation business, which adjusts for the company's in-the-money hedges and future capacity upside. Downside risks to our $48 EXC price objective are merger approval, operational and regulatory risks. EXC's generation fleet largely consists of nuclear power plants with their operations subject to strict regulatory oversight. Any extended and unplanned outage at EXC's nuclear generation assets, either due to an operational issue or at the behest of government regulatory authorities, could pressure EXC shares. EXC's pending merger is subject to numerous regulatory approvals, which could also create the potential for negative headlines.

FirstEnergy (FE)

Our $52 PO is based a sum of parts valuation. We value the utility operations at a regulated group average P/E multiple of 13x 2013E earnings, and the unregulated operations at 8.5x EBTIDA, in line with other generation companies. We adjust 2013 EBITDA to account for the significant increase in capacity prices starting in 2014, however. Downside risks are another downturn in commodity prices, narrowing retail margins and failure to meet cost efficiency targets. Upside risks are a rebound in commodity and capacity prices and a stronger than expected economic rebound.

GenOn Energy, Inc. (GEN)

Our PO for GEN is $5. Our valuation is based on our 2013 sum-of-the-parts valuation which utilizes 8.5x EBITDA multiple for the company's generation businesses and 4.5x EBITDA multiple for trading and fuel optimization estimates. Our valuation adjusts for the company's in/(out) of the money hedges as well as excludes EBITDA from coal-plants we view as likely to be retired. Our valuation also includes NPV of potential future environmental capex and emissions costs as incremental debt Risks are: Failure to acheive targeted $150M in cost synergies, as well as a further deterioration of power market conditions (power prices and capacity prices) in the PJM where many of the company's larger coal-generation assets are located. Lower-than-expected capacity pricing in Califonria, which drives the majority of the company's margins. In addition, installation of advanced environmental controls at many of the company's coal-generation facilities are subject to potential delays and cost over-runs that could exceed our estimates.

Hawaiian Electric Industries (HE)

We value HE's utility based on an average regulated P/E of 13x 2013 utility earnings, net parent drag, of $1.22. The utility, net parent, is worth $16/share. We value the bank using a peer group P/E of 12x 2013E bank earnings of $0.69. The bank is worth $8/share. Thus, our price objective is $24. Risks to our price objective include the utilities fully earning their allowed returns by 2013. The other risks are higher/lower net interest margins, higher/lower non-interest expenses, and more/fewer write-offs or loan losses at ASB.

NextEra Energy (NEE)

Our price objective is $61/share. We value the utility at 13x 2013 estimated earnings and the nonrenewable generation operations at 8.5x - both averages for the group. We value the wind EBITDA at 10x reflecting the growth prospects, and add a net present value of renewable tax credits of $3.2B ($8 per share). Upside risks are a recovery in power prices and the extension of federal tax incentives for renewables. Downside risks are the upcoming rate case in 2012, power price deterioration and slowing renewable growth.

Northeast Utilities (NU)

Our $37 price objective is based on a premium multiple of 14x 2013E earnings of $2.66/share. This premium to the average utility multiple is in line with multiples for high-quality regulated companies in our space. Risks to our price objective are: (1) the merger with NSTAR is not approved and (2) either the New England East West Solutions (NEEWS) or Northern Pass transmission projects are meaningfully delayed or cancelled. Upside risks are the distribution segments earning above their allowed returns.

NRG Energy (NRG)

Our $31 price objective is primarily based on our sum-of-the- parts valuation, which uses an 8.5x EBITDA multiple to our adjusted 2013 EBITDA estimate. Our EBITDA estimate used in our sum of-the-parts valuation adjusts downward for NRG's in the money hedges. Our valuation also adjusts for the impact of the company's remaining environmental spending needs as well as potential emission costs in Texas. Downside risks to our price objective are NRG's exposure to volatile capacity and commodity prices including rising PRB coal costs. In addition we believe that the company's retail margins could come under pressure as power prices recover.

NSTAR (NST)

Our price objective for NST is based on a premium P/E multiple of 14x 2013E earnings of $2.66/share for the combined NST and Northeast Utilities (NU) company. This premium to the average utility multiple is in line with multiples for high-quality regulated companies in our space. Under the proposed merger, NST shareholders will get 1.312 NU shares for each NST share. We value NU at $37. Therefore, our NST price objective is $49. Risks to our price objective are: (1) the merger with NU is not approved and (2) uncertainty of potential regulatory decisions on NSTAR's electric rate plans post 2012.

