From: Cherry, Brian K

Sent: 12/5/2012 8:45:09 AM

To: Mark Ferron (fer@cpuc.ca.gov) (fer@cpuc.ca.gov)

Cc:

Subject: FW: Electric Utilities and Competitive Power: DC trip takeaways - United States -

10pp

Interesting thoughts from one of the analysts.

From: Togneri, Gabriel

Sent: Wednesday, December 05, 2012 8:41 AM

**To:** Earley Jr., Anthony; Johns, Christopher; Harvey, Kent M; Pruett, Greg S.; Lavinson, Melissa A.; Bottorff, Thomas E; Cherry, Brian K; Hapner, Dede; Horner, Trina; Park, Hyun; Williams, Geisha;

Stavropoulos, Nickolas; Mistry, Dinyar; Bijur, Nicholas M.

**Cc:** Investor Relations (list); Thomason, David S; Redacted; Martin, Jamie; Dore, Jay;

Redacted

Subject: FW: Electric Utilities and Competitive Power: DC trip takeaways - United States - 10pp

All.

Steve Fleishman recently made the rounds in DC and discussed a number of industry topics with various agencies and key individuals. He provides a quick download below and a bit more information in the attached report. For example, he states after meeting with two of the FERC commissioners that there is little clarity on the outcome to expect for ROEs in the transmission area (even though the two commissioners suggested that the desire to promote transmission would result in attractive ROEs – actions speak louder than words).

Another interesting comment is that Steve considers 50% bonus depreciation to be a likely component of any fiscal cliff compromise.

Gabe

From: BofAML-Steve Fleishman [mailto:feedback@mlresearch.ml.com]

Sent: Tuesday, December 04, 2012 8:30 PM

To: Investor Relations (mailbox)

Subject: Electric Utilities and Competitive Power: DC trip takeaways - United States - 10pp

## **BofA Merrill Lynch Global Research**

An Industry Overview Report from Steve Fleishman - Tuesday, 04 December 2012

## Electric Utilities and Competitive Power DC trip takeaways

## Cliff diving

Early this week, we were in Washington DC visiting with government agencies (FERC, EPA and DOE) and industry leaders from D, SO and the EEI. Key takeaways: 1) little progress has been made in fiscal cliff talks; 2) if a compromise can be reached, the argument to keep dividend taxes matched with capital gains is resonating; 3) bonus depreciation and wind PTC extension likely; 4) DOE report on LNG export by year end and likely reasonable; 5) EPA fears seem overblown; 6) FERC provides little clarity on transmission ROEs.

Dividend tax parity resonating, but need a fiscal cliff deal

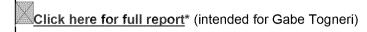
Our meetings were generally pessimistic on a near term fiscal cliff compromise with many seeing risk of a delay to next year. However, most believe that a compromise will ultimately happen. In that context, the industry is encouraged that their argument for taxes on dividends and capital gains to stay in parity is resonating among congressional leadership. The big question is at what level will the dividend and cap gains tax go to (23.8% or higher). The Obama administration support for a 2 year extension of 50% bonus depreciation makes this a likely component of any compromise as well as an extension on the wind production tax credits (PTC).

DOE report on LNG export by YE12; positive for SRE, D

We met with the DOE Office of Oil & Natural Gas division that is overseeing LNG export approvals to non FTA countries. DOE pointed out that the burden of proof is on opposing parties, not project sponsors, to prove that an export project is not in the public interest. The DOE report on the economic impact of varying levels of LNG export is expected by year end after which parties will have 45 days to comment and 30 days to reply. This report together with the comments will help the DOE to determine how many projects to allow and how to differentiate between the backlog of projects. Overall, we came away feeling DOE is addressing the LNG export decisions in a professional manner and that well structured projects - such as SRE's Cameron and Domionion's Cove Point - have a higher chance of success.

MATS still key at EPA; no clarity at FERC

At the Edison Electric (EEI) conference last month, companies were concerned about EPA under President Obama's second term. While EPA will be busy with a lot of new rules, none seem likely to have a large impact beyond the MATs rule. The one possible exception could be new water rules which have been reasonable so far. At FERC, our meetings did not provide much clarity on the outcome of transmission ROE cases. That said, FERC continues to support transmission and has a generally constructive tone on having competitive ROEs.



To reply to Steve Fleishman directly, click here or call +1 646 855 2906

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Publication: 870736-11229237.pdf

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