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Recommendation Change

After the melt-up

Jonathan Arnold
Research Analyst
(+1) 212 250-3182
jonathan.arnold@db.com

Caroline Bone, CFA
Associate Analyst
(+1) 212 250-8253
caroline.bone@db.com

Lauren Duke
Associate Analyst
(+1) 212 250-8204
lauren.duke@db.com

Keith Stanley, CFA
Associate Analyst
(+1) 212 250-3890
keith.stanley@db.com

Revisiting utility values and targets; downgrading ITC on risk/reward
Defensive sectors have led the market higher in 2013 and utilities are now up on average 14% versus 9% for the S&P 500. Two key drivers have fueled this performance, namely falling interest rates (positive for valuations) and the rally in natural gas (positive for commodity-exposed gencos). While we still view utility valuations as frothy, we cannot entirely ignore the combination of macro and policy factors which look to be keeping rates lower (and utility valuations higher) for longer. In this note we mark targets generally higher but maintain value discipline with a base target of 14x 2015 vs. a trading average a little north of 15x. Stock-wise we remain highly selective within the group.

Strong start to 2013 as utilities and other defensives lead market rally
In our 2013 Outlook we took the view that utilities were unlikely to see as challenging year as they had in 2012. Year to date 2013 has proved better than we thought – with S&P Utilities lagging only Healthcare and Consumer Staples so far as investors continue to favor relative safe havens (and yield) despite nosebleed valuations. The average regulated utility now trades at over 15x 2015 earnings, with a sub-4% dividend yield. With EPS growth of 4-5% implied returns are around 8% – assuming multiples can be sustained which we doubt they can when interest rates and/or inflation eventually pick up.

Regulated: Staying selective in a pricey group; downgrading ITC
Regulateds continue to stretch the valuation envelope trading at 17x 2013 earnings and pushing towards multi-decade highs. We see the current macro environment – fundamental weakness amid strong liquidity fueled by global central bank intervention – as the key factors at play, but are reluctant to chase valuations much higher. With most stocks priced for perfection we stay highly selective, favoring rock-solid execution (CMS) or favorable risk/reward ideally with potential catalysts (EIX, PCG, POR). Downgrading ITC to Hold after strong YTD performance in the face of still tangible unresolved overhangs.

Less regulated: Gas rally, signs of life in forward power; focus remains EXC
The combination of a rally in near-term natural gas (in part weather-driven) and signs of life in the longer-dated power curves has seen renewed interest in the diversified generators and IPPs. Our switch out of FirstEnergy (FE) into Exelon (EXC) late last year proved a timely one and we continue to focus on EXC as the more transparent way to play future upside optionality in power and gas markets. We also see owning at least some generation exposure as a sensible hedge against an eventual unwind in current regulated utility valuations and/or reversal of the current defensive market leadership.

Raising regulated multiples by a turn and merchant by a half turn
We have raised our base regulated utility multiple from 13x to 14x 2015. This is in part a mid-year time-value update, and in part an acknowledgment of the renewed (and from DB's perspective unexpected) downshift in bond yields. Our base target remains conservatively below current trading levels (15.0x) so those focused only on relative value should bear this in mind when viewing our price targets. For competitive generation/retail we now use 8.5x 2015 EBITDA up from 8.0x reflecting lower cost of capital. We are, however, reluctant to push this higher given that our 2015s are based on $4.50 gas versus a current 2015 curve of $4.26. See page 3 for updated price targets and estimates.

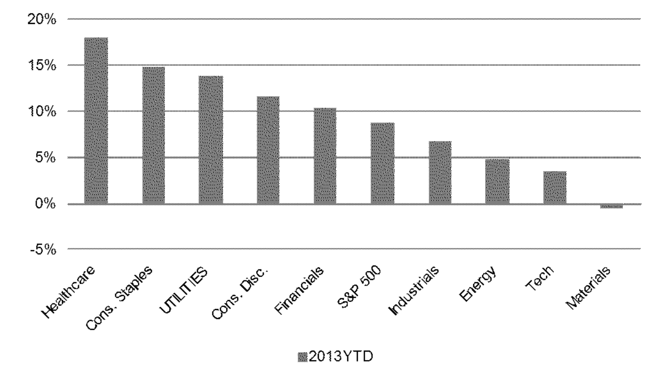
Companies Featured	
American Electric Power (AEP.N),USD49.07	Hold
CMS Energy (CMS.N),USD28.29	Buy
Calpine (CPN.N),USD21.03	Hold
Dominion Resources (D.N),USD59.27	Hold
DTE Energy (DTE.N),USD70.39	Hold
Con Edison (ED.N),USD61.27	Hold
Edison International (EIX.N),USD51.50	Buy
Entergy Corp. (ETR.N),USD68.65	Hold
Exelon (EXC.N),USD35.84	Buy
FirstEnergy (FE.N),USD45.05	Hold
ITC Holdings (ITC.N),USD90.46	Hold
NextEra Energy (NEE.N),USD78.95	Hold
NRG Energy (NRG.N),USD26.38	Hold
Northeast Utilities (NU.N),USD43.83	Hold
PG&E Corp (PCG.N),USD46.77	Buy
PSEG (PEG.N),USD34.71	Hold
Portland General Electric (POR.N),USD30.52	Buy
PPL Corp. (PPL.N),USD31.50	Hold
Southern Company (SO.N),USD47.36	Hold
TECO Energy (TE.N),USD18.16	Hold
UIL Holdings (UIL.N),USD39.67	Hold
Xcel Energy (XEL.N),USD30.25	Hold

Path of least resistance

Combination of lower rates and natgas rally have fueled YTD performance; marking up valuations while leaving room for multiple contraction

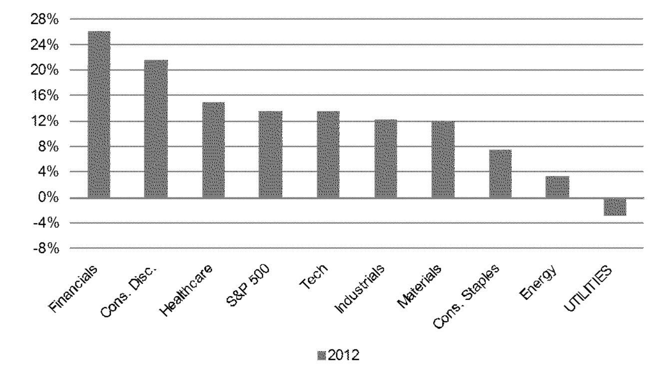
As shown in Figure 1 defensive sectors including utilities have led the market higher in 2013. Through 4/15 the S&P Utilities have gained 14% versus 9% for the S&P 500. While 2013 is clearly a long way from over, we note that utilities have not outperformed an up-market on a calendar year basis since their four-year run (2004-2007) on the prior gas price up-cycle (Figure 3). With front month gas up >20% YTD it is tempting to draw some parallels, but forward gas curves – which matter far more for generators given their hedging – are up only modestly. While the prompt gas rally and some signs of life at the long end of the power curve have undoubtedly helped, we believe abundant liquidity and falling interest rates are the primary drivers behind the group's melt-up (Figure 4). Similarly to mid-2011 rates have ended up falling when most – DB included – expected them to rise. Yet this time it has happened (so far at least) without a full-blown European crisis and market sell-off, which has put utilities on a path of least resistance to ever higher valuations. While we are unwilling to mark all the way to current market – our new base target of 14x 2015 remains a full turn or ~6-7% below where regulated utilities currently trade – we cannot ignore macro context entirely. It is this renewed drop in cost of capital – along with four months of time value since our December update which we look to capture in our updated price targets (Figure 5).

Figure 1: Utilities among defensive leaders in 2013



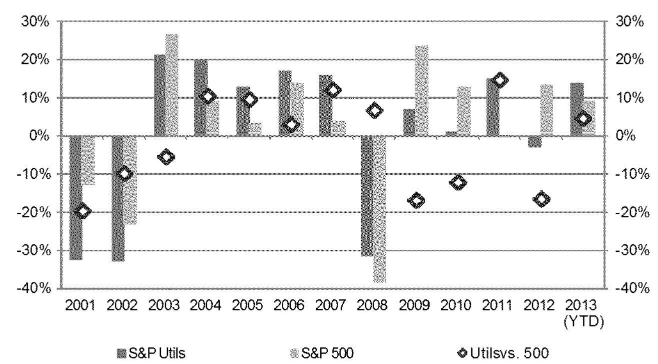
Source: Deutsche Bank and FactSet

Figure 2: Having struggled to last place in 2012



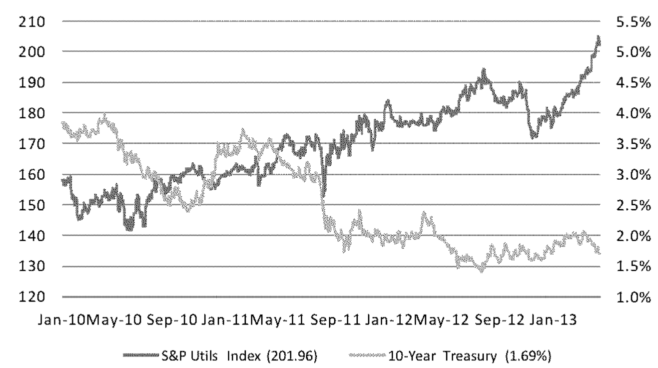
Source: Deutsche Bank and FactSet

Figure 3: S&P Utilities vs. S&P 500 Annual (2001-2013)



Source: Deutsche Bank

Figure 4: S&P Utilities Perf. vs. 10-Yr. Treasury Yield



Source: Deutsche Bank

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Figure 5: Summary of Rating and Price Target Changes

	Stock Ticker	Price 4/16/13	DB Stock Rating New	DB Stock Rating Old	DB Price Target New	Old	Chg.	% Chg.	Target Return	Div. 2013E	Yield 2013E	Total Return
MOSTLY REGULATED												
AMERICANELECTRICPOWER	AEP	$49.54	Hold	Hold	$49.00	$46.00	$3.00	6.5%	-1.1%	1.94	3.9%	2.8%
CMS ENERGY	**CMS**	**$28.69**	**Buy**	**Buy**	**$30.00**	**$26.50**	**$3.50**	**13.2%**	**4.6%**	**1.02**	**3.6%**	**8.1%**
DOMINION RESOURCES	D	$59.82	Hold	Hold	$60.00	$56.00	$4.00	7.1%	0.3%	2.25	3.8%	4.1%
DTE ENERGY	DTE	$71.36	Hold	Hold	$67.00	$62.00	$5.00	8.1%	-6.1%	2.58	3.6%	-2.5%
DUKE ENERGY	DUK	$73.57	Hold	Hold	$74.00	$69.00	$5.00	7.2%	0.6%	3.12	4.2%	4.8%
CON EDISON	ED	$61.53	Hold	Hold	$59.00	$55.00	$4.00	7.3%	-4.1%	2.44	4.0%	-0.1%
EDISON INTERNATIONAL	**EIX**	**$51.82**	**Buy**	**Buy**	**$55.00**	**$51.50**	**$3.50**	**6.8%**	**6.1%**	**1.35**	**2.6%**	**8.7%**
ITC HOLDINGS	**ITC**	**$92.01**	**Hold**	**Buy**	**$93.00**	**$88.00**	**$5.00**	**5.7%**	**1.1%**	**1.69**	**1.8%**	**2.9%**
NORTHEASTUTILITIES	NU	$44.48	Hold	Hold	$43.00	$40.00	$3.00	7.5%	-3.3%	1.47	3.3%	0.0%
PG&E CORP	**PCG**	**$46.98**	**Buy**	**Buy**	**$48.50**	**$45.00**	**$3.50**	**7.8%**	**3.2%**	**1.82**	**3.9%**	**7.1%**
PORTLAND GENERAL ELECTR	**POR**	**$30.95**	**Buy**	**Buy**	**$32.00**	**$29.50**	**$2.50**	**8.5%**	**3.4%**	**1.10**	**3.5%**	**6.9%**
SOUTHERN COMPANY	SO	$48.13	Hold	Hold	$48.00	$45.00	$3.00	6.7%	-0.3%	2.03	4.2%	3.9%
UIL HOLDINGS	UIL	$40.35	Hold	Hold	$40.50	$38.00	$2.50	6.6%	0.4%	1.73	4.3%	4.7%
XCEL ENERGY	XEL	$30.50	Hold	Hold	$31.00	$29.00	$2.00	6.9%	1.6%	1.10	3.6%	5.2%
LESS REGULATED												
ENTERGY CORP.	ETR	$69.53	Hold	Hold	$66.00	$65.00	$1.00	1.5%	-5.1%	3.32	4.8%	-0.3%
EXELON	**EXC**	**$36.00**	**Buy**	**Buy**	**$38.00**	**$36.00**	**$2.00**	**5.6%**	**5.6%**	**1.24**	**3.4%**	**9.0%**
FIRSTENERGY	FE	$45.80	Hold	Hold	$46.00	$42.00	$4.00	9.5%	0.4%	2.20	4.8%	5.2%
NEXTERA ENERGY	NEE	$79.71	Hold	Hold	$76.00	$72.00	$4.00	5.6%	-4.7%	2.64	3.3%	-1.3%
PPL CORP.	PPL	$31.86	Hold	Hold	$32.50	$31.00	$1.50	4.8%	2.0%	1.46	4.6%	6.6%
PSEG	PEG	$35.04	Hold	Hold	$35.00	$33.00	$2.00	6.1%	-0.1%	1.44	4.1%	4.0%
TECO ENERGY	TE	$18.37	Hold	Hold	$17.00	$17.00	--	--	-7.5%	0.88	4.8%	-2.7%
IPPs & MERCHANT												
CALPINE	CPN	$21.46	Hold	Hold	$21.00	$20.00	$1.00	5.0%	-2.1%	NA	NA	-2.1%
NRG ENERGY	NRG	$26.77	Hold	Hold	$27.00	$25.00	$2.00	8.0%	0.9%	0.48	1.8%	2.7%

Source: Deutsche Bank and FactSet. Buys and Sells highlighted in bold type. Rating changes highlighted with blue shading. EXC's dividend yield and total return are based on go-forward annualized dividend.