NV Energy (NVE)

We are using a modest discount P/E of 12.75x (versus group average multiple of 13x) our 2013E EPS to arrive at our $17 P.O. The discounted P/E reflects regulatory risk and the weak economy overhang. Downside risks to our price objective are 1) longer-than-expected economic recession, 2) worse than expected outcomes in rate cases, 3) timing delays on construction projects exacerbating regulatory lag. Upside risks are improving NV economy, better-than-expected rate case outcome, growth projects.

PG&E Corporation (PCG)

Our $48 price objective assumes a P/E of 13.25x 2013E earnings. This is a modest premium to the industry average of 13x as we expect likely upside to our estimates. Risks to our outlook are: 1) liability related to the San Bruno explosion, 2) approval of the settlement in the 2011 general rate case and 3) Any unforeseen changes to California regulation.

Pinnacle West (PNW)

Our price objective for PNW is $45. We value PNW utility and parent and other earnings at 12.75x 2013E, a slight discount to the average (13x) to account for regulatory risk in AZ. Upside risk is faster-than-expected economic recovery. Downside risk is a longer-than-expected economic recession and regulatory risk for Arizona.

Portland General Electric Company (POR)

We arrive at our $25 price objective by applying a below average 12.5x multiple to 2013E earnings. We apply a discounted multiple to account for higher earnings volatility. Upside risks to our price objective are a faster-than-expected economic recovery and adjustments to the PCAM and SB 408 that reduces earnings volatility. Downside risks are: 1) a longer-than-expected economic recession, 2) continued power market risk under the PCAM, and 3) equity needs.

PPL Corporation (PPL)

We derive our $31 price objective utilizing our 2013 sum of the parts valuation analysis. We apply a 13x P/E multiple to our 2013 EPS estimates for PPL's domestic utility businesses consistent with the rest of our coverage universe. We apply a discounted P/E multiple of 12x to the company's U.K. utility businesses to account for the international and FX risk. We value the company's unregulated generation business by utilizing a 8.5x EV/EBITDA multiple to our 2013 estimated adjusted generation EBITDA, which adjusts for the company's in and out of the money hedges. Risks to our price objective are regulatory, political and foreign currency risks as well as exposure to volatile commodity and capacity prices.

Progress Energy (PGN)

We have removed the investment opinion on the company's stock. Investors should no longer rely on our previous opinions or price objectives.

Public Service Enterprise Group Inc. (PEG)

We have a $39 price objective for PSEG. We value the utility operations at a group-average 13x 2013E on earnings and PSEG Power and Energy Holdings at a group-average 8.5x adjusted EBITDA multiple. The utility has above-average growth opportunities through infrastructure investments in New Jersey as well as transmission projects. Despite a relatively challenging 2011 and 2012 for PSEG Power, the combination of rising power and capacity prices should drive a rebound in segment earnings starting in 2013. Risks to our price objective are further declines in power prices and declines in locational premiums for its generation.

SCANA Corp. (SCG)

Our $40 price objective is based on a P/E of 12x 2013E earnings of $3.35. The P/E multiple is about an 8% discount to our regulated utility average due to the new nuclear concentration risk at the company. The upside risk to our price objective is a strong economic recovery, leading to higher sales at the utility business.

Southern Company (SO)

We value SO at a premium to reflect its high quality history. Our price objective is $42 based on 14.5x 2013E utility earnings (a premium to the group to account for high quality) and 8.5x 2013E EBITDA at Southern Power. Risks are: 1) better/worse-than expected economic recovery. 2) better/worse-than expected regulatory risk. 3) execution risk for Vogtle nuclear plant and Ratcliffe IGCC plant.

TECO Energy (TE)

Our $18.50 price objective is based on a sum-of-parts valuation. We use a 13x multiple on 2013 electric and gas earnings of $1.10, in line with group average. For Guatemala, we use an 11x multiple on earnings of $0.11 - a discount given the international exposure and difficulty in bringing the cash flow into the US. For TECO Coal, we use a 6x multiple on 2012 EBITDA of $182M - the high end of the range of where Central Appalachian coal companies trade. We then subtract unallocated parent debt and add the NPV of NOLs (about $225M in 2013) to come to an overall value of $18.50/sh. Risks to the upside and downside are volatility of coal earnings over the next few years as well as state economic conditions.

UIL Holdings (UIL)

Our $33/sh price objective is based on an average multiple of 13x our 2013E distribution and generation earnings, net parent drag, of $1.54, plus a multiple of 15x our 2013E transmission earnings of $0.69. On top of the utility value of $30/sh, UIL will receive future tax savings valued at about $3/sh related to its acquisition of three gas LDCs. The upside risk to our price objective is the electric and gas distribution segments meaningfully earning above their allowed ROEs.

