BEFORE THE ILLINOIS POLLUTION CONTROL BOARD

AMEREN ENERGY GENERATING COMPANY, AMERENENERGY RESOURCES GENERATING COMPANY, AND ELECTRIC ENERGY, INC.,	)	
Petitioners,	)	
v.	)	**PCB 09-21** **(Variance – Air)**
ILLINOIS ENVIRONMENTAL PROTECTION AGENCY,	)	
Respondent.	)	

NOTICE OF FILING

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PLEASE TAKE NOTICE that I have today electronically filed with the Office of the Clerk of the Pollution Control Board, **Public Comments of Petitioners and Response to Public Comments of Respiratory Health Association of Metropolitan Chicago, Sierra Club of Illinois, Natural Resources Defense Council, the American Bottom Conservancy, and the Environmental Law and Policy Center,** copies of which are herewith served upon you.

Ameren Energy Generating Company

Amy Antoniolli

By: Amy Antoniolli

Dated: December 30, 2008

Amy Antoniolli
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CERTIFICATE OF SERVICE

I, the undersigned, certify that on this 30th day of December, 2008, I have served electronically the attached **Public Comments of Petitioners and Response to Public Comments of Respiratory Health Association of Metropolitan Chicago, Sierra Club of Illinois, Natural Resources Defense Council, the American Bottom Conservancy, and the Environmental Law and Policy Center**, upon the following persons:

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* * * * * PC # 3 * * * * *

BEFORE THE ILLINOIS POLLUTION CONTROL BOARD

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Petitioners,	)	
v.	)	**PCB 09-21 (Variance – Air)**
ILLINOIS ENVIRONMENTAL PROTECTION AGENCY,	)	
Respondent.	)	

PUBLIC COMMENTS OF PETITIONERS AND RESPONSE TO PUBLIC COMMENTS OF RESPIRATORY HEALTH ASSOCIATION OF METROPOLITAN CHICAGO, SIERRA CLUB OF ILLINOIS, NATURAL RESOURCES DEFENSE COUNCIL, THE AMERICAN BOTTOM CONSERVANCY, AND THE ENVIRONMENTAL LAW AND POLICY CENTER

NOW COME AMEREN ENERGY GENERATING COMPANY, AMERENENERGY RESOURCES GENERATING COMPANY, and ELECTRIC ENERGY, INC. (collectively, "Ameren" or "Petitioners"), by and through their attorneys, SCHIFF HARDIN, LLP, and, pursuant to Section 104.220 of the Illinois Pollution Control Board's ("Board") procedural rules (35 Ill. Adm. Code 104.220), in response to the Public Comments of Respiratory Health Association of Metropolitan Chicago, Sierra Club of Illinois, Natural Resources Defense Council, the American Bottom Conservancy, and the Environmental Law and Policy Center (collectively, the "Environmental Groups").[1] The Environmental Groups urge the Board to deny

[1] The Environmental Groups' public comment will be cited to throughout this public comment as: "PC1 at __."

Ameren's petition for variance from certain requirements of the Multi-Pollutant Standard, 35 Ill. Adm. Code 225.233 ("MPS") ("Petition"), or, in the alternative, hold hearings on the issue of burden of proof. Ameren responds that it has met the applicable burden of proof and that the request for hearing is untimely and asks the Board to grant the requested relief.

I. INTRODUCTION

Through their public comments, the Environmental Groups claim that Ameren has not met the requisite burden of proof because uncertainty in the law does not create an arbitrary and unreasonable hardship and because Ameren's claim of financial hardship is vague and unsubstantiated. Finally, the Environmental Groups claim Ameren has failed to demonstrate that its hardship as presented outweighs the environmental impact of the variance.

As described in more detail below, these claims are simply without merit. Indeed, Ameren has met its burden to demonstrate an arbitrary and unreasonable hardship and has shown that the variance would, in fact, result in a net environmental benefit.

II. AMEREN HAS MET ITS BURDEN TO DEMONSTRATE AN ARBITRARY AND UNREASONABLE HARDSHIP

Ameren agrees with the Environmental Groups that in granting or denying a variance, the Board holds petitioners to a high standard: "the Board must balance individual hardship against environmental impact." Monsanto Co. v. PCB, 367 N.E.2d 684, 691, 67 Ill.2d 276, 293 (1997). Individual hardship need not extend beyond a demonstration that a denial of a variance results in economic hardship. The Board has consistently held that economic hardship is itself sufficient cause to warrant a variance if no or minimal environmental impact is demonstrated. *See* Village of Lake Zurich v. IEPA, 1997 WL 85225 at 6, PCB 97-77 (Feb. 20. 1997); City of Farmington v. IEPA, 2002 WL 31545634, PCB 03-6 (Nov. 7, 2002) (granting variance on grounds that a denial would impose an economic hardship and that there will be no adverse environmental impact);

General Motors Corp. v. IEPA, 1992 WL 142715, PCB 88-193 (June 4, 1992) (granting variance where additional measures to reduce emissions are not economically feasible and no adverse impact on environment if variance granted).