Figure 6: Summary of Estimates and Estimate Changes

	Stock Ticker	2013E New	2013E Old	2013E % Chg.	2014E New	2014E Old	2014E % Chg.	2015E New	2015E Old	2015E % Chg.
MOSTLY REGULATED (EPS)										
AMERICAN ELECTRIC POWER	AEP	3.15	3.15	--	3.35	3.35	--	3.50	3.50	--
CMS ENERGY	CMS	1.65	1.65	--	1.75	1.75	--	1.85	1.85	--
DOMINION RESOURCES	D	3.35	3.35	--	3.55	3.55	--	3.75	3.75	--
DTE ENERGY	DTE	4.05	4.05	--	4.35	4.35	--	4.50	4.50	--
DUKE ENERGY	DUK	4.35	4.35	--	4.55	4.55	--	4.80	4.80	--
CON EDISON	ED	3.80	3.80	--	3.85	3.85	--	3.95	3.95	--
EDISON INTERNATIONAL	EIX	3.55	3.55	--	3.75	3.75	--	3.70	3.70	--
ITC HOLDINGS	ITC	4.90	4.90	--	5.55	5.55	--	6.25	6.25	--
NORTHEAST UTILITIES	NU	2.50	2.50	--	2.70	2.70	--	2.85	2.85	--
PG&E CORP	PCG	2.65	2.65	--	3.10	3.10	--	3.30	3.30	--
PORTLANDGENERAL ELECTR	POR	1.90	1.90	--	2.05	2.05	--	2.20	2.20	--
SOUTHERNCOMPANY	SO	2.70	2.70	--	2.90	2.90	--	3.05	3.05	--
UIL HOLDINGS	UIL	2.10	2.10	--	2.35	2.35	--	2.55	2.55	--
XCEL ENERGY	XEL	1.90	1.90	--	2.00	2.00	--	2.10	2.10	--
LESS REGULATED (EPS)										
ENTERGY CORP.	ETR	4.90	4.80	2.1%	4.95	5.05	-2.0%	4.85	5.00	-3.1%
EXELON	EXC	2.45	2.45	--	2.20	2.20	--	2.35	2.35	--
FIRSTENERGY	FE	3.00	3.00	--	3.05	3.10	-1.7%	3.65	3.65	--
NEXTERAENERGY	NEE	5.00	4.95	1.0%	5.30	5.25	1.0%	5.50	5.50	--
PPL CORP.	PPL	2.40	2.40	--	2.10	2.10	--	2.15	2.15	--
PSEG	PEG	2.40	2.40	--	2.40	2.40	--	2.30	2.30	--
TECO ENERGY	TE	0.95	0.95	--	1.10	1.15	-4.6%	1.20	1.25	-4.4%
IPPs & MERCHANT (EBITDA)										
CALPINE (CPN BASIS)	CPN	1,850	1,850	--	2,020	2,020	--	2,030	2,030	--
NRG ENERGY	NRG	2,775	2,760	0.5%	2,880	2,840	1.4%	2,485	2,440	1.8%

Source: Deutsche Bank

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Figure 7: Company Guidance, DB Estimates and Consensus

	Stock	Company Guidance			DB Estimates				Consensus			DB Vs. Consensus		
	Ticker	2013E	2014E	2015E	2012A	2013E	2014E	2015E	2013E	2014E	2015E	2013E	2014E	2015E
MOSTLY REGULATED(EPS)														
AMERICAN ELECTRIC POWER	AEP	3.05 - 3.25	3.15 - 3.45	NA	3.09	3.15	3.35	3.50	3.16	3.32	3.44	0%	1%	2%
CMS ENERGY	CMS	1.63 - 1.66	NA	NA	1.55	1.65	1.75	1.85	1.65	1.74	1.85	0%	0%	0%
DOMINION RESOURCES	D	3.20 - 3.50	NA	NA	3.05	3.35	3.55	3.75	3.36	3.55	3.77	0%	0%	-1%
DTE ENERGY	DTE	3.85 - 4.15	NA	NA	3.94	4.05	4.35	4.50	4.02	4.26	4.49	1%	2%	0%
DUKE ENERGY	DUK	4.20 - 4.45	NA	NA	4.32	4.35	4.55	4.80	4.35	4.58	4.74	0%	-1%	1%
CON EDISON	ED	3.65 - 3.85	NA	NA	3.73	3.80	3.85	3.95	3.79	3.85	4.00	0%	0%	-1%
EDISON INTERNATIONAL	EIX	3.45 - 3.65	NA	NA	3.87	3.55	3.75	3.70	3.54	3.63	3.70	0%	3%	0%
ITC HOLDINGS	ITC	4.80 - 5.00	NA	NA	4.14	4.90	5.55	6.25	4.93	5.69	6.49	-1%	-2%	-4%
NORTHEASTUTILITIES	NU	2.40 - 2.60	NA	NA	2.28	2.50	2.70	2.85	2.54	2.72	2.89	-2%	-1%	-1%
PG&E CORP	PCG	2.55 - 2.75	NA	NA	3.22	2.65	3.10	3.30	2.65	3.09	3.27	0%	0%	1%
PORTLAND GENERAL ELECTR	POR	1.85 - 2.00	NA	NA	1.87	1.90	2.05	2.20	1.92	2.05	2.14	-1%	0%	3%
SOUTHERN COMPANY	SO	2.68 - 2.80	NA	NA	2.65	2.70	2.90	3.05	2.77	2.91	3.04	-3%	0%	0%
UIL HOLDINGS	UIL	2.05 - 2.25	NA	NA	2.02	2.10	2.35	2.55	2.20	2.39	2.51	-4%	-2%	1%
XCEL ENERGY	XEL	1.85 - 1.95	NA	NA	1.82	1.90	2.00	2.10	1.90	1.99	2.08	0%	1%	1%
LESS REGULATED(EPS)														
ENTERGY CORP.	ETR	4.60 - 5.40	NA	NA	6.23	4.90	4.95	4.85	4.85	4.88	4.84	1%	1%	0%
EXELON	EXC	2.35 - 2.65	NA	NA	2.85	2.45	2.20	2.35	2.49	2.30	2.39	-2%	-4%	-1%
FIRSTENERGY	FE	2.85 - 3.15	NA	NA	3.33	3.00	3.05	3.65	2.97	3.01	3.52	1%	1%	4%
NEXTERA ENERGY	NEE	4.70 - 5.00	5.05 - 5.45	5.30 - 5.70	4.57	5.00	5.30	5.50	4.92	5.30	5.57	2%	0%	-1%
PPL CORP.	PPL	2.25 - 2.50	NA	NA	2.42	2.40	2.10	2.15	2.41	2.18	2.26	0%	-4%	-5%
PSEG	PEG	2.25 - 2.50	NA	NA	2.44	2.40	2.40	2.30	2.37	2.37	2.31	1%	1%	0%
TECO ENERGY	TE	0.90 - 1.00	NA	NA	1.14	0.95	1.10	1.20	0.96	1.16	1.25	-1%	-6%	-4%
	Stock	Company Guidance			DB Estimates				Consensus			DB Vs. Consensus		
	Ticker	2013E	2014E	2015E	2012A	2013E	2014E	2015E	2013E	2014E	2015E	2013E	2014E	2015E
IPPs & MERCHANT (EBITDA)														
CALPINE (CPN basis)	CPN	1,800 - 1,960	NA	NA	1,749	1,850	2,020	2,030	1,851	1,975	2,046	0%	2%	-1%
NRG ENERGY	NRG	2,615 - 2,815	2,760 - 2,960	NA	1,917	2,775	2,880	2,485	2,655	2,826	2,590	5%	2%	-4%

Source: Deutsche Bank

ITC Holdings: Downgrading to Hold from Buy

More risk, less reward as performance has trumped ROE overhang

While we are raising our PT to $93 from $88, we are downgrading ITC to Hold from Buy following strong year-to-date outperformance – ITC is up over 19% YTD outperforming the S&P Utilities by almost 500 basis points. At current levels, our ROE risk-weighted target implies total return potential of just 2.9%. The stock screens at a discount to peers on an unrisked EPS basis, but we believe it is appropriate to reflect the risks of lower returns in a conservative valuation. While there is arguably additional upside should challenges to current transmission returns be rejected by FERC, we believe this is well balanced with downside risks in the event of an ultimate downward ROE adjustment. Our valuation methodology shows upside of 11% should ITC's ROE remain unchanged and downside of 9% should a 200 bp reduction be implemented. Our $93 PT strikes a balance between these two, embedding a 100 basis point cut. In addition, we see two upcoming catalysts in September that are more likely to be neutral to negative events, particularly following ITC's strong YTD performance: (1) on 9/10 a FERC Administrative Law Judge is expected to release an initial decision regarding the challenge to New England transmission owner base ROE of 11.14%; and (2) a FERC order is expected by 9/15 concerning ITC's proposed deal with ETR and requested ROEs and capital structures for the new transmission subsidiaries. Finally, we remain somewhat uncomfortable with ITC's unwillingness to release a new five-year financial plan as it raises questions about the strength of ITC's standalone earnings growth potential should the merger not prevail.

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CMS Energy (CMS): Reiterating Buy

One to pay up for; superior regulated growth, visibility and earnings quality

We are reiterating our Buy on CMS. With the sector looking increasingly pricey, we view CMS as a high quality, core utility portfolio holding that is worth paying for at current levels. CMS' strong management team, execution track record, earnings visibility, and constructive regulatory environment support our confidence in CMS' ability to achieve its targeted 5%-7% EPS growth rate. We continue to view CMS as a utility that can deliver on its targets even if utility sales growth remains challenged (although recently sales have also been better than average in Michigan). As a pure play regulated utility, CMS has a simple story focused on rate base growth, while keeping customer rate increases low and avoiding block equity issuances (via bonus depreciation and NOLs). With a backlog of capital projects, we also believe CMS' growth is not dependent on any one project or theme. On the regulatory front, we expect Michigan to remain constructive, supported by the 2008 energy legislation.

Edison International (EIX): Reiterating Buy

Regulated laggard on SONGS overhang; but value, risk/reward still favorable

We are reiterating our Buy on EIX as a utility with an attractive risk/reward on SONGS and favorable underlying fundamentals. The outage and ongoing investigations at the SONGS nuclear plant have weighed on the stock YTD, but we continue to view the risk/reward as attractive. We also see a potential positive catalyst over the next couple of months in the event that the NRC approves the restart plan for SONGS Unit 2. While we do not expect a final resolution on the CPUC's SONGS investigation for some time, we view the downside risk (of a full disallowance of SONGS from rate base recovery) as unlikely based on past CPUC precedents. We continue to view the California regulatory environment as constructive with above-average ROEs, risk-reducing mechanisms, and state policies supporting strong rate base growth. On the ROE front, the CPUC adopted new costs of capital for the major utilities late last year and an adjustment mechanism that we expect to effectively establish the current ROE as a floor, with increases to come if interest rates rise.

Exelon (EXC): Reiterating Buy

Simplest leverage to gas/power upside optionality; credit concerns addressed

We are reiterating our Buy rating on EXC and raising our price target by $2 to $38/share on our higher sector multiples. We continue to view EXC as the most transparent and cheapest option on a recovery in power prices with few execution risks or pending issues post the dividend cut. Furthermore, our recent investor field trip with EXC management gave us increased confidence that management does not feel a need to pursue acquisitions and is content to focus on operations, strengthening the balance sheet, and waiting for its fundamental power view to play out. On this front, we note the recent strengthening in near-term gas prices and longer dated power prices (net of gas) and see the upcoming summer as a potential catalyst for further improvement in the forward curve as the removal of some coal supply from the dispatch stack could lead to higher real time prices (particularly if weather is favorable). We estimate that every $1/MWh improvement in forward power prices and spark spreads results in a $0.15/share improve to EXC earnings on an unhedged basis.

PG&E Corp. (PCG): Reiterating Buy

Post-San Bruno resolution in 2H13, expecting return of premium valuation

We are reiterating our Buy on PCG. With the resolution of the San Bruno-related investigations expected later this year, we believe PCG will be able to re-command a premium valuation versus regulated peers reflecting constructive California regulation and above-average growth potential. Currently, PCG trades at a ~6% discount to regulated peers. Once the uncertainties associated with the investigations (namely the fine that the CPUC will levy against PCG) are known, we believe investors will look to PCG's longer-term earnings power (excluding the near-term noise from unrecovered pipeline-related costs) and future growth potential (expected to be above average as PCG re-focuses on system improvements and advancements). As with EIX, PCG's ROE was also set late last year by the CPUC and will increase if interest rates rise, a key differentiating factor versus non-California peers.

Portland General Electric (POR): Reiterating Buy

Potential catalysts ahead could drive strong rate base growth

We are reiterating our Buy on POR ahead of key potential catalysts associated with the outstanding requests for proposals (RFPs). We see significant upside to current 2015 FactSet consensus (and our estimate) in the event that the RFPs result in ownership opportunities for POR and limited downside if both RFPs result in power purchase agreements (PPAs). We note that on 2015 consensus EPS POR is trading at a 5% discount to regulated peers, roughly in line with its long-run 6% average discount. This is despite the growth opportunities associated with the RFPs where we expect resolution over the next few months. Thus, we do not believe positive results in the RFPs are priced in at current levels, providing a favorable risk/reward opportunity.

Valuation update

With their YTD outperformance utilities have seen their P/E premium to the broader market expand from 13% back in December to 19% today Figure 9. While this remains below the relative peak of 22% seen in December of 2011, it clearly still looks extended even by the standards of the post-2008 modern era of low economic growth and low interest rates. Focusing on the absolute numbers in Figure 8 the S&P Utilities are trading at 16.2x one-year forward P/E which is getting very close to the prior peaks of 17x reached in 2000 and 2007 and in both cases followed by substantial corrections. Currently we note that the utilities at 16.2x are trading at a premium of 7% to the long-run average for the broader market – a level which has never been sustained for very long. Of course, we do recognize that the current environment of abundant global liquidity and artificially low interest rates courtesy of widespread market intervention by global central banks is creating an uncommonly favorable environment for lower-risk equities with a dividend yield. That said, rather than assuming this paradigm can last indefinitely, we believe longer-term investors should recognize that we are likely in the later innings of this trade and remain disciplined on valuations. From our perspective this is reflected both in our target multiples and in a selective approach to stocks.

Commodity names and growthy utilities have been recent performance leaders

With dividend tax fears in the rear-view mirror – at least for now – investors have responded by bidding up the values of dividend yield-oriented equities like utilities. We had upgraded DUK to Buy back in December in part as a relative value call among the larger cap regulated utilities and in part in anticipation of a possibly benign outcome on Fiscal Cliff concerns and specifically dividend tax rates. In the end that call generated around 200bps of outperformance versus both the sector and the broader market through our late February downgrade. Since that time the clear leaders from our stock coverage have not been the larger-cap yield plays, but rather commodity plays (EXC, FE, CPN, ETR, NRG) along with the growthier and less yield-oriented plays (NEE, PCG, ITC).

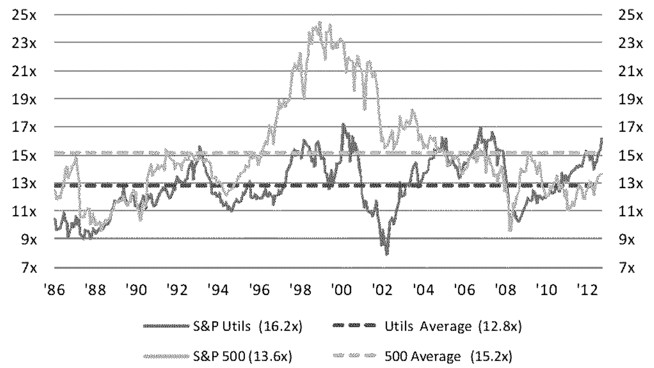
Utility equities still cheap on relative yield to bonds, but less so than in December

Looking at yield valuations today the average utility currently yields 3.9% pre-tax with investment grade utility bonds yielding 3.1% and 10-Year Treasuries 1.7% (Figure 10). This puts the spread of utility dividend yields at ~80bp versus utility corporate bonds and ~220bp versus the 10-Year (Figure 11). This compares to ~110bp and ~250bp back in December meaning the stocks are approximately ~30bp less cheap on pre-tax relative yield than they were going into this year.

Versus S&P 500 yields utilities now look about 110bps expensive

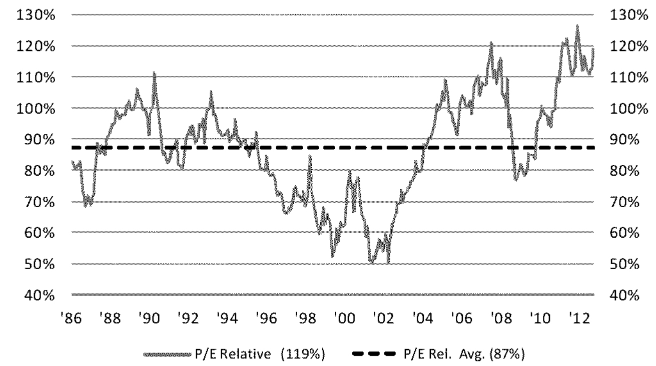
Comparing utility yields (3.9%) to the forward S&P 500 yield (2.5%) the spread is currently ~140bp versus a long-run average of ~240bp (Figure 12 and Figure 13). This compares with a spread of ~185bp back in December making the stocks about 45bp more expensive relative to the anticipated yield on the average S&P 500 stock all else equal. We have been highlighting this issue as a valuation concern for utilities over the past year or so and continue to view it as a challenge given the sector's limited growth versus other yield-producing alternatives.

Figure 8: S&P Utils and S&P 500 12M Forward P/E



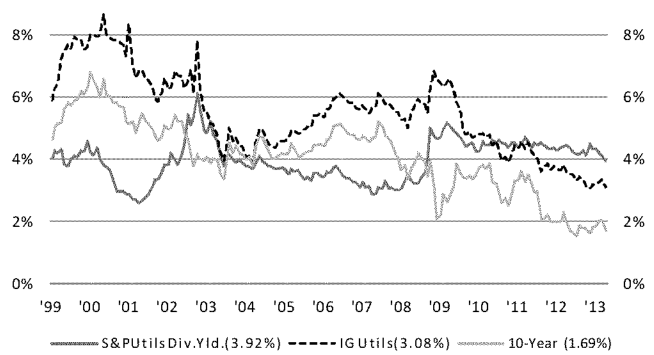
Source: Deutsche Bank and FactSet

Figure 9: S&P Utils 12M Forward P/E Relative



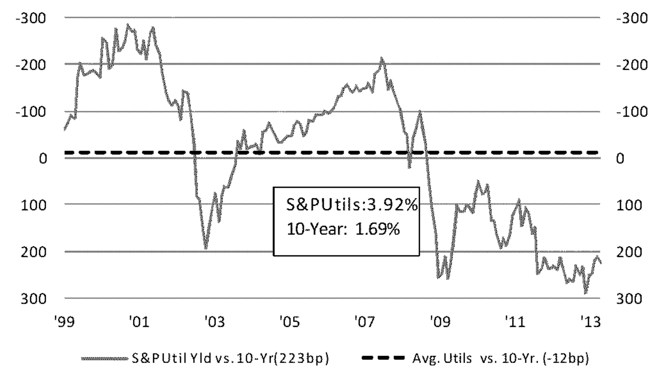
Source: Deutsche Bank and FactSet

Figure 10: S&P Utils Yield vs. IG Utility Bonds, 10-Year



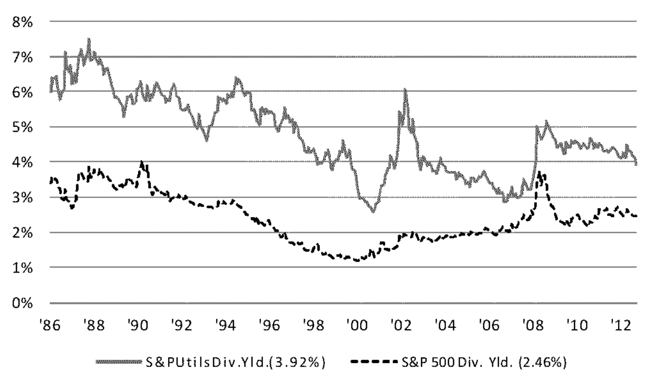
Source: Deutsche Bank and FactSet

Figure 11: S&P Utilities Yield vs. 10-Year Treasury



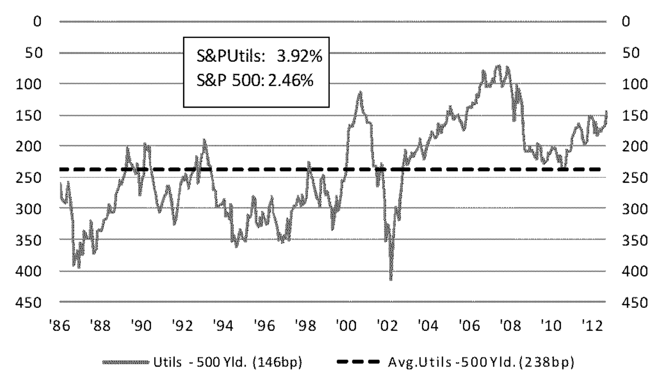
Source: Deutsche Bank and FactSet

Figure 12: S&P Utils Div. Yield vs. S&P 500 Yield



Source: Deutsche Bank and FactSet

Figure 13: S&P Utils Div. Yield vs. S&P 500 Spread



Source: Deutsche Bank and FactSet

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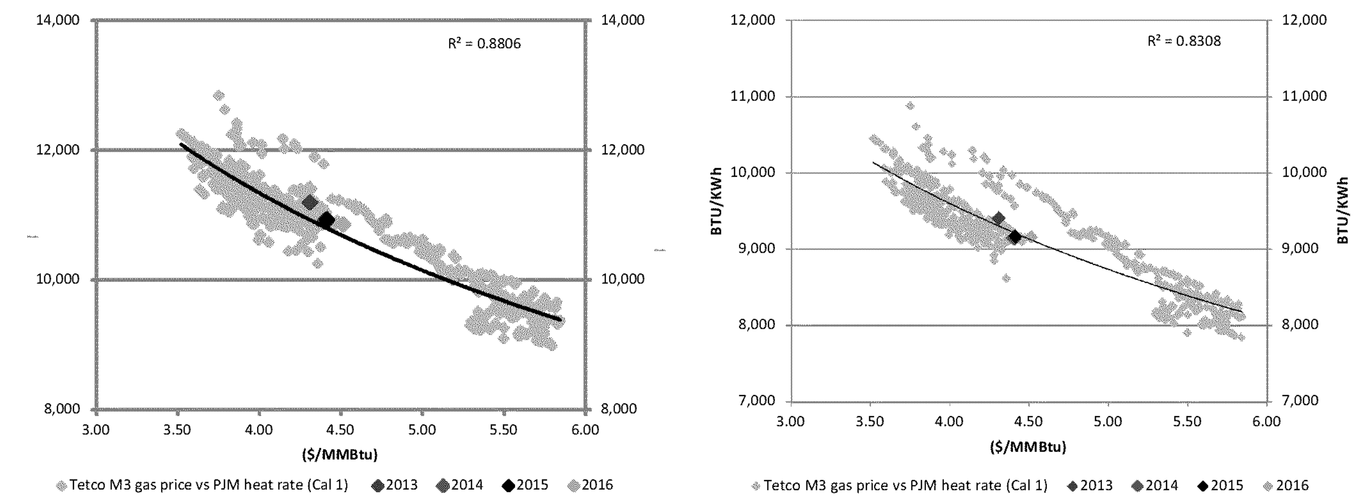
Signs of life in PJM forwards?

As discussed in our recent meetings with Exelon there are finally some faint signs of life in the long-dormant PJM power forwards

Charts below compare our mid-December gas and heat rate regression with today

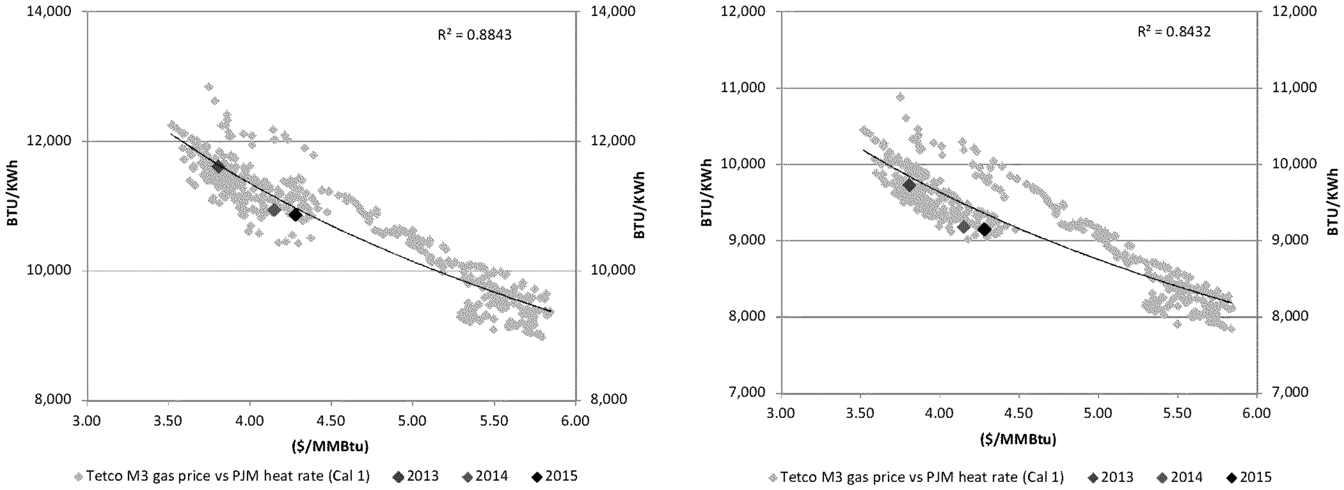
Fundamental outlooks for competitive power generation remain extremely challenging, although we have seen some signs of life in the forward PJM curves which are worth watching. Implied heat rates for 2015 remain surprisingly similar to 2014 – despite 2015 being the year coal plants retiring in response to EPA's MATS rule will likely fall out of the stack. That said, comparing our regression of PJM West implied heat rates versus natural gas prices currently (Figure 14) with the same chart shown as of mid-December (Figure 15) there has been a subtle but noticeable improvement in the shape of the calendar year forward curves. Simply put the out years (2015 and now 2016) are no longer pricing as far below the best fit regression derived from observed Cal 1 pricing data. While it seems a little too subtle to call a major trend shift quite yet, it does seem that 2015 and more so 2016 – which was not yet quoted in December – have perked up somewhat on a gas-adjusted basis versus late last year. Looked at more simply investors may have noticed that 2015 NYMEX gas at $4.26/MMBtu is currently pricing just $0.10 or 2% higher than it was in mid-December whereas PJM West pricing at $48/MWh peak and $40.50/MWh ATC is up ~$1.75/MWh (+4%) and ~$1.25/MWh (+3%), respectively. This may in part have to do with improving liquidity as the out years come closer into view, but either way we will be watching these prices and our regressions below carefully over the coming months for further signs of a more definitive move.

Figure 14: Cal 1 Heat Rates at PJM West vs. Tetco M3 Gas, On-Peak (Left) and ATC (Right) — Current



Source: Deutsche Bank Note: Blue diamonds are daily Cal 1 prices 2011-2013 YTD

Figure 15: Cal 1 Heat Rates at PJM West vs. Tetco M3 Gas, On-Peak (Left) and ATC (Right) — December



Source: Deutsche Bank Note: Blue diamonds are daily Cal 1 prices 2011-2012

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Figure 16: DB Utilities & Power Comparative Valuation Sheet (1)

DEUTSCHE BANK SECURITIES	Basic	Price	DB	DB Price Target			52 Week		Shs (MM)	M. Cap.	EPS				P/E				DPS		Div. Yield		Payout Ratio	
UTILITIES & POWER	Ticker	4/15/13	Rating	Target	Return	TSR '13	Low	High		($Mn.)	2012	2013	2014	2015	2012	2013	2014	2015	2013	2014	2013	2014	2013	2014
MOSTLY REGULATED																								
AMERICAN ELECTRIC POWER	AEP	$49.07	Hold	$49.00	-0.1%	3.8%	$37.43	$49.98	486	23,838	3.09	3.15	3.35	3.50	15.9x	15.6x	14.7x	14.0x	1.94	2.06	4.0%	4.2%	62%	62%
CMS ENERGY	CMS	$28.29	Buy	$30.00	6.0%	9.7%	$21.89	$28.73	265	7,503	1.55	1.65	1.75	1.85	18.3x	17.1x	16.2x	15.3x	1.02	1.08	3.6%	3.8%	62%	62%
DOMINION RESOURCES	D	$59.27	Hold	$60.00	1.2%	5.0%	$49.19	$60.17	577	34,179	3.05	3.35	3.55	3.75	19.4x	17.7x	16.7x	15.8x	2.25	2.38	3.8%	4.0%	67%	67%
DTE ENERGY	DTE	$70.39	Hold	$67.00	-4.8%	-1.2%	$54.72	$70.39	173	12,188	3.94	4.05	4.35	4.50	17.9x	17.4x	16.2x	15.6x	2.58	2.71	3.7%	3.8%	64%	62%
DUKE ENERGY	DUK	$72.29	Hold	$74.00	2.4%	6.7%	$59.87	$73.17	705	50,999	4.32	4.35	4.55	4.80	16.7x	16.6x	15.9x	15.1x	3.12	3.18	4.3%	4.4%	72%	70%
CON EDISON	ED	$61.27	Hold	$59.00	-3.7%	0.3%	$54.10	$64.94	293	17,945	3.73	3.80	3.85	3.95	16.4x	16.1x	15.9x	15.5x	2.44	2.46	4.0%	4.0%	64%	64%
EDISON INTERNATIONAL	EIX	$51.50	Buy	$55.00	6.8%	9.4%	$42.38	$51.95	326	16,779	3.87	3.55	3.75	3.70	13.3x	14.5x	13.7x	13.9x	1.35	1.45	2.6%	2.8%	38%	39%
ITC HOLDINGS	ITC	$90.46	Hold	$93.00	2.8%	4.7%	$66.99	$92.50	52	4,732	4.14	4.90	5.55	6.25	21.9x	18.5x	16.3x	14.5x	1.69	1.89	1.9%	2.1%	34%	34%
NORTHEAST UTILITIES	NU	$43.83	Hold	$43.00	-1.9%	1.5%	$34.94	$44.66	315	13,787	2.28	2.50	2.70	2.85	19.2x	17.5x	16.2x	15.4x	1.47	1.57	3.3%	3.6%	59%	58%
PG&E CORP	PCG	$46.77	Buy	$48.50	3.7%	7.6%	$39.71	$47.23	439	20,554	3.22	2.65	3.10	3.30	14.5x	17.6x	15.1x	14.2x	1.82	1.96	3.9%	4.2%	69%	63%
PORTLAND GENERAL ELEC.	POR	$30.52	Buy	$32.00	4.8%	8.4%	$24.37	$30.98	76	2,310	1.87	1.90	2.05	2.20	16.3x	16.0x	14.9x	13.9x	1.10	1.13	3.6%	3.7%	58%	55%
SOUTHERN COMPANY	SO	$47.36	Hold	$48.00	1.4%	5.6%	$42.03	$48.42	871	41,247	2.65	2.70	2.90	3.05	17.9x	17.5x	16.3x	15.5x	2.03	2.10	4.3%	4.4%	75%	72%
UIL HOLDINGS	UIL	$39.67	Hold	$40.50	2.1%	6.4%	$32.70	$40.71	51	2,011	2.02	2.10	2.35	2.55	19.7x	18.9x	16.9x	15.6x	1.73	1.73	4.4%	4.4%	82%	74%
XCEL ENERGY	XEL	$30.25	Hold	$31.00	2.5%	6.1%	$26.02	$30.92	494	14,952	1.82	1.90	2.00	2.10	16.6x	15.9x	15.1x	14.4x	1.10	1.13	3.6%	3.7%	58%	56%
CENTERPOINT ENERGY	CNP	$23.51	--	--	--	--	$19.00	$24.23	429	10,075	1.25	1.25	1.32	1.39	18.8x	18.7x	17.8x	16.9x	0.83	0.85	3.5%	3.6%	66%	65%
GREAT PLAINS ENERGY	GXP	$23.18	--	--	--	--	$19.61	$23.65	154	3,559	1.35	1.57	1.62	1.67	17.2x	14.8x	14.3x	13.9x	0.89	0.92	3.8%	4.0%	57%	57%
IDACORP	IDA	$47.18	--	--	--	--	$38.28	$48.71	50	2,370	3.37	3.26	3.37	3.34	14.0x	14.5x	14.0x	14.1x	1.62	1.82	3.4%	3.9%	50%	54%
ALLIANT ENERGY	LNT	$50.65	--	--	--	--	$42.38	$51.61	111	5,618	3.01	3.13	3.29	3.48	16.8x	16.2x	15.4x	14.5x	1.88	1.96	3.7%	3.9%	60%	60%
NISOURCE	NI	$30.02	--	--	--	--	$23.40	$30.66	312	9,360	1.47	1.55	1.66	1.75	20.5x	19.3x	18.1x	17.1x	0.99	1.04	3.3%	3.5%	64%	62%
NV ENERGY INC	NVE	$20.73	--	--	--	--	$15.75	$21.19	236	4,882	1.35	1.29	1.35	1.41	15.4x	16.0x	15.4x	14.7x	0.74	0.82	3.6%	4.0%	57%	61%
NORTHWESTERN CORP.	NWE	$40.73	--	--	--	--	$33.43	$41.77	37	1,520	2.66	2.49	2.71	2.85	15.3x	16.4x	15.0x	14.3x	1.53	1.58	3.8%	3.9%	61%	58%
PS NEW MEXICO	PNM	$23.08	--	--	--	--	$17.84	$23.70	80	1,838	1.31	1.37	1.47	1.59	17.6x	16.9x	15.7x	14.6x	0.65	0.78	2.8%	3.4%	48%	53%
PINNACLE WEST CAPITAL	PNW	$58.33	--	--	--	--	$46.68	$59.49	110	6,413	3.50	3.56	3.71	3.82	16.7x	16.4x	15.7x	15.3x	2.21	2.30	3.8%	3.9%	62%	62%
PEPCO HOLDINGS	POM	$21.52	--	--	--	--	$18.44	$22.08	248	5,341	1.21	1.15	1.26	1.37	17.8x	18.7x	17.1x	15.7x	1.08	1.08	5.0%	5.0%	94%	86%
SCANA	SCG	$51.41	--	--	--	--	$44.36	$52.60	139	7,151	3.15	3.32	3.44	3.65	16.3x	15.5x	14.9x	14.1x	2.02	2.06	3.9%	4.0%	61%	60%
INTEGRYS	TEG	$59.14	--	--	--	–	$51.42	$61.30	78	4,637	3.26	3.39	3.59	3.80	18.1x	17.5x	16.5x	15.6x	2.72	2.72	4.6%	4.6%	80%	76%
WISCONSIN ENERGY	WEC	$42.83	--	--	--	–	$35.34	$43.59	229	9,796	2.35	2.43	2.54	2.67	18.2x	17.7x	16.9x	16.0x	1.36	1.53	3.2%	3.6%	56%	60%
AVERAGE - SIMPLE									**Total**	**339,792**					**17.2x**	**16.8x**	**15.8x**	**15.0x**			**3.7%**	**3.9%**	**62%**	**61%**
GROUP HIGH									**DB Rated**	**263,022**					21.9x	19.3x	18.1x	17.1x			5.0%	5.0%	94%	86%
GROUP LOW															13.3x	14.5x	13.7x	13.9x			1.9%	2.1%	34%	34%
LESS REGULATED																								
ENTERGY CORP.	ETR	$68.65	Hold	$66.00	-3.9%	1.0%	$61.45	$73.06	178	12,250	6.23	4.90	4.95	4.85	11.0x	14.0x	13.9x	14.2x	3.32	3.32	4.8%	4.8%	68%	67%
EXELON	EXC	$35.84	Buy	$38.00	6.0%	10.1%	$28.57	$39.49	856	30,663	2.85	2.45	2.20	2.35	12.6x	14.6x	16.3x	15.2x	1.46	1.24	4.1%	3.5%	59%	56%
FIRSTENERGY	FE	$45.05	Hold	$46.00	2.1%	7.0%	$38.90	$50.87	418	18,841	3.33	3.00	3.05	3.65	13.5x	15.0x	14.8x	12.3x	2.20	2.20	4.9%	4.9%	73%	72%
NEXTERA ENERGY	NEE	$78.95	Hold	$76.00	-3.7%	-0.4%	$62.72	$79.94	425	33,525	4.57	5.00	5.30	5.50	17.3x	15.8x	14.9x	14.3x	2.64	2.88	3.3%	3.6%	53%	54%
PPL CORP.	PPL	$31.50	Hold	$32.50	3.2%	7.8%	$26.90	$31.99	583	18,362	2.42	2.40	2.10	2.15	13.0x	13.1x	15.0x	14.7x	1.46	1.49	4.6%	4.7%	61%	71%
PSEG	PEG	$34.71	Hold	$35.00	0.8%	5.0%	$29.24	$35.06	506	17,562	2.44	2.40	2.40	2.30	14.2x	14.5x	14.4x	15.1x	1.44	1.46	4.1%	4.2%	60%	61%
TECO ENERGY	TE	$18.16	Hold	$17.00	-6.4%	-1.5%	$16.21	$18.46	217	3,945	1.14	0.95	1.10	1.20	15.9x	19.1x	16.5x	15.2x	0.88	0.91	4.8%	5.0%	93%	82%
AMEREN	AEE	$34.56	--	--	--	--	$28.55	$35.49	243	8,385	2.42	2.12	2.23	2.36	14.3x	16.3x	15.5x	14.6x	1.60	1.61	4.6%	4.7%	76%	72%
SEMPRA ENERGY	SRE	$80.98	--	--	--	–	$63.18	$82.53	243	19,711	4.35	4.54	4.76	5.13	18.6x	17.8x	17.0x	15.8x	2.53	2.66	3.1%	3.3%	56%	56%
AVERAGE - SIMPLE									**Total**	**163,245**					**14.5x**	**15.6x**	**15.4x**	**14.6x**			**4.3%**	**4.3%**	**66%**	**66%**
GROUP HIGH									**DB Rated**	**135,149**					18.6x	19.1x	17.0x	15.8x			4.9%	5.0%	93%	82%
GROUP LOW															11.0x	13.1x	13.9x	12.3x			3.1%	3.3%	53%	54%
MERCHANT & IPPs																								
CALPINE	CPN	$21.03	Hold	$21.00	-0.1%	-0.1%	$15.97	$21.69	455	9,578	0.72	0.95	1.33	1.44	29.2x	22.1x	15.8x	14.6x	-	-	-	-	-	-
NRG ENERGY	NRG	$26.38	Hold	$27.00	2.4%	4.2%	$14.34	$27.27	323	8,526	2.58	1.08	0.88	0.09	10.2x	24.4x	30.0x	293.1x	0.48	0.56	1.8%	2.1%	44%	64%
AES CORPORATION	AES	$12.69	--	--	--	--	$9.72	$13.10	746	9,464	1.24	1.28	1.35	1.50	10.2x	9.9x	9.4x	8.4x	0.12	0.12	0.9%	0.9%	9%	9%
DYNEGY INC.	DYN	$23.98	--	--	--	--	$17.35	$75.28	100	2,398	(1.82)	(0.44)	(0.12)	0.13	NM	NM	NM	191.8x	-	-	-	-	-	-
ORMAT TECHNOLOGIES	ORA	$20.38	--	--	--	--	$16.95	$22.00	45	926	(4.56)	0.57	0.79	0.45	NM	35.9x	25.8x	44.9x	0.11	0.16	0.5%	0.8%	19%	20%
AVERAGE - SIMPLE									**Total**	**30,892**					**16.6x**	**23.1x**	**20.2x**	**110.6x**			**1.1%**	**1.3%**	**24%**	**31%**
GROUP HIGH									**DB Rated**	**18,104**					29.2x	35.9x	30.0x	293.1x			1.8%	2.1%	44%	64%
GROUP LOW															10.2x	9.9x	9.4x	8.4x			0.5%	0.8%	9%	9%

Source: Deutsche Bank
Note: Companies without ratings and price targets are not currently covered by DB.

Figure 17: DB Utilities & Power Comparative Valuation Sheet (2)

DEUTSCHE BANK SECURITIES	Consensus EPS			Consensus P/E			EBITDA $MM			EV/EBITDA			FCF Yield			Net Debt: Capital			Net Debt: EBITDA			EBITDA/Interest		
UTILITIES & POWER	2013	2014	2015	2013	2014	2015	2013	2014	2015	2013	2014	2015	2013	2014	2015	2013	2014	2015	2013	2014	2015	2013	2014	2015
MOSTLY REGULATED																								
AMERICANELECTRICPOWER	3.16	3.32	3.44	15.5x	14.8x	14.3x	4,621	4,877	4,707	8.9x	8.4x	8.8x	1.6%	-1.1%	-1.7%	52%	51%	50%	3.7x	3.5x	3.7x	5.3x	5.7x	6.2x
CMS ENERGY	1.65	1.74	1.85	17.2x	16.2x	15.3x	1,754	1,883	2,004	8.7x	8.3x	7.9x	-0.5%	-1.0%	0.9%	69%	69%	68%	4.4x	4.3x	4.1x	4.2x	4.2x	4.2x
DOMINION RESOURCES	3.36	3.55	3.77	17.6x	16.7x	15.7x	5,106	5,393	5,636	11.0x	10.7x	10.3x	-1.2%	-0.5%	2.5%	65%	65%	64%	4.3x	4.3x	4.2x	5.9x	6.0x	6.2x
DTE ENERGY	4.02	4.26	4.49	17.5x	16.5x	15.7x	2,591	2,743	2,739	7.9x	7.5x	7.6x	-3.5%	-0.8%	0.7%	51%	49%	48%	3.2x	3.0x	3.1x	5.4x	5.6x	5.7x
DUKEENERGY	4.35	4.58	4.74	16.6x	15.8x	15.2x	8,726	9,327	9,656	10.4x	9.9x	9.6x	2.7%	2.8%	3.3%	49%	49%	49%	4.6x	4.4x	4.4x	5.4x	5.6x	5.8x
CON EDISON	3.79	3.85	4.00	16.2x	15.9x	15.3x	3,372	3,534	3,735	9.0x	8.8x	8.6x	-2.7%	-0.9%	-1.4%	50%	50%	50%	3.7x	3.7x	3.8x	5.4x	5.3x	5.4x
EDISON INTERNATIONAL	3.54	3.63	3.70	14.6x	14.2x	13.9x	4,029	4,311	4,466	7.2x	6.8x	6.6x	-3.7%	0.3%	2.5%	54%	54%	52%	3.0x	2.9x	2.9x	7.0x	6.9x	7.0x
ITC HOLDINGS	4.93	5.69	6.49	18.3x	15.9x	13.9x	647	741	822	11.8x	10.8x	10.2x	-7.7%	-6.5%	-5.8%	64%	64%	63%	4.5x	4.4x	4.4x	5.0x	5.0x	5.4x
NORTHEAST UTILITIES	2.54	2.72	2.89	17.2x	16.1x	15.2x	2,215	2,319	2,474	10.6x	10.3x	10.0x	-0.9%	-1.2%	-2.4%	50%	51%	52%	4.3x	4.4x	4.5x	6.6x	6.0x	5.8x
PG&E CORP	2.65	3.09	3.27	17.6x	15.1x	14.3x	4,947	5,575	5,985	7.1x	6.5x	6.2x	-7.9%	-4.8%	-3.7%	50%	50%	50%	2.9x	2.8x	2.8x	7.3x	7.4x	7.3x
PORTLANDGENERALELEC.	1.92	2.05	2.14	15.9x	14.9x	14.3x	538	576	613	7.5x	7.1x	6.4x	-0.9%	3.4%	9.6%	49%	49%	46%	3.2x	3.0x	2.6x	5.4x	5.6x	6.2x
SOUTHERN COMPANY	2.77	2.91	3.04	17.1x	16.3x	15.6x	6,344	6,781	7,211	10.2x	9.9x	9.5x	0.2%	-0.6%	1.8%	54%	55%	56%	3.7x	3.8x	3.7x	7.2x	7.0x	6.9x
UIL HOLDINGS	2.20	2.39	2.51	18.1x	16.6x	15.8x	448	487	525	8.8x	8.1x	7.8x	0.8%	-0.2%	-2.0%	63%	60%	61%	4.3x	3.9x	3.9x	4.7x	5.2x	5.4x
XCELENERGY	1.90	1.99	2.08	15.9x	15.2x	14.6x	2,901	3,072	3,242	9.2x	8.8x	8.4x	-4.1%	-0.6%	3.1%	54%	54%	53%	4.0x	4.0x	3.8x	5.2x	5.1x	5.2x
CENTERPOINTENERGY	1.25	1.32	1.39	18.7x	17.8x	16.9x	2,178	2,215	2,047	8.9x	8.8x	8.9x	NA	NA	NA	69%	68%	64%	4.3x	4.2x	3.9x	4.5x	4.7x	5.2x
GREATPLAINSENERGY	1.57	1.62	1.67	14.8x	14.3x	13.9x	877	896	920	8.3x	8.3x	8.3x	NA	NA	NA	52%	52%	52%	4.2x	4.3x	4.4x	4.5x	4.3x	4.4x
IDACORP	3.26	3.37	3.34	14.5x	14.0x	14.1x	406	412	395	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	5.5x	5.6x	5.2x
ALLIANTENERGY	3.13	3.29	3.48	16.2x	15.4x	14.5x	940	1,013	1,071	11.9x	11.3x	11.0x	NA	NA	NA	63%	61%	61%	6.0x	5.7x	5.7x	5.0x	5.7x	5.3x
NISOURCE	1.55	1.66	1.75	19.3x	18.1x	17.1x	1,745	1,895	2,038	10.2x	9.8x	9.4x	NA	NA	NA	60%	60%	60%	4.9x	4.8x	4.8x	4.0x	4.0x	4.0x
NV ENERGYINC	1.29	1.35	1.41	16.0x	15.4x	14.7x	1,167	1,189	1,210	8.2x	7.9x	7.7x	NA	NA	NA	55%	54%	52%	4.0x	3.8x	3.6x	4.0x	4.1x	4.3x
NORTHWESTERN CORP.	2.49	2.71	2.85	16.4x	15.0x	14.3x	282	314	338	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	4.0x	4.1x	4.1x
PS NEW MEXICO	1.37	1.47	1.59	16.9x	15.7x	14.6x	461	493	533	8.6x	8.8x	8.4x	NA	NA	NA	56%	60%	59%	4.6x	5.1x	4.9x	3.8x	3.8x	3.7x
PINNACLE WEST CAPITAL	3.56	3.71	3.82	16.4x	15.7x	15.3x	1,282	1,349	1,420	7.9x	7.8x	7.7x	NA	NA	NA	47%	47%	48%	2.9x	3.0x	3.2x	6.1x	6.0x	5.7x
PEPCO HOLDINGS	1.15	1.26	1.37	18.7x	17.1x	15.7x	1,180	1,283	1,405	9.1x	8.6x	7.9x	NA	NA	NA	54%	54%	53%	4.6x	4.5x	4.1x	4.4x	4.4x	4.5x
SCANA	3.32	3.44	3.65	15.5x	14.9x	14.1x	1,322	1,410	1,525	10.2x	10.0x	9.6x	NA	NA	NA	57%	57%	57%	4.8x	4.9x	4.9x	4.4x	4.7x	NA
INTEGRYS	3.39	3.59	3.80	17.5x	16.5x	15.6x	696	765	668	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	5.1x	4.9x	3.5x
WISCONSINENERGY	2.43	2.54	2.67	17.7x	16.9x	16.0x	1,439	1,495	1,535	10.4x	10.0x	9.9x	NA	NA	NA	54%	53%	52%	3.6x	3.5x	3.5x	6.2x	6.4x	6.4x
AVERAGE - SIMPLE				**16.8x**	**15.8x**	**15.0x**				**9.2x**	**8.9x**	**8.6x**	**-2.0%**	**-0.8%**	**0.5%**	**56%**	**56%**	**55%**	**4.1x**	**4.0x**	**4.0x**	**5.2x**	**5.3x**	**5.3x**
GROUP HIGH				19.3x	18.1x	17.1x				11.9x	11.3x	11.0x	2.7%	3.4%	9.6%	69%	69%	68%	6.0x	5.7x	5.7x	7.3x	7.4x	7.3x
GROUP LOW				14.5x	14.0x	13.9x				7.1x	6.5x	6.2x	-7.9%	-6.5%	-5.8%	47%	47%	46%	2.9x	2.8x	2.6x	3.8x	3.8x	3.5x
LESS REGULATED																								
ENTERGYCORP.	4.85	4.88	4.84	14.1x	14.1x	14.2x	3,065	3,155	3,184	8.5x	8.5x	8.5x	2.5%	6.1%	6.6%	59%	59%	59%	4.5x	4.6x	4.7x	4.8x	4.8x	4.7x
EXELON	2.49	2.30	2.39	14.4x	15.6x	15.0x	6,014	5,848	6,189	8.3x	8.6x	8.2x	1.2%	2.5%	1.2%	46%	45%	45%	3.2x	3.3x	3.3x	6.0x	5.8x	6.1x
FIRSTENERGY	2.97	3.01	3.52	15.2x	15.0x	12.8x	4,280	4,363	4,836	8.9x	9.0x	8.2x	3.4%	-1.3%	3.0%	58%	59%	59%	4.5x	4.6x	4.3x	4.4x	4.4x	4.8x
NEXTERAENERGY	4.92	5.30	5.57	16.1x	14.9x	14.2x	6,094	6,705	7,108	10.1x	9.4x	8.8x	-1.9%	-4.1%	4.5%	62%	60%	58%	4.6x	4.4x	4.1x	5.3x	5.6x	5.9x
PPL CORP.	2.41	2.18	2.26	13.1x	14.4x	14.0x	4,298	4,270	4,461	8.6x	8.9x	8.9x	-6.8%	-5.3%	-2.7%	62%	62%	63%	4.4x	4.6x	4.8x	4.2x	4.2x	4.3x
PSEG	2.37	2.37	2.31	14.6x	14.6x	15.0x	3,573	3,673	3,643	7.3x	7.3x	7.5x	2.3%	-1.1%	1.7%	43%	44%	45%	2.4x	2.6x	2.7x	8.2x	7.7x	7.3x
TECOENERGY	0.96	1.16	1.25	18.8x	15.6x	14.5x	819	885	934	8.3x	7.8x	7.5x	3.3%	3.2%	1.8%	55%	56%	56%	3.5x	3.3x	3.3x	4.7x	5.1x	5.4x
AMEREN	2.12	2.23	2.36	16.3x	15.5x	14.6x	1,998	2,008	2,112	7.8x	8.0x	8.0x	NA	NA	NA	50%	52%	54%	3.6x	3.9x	4.0x	5.0x	4.8x	4.8x
SEMPRA ENERGY	4.54	4.76	5.13	17.8x	17.0x	15.8x	3,338	3,473	3,745	9.6x	9.5x	9.0x	NA	NA	NA	53%	54%	53%	3.7x	3.8x	3.7x	6.0x	5.9x	5.4x
AVERAGE - SIMPLE				**15.6x**	**15.2x**	**14.5x**				**8.6x**	**8.6x**	**8.3x**	**0.6%**	**0.0%**	**2.3%**	**54%**	**55%**	**55%**	**3.8x**	**3.9x**	**3.9x**	**5.4x**	**5.4x**	**5.4x**
GROUP HIGH				18.8x	17.0x	15.8x				10.1x	9.5x	9.0x	3.4%	6.1%	6.6%	62%	62%	63%	4.6x	4.6x	4.8x	8.2x	7.7x	7.3x
GROUP LOW				13.1x	14.1x	12.8x				7.3x	7.3x	7.5x	-6.8%	-5.3%	-2.7%	43%	44%	45%	2.4x	2.6x	2.7x	4.2x	4.2x	4.3x
MERCHANT & IPPs																								
CALPINE	0.56	0.81	0.91	37.7x	26.0x	23.2x	1,790	1,965	1,980	10.7x	9.7x	9.4x	1.9%	7.1%	9.6%	71%	71%	71%	5.4x	4.8x	4.6x	2.4x	2.6x	2.7x
NRGENERGY	0.80	1.25	0.79	32.8x	21.1x	33.5x	2,775	2,880	2,485	8.7x	8.0x	9.2x	-11.2%	12.4%	10.1%	60%	59%	60%	5.6x	5.1x	5.7x	3.0x	2.9x	2.5x
AES CORPORATION	1.28	1.35	1.50	9.9x	9.4x	8.4x	4,915	5,163	5,371	5.6x	5.2x	4.9x	NA	NA	NA	73%	69%	63%	3.7x	3.4x	3.1x	3.2x	3.3x	3.6x
DYNEGY INC.	(0.44)	(0.12)	0.13	NM	NM	191.8x	268	336	382	12.0x	10.6x	9.8x	NA	NA	NA	29%	37%	34%	3.1x	3.4x	3.5x	NA	NA	NA
ORMAT TECHNOLOGIES	0.57	0.79	0.45	35.9x	25.8x	44.9x	198	227	239	10.7x	9.1x	8.2x	NA	NA	NA	49%	58%	55%	6.0x	5.0x	4.3x	3.2x	3.3x	NA
AVERAGE - SIMPLE				**29.1x**	**20.6x**	**60.4x**				**9.5x**	**8.5x**	**8.3x**	**NA**	**NA**	**NA**	**56%**	**59%**	**57%**	**4.7x**	**4.3x**	**4.2x**	**3.0x**	**3.0x**	**3.0x**
GROUP HIGH				37.7x	26.0x	191.8x				12.0x	10.6x	9.8x	NA	NA	NA	73%	71%	71%	6.0x	5.1x	5.7x	3.2x	3.3x	3.6x
GROUP LOW				9.9x	9.4x	8.4x				5.6x	5.2x	4.9x	NA	NA	NA	29%	37%	34%	3.1x	3.4x	3.1x	2.4x	2.6x	2.5x

Source: Deutsche Bank
Note: Companies without ratings and price targets are not currently covered by DB.

Company updates

American Electric Power (AEP) – Raising PT to $49 from $46

Valuation – Maintaining Hold rating

We are raising our price target for AEP to $49 from $46. We value AEP by applying a 14x P/E multiple to our 2015 EPS estimate of $3.50. With key Ohio concerns now resolved, we value AEP at our target multiple of 14x. Overall, we believe AEP's heavy reliance on coal generation and less favorable service territories are offset by AEP's diversity in regulatory jurisdictions, somewhat above-average growth opportunities (primarily transmission), and a large cap premium.

Risks

Downside risks for AEP include disallowance of capital spending projects or ROE adjustments in regulatory proceedings. A renewed economic downturn could also impact our estimates and slow growth at the utilities. AEP's mostly coal fleet is also is also heavily exposed to environmental regulations. Upside risks for AEP include greater capital investment opportunities than we assume and higher earned ROEs.

Calpine (CPN) – Raising price target to $21/share from $20

Valuation - Maintain Hold

We value CPN by applying an 8.75x EV/EBITDA multiple to our 2015 adjusted EBITDA estimate. This represents a slight premium to our baseline 8.5x merchant multiple given CPN's large exposure to the favorable ERCOT market and potential accretive monetization opportunities in the Southeast, partially offset by a sizeable position in the less attractive California market. In our valuation, we only add back 50% of major maintenance expense to EBITDA (more conservative than CPN's basis) given the large uncertainty as to the merits of fully capitalizing this expense per CPN's definition of EBITDA. We give CPN credit for the value of its NOLs based on our scenario analysis. See Figure 18.

Figure 18: CPN Valuation Analysis

	2015E	Multiple	Value
Adjusted EBITDA forecast	1,980		
Add: Operating lease expense	25		
Less: 50% of major maintenance expense	(95)		
Operating EBITDA forecast	**1,910**	**8.75**	**16,712**
Net Debt forecast at YE 2015			9,065
Add: NPV of operating lease payments			75
Add: Net debt from unconsolidated projects			127
Less: Adj. for 75% interest in Russell City (debt is consolidated)			(226)
Less: NPV of NOL carryforwards			(630)
Operating Net Debt forecast			**8,411**
Target market capitalization			**8,301**
Diluted average shares outstanding at YE 2015			403
Target equity value per share			**21**

Source: Deutsche Bank

Risks

Upside risks to our Hold rating are higher market heat rates, hot summer weather and scarcity pricing in Texas, accretive M&A activity, and successful contracting efforts. Downside risks are a mild summer in Texas, lower forward market heat rates, robust renewable supply growth in California that reduces CPN's margin, and high financial leverage.

CMS Energy (CMS) – Raising PT to $30 from $26.50

Valuation – Reiterating Buy rating

We are raising our price target for CMS to $30 from $26.50. We value CMS by applying a 16.1x P/E multiple (a 15% premium to our target 14x regulated utility multiple) to our 2015 EPS estimate. We have raised the premium we apply for CMS to 15% from 10% reflecting our expectation that CMS will continue to execute on its growth plan and deliver on expectations based on its strong management team and capex backlog. In our view, a premium for CMS is justified based on CMS' execution track record, Michigan's strong regulatory construct, and above-average growth.

Risks

The key downside risks for CMS include the disallowance of major capital spending projects, as we expect roughly $7B of spending for 2013-2017 to drive rate base growth, and the inability of the utilities to earn their authorized returns. A negative turn in Michigan's economy is also a downside risk for CMS, as electric decoupling is no longer in place. A new economic downturn in the state would likely further increase rate pressure and could restrict growth opportunities. Rising natural gas prices would also be a risk since they would push CMS' expected annual electric rate increases higher.

Consolidated Edison (ED) – Raising PT to $59 from $55

Valuation – Maintaining Hold rating

Our $59 price target is based on a 15.0x P/E multiple applied to our 2015E of $3.95, which reflects a 7% premium to our target 14.0x regulated utility multiple. We believe this premium is appropriate given ED's lower-risk business model (mostly regulated T&D), history of delivering on guidance, and strong environmental and financial position. These positive attributes are offset by enhanced regulatory risk associated with CECONY's ongoing electric, gas, and steam rate cases.

Risk

Upside risks include better-than-anticipated rate case outcomes, stronger-than-anticipated earnings at the competitive business, faster-than-anticipated rate base growth/capital spending, lower financing needs, reduced pension plan contribution requirements, and lower market interest rates. Downside risks include worse-than-expected rate case outcomes (particularly in CECONY's ongoing rate cases), potential penalties related to the company's response to Hurricane Sandy, higher-than-expected financing needs and pension plan contributions, and higher market interest rates.

Dominion Resources (D) – Raising PT to $60 from $56

Valuation – Maintaining Hold rating

We are raising our price target for D to $60 from $56. We value D based on the average of our 2015E sum-of-parts and a more simple blended P/E premium of 12.5% over our base target regulated multiple (14x 2015E) and using our consolidated 2015E.

We then add in $2 per share of value for D's Cove Point export project, which still requires approval. For our sum-of-the-parts, we apply a 16.1x P/E multiple to D's Virginia Electric & Power Company subsidiary (electric distribution, transmission, and regulated generation), a 15% premium to our target 14x regulated multiple. We believe this is appropriate given the supportive regulatory environment and favorable recovery mechanisms in Virginia, as well as the state's mandate for D to invest in new generation. We apply a 9x EV/EBITDA multiple to D's gas distribution segment, a premium to the regulated average reflecting the regulatory construct in Ohio, and a 9.5x multiple to the gas transmission segment. We believe this is warranted given FERC's recovery mechanisms and above-average ROEs and D's strong growth outlook in the Marcellus and Utica shale basins. We apply a premium 8.75x multiple to the merchant generation fleet, reflecting D's clean portfolio, its attractive market position in New England, exposure to future commodity/power improvements, and strong financial position as part of a large cap utility. We value the retail business using a 7.5x multiple, and Producer Services at 8x. Lastly, we apply an 8.75x multiple to the parent segment EBITDA.

Figure 19: D Sum-of-the-Parts Valuation

Business Segment	Valuation Metric	2015E	Multiple	Value
Virginia Electric & Power Co	P/E	$2.42	16.1x	22,950
Gas Distribution	EV/EBITDA	355	9.00x	3,195
Gas Transmission	EV/EBITDA	971	9.50x	9,223
Utility Value				**35,368**
Merchant Generation	EV/EBITDA	445	8.75x	3,892
Dominion Retail	EV/EBITDA	174	7.50x	1,305
Producer Services	EV/EBITDA	65	8.00x	517
Corporate and Other	EV/EBITDA	(43)	8.75x	(376)
Non-Utility Enterprise Value				**5,337**
Total Enterprise Value				40,705
Less: Total Non-VEPCO Net Debt (2015E)				(7,097)
Total Equity Value				**33,608**
Diluted Average Shares Outstanding (2015E)				589
Equity Value Per Share				**$57**

Source: Deutsche Bank

Risks

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

DTE Energy (DTE) – Raising PT to $67 from $62

Valuation – Maintaining Hold rating

We are raising our price target for DTE to $67 from $62. We apply a 15.7x P/E multiple to our 2015 EPS estimate for DTE excluding Energy Trading and the Reduced Emissions Fuel (REF) business. This multiple reflects a 12% premium to our 14x target regulated utility multiple, reflecting DTE's solid Michigan utilities with a strong regulatory

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construct plus DTE's premium midstream assets. For Energy Trading, we apply a 10x P/E multiple to our 2015 estimate, reflecting what we believe is a more appropriate multiple for that business versus a regulated utility. Lastly, we add in nearly $2/share for DTE's REF business. This represents the NPV of $60M of earnings annually through 2021 since the earnings stream is only in place for 10 years.

Risks

Upside risks include stronger rate base growth than we assume and a stronger economic recovery, which could increase capital spending opportunities. Stronger-than-expected earnings from the Reduced Emissions Fuel (REF) business is also an upside risk. Downside risks include less favorable rate case outcomes than we assume, especially if they disallow capital spending, and a renewed economic downturn in Michigan.

Duke Energy (DUK) – Raising PT to $74 from $69

Valuation – Maintaining Hold rating

We value DUK by applying a 15.4x P/E multiple to our 2015 estimate of $4.80. We believe DUK deserves a premium (10%) versus regulated peers, reflecting its position as the largest US electric utility by market capitalization with above average regulatory diversity and decent growth prospects. These positive attributes are somewhat tempered by regulatory uncertainty in the Carolinas, a result of pending rate cases and the recent reversal of the North Carolina commission's approval of a 10.5% ROE in the 2011 rate case by the NC Supreme Court, and DUK's international and merchant generation exposure.

Risk

Upside risks to our price target include better-than-expected regulatory outcomes, particularly with regard to the pending Carolinas rate cases and the OH cost-based capacity mechanism application, a faster-than-anticipated economic recovery, and stronger results from DUK's non-utility operations. Downside risks include potential regulatory disappointments, worse-than-expected margins at Commercial Power, lower-than-expected electric sales, higher financing needs, and a stronger dollar.

Edison International (EIX) – Raising PT to $55 from $51.50

Valuation – Reiterating Buy rating

We are raising our price target for EIX to $55 from $51.50. We value EIX by applying a 15x P/E multiple to our 2015 EPS estimate of $3.70. This represents a 7% premium over our target 14x regulated utility P/E multiple. In our view, EIX merits a premium valuation given above-average growth expectations for earnings and dividend and constructive regulation in California. Based on these characteristics, we believe a 10% premium is appropriate. However, uncertainty remains on SCE's nuclear plant (SONGS), so we have offset a portion of the premium to reflect the risks associated with SONGS. We note that removing SONGS completely from rate base would be worth ~5% of premium (~$3/share). We believe this is a very unlikely scenario, as even if SONGS does not return to service, we would not expect the CPUC to completely disallow recovery of the remaining rate base.

Risks

In our view, the primary near-term downside risk for EIX is the SONGS nuclear outage, with the NRC reviewing a plan to temporarily restart Unit 2 and the CPUC considering whether to remove it from rates. Disallowance or delays of major capital spending at

SCE is another downside risk. We view this risk as most acute for SCE's transmission projects, which have historically had problems with delays throughout the regulatory review process.

Entergy Corp. (ETR) – Raising PT to $66 from $65

Lowering estimates in 2014 and 2015 but raising 2013E

We are maintaining our Hold rating but are raising our PT modestly to $66 from $65. While we are increasing the multiples we apply to our estimated regulated utility and Entergy Wholesale Commodities earnings in our valuation methodology, we have also lowered our estimates at ETR's utilities, which is offsetting. We now project 2013, 2014, and 2015 EPS of $4.90, $4.95, and $4.85 as compared to $4.80, $5.05, and $5.00 previously. The increase to EPS in 2013 reflects higher rest of state capacity pricing for ETR's New York nuclear plants. Earlier this month, the NY summer 2013 strip capacity auction for rest of state cleared at $4.20/kW-month vs. last year's auction at $1.25/kW-month. The decrease in EPS in 2014 and 2015 reflects a lower anticipated bottom-line impact from ETR's pending rate cases in Louisiana and Arkansas and the Mississippi formula rate plan filing offset in part by higher assumed NY capacity prices.

ITC deal partially priced in at current levels

As a reminder, our valuation methodology and forecasts do not reflect the potential transaction with ITC Holdings, which we view very favorably from an ETR shareholder perspective. Recall that ETR proposes to separate and merge its transmission assets into a subsidiary of ITC Holdings. In exchange, ETR shareholders will receive shares in ITC worth a little over 50% of the company. If ITC and ETR are able to secure approval from state and federal regulators, we believe the deal could add as much as $11-$13/sh to our price target. At current levels, we believe the market is pricing in around $3/sh for the ITC deal in ETR's stock price.

Valuation – Maintaining Hold rating

Our price target for ETR is based on a sum-of-the-parts analysis. At this stage we have not incorporated any specific value for the proposed ITC deal. We calculate the Utility value by applying a 14.0x multiple, consistent with the average multiple we apply to US regulated utilities, to our 2015 Utility EPS estimate. Our valuation for Entergy Wholesale Commodities is based on 2015E adjusted EBITDA and an 8.0x EV/EBITDA multiple. Our EBITDA forecast for EWC is adjusted for the non-cash Palisades PPA accrual ($15M in 2015), and projected NYPA payments of $5M. The former is a non-cash revenue item while the latter is a cash expense booked in the investing section of the cash flow statement. Both relate to accounting treatment of the acquired assets and are not typically adjusted in company presentations of EBITDA. Given that in 2015 they represent around 6% of Entergy Wholesale Commodities' EBITDA we believe investors should adjust for them in valuation work. Finally, we subtract estimated non-utility net debt of $3.1B to get to our non-utility equity value.

Figure 20: ETR Sum-of-the-Parts Valuation

Business Segment	Valuation Metric	2015E	Multiple	Value
Utility	P/E	$4.86	14.00x	12,129
Utility Equity Value				**12,129**
Adjusted EWC EBITDA	EV/EBITDA	318	8.00x	2,542
Parent & Other	EV/EBITDA	21	8.00x	171
Total Non-Utility Enterprise Value				2,712
Less: Non-Utility Net Debt (2015E)				(3,082)
Non-Utility Equity Value				**(370)**
Total Equity Value				**11,759**
Diluted Average Shares Outstanding (2015E)				178
Equity Value Per Share				**$65.98**

Source: Deutsche Bank

Risk

We see the following upside risks: securing approval for the deal with ITC, better-than-expected regulatory outcomes, stronger-than-expected power markets in the Northeast, a stronger-than-expected economy, the extension of a certificate of public good by the state of Vermont for Vermont Yankee, incremental share repurchases, and benefits from any future federal carbon pricing regime/stricter EPA regulations. Downside risks include: negative rate case decisions (especially in light of historical challenges in some of the company's jurisdictions), nuclear plant license renewal challenges, especially with regard to Indian Point 2 & 3 in New York, weaker-than-expected power prices, delays on major capital projects and a weaker economic environment.

Exelon (EXC) – Raising price target to $38/share from $36

Valuation – Maintain Buy

We value EXC by applying a 14.0x P/E multiple to our 2015 estimate at ComEd, 14.5x at PECO, and 13.5x at BG&E. Our multiple at ComEd is in line with our baseline regulated multiple as upside leverage to higher interest rates under the formula rate mechanism is offset by a historically challenging regulatory environment in Illinois. We give PECO a modest premium given favorable returns and the lack of any rate cases in the near future. We apply a discount multiple to BG&E given a historically challenged regulatory environment in Maryland and restrictions on near-term dividend payments to the parent. We value ExGen and CENG by applying a 9.0x EV/EBITDA multiple to our 2015 estimate, which is a premium to our 8.5x baseline merchant multiple. We believe a premium is justified for EXC given 1) its significant option value to a higher commodity price environment, and 2) few execution risks than key peers with credit and dividend concerns now successfully addressed. See Figure 21.

Figure 21: EXC Valuation Analysis

Business Segment	Valuation Metric	2015E	Multiple	Value
ComEd	P/E	$0.45	14.0x	5,378
PECO	P/E	$0.38	14.5x	4,732
BG&E	P/E	$0.23	13.5x	2,626
Utility Equity Value				**12,736**
Generation / Retail	EV/EBITDA	2,887	9.00x	25,979
CENG	EV/EBITDA	184	9.00x	1,653
Total Non-Utility Enterprise Value				27,632
Less: Non-Utility Net Debt (2015E)				(7,462)
Non-Utility Equity Value				**20,170**
Total Equity Value				**32,906**
Diluted Average Shares Outstanding (2015E)				862
Price Target ($/sh)				38

Source: Deutsche Bank

Risks

Downside risks to our Buy rating are a prolonged period of low natural gas prices, weak retail margins, disappointing RPM capacity prices, a potentially successful legal challenge of the MATS rule, global nuclear safety incidents that could lead to greater costs for existing nuclear plants, and regulatory risks across EXC's jurisdictions.

FirstEnergy (FE) – Raising price target to $46/share from $42

Estimates

We are lowering our 2014 EPS estimate by a nickel to $3.05/share on revised financing assumptions and various tweaks to other modeling assumptions. We are maintaining our 2013 EPS estimate of $3.00 and our 2015 estimate of $3.65.

Valuation – Maintain Hold

We value FE by applying our baseline regulated multiple of 14.0x to our 2015 estimate for the distribution business. We think an average multiple is appropriate as strong regulatory diversity is offset by risks surrounding the JCP&L rate case and storm cost recovery proceeding. We apply a premium 15.0x P/E multiple to our 2015 estimate for the high return transmission business. We value the competitive business by applying a 7.0x EV/EBITDA multiple to our 2015 estimate. This is a discount to our baseline 8.5x multiple to reflect the unsustainably high ATSI capacity price embedded in our 2015 estimate. See Figure 22.

We value FE by applying a discounted 7.0x EV/EBITDA multiple to our 2015E at the merchant business given the unsustainably high ATSI price

Alternatively, we have attempted to value FE by isolating the impact of the "ATSI uplift" and estimating 2015 EBITDA assuming that ATSI had cleared in line with RTO in the 2015-16 RPM capacity auction. In this scenario, if we were to apply a premium 9.0x EV/EBITDA multiple to our 2015 estimate excluding the benefit of the "ATSI uplift", and then separately valued the after-tax benefit from the higher ATSI capacity price at 1.5x EBITDA (reflecting a low probably of recurrence), it would result in a similar valuation result and target price to our valuation methodology described above.

Our $46 target equates to using a 9.0x EV/EBITDA multiple on run-rate merchant EBITDA and a 1.5x multiple to the after-tax benefit of the "ATSI uplift"

Figure 22: FE Valuation Analysis

Business Segment	Valuation Metric	2015E	Multiple	Value
Regulated Distribution	P/E	$2.18	14.0x	13,098
Regulated Transmission	P/E	$0.59	15.0x	3,807
Utility Equity Value				**16,906**
Competitive		1,465	7.00x	10,257
Less: Corporate & Other	EV/EBITDA	($82)	8.00x	(656)
Less: Non-Utility Debt (2015E)				(6,668)
Non-UtilityEquityValue				**2,933**
Total Equity Value				**19,839**
Diluted Average Shares Outstanding (2015E)				428
EquityValue Per Share				**$46**

Source: Deutsche Bank

Risks

Upside risks to our Hold rating include higher natural gas and power prices, a recovery in retail margins, continued premium capacity prices in ATSI, and a successful resolution of planned asset transactions. Downside risks include an unsuccessful resolution of the planned Harrison plant transfer and hydro sales, credit rating downgrades that lead to a reassessment of risk by equity investors, greater than expected equity issuance needs, and regulatory risk in New Jersey.

ITC Holdings (ITC) – Downgrade to Hold, PT to $93 from $88

Stepping to the sidelines following strong year-to-date performance

We are downgrading our rating on ITC to Hold from Buy but raising our price target to $93 from $88. ITC is up over 19% YTD, outperforming the S&P Utilities by almost 500 basis points, and we do not believe that current total return potential of about 2.9% is sufficient to warrant a Buy rating. In addition, we see two upcoming catalysts that could be negative events for ITC, particularly following the stock's recent strength, and remain uncomfortable with ITC's unwillingness to issue a new five-year financial plan until after the completion of the proposed transaction with ETR.

Catalyst #1: ALJ decision in September in New England Section 206 case

On September 10, the Administrative Law Judge, presiding over the Section 206 challenge against New England base transmission ROE, will release an initial decision in the case. This initial decision is likely to be an important data point for ITC and other transmission-exposed names in our sector, such as NU and UIL, as the ALJ will opine on whether the complainants (MA AG et al) have made a compelling case that the current 11.14% base ROE for New England transmission owners is unjust and unreasonable and should be reduced to 9.0%. A final FERC order is not expected until 2014. In addition, we could a Section 206 complaint against ITC's ROE or the Midwest ISO base ROE at any time.

Catalyst #2: FERC order on ETR deal and requested ROE and equity ratio in September

Separately, the FERC is expected to issue a decision by September 15, concerning ETR and ITC's application for approval of their proposed transaction and for approval of a new ROE and capital structure for the transmission subsidiaries to be created as a result of the transaction. Recall that ETR is expected to separate and then merge its transmission assets into a subsidiary of ITC. ITC is seeking approval for the Midwest ISO ROE of 12.38% and a 60% equity/40% debt capital structure. While the FERC has approved the Midwest ISO base ROE of 12.38% for MISO transmission owners in the recent past for Ameren (AEE) and the ATC/DUK joint venture, there could be additional scrutiny on this application by FERC given so many initial objections to the proposed ROE and capital structure by ETR's various retail regulators who have intervened in the case.

ITC unlikely to issue new financial plan until late this year/early next

Finally, we remain uncomfortable with ITC's unwillingness to issue a new five-year financial plan until it after closes its planned transaction with ETR. While this hasn't been a major concern for investors so far, we believe the absence of a plan in the coming months will lead investors to question the strength of ITC's standalone growth potential and whether ITC needs the ETR deal more than currently thought to maintain a superior long-term EPS growth trajectory.

Valuation

Our price target is based on a weighted average of five different scenarios, where we have attempted to model the risk that ITC's premium return on equity might be reduced modestly. The first scenario assumes no change in ROE while the other four assume various ROE reductions ranging from 50 basis points to 200 basis points. As shown in the Figure below, every 50 basis point reduction reduces our 2015 EPS estimate of $6.25 by approximately $0.30. We then apply the same P/E multiple of 16.4x, representing a 17% premium to our regulated utility target multiple, to each estimate to get to our scenario price targets, which each receive equal weightings (20%) in calculating our $93 price target. We believe each scenario merits the same multiple since we would not expect ITC's long-term earnings growth potential to change that materially once earnings are rebased.

Figure 23: ITC Holdings Valuation Methodology

	Average ROE	2015 EPS	P/E Multiple	Valuation	Weighting
Scenario 1 - unchanged	13.0%	6.25	16.4x	102.00	20.0%
Scenario 2 - 50 bp ROE cut	12.5%	5.95	16.4x	97.00	20.0%
Scenario 3 - 100 bp ROE cut	12.0%	5.65	16.4x	93.00	20.0%
Scenario 4 - 150 bp ROE cut	11.5%	5.35	16.4x	88.00	20.0%
Scenario 5 - 200 bp ROE cut	11.0%	5.10	16.4x	84.00	20.0%
		Weighted Average Valuation		93.00	100.0%

Source: Deutsche Bank

Risk

Upside risks to our price target include the FERC's rejection of the many challenges that have been filed against transmission owner ROEs, particularly in New England, better-than-expected regulatory outcomes, and higher-than-expected capex. Downside risks include transmission project delays, challenges to ITC's favorable FERC formula rate plans and authorized ROE, lower-than-anticipated spending on generator interconnects, greater-than-anticipated financing needs, and reduced support for transmission at FERC. Our earnings outlook is dependent on the company successfully acquiring all necessary regulatory approvals and permits in order to move forward with its projects and execute its capital plan. While we have attempted to account for the risk that ITC's ROE could be challenged and potentially reduced, a challenge to Midwest transmission owner ROE (similar to the one filed against New England TOs) could require us to rethink our current weighting methodology.

NRG Energy (NRG) – Raising price target to $27/share from $25

Estimates

We are raising our 2013-15 EBITDA estimates by $15M, $40M, and $45M to $2.775B, $2.88B, and $2.485B, respectively. Our estimate changes reflect an increase in our New York rest of state capacity price assumptions following the recent favorable summer strip auction, as well as NRG's pending acquisition of the Gregory plant in Texas.

Valuation – Maintain Hold

We value NRG by applying our baseline 8.5x EV/EBITDA multiple to our 2015 open (unhedged) EBITDA estimate for the wholesale and retail businesses. We believe an average multiple is appropriate as NRG's large exposure to the attractive ERCOT market is offset by risks of retail margin compression. We are interested to see how retail margins develop over the course of 2013 as commodity prices rise YoY, particularly for NRG's residential customer base in Texas where the company has earned exceptionally high margins historically. We value solar separately using a DCF analysis of expected equity distributions back to NRG. Within our valuation, we add back lease expense for GenOn's long-term operating leases to EBITDA and treat the NPV of future lease payments as debt – this has a negative $1/share impact to valuation as NRG's lease expense on the income statement is materially less than its lease payments over the next several years. See Figure 24.

Figure 24: NRG Valuation Analysis

	2015E	Multiple	Value
Adjusted EBITDA excluding solar	2,138		
Add: GenOn operating lease expense	80		
Subtract: Value of 2015 hedges	(80)		
1) Open EBITDAR excluding solar	**2,138**	**8.50**	**18,172**
Net Debt forecast (excl. non-recourse solar debt)			(9,927)
NPV of GenOn lease payments at YE 2015			(937)
Pro-rata debt from unconsolidated affiliates			(210)
Preferred stock			(249)
2) Adjusted Net Debt forecast (excluding solar)			**(11,323)**
Equity value excluding solar (1 - 2)			**6,849**
Solar equity value at YE 2015 (DCF)			1,126
Total equity value			**7,974**
Diluted shares outstanding at YE 2015			294
Target equity value per share			**27**

Source: Deutsche Bank

Risks

Upside risks to our Hold rating include an increase in expected merger synergies, higher natural gas prices, hot summer weather and scarcity pricing in Texas, better than expected RPM capacity prices, and a successful sell-down and monetization of solar tax benefits. Downside risks include retail margin compression, prolonged low natural gas prices, an inability to achieve merger synergy targets, disappointing weather and/or demand in Texas, and lower than expected RPM capacity prices.

NextEra Energy (NEE) – Raising price target to $76/sh from $72

Estimates

We are raising our 2013 and 2014 EPS estimates by a nickel in each year following a detailed review of our modeling assumptions post NEE's March Investor Conference. We have made various adjustments in our model for growth projects, equity needs, debt issuance, and assumed earned ROEs at the FP&L utility, among other variables. Our 2013-15 EPS estimates are now $5.00, $5.30, and $5.50, respectively.

Valuation – Maintain Hold rating

We value NEE by applying a 15.5x P/E multiple to our 2015 estimate at FP&L, which is an 11% premium to our baseline regulated multiple of 14.0x. We believe FP&L deserves a sizeable premium following the quite constructive multi-year rate settlement in Florida, above-average demographic trends, and incremental clause-based investment opportunities over the next few years. We value Energy Resources and the Corporate and Other segment by applying an 8.5x EV/EBITDA multiple to our 2015 estimates. This is in line with our baseline 8.5x merchant multiple as the benefits of a diverse and clean fleet of assets are offset by the material and growing EBITDA contribution from lower multiple businesses such as gas E&P. We also give NEE credit for the NPV of future PTCs and CITC cash grants, and award some value for the benefits of MACRS depreciation.

Within our sum-of-the-parts valuation we make several adjustments to allocate NEE's significant corporate debt between FP&L and Energy Resources. We think the very high GAAP equity ratio at FP&L of about 59% helps to support NEE's ability to hold considerable debt at the corporate level. Therefore, our valuation allocates almost $5B of corporate debt and interest expense to FP&L, which would result in a more typical 50% equity ratio at the utility, with the remainder of corporate debt allocated to the unregulated business. Overall, this adjustment has a material favorable impact on our valuation of NEE stock and we believe more appropriately reflects NEE's capital structure while remaining consistent with our SOTP methodology applied to other diversified utilities. See Figure 25.

Our PT for NEE is based on our SOTP methodology which allocates corporate debt between FP&L and Resources

Figure 25: NEE Valuation Analysis

Business Segment	Valuation Metric	2015E	Multiple	Value
FP&L	P/E	$3.63	15.50x	24,859
Unregulated Debt Cost Imputed to Utility	P/E	($0.32)	15.50x	(2,174)
Utility Equity Value				**22,685**
Energy Resources (1)	EV/EBITDA	2,645	8.50x	22,483
Lone Star, Corporate and Other (2)	EV/EBITDA	202	8.50x	1,721
NPV of post-2015 PTCs, CITC, MACRS (3)				1,677
Non-Utility Net Debt (a)				(19,673)
Less: Unregulated Debt Imputed to Utility				4,881
Adjusted Non-Utility Net Debt (4)				(14,792)
Non-Utility Equity Value (1 + 2 + 3 + 4)				**11,089**
Total Equity Value				**33,774**
Diluted Shares Outstanding (YE 2015)				443
Equity Value Per Share				**$76**

Source: Deutsche Bank. (a) Includes NEE's proportional share of Desert Sunlight debt which NEE accounts for using the equity method.

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Alternatively, our $76 target for NEE implies a 15.25x P/E multiple on 2015E for longer duration businesses after separately valuing PTCs and the E&P business at lower multiples

Alternatively, in Figure 26 we show a P/E multiple valuation of NEE stock based on our 2015 estimates, while also applying a separate multiple for the earnings contribution from shorter duration and/or lower quality businesses. We have separately broken out our estimate of the earnings contribution from production tax credits and applied a 5.0x P/E multiple, which approximates the weighted average remaining duration of PTCs post 2015. We have applied a 10.0x P/E multiple to our 2015 estimate for the E&P, proprietary trading and retail businesses based on NEE's disclosure of this segment's expected contribution to earnings at Resources and the current 2015 P/E multiple for the energy sector (XLE). Lastly, we show that our $76/share price target for NEE would then imply a 2015 P/E multiple of 15.25x on forecasted earnings from FP&L, the longer duration earnings of Energy Resources, and the corporate and other segment (including Lone Star transmission).

Figure 26: NEE Valuation Analysis Using P/E Multiples

	2015E	Multiple	Value
Production Tax Credits	265	5.00x	1,323
Gas E&P, Prop Trading, Retail	121	10.00x	1,207
Utility and Power Core Earnings	2,047	15.25x	31,210
Total Equity Value	**2,432**		**33,739**
Diluted Average Shares Outstanding			442
Equity Value Per Share			**$76**

Source: Deutsche Bank

Risks

Upside risks to our Hold rating include incremental accretive growth opportunities, the potential for FP&L to earn an ROE above our assumptions, and a stronger than expected economic recovery in Florida. Downside risks include a disappointing wind resource, weather and economic risks in Florida, execution risks, and an inability to achieve multi-year earnings targets.

Northeast Utilities (NU) – Raising PT to $43 from $40

Valuation – Maintaining Hold rating

Our price target is based on a 15.4x P/E multiple applied to our "ROE-adjusted" 2015E. We currently project 2015 EPS of $2.85, which assumes no change to NU's base transmission ROE. Since we believe a modest reduction is possible, we adjust our forecast for a 50 basis point change in ROE which results in an EPS estimate of $2.81. On our analysis, every 50 basis point reduction in transmission ROE equates to a $0.04 hit to EPS. We believe NU merits a 15.4x P/E multiple, representing a 10% premium vs. our regulated utility target multiple, given above average earnings growth potential, a lower risk business profile as a mostly T&D utility, above average exposure to FERC-regulated transmission, a strong management team, below average regulatory risk, and no need for new equity in the near future.

Risks

Downside risks include transmission project delays or cancellations, reduced support for transmission at FERC, a larger-than-anticipated reduction in base transmission ROEs, lower-than-expected synergies from the merger with NSTAR, lower-than-expected capital expenditures on growth investments, lower-than-anticipated sales, and higher-than-anticipated financing needs. Upside risks include stronger-than-expected merger synergies, acceleration of growth projects, higher sales, and lower financing needs/costs.

PG&E Corp. (PCG) – Raising PT to $48.50 from $45

Valuation – Reiterating Buy rating

We are raising our price target to $48.50 from $45. We value PCG by applying a 14.7x P/E multiple to our 2015 EPS estimate. Our multiple reflects a 5% premium to our target regulated utility multiple of 14x. We believe a premium is justified based on our view that PCG will be able to begin to regain its historical premium valuation as pipeline-related proceedings are resolved. We view the California regulatory framework as constructive and believe PCG will see strong rate base growth for several years as they replace aging infrastructure and continue their focus on safety.

Risks

The key downside risks for PCG, in our view, are higher-than-expected penalties or unrecovered pipeline costs as a result of the San Bruno accident. A significant adjustment to the capital growth plan would also be a risk to our estimates.

Portland General Electric (POR) – Raising PT to $32 from $29.50

Valuation – Reiterating Buy rating

We are raising our price target for POR to $32 from $29.50. We value POR by weighting various scenarios for potential outcomes from the pending RFPs. We review four potential outcomes: a "do nothing" case where both RFPs result in PPAs; an "increase equity ratio" case where both RFPs result in PPAs, but POR receives OPUC approval to raise its equity ratio to offset the additional imputed debt; an "energy resource ownership" case which reflects POR recording AFUDC during construction of a new baseload resource to be online in late 2015; and an "energy and renewables ownership" case where POR would record AFUDC for both the energy and renewables projects. See below for our EPS outcomes and weightings. We then apply a 14x P/E multiple to our weighted EPS outcome, which is in line with our target regulated utility P/E multiple.

Figure 27: POR Valuation Analysis

Portland General Electric (NYSE: POR)
Valuation Analysis

Case	EPS Potential	Weighting	Weighted EPS
Do Nothing	2.10	30%	0.63
Increase Equity Ratio	2.20	20%	0.44
Energy Resource Ownership	2.35	40%	0.94
Energy and Renewables Ownership	2.45	10%	0.25
			2.26

Weighted EPS	Multiple	Price Target
2.26	14x	$32

Source: Deutsche Bank

Risks

The primary risk to our call would be POR's inability to grow its rate base through the generation RFPs or increase its equity ratio. An inability to manage O&M expenses over the next few years would be negative to our EPS outlook, as would the underrecovery of fuel and purchased power expenses. POR's exposure to a single regulatory jurisdiction (Oregon) is also a risk. POR's small size could limit its access to financing in the event of a severe credit tightening in the economy.

PPL Corp. (PPL) – Raising PT to $32.50 from $31

Valuation – Maintaining Hold rating

We are raising our price target for PPL to $32.50 from $31. We value PPL based on a 2015E sum-of-the-parts analysis. We value the KY utility on a 14.4x multiple, a 3% premium versus our target regulated utility multiple based on its attractive regulatory construct. We value the PA utility and the UK utilities on a 14x P/E multiple, in line with our target 2015E regulated multiple. We had previously applied a 5% premium to the UK segment, but given the uncertainty associated with the new regulatory model taking effect in 2015, we have removed that premium until we have more clarity on the outcome. We apply an 8.5x EV/EBITDA multiple to our 2015 EBITDA outlook for the Supply segment.

Figure 28: PPL Sum-of-the-Parts Valuation

Business Segment	Valuation Metric	2015E	Multiple	Value
International Regulated	P/E	$1.22	14.0x	11,322
Pennsylvania Regulated	P/E	$0.37	14.0x	3,382
Kentucky Regulated	P/E	$0.56	14.4x	5,343
Utility Equity Value				**20,047**
Adjusted Merchant Generation	EV/EBITDA	638	8.50x	5,421
Less: Non-Utility Debt (2015E)				(3,510)
Less: Off-Balance Sheet Debt				(288)
Non-Utility Equity Value				**1,623**
Total Equity Value				**21,671**
Diluted Average Shares Outstanding				671
Equity Value Per Share				**$32.50**

Source: Deutsche Bank

Risks

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

PSEG (PEG) – Raising price target to $35/share from $33

Valuation – Maintain Hold rating

We value PEG by applying a 15.0x P/E multiple to our 2015 EPS estimate at the PSE&G utility. This represents a 7% premium to our baseline regulated multiple to reflect relatively more visible rate base growth beyond our 2015 valuation year given recent proposals to improve storm readiness. We value the Power business by applying an 8.75x EV/EBITDA multiple to our 2015 estimate. This is a slight premium to our baseline 8.5x merchant multiple given PEG's strong fuel diversity and low financial leverage, partially offset by limited geographic diversity. We value Holdings / Parent by applying a 6.0x EV/EBITDA multiple to our 2015 estimate given limited visibility into the EBITDA trajectory in this business and to reflect the relatively lower quality of the run-rate earnings stream from LIPA. See Figure 29.

Figure 29: PEG Valuation Analysis

Business Segment	Valuation Metric	2015E	Multiple	Value
PSE&G Utility	**P/E**	**$1.49**	**15.00x**	**11,339**
PSEG Power	EV/EBITDA	1,035	8.75x	9,059
Energy Holdings / Parent	EV/EBITDA	76	6.00x	456
Less: Non-Utility Net Debt (2015E)				(2,891)
Non-UtilityEquityValue				**6,624**
Total Equity Value				**17,963**
Diluted Average Shares Outstanding (2015E)				509
EquityValue Per Share				**$35**

Source: Deutsche Bank

Risks

Upside risks to our Hold rating are higher natural gas and power prices, a material improvement in RPM capacity prices and/or binding constraints in PEG's territory, and better than expected regulated earnings growth. Downside risks are prolonged low natural gas prices, weak electric demand, and political / regulatory risk in New Jersey as it relates to proposed regulated investments and power market dynamics.

Southern Company (SO) – Raising PT to $48 from $45

Valuation – Maintaining Hold rating

We calculate our price target by applying a 15.8x P/E multiple to our 2015E estimate. We believe SO merits a 13% premium to peers, reflecting 1) above-average regulatory certainty given favorable formula rate plans in Alabama and Mississippi, as well as a history of negotiating constructive rate plans in Georgia; 2) regulatory diversity with utilities in four states; 3) a better-than-average service territory; 4) a history of delivering on or exceeding management targets; and 5) a strong financial position. These positive attributes are offset by SO's participation in the Vogtle new nuclear project, which has recently suffered a meaningful delay in schedule and cost overruns.

Risk

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

TECO Energy (TE) – Maintaining PT, lowering estimates

Lowering estimates at the Florida utilities

We are lowering our 2014 and 2015 estimates for TE but maintaining our $17 price target and Hold rating. Our new 2014 and 2015 estimates of $1.10 and $1.20 reflect a more conservative outlook at Tampa Electric updated for the company's recent rate case filing as compared to our prior 2014 and 2015 estimates of $1.15 and $1.25. We have adjusted our rate base model to include jurisdictional rate base of $5.0B for 2014 and $5.1B for 2015 vs. adjusted jurisdictional rate base of $4.3B and $4.4B previously. This positive change is offset by a lower assumed equity ratio. Our model also now embeds an all-sources equity ratio of 43%, which includes deferred taxes and customer deposits in the capital structure, as compared to our prior 54% equity ratio forecast. Taken together, these changes imply a lower Tampa Electric earnings power than we had previously assumed.

Valuation – Maintaining Hold rating

We continue to value TECO Energy using a sum-of-the-parts analysis, which is consistent with how we value most other stocks in our diversified utility coverage universe. In our sum-of-the-parts, we attribute $18 per share of value to TE's FL utilities by applying our average regulated utility P/E multiple target of 14.0x to our 2015E for Tampa Electric and Peoples Gas. We calculate enterprise value of close to $400M for TECO Coal by applying an EV/EBITDA multiple of 5.5x to our 2015 EBITDA for TECO Coal. This is relatively consistent with current valuations in the coal sector. We value parent company overhead at -$13M by applying a 7x EV/EBITDA multiple to our estimate for corporate drag. We then subtract non-utility net debt of about $850M to get to our total non-utility equity value of - $460M. We then add almost $2/sh to account for TE's favorable NOL and AMT carryforward position, which should allow the company to avoid material cash taxes through 2018.

Figure 30: TE Sum-of-the-Parts Valuation

Business Segment	Valuation Metric	2015E	Multiple	Value
Florida Utilities	P/E	1.26	14.0x	3,804
TECO Guatemala	P/E	-	-	-
Total Utility Equity Value				**3,804**
TECO Coal	EV/EBITDA	73	5.5x	400
Parent Overhead	EV/EBITDA	(2)	7.0x	(13)
Less: Non-Utility Net Debt				(847)
Total Non-Utility Equity Value				**(460)**
Total Equity Value				**3,344**
Diluted Average Shares Outstanding				216
Equity Value Per Share				**$15.52**
NOL/AMT Value				$1.79
Price Target				**$17.30**

Source: Deutsche Bank

Risk

We see the following upside risks to our valuation: faster-than-anticipated, economic recovery in Florida, faster-than-anticipated rate base growth at Tampa Electric and Peoples Gas, higher-than-forecast production and prices at TECO Coal, the sale of TECO Coal at a higher after-tax value than we have incorporated in our valuation, lower-than-expected operating expenses at all subsidiaries, lower-than-expected financing needs, and lower market interest rates. Downside risks include lower coal prices, a global recession, higher market interest rates, higher-than-anticipated operating expenses, higher-than-expected financing needs, and slower rate base growth at the FL utilities.

UIL Holdings (UIL) – Raising PT to $40.50 from $38

Valuation – Maintaining Hold rating

Our price target is based on a 16.0x P/E multiple applied to our "ROE adjusted" 2015E of $2.53. Similar to how we value other companies with meaningful FERC transmission exposure, we adjust our 2015 EPS estimate for a potential reduction in transmission ROE given FERC's ongoing review of a challenge filed against the base ROE for New England transmission owners. For UIL, we have adjusted our 2015 EPS estimate of $2.55 for a 50 basis point cut in ROE, which results in a $0.025 reduction to EPS and a $0.40/sh decrease in our price target. We believe UIL merits a 14% premium to our target regulated utility multiple, given above-average earnings growth potential, a lower risk business profile as a primarily energy delivery utility, above-average exposure to FERC-regulated transmission, and M&A takeout potential given UIL's small size and operations primarily in one state. These positive attributes are tempered by below-average regulatory diversity (about 75% of UIL's rate base is regulated by the Connecticut Public Utilities Regulatory Authority), the company's smaller market capitalization, above-average leverage, and near-term equity needs.

Risk

Upside risks to our rating and price target include regulated utility multiple expansion, faster-than-expected heating oil-to-gas customer conversions, higher-than-expected capital expenditures, accelerated transmission project schedules, lower-than-expected financing needs, a better-than-expected outcome in the ongoing United Illuminating electric rate case, and the potential for a premium takeout offer for the company. Downside risks include transmission project delays or cancellations, reduced support for transmission at FERC, a larger-than-anticipated reduction in base transmission ROEs, lower-than-expected heating oil-to-gas conversions at the gas utilities, lower-than-expected capital expenditures on growth investments, lower-than-anticipated gas sales, and higher-than-anticipated financing needs.

Xcel Energy (XEL) – Raising PT to $31 from $29

Valuation – Maintaining Hold rating

We are raising our price target for XEL to $31 from $29. We value XEL by applying a 14.7x P/E multiple to our 2015 EPS estimate. Our multiple reflects a 5% premium to our target regulated utility multiple of 14x. In our view, XEL's service territory diversity helps reduce earnings volatility and reliance on a single regulatory agency and provides exposure to a variety of industries and economies. The different operating companies also allow XEL's capital spending program to not be dependent on any single project or state policy initiative. Among the various states in which XEL operates, we view their relationships with regulators to be generally constructive. We also believe that XEL's management team has established a solid track record of good execution and financial discipline, and we believe XEL merits a small premium for its proactive push to reduce the company's exposure to coal generation, though we acknowledge that XEL has the benefit of operating in states with attractive renewable development opportunities.

Risks

As a fully regulated utility, the most important downside risk is negative rate case decisions. XEL is also exposed to the general economic environment in its territories, and a continued sales decline would weaken earnings growth. Upside risks include a faster or stronger economic recovery in XEL's service territories than we expect and better rate case outcomes than we forecast.

Appendix 1

Important Disclosures

Additional information available upon request

For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at http://gm.db.com/ger/disclosure/DisclosureDirectory.eqsr

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

Equity rating key

Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus pro-jected dividend yield) , we recommend that investors buy the stock.
Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock
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2. Ratings definitions prior to 27 January, 2007 were:

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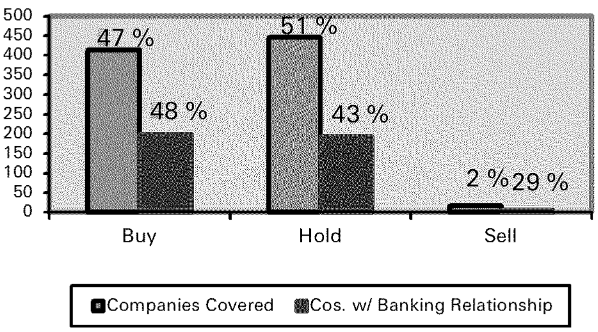
Equity rating dispersion and banking relationships



North American Universe

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Regulatory Disclosures

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David Folkerts-Landau
Global Head of Research

Marcel Cassard Global Head CB&S Research	Ralf Hoffmann & Bernhard Speyer Co-Heads DB Research	Guy Ashton Chief Operating Officer Research	Richard Smith Associate Director Equity Research

Asia-Pacific	Germany	North America
Fergus Lynch Regional Head	Andreas Neubauer Regional Head	Steve Pollard Regional Head

International locations

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

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

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

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

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

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

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