Westar Energy (WR)

Our $29 price objective is based on an average regulated multiple of 13x our 2013E distribution and generation earnings of $1.70, plus a multiple of 15x our 2013E transmission earnings of $0.46. The risks to our price objective are unfavorable rulings in future rate cases and significant delays or cancellations of major environmental and transmission projects.

Wisconsin Energy (WEC)

Our $33 price objective is based on current sector multiples and a clearer look on 2013E earnings. We value WEC at 14x estimated 2013 earnings of $2.33, coming to a value of $33. This is a premium to the group average as the company will continue to have above-average rate base growth opportunities even after Power the Future. Moreover, the Power the Future earnings profile is embedded in the lease structure with a high ROE that cannot be changed by future regulatory action. Upside risks to our price objective are new rate base opportunities and increases in the free cash flow outlook. Downside risks are the current rate case in Wisconsin and the ability to find new rate base projects.

Xcel Energy (XEL)

We value the utilities at a premium P/E of 14x 2013E earnings of $1.92 to account for the quality ratebase growth and clean power investments. This results in our price objective of $26. Downside risks: changes in regulatory environments in operating states. Upside risks: a faster-than-expected economic recovery.

Link to Definitions

Energy

Click here for definitions of commonly used terms.

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We, Steve Fleishman, Alex Kania and Ameet I. Thakkar, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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The proposed transaction is subject to approval by shareholders of MXEnergy Holdings Inc.

This research report is not intended to (1) provide voting advice, (2) serve as an endorsement of the proposed transaction, or (3) result in the procurement, withholding or revocation of a proxy.

US - Electric Utilities/Competitive Power Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	American Electric Power	AEP	AEP US	Steve Fleishman
	American Water Works	AWK	AWK US	Steve Fleishman
	Calpine	CPN	CPN US	Ameet I. Thakkar
	CenterPoint Energy, Inc.	CNP	CNP US	Steve Fleishman
	Edison International	EIX	EIX US	Steve Fleishman
	Exelon	EXC	EXC US	Steve Fleishman
	FirstEnergy	FE	FE US	Steve Fleishman
	GenOn Energy, Inc.	GEN	GEN US	Ameet I. Thakkar
	NextEra Energy	NEE	NEE US	Steve Fleishman
	NRG Energy	NRG	NRG US	Ameet I. Thakkar
	NV Energy	NVE	NVE US	Steve Fleishman
	PG&E Corporation	PCG	PCG US	Steve Fleishman
	PPL Corporation	PPL	PPL US	Steve Fleishman
	Public Service Enterprise Group Inc.	PEG	PEG US	Steve Fleishman
	Southern Company	SO	SO US	Steve Fleishman
	Westar Energy	WR	WR US	Steve Fleishman
	Xcel Energy	XEL	XEL US	Steve Fleishman
NEUTRAL				
	Alliant Energy	LNT	LNT US	Steve Fleishman
	Ameren Corp	AEE	AEE US	Steve Fleishman
	CMS Energy	CMS	CMS US	Steve Fleishman
	Dominion Resources	D	D US	Steve Fleishman
	Duke Energy	DUK	DUK US	Steve Fleishman
	Northeast Utilities	NU	NU US	Steve Fleishman
	NSTAR	NST	NST US	Steve Fleishman
	Pinnacle West	PNW	PNW US	Steve Fleishman
	Wisconsin Energy	WEC	WEC US	Alex Kania
UNDERPERFORM				
	Consolidated Edison	ED	ED US	Steve Fleishman
	DTE Energy	DTE	DTE US	Steve Fleishman
	Entergy	ETR	ETR US	Steve Fleishman
	Hawaiian Electric Industries	HE	HE US	Steve Fleishman
	Portland General Electric Company	POR	POR US	Steve Fleishman
	SCANA Corp.	SCG	SCG US	Steve Fleishman
	TECO Energy	TE	TE US	Steve Fleishman
	UIL Holdings	UIL	UIL US	Steve Fleishman
RSTR				
	DPL Inc.	DPL	DPL US	Steve Fleishman

Important Disclosures

Investment Rating Distribution: Utilities Group (as of 01 Jul 2011)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	76	42.22%	Buy	35	51.47%
Neutral	48	26.67%	Neutral	30	69.77%
Sell	56	31.11%	Sell	20	40.00%

Investment Rating Distribution: Global Group (as of 01 Jul 2011)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	2024	53.94%	Buy	935	50.68%
Neutral	944	25.16%	Neutral	442	51.64%
Sell	784	20.90%	Sell	273	37.24%

* Companies in respect of which BofA Merrill Lynch or one of its affiliates has received compensation for investment banking services within the past 12 months. For purposes of this distribution, a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where BofA Merrill Lynch Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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