Ameren has shown that the individual hardship it must endure to meet Section 225.233(e)(2)(A) is arbitrary and unreasonable given the remand of the Clean Air Interstate Rule ("CAIR"), vacatur of the Clean Air Mercury Rule ("CAMR") and political certainty of future greenhouse gas legislation--all circumstances that did not exist at the time the MPS was promulgated.[2] Further, and even more unforeseeable, the deterioration of the economy and the collapse of the capital and credit markets following the failure of Lehman Brothers and other major financial institutions in September, have resulted in an economic crisis not seen since the Great Depression and impacts all industry sectors. Since the filing of this Petition for variance on October 1, 2008, such spiraling conditions have only worsened and exacerbated Ameren's claims of economic hardship. The economic hardship that compliance would impose on Ameren individually could very likely become a public hardship if Ameren is forced to shut down plants

[2] On December 23, 2008, the D.C. Circuit Court of Appeals reinstated CAIR, allowing CAIR to remain in effect until it is replaced with a rule consistent with the Court's opinion. State of North Carolina v. Environmental Protection Agency, *et al.*, No. 05-1244 (D.C. Cir. Dec. 23, 2008). In its July 2008 opinion, the Court pointed out "more than several fatal flaws in the rule." North Carolina v. EPA, 531 F.3d 896, 901 (D.C. Cir. 2008). The flaws the Court identified included: the U.S. EPA's flawed approach of using region-wide caps with no state-specific quantitative contribution determinations or emissions requirements, the failure of CAIR to connect states' emissions reductions to states' own significant contributions, unlawfully connecting states' emissions reductions with the Title IV trading program, and arbitrarily allocating state budgets from the region-wide NOx cap but adjusting the distribution of allocations to states considering fuel type. *See Id.* Thus, any new rule the U.S. EPA promulgates must differ from the existing CAIR with regard to these substantive areas, and uncertainties remain as to actual implementation and future EPA action to correct the defects identified by the Court.

as a consequence. If such circumstances were to occur, the economic impact to employees, contractors and the State of Illinois would be significant.

Most importantly, it is clear Ameren has mitigated the environmental impact of the variance relief by agreeing to a compliance plan with more stringent emission rate requirements for not only one but two pollutants. It is critical to note that, as it did in crafting the MPS (*see* Petition, par. 6), Ameren sought to collaborate with the Illinois Environmental Protection Agency ("Agency") in drafting this request for relief. It is for that reason that the request for relief contains earlier and additional emission rate requirements for NO_x and SO_2, and, ultimately, an even stricter emission rate requirement for SO_2. The request for relief, as amended by Ameren's response to the Agency's Recommendation, actually confers, in the Agency's own words, a "small net environmental benefit." *See* Recommendation at 10. In other words, the variance relief provides an overall benefit to the environment – not detriment – as implied through the public comments submitted. Balancing all of these factors clearly justifies the requested relief.

The dramatically changing and seriously unsettled regulatory environment for the coal-fired electric generating industry would on its own support Ameren's demonstration of an arbitrary and unreasonable hardship. The Environmental Groups cite to Citizens Utility Co. v. PCB, 134 Ill. App. 3d 111, 115, 479 N.E.2d 1213, 1216 (3rd Dist. 1985), for the proposition that legal uncertainty does not create an unreasonable or arbitrary hardship. However, in past variance proceedings the Board has actually relied on federal regulatory uncertainty as grounds for finding that an arbitrary and unreasonable hardship exists. *See* Village of Lake Zurich, 1997 WL 85225 at 6.

In Citizen's Utility, a utility that operated a sewage treatment facility sought review of a Board decision to deny a request for an extension of a variance. The utility requested an extension of its variance until completion of a joint study to develop site specific water quality standards for the DuPage River Basin, including the streams receiving the utility's discharges. The utility believed the study would result in less demanding water quality standards. In affirming the Board's decision, the Appellate Court stated "[i]f ever the prospect of a future change in the law were justification for non-compliance with the law as it currently exists, such a rule cannot apply on these facts where the prospect of changes is so speculative." Citizen's Utility, 134 Ill. App. 3d at 115. The Appellate Court reasoned that the conclusions of the joint study were unknown and any consequential changes to the Board's water quality standards were mere conjecture.

Here there is simply no doubt that remand of CAIR and vacatur of CAMR, the underlying bases for the Illinois Mercury Rule (Proposed New 35 Ill. Adm. Code 225 Control of Emissions from Large Combustion Sources (Mercury), R06-25 (Dec. 21, 2006)) and the Illinois CAIR (Proposed New Clean Air Interstate Rule (CAIR) SO_2, NO_x Annual and NO_x Ozone Season Trading Programs, 35 Ill. Adm. Code 225, Parts A, C, D, E and F, R06-26 (Aug. 23, 2007)), have turned the air regulatory schemes for power plants on their heads making sound plant by plant investment decisions nearly impossible. In fact, the very recent D.C. Circuit Court of Appeals remand on CAIR leaves us with even more uncertainty in light of the Court's continued concern with the serious flaws of the CAIR, including concern with the very core of the Rule: the cap and trade program.

Additionally, the facts presented in the Petition demonstrating the reality of future greenhouse gas legislation further justifies Ameren's request for relief. Unlike Citizen's Utility, the prospect of change is not speculative, or mere conjecture, but rather an absolute. Unlike the possibility of more relaxed standards in an existing regulatory scheme, any climate change legislative proposals would need to create a new regulatory scheme that would require new and costly technology to regulate carbon dioxide ("CO_2") and other greenhouse gases. *See* Petition, par 22. More relevant to the Ameren MPS Group plants,[3] any climate change legislative proposal would need to deal directly with existing plants for which no retrofit "control" technology exists and the only true form of "control" is shutdown. As noted in the Petition, should any of the existing climate change proposals become law, Ameren risks hundred of millions of dollars in stranded investments in SO_2 pollution control equipment associated with meeting what is essentially an interim emission rate of 0.33 lbs/mmBtu in 2013. Petition, par. 32. Therefore, it is not the fact that greenhouse gases will be regulated at some point in the future, it is the reality of stranded investments in SO_2 pollution control equipment that will impose an arbitrary and unreasonable hardship on Ameren given the current market conditions, estimated costs of compliance and lack of existing retrofit technology for CO_2 control. These certain changes to Ameren's compliance obligations will become clearer over the next two years, at which time Ameren will be able to make more informed investment and compliance decisions.

The Environmental Groups further state that "to the extent that uncertainties in environmental law should ever be considered in the context of variance proceedings, it is important to note that the regulatory changes Ameren is pointing to will subject it to more stringent rules rather than less." PC1 at 5. Ameren fully anticipates that impending regulatory changes will result in more stringent rules. Ameren expects to comply with the more stringent

[3] Under the regulations, Ameren Corporation's MPS Group consists of all coal-fired electric generating units it owned in Illinois as of July 1, 2006. 35 Ill. Adm. Code 225.233(a)(3)(A).

standards when they become effective and asserts that this is precisely why compliance with the MPS 2013 interim emission rate for SO_2 and in the current economic market will result in an arbitrary and unreasonable hardship.

The Environmental Groups also misconstrue the scope of the shut-down provision of the Illinois Mercury Rule. 35 Ill. Adm. Code 225.235. The Environmental Groups contend that the possibility of future plant shutdowns due to the financial implications of meeting greenhouse gas targets is not adequate justification for the variance because the MPS already provides a path for shutdown. Ameren notes, however, that the MPS does not address shutdowns for climate change regulations, other regulatory forces, or financial hardship. Further, the permanent shut-down provision of Section 225.235 is a compliance alternative for those electric generating units that are subject to the mercury rule, but not for those companies that opted into the MPS. 35 Ill. Adm. Code 225.235. Ameren is not subject to the Section 225.235 because it has opted into the MPS and compliance with the NOx and SO_2 emission limits found in the MPS require a different approach. It is important to highlight again that Ameren is seeking to delay the decision on how to control the MPS Group for only two years, for only one emission rate, and for only one pollutant until there is more regulatory certainty. The delay will further allow Ameren to conserve cash and defer capital expenditures to manage through the current economic crisis. In exchange, Ameren agrees to both earlier and, by 2017, stricter SO_2 reductions, as well as earlier NO_x reductions as illustrated in the table below.

Section 225.233(e)(2)(A) v. Petition for Variance		
Year	**MPS**	**Petition for Variance**
2010		SO_2 = 0.50 lbs/mmBtu Seasonal NO_x = 0.11 lbs/mmBtu Annual NO_x = 0.14 lbs/mmBtu
2012	Annual NO_x = 0.11 lbs/mmBtu Seasonal NO_x= 0.11 lbs/mmBtu	Annual NO_x = 0.11 lbs/mmBtu
2013	SO_2 = 0.33 lbs/mmBtu	
2014		SO_2 = 0.43 lbs/mmBtu
2015	SO_2 = 0.25 lbs/mmBtu	SO_2 = 0.25 lbs/mmBtu
2017		SO_2 = 0.23 lbs/mmBtu

***See* Petition, par. 50 as amended by Ameren's Response to Recommendation.**

In the meantime, Ameren continues to pursue environmental compliance efforts and has not sought relief from mercury-specific control requirements or the MPS NO_x emission rate. With respect to mercury and in accordance with the applicable regulations, activated carbon injection systems will be installed across the generation fleet as required by July 2009 and three scrubbers that are designed to achieve the co-benefit of mercury removal will be installed and operational at the Coffeen and Duck facilities by Spring of 2010.

III. AMEREN'S FINANCIAL HARDSHIP JUSTIFIES THE REQUEST FOR RELIEF

The Environmental Groups next assert that Ameren's claim of financial hardship is vague and unsubstantiated and imply that Ameren's financial situation is not as critical as set forth in the Petition. *See* PC1 at 6-8. The Environmental Groups are again incorrect in their assertions and their comments simply ignore the dire economic conditions that have developed globally over the past several months.

As noted in the Petition, the immediate costs of compliance with the existing standard would require Ameren to expend $0.9-1.2 billion, with annual estimated operating costs of $30-40 million. Petition, par. 44. These are the costs of immediate compliance, due to procurement and engineering lead times, for the projects to be operational by 2013. These costs create a likelihood of stranded investment cost due to the regulatory uncertainty described previously.

Further, the immediate costs of compliance will create imminent and substantial hardship for Ameren due to the financial crisis. Pollution control projects such as those required by the MPS can only be accomplished through long-term, permanent financing mechanisms. Investors' willingness to provide long-term, permanent financing to unregulated power producers such as Petitioners is based in large part on future power price expectations. In recent months, future power prices have moved down sharply. Set forth below is a table depicting futures prices for CinHub Real Time (RT) Around-The-Clock (ATC) energy, calculated from peak and off-peak settlement prices reported by the New York Mercantile Exchange (NYMEX), on a per megawatt-hour (MWh) basis. This data demonstrates the material drop in power prices expected by market participants over the next few years:

Year	**As of June 30, 2008**	**As of December 26, 2008**	**Change in $/MWh**	**% Change**
2009	$63.50	$40.89	$(22.61)	-(36)%
2010	$58.66	$44.12	$(14.54)	-(25)%
2011	$58.69	$48.10	$(10.59)	-(18)%
2012	$61.80	$50.15	$(11.65)	-(19)%
2013	$62.18	$53.12	$(9.06)	-(15)%

This table shows CinHub Real Time (RT) Around the Clock (ATC) forward prices as reported by NYMEX.

The MPS Group power plants generate and sell approximately 30 million Mwh of power annually. As a result, changes in power prices could reduce annual revenues significantly.

The above future power prices and their expected financial consequences to Ameren have also been confirmed by a recent Goldman Sachs' report, issued December 11, 2008. *See* Exhibit 1. The report downgrades Ameren Corporation common stock from "neutral" to "sell" based on negative prospects for economic growth that will affect sales at both Ameren Corporation's regulated and unregulated entities. Additional bases for the downgrade cited in the report include higher fuel costs, weakness in future electric energy prices, and exposure to CO_2 regulation. *See* Exhibit 1, pp. 25-30, 32.

The financing that Ameren Corporation's subsidiaries have been able to secure in the last few months has been at the regulated entities—not the MPS Group. Earnings of regulated entities do not support construction financing for non-regulated entities–they support the regulated entities as required by relevant state regulatory commissions. Rather, the construction investments of the unregulated entities must be financed by the unregulated entities, such as the MPS Group.

In contrast to the regulated entities, the availability and cost of capital to Ameren's unregulated generating companies in this market is highly uncertain due to conditions in the capital and commodity markets. Regulated rate increases are irrelevant to the financial condition of the unregulated entities. What is relevant for the unregulated entities, or the MPS Group, is power prices. Sales of power from their generating units and the associated power prices are the source of cash flow and earnings for unregulated companies. These power prices began a precipitous drop in July and have continued to fall.

The Environmental Groups' quote of the *St. Louis Post Dispatch* article takes comments regarding Ameren Corporation's available liquidity at the end of October 2008 out of context. Research analysts believe Ameren Corporation's liquidity position is not strong relative to similarly-positioned companies. In fact, a recent Citigroup Global Markets analysis reveals that Ameren Corporation is among the utilities with the tightest liquidity profiles. "Citigroup finds utilities have adequate liquidity for rest of year," Mary Powers, Electric Power Daily (Oct. 13, 2008) ("The companies with the strongest upfront liquidity positions under the Citigroup analysis through the end of 2009 were Exelon, Entergy and Edison International. *The tightest liquidity profiles were Duke Energy, Salt River Project and Ameren.*") (emphasis added).

Further, it should be noted that liquidity is a measure of the availability of short-term financing resources and cash to support day-to-day cash requirements. Short-term financing resources are not used to permanently fund major construction, in part, due to the fact that Ameren Corporation's short-term financing arrangements expire in 2010. Instead, short-term financing only acts as a bridge until long-term financing can be arranged. Reflecting today's challenging capital markets, no long-term, permanent financings by unregulated generating entities have occurred since the summer of 2008 based on publicly available data. The financings that the Ameren companies have been able to complete in the past few months have been at its regulated entities,[4] not the unregulated entities that own and operate Illinois coal plants, and the cost of these financings have been far in excess of prior transactions. It stands to reason that financings by riskier unregulated power generating entities, such as the MPS Group, would be even more costly, if available at all.

[4] Rate increases recently approved by the Illinois Commerce Commission apply only to Ameren's regulated utilities and such revenues cannot be used to fund capital projects at its non-regulated entities.

As noted above, the Board can balance economic hardship alone against environmental impact in analyzing whether a petitioner has demonstrated individual hardship. The Board has even acknowledged that it will consider general economic conditions in making its analysis. *See* GTE Automatic Electric, Inc. v. IEPA, 1981 WL 21907 at 2, PCB 80-225 (Sept. 3, 1981) ("the Board does not reject out of hand allegations of special hardship resulting from general economic conditions . . . ."). The Board has refused, however, to find an arbitrary and unreasonable hardship where a petitioner's economic loss was self-imposed. Willowbrook Motel Partnership v. PCB, 135 Ill. App. 3d 343, 345, 481 N.E. 2d 1032, 1034 (1st Dist. 1985). The economic crisis that Ameren now faces is the furthest from self-imposed. Ameren had no way of knowing the turn the market would take at the time the MPS was designed and negotiated or at the time it opted into the MPS. These economic and regulatory times are unique – quite like the perfect storm – and, therefore, granting the requested relief would not set a "dangerous precedent," as the Environmental Groups claim, for the Board in addressing future variance proceedings.

IV. AMEREN HAS ADEQUATELY ADDRESSED ENVIRONMENTAL IMPACT

Ameren has worked very hard together with the Agency to minimize any environmental impact from the requested relief. In fact, addressing the environmental impact of the requested relief was of utmost importance to both Ameren and the Agency. As a result, Ameren has agreed to new and additional emission rate commitments to ensure that Ameren's compliance plan will be at least environmentally neutral, if not more beneficial.

It is not that Ameren has given short shrift to the environmental impacts of the variance it is seeking as has been implied, but rather that the nature of the MPS addresses regional, rather than individual, impacts of air emissions. As set forth in more detail in Section F of the Petition, USEPA has recognized that the reductions from a single plant or even a single company's system of power plants in a single state have little measurable effect on downwind states. In the Illinois mercury rule, the Board found that the MPS allowed Illinois units to comply with mercury reductions using co-benefits from SO_2 and NO_x emissions reductions. Mercury, R06-25, slip op. at 10 (Nov. 2, 2006). The relief Ameren seeks in this variance will still achieve significant reductions in SO_2 and NO_x emissions, as well as the associated mercury reductions, beyond those required outside of the MPS.

Recent and pending submittals for Illinois State Implementation Plan ("SIP") revisions show that air quality in Illinois continues to improve. For example, USEPA is currently reviewing Illinois' submittal for redesignation of portions of the St. Louis metropolitan area ("Metro-East") from nonattainment for the 8-hour ozone National Ambient Air Quality Standard ("NAAQS") to attainment. The USEPA found the submittal adequate earlier this year. 73 F.R. 6719 (Feb. 5, 2008).

Illinois has also drafted an attainment demonstration, maintenance plan, and motor vehicle emissions budgets related to the 1997 8-hour ozone NAAQS for the Chicago area. The Agency is seeking comments on the draft SIPs and proposes to submit the revisions to the United States Environmental Protection Agency ("USEPA") to meet the requirements of the federal Clean Air Act ("CAA"). The revisions request that USEPA redesignate the Chicago area to attainment of the 1997 8-hour ozone NAAQS based on ambient monitoring data from 2006 through 2008.

Most recently, on the date of this filing, USEPA issued its final designation of attainment for 1-hour ozone for the Chicago nonattainment area. 73 F.R. 79652 (Dec. 30, 2008).

V. REQUEST FOR HEARING IS UNTIMELY

The Environmental Groups' recommendation that the Board hold a hearing to require Ameren to meet its burden of proof is untimely. The last possible date for requests for hearing in this variance proceeding was November 20, 2008. This date includes a two-week extension of the deadline that ordinarily applies to hearing requests in variance proceedings due to the Agency's late publication of notice. 35 Ill. Adm. Code 104.224(c) ("Any person may also file a written request for hearing. The written request must be filed within 21 days after the publication of the Agency's notice . . ."). Further, the decision deadline in this matter, January 28, 2009, is quickly approaching, and for reasons expressed in the Petition, Ameren cannot waive its right to the decision deadline. The Environmental Groups did not file their public comment until several weeks after the 21-day deadline for hearing requests and, therefore, their alternative request for the Board to hold a hearing must not be considered.

VI. CONCLUSION

Never before have coal-fired electric generating units such as those in Ameren's MPS Group been faced with such economic turmoil, the certainty of impending climate change regulation without the knowledge of what those regulations will require, and a federal air regulatory scheme in limbo with no clear direction in sight. We do not come to this Board and ask for help without pause. However, the future of Ameren's plants depend on making the best investment decisions possible and with as much certainty as to what the very near future regulatory schemes will ultimately be for the coal-fired power industry. When balanced against the very limited requested relief, and considered together with the earlier and, ultimately, stricter SO_2 emissions rates and additional NO_x emission rates that would accompany the requested relief resulting in a net environmental benefit, the hardship Ameren would endure to attempt to comply with Section 225.233(e)(2)(A) of the MPS is clearly arbitrary and unreasonable.

WHEREFORE, for the reasons set forth above, Petitioners AMEREN ENERGY GENERATING COMPANY, AMERENENERGY RESOURCES GENERATING COMPANY, and ELECTRIC ENERGY, INC., respectfully ask the Board to grant the requested relief.

Respectfully submitted,

AMEREN ENERGY GENERATING COMPANY, AMERENENERGY RESOURCES GENERATING COMPANY, and ELECTRIC ENERGY, INC.,

By: Amy Antoniolli
One of Its Attorneys

Dated: December 30, 2008

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Exhibit 1

December 11, 2008

Goldman Sachs

Americas: Utilities: Power

Dimming the lights: Downgrading Utilities on relative outperformance and weak demand

Industry context

We expect power demand will decline approximately 1% in 2009, given the correlation between electricity demand and GDP growth which is projected to decline 1.6% in 2009. Lower electricity demand weighs on revenues for regulated companies and negatively impacts near-term commodity prices for merchant generators, driving down estimates across the entire Power & Utilities sector.

Source of opportunity

We downgrade Regulated and Diversified Utilities to Neutral on (1) relative outperformance versus the S&P 500, (2) consensus estimates that appear too high given a bearish demand outlook and (3) lower 2009 expected commodity prices. YTD utilities outperformed the S&P 500 by 900 bp, with the Regulated Utilities sub-sector outperforming by about 1,300 bp. IPPs – still poised to create significant free cash flow – have underperformed YTD by about 1,800 bp and we maintain our Attractive coverage view.

Ratings Changes

Among Diversified Utilities, we downgrade Sempra Energy (SRE) to Neutral and Ameren (AEE) to Sell, while upgrading Edison International (EIX) to Buy. Within Regulated Utilities, we upgrade PG&E Corp (PCG) to Buy while downgrading Portland General (POR) to Neutral and Con Edison (ED) to Sell. Neutral-rated Duke Energy (DUK), Great Plains Energy (GXP) and Portland General (POR) all screen attractively on relative valuations, although equity issuances remain an overhang for GXP and POR.

Catalysts and Risks

Few sector-wide catalysts exist, unless (1) carbon legislation is passed in 2009 or (2) the winter heating season positively impacts commodity prices. We expect negative consensus EPS revisions for 2009/2010, especially as companies revisit guidance levels in 1Q2009. Primary risks include (1) lower than expected commodity prices, (2) prolonged downturn in power demand, (3) decreased rate base growth opportunities and (4) higher than expected financing costs.

UPCOMING EVENTS

9th Annual Goldman Sachs Power and Utility Conference
May 19, 2009
New York, NY

RELATED RESEARCH

Upgrading Regulated and Diversified Utilities to Attractive, Remaining Positive on IPPs. March 26, 2008.

Energy Carbonomics: CO2 still not fully priced into power sector. May 26, 2008

Upcoming catalysts for Regulated Utilities, with equity issuances a modest overhang. October 10, 2008.

Commodity oriented power stocks oversold, even though reducing estimates and targets. October 12, 2008.

See the Financial Advisory Disclosure section of this document for important disclosures.

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Table of Contents

We would like to thank Neil Mehta for his contribution to this report. He is available at (212) 357-4042; neil.mehta@gs.com Goldman, Sachs & Co.

Lower electricity demand and commodity price expectations will weigh on the sector, although long-term valuation metrics still appear modestly attractive

The weak economic outlook for 2009, likely carrying into 2010, drives decreased expectations for electricity demand and power prices. Given updated regression analyses, GDP growth remains the most viable indicator of yoy weather-adjusted electricity demand growth. Historically, every 1% change in GDP growth rates impacts demand for electricity by 0.6%-0.7% – and negative GDP growth could drive negative yoy weather-adjusted demand for electricity. With the Goldman Sachs Economics research team forecasting (1.6%) GDP yoy change for 2009 and weak economic conditions holding late into next year or beyond, along with high unemployment levels, we are decreasing our demand growth assumptions across the board for all companies. Specifically we are significantly decreasing 2009 demand growth estimates from positive 1%-2.5% to (1%) on average and incorporating only modest improvements in 2010. Besides negatively impacting sales growth for Regulated Utilities, lower demand growth drives decreased power price forecasts due to (1) lower expected natural gas prices, which drive power prices in many regions and (2) lower marginal heat rates as markets take longer to tighten, both negatively impacting the commodity-oriented Diversified Utilities and Independent Power Producers (IPPs).

Consensus estimates are too high and we tactically downgrade Regulated Utilities and Diversified Utilities from Attractive to Neutral, even though both sub-sectors appear attractive on longer-term valuation metrics. On a YTD basis, the broader utilities sector indices outperformed the S&P500 by roughly 900 bp and by about 450 bp in the last 30 days – outperformance that could decelerate as companies update guidance in 1Q2009 and consensus estimates decline, largely due to lower demand and decreased future power price expectations. On average, we decrease our 2009/2010 estimates for Regulated Utilities to levels roughly 11%/5% below consensus. For Diversified Utilities, the new outlook for 2009/2010 also is below consensus, by approximately 14%/9%, as outlined in Exhibit 29. Unless significant capital spending cuts occur, longer-term regulated earnings power is largely not impacted, making the Regulated Utilities (and the regulated component of Diversified Utilities) appear attractive on fundamentals, but near term catalysts – including equity issuances –and estimates may prove bearish, driving our sub-sector downgrade.

We maintain our Attractive view on IPPs, especially NRG Energy, given (1) relative underperformance, (2) hedging benefits that "protect" near-term earnings power and (3) free cash flow. While lower power price assumptions negatively impact commodity oriented Independent Power Producers (IPPs), the 5 main stocks in this sub-sector all significantly underperformed the broader utilities index and even the S&P 500. As detailed in the August 21 and November 21 editions of "Hedge Fund Trend Monitor" published by the Goldman Sachs Portfolio Strategy team, hedge funds dominated the holders list for many IPPs, likely creating technical issues for these stocks as funds de-leveraged and liquidated positions. IPPs in our coverage universe, primarily NRG Energy (NRG-Buy) and Reliant Energy (RRI-Not Rated) do not face significant debt maturities in the coming 2-3 years and should create significant free cash flow – especially for NRG, as its strongly hedged generation position reduces near-term risk of lower commodity prices. We reiterate our Buy rating on NRG and view the company as the most attractive commodity-oriented stock in our coverage universe.

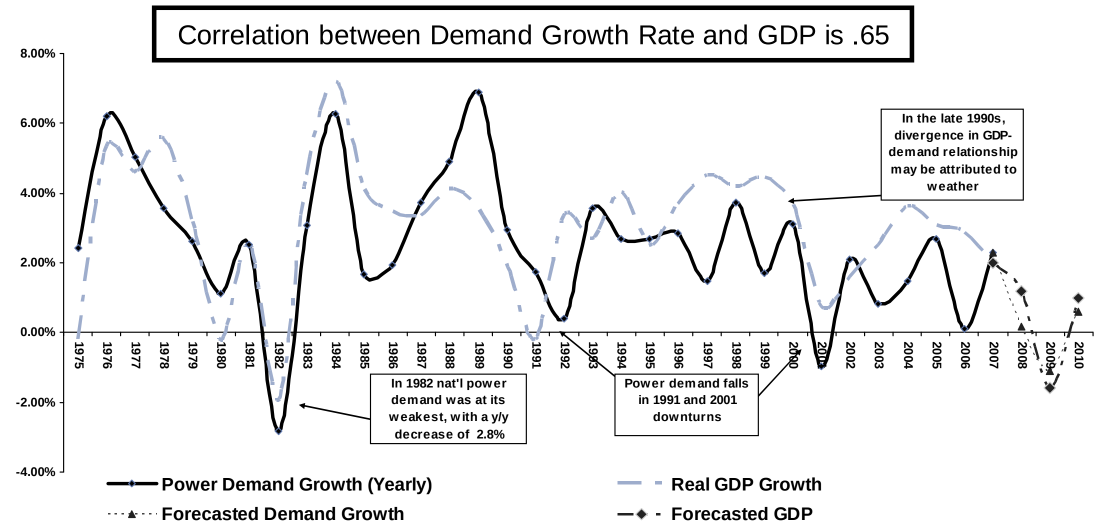
We upgrade two California-based utilities – PCG and EIX - on valuation and structural advantage of demand decoupling. Among the Regulated Utilities, we are upgrading PG&E Corp (PCG) from Neutral to Buy, primarily on valuation and given demand decoupling, which decreases near-term risk of lower electricity demand weighing on 2009/2010 earnings. Within the Regulated universe, we downgrade large cap Con Edison (ED) from Neutral to Sell and Portland General (POR) from Buy to Neutral – with the ED downgrade being primarily a relative valuation call. POR, along with mid-cap Great Plains Energy (GXP-Neutral) screen attractively on long-term earnings power but near term equity financing needs remain an overhang and may present better buying opportunities. Within the Diversified Utilities, we upgrade Edison International (EIX) from Neutral to Buy, also on valuation and demand decoupling advantage for its regulated subsidiary in California. We downgrade Sempra Energy (SRE) from Buy to Neutral – although maintaining a positive bias on longer-term earnings power given (1) growth in the company's natural gas infrastructure segments and (2) benefits from demand decoupling in its southern California utility segments. Consensus estimates appear stretched for Sempra, especially given potential weakness in its commodity trading joint venture. We also downgrade Ameren Corp (AEE) from Neutral to Sell, due to (1) limited longer-term earnings growth compared to peers and (2) recent relative out-performance, as AEE shares outperformed other Diversified Utilities over the last six months.

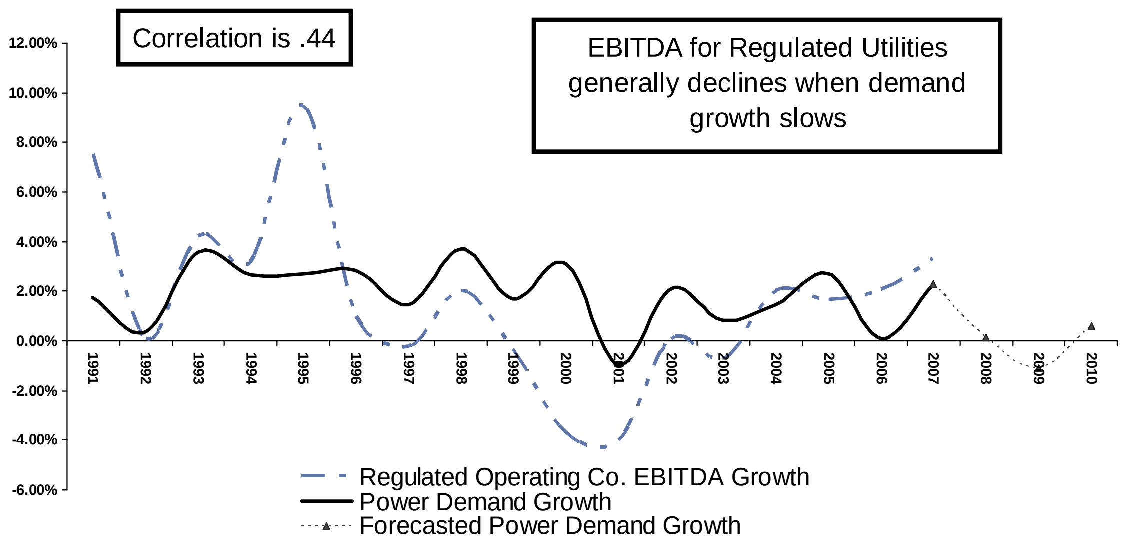
GDP growth is the primary driver of annual electricity demand – a weak 2009 economic outlook implies negative yoy power demand

GDP expectations for 2009 remain weak and conditions may persist through year-end. Considering the Goldman Sachs Economic Research team forecasts GDP change of (1.6%) in 2009 and below-trend economic conditions lasting through at least year-end 2009, demand for electricity faces significant headwinds. In prior recessions, electricity demand declined slightly, but the current economic downturn already appears more extensive than many prior economic periods of low GDP growth.

US power demand drives near-term utility profits. Our analysis of over 100 utility operating companies suggests growth in power demand correlates with growth in EBITDA, shown in the bottom chart in Exhibit 1, as higher sales translate into higher gross margins. We expect lower power demand in 2009 will drive reduced earnings for Regulated Utilities.

Exhibit 1: In prior recessions, lower GDP growth drove a decline in yoy electricity demand growth
Annual power demand growth versus GDP growth, 1975 – 2006



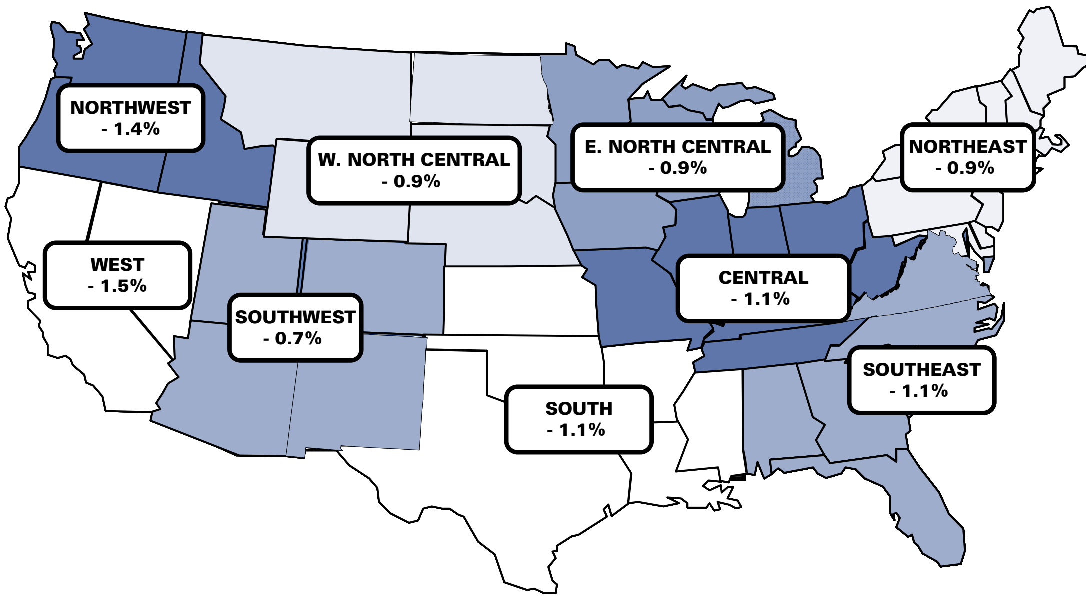


Source: Goldman Sachs Research estimates

Regression analysis highlights that GDP growth drives near-term US power demand. Annual weather-adjusted electricity demand growth appears highly correlated to yoy real GDP growth, as detailed in Exhibit 1, where every 1% change in GDP growth drives a 0.6%-0.7% change in electricity demand. Given relatively normal 2008 weather, except for the August portion of the summer cooling season, demand for electricity likely will decline by approximately 1% in 2009.

Exhibit 2: Weather adjusted yoy electricity demand may decline in 2009, especially in Q1 and Q2

Power demand yoy change (%) by US region



	4Q08	1Q09	2Q09	3Q09	4Q09E	AVG 2009E	2010E
National	-0.4%	-1.7%	-2.1%	0.0%	-0.3%	**-1.0%**	0.6%

	4Q08	1Q09	2Q09	3Q09	4Q09E	AVG 2009E	2010E
Northeast Region	-0.4%	-0.2%	-1.9%	-1.2%	-0.3%	**-0.9%**	0.6%
East North Central Region	-0.4%	-0.4%	-2.5%	-0.4%	-0.3%	**-0.9%**	0.6%
Central Region	-0.2%	-3.0%	-1.3%	0.4%	-0.3%	**-1.1%**	0.6%
Southeast Region	-0.9%	-4.1%	-1.6%	1.7%	-0.3%	**-1.1%**	0.6%
West North Central Region	-1.3%	-1.0%	-2.6%	0.4%	-0.3%	**-0.9%**	0.6%
South Region	-0.7%	-1.7%	-2.7%	0.5%	-0.3%	**-1.1%**	0.6%
Southwest Region	0.4%	-1.0%	-3.4%	2.0%	-0.3%	**-0.7%**	0.6%
Northwest Region	-0.4%	-2.8%	-1.6%	-0.9%	-0.3%	**-1.4%**	0.6%
West Regional	-0.6%	-2.0%	-1.9%	-1.8%	-0.3%	**-1.5%**	0.6%

Note: Estimates assume normal weather and no variation in regional GDP growth.

Source: EIA, NOAA, Goldman Sachs Research estimates

We tactically downgrade Regulated Utilities, as weaker yoy demand and expected negative EPS revisions offset attractive long-term fundamental valuation

Near term "bearishness" outweighs longer term "bullish views", driving our downgrade of Regulated Utilities from Attractive to Neutral. Potentially bearish headwinds face the Regulated Utilities, given (1) weak expected demand trends for 2009/2010 driven by economic weakness in the US, (2) negative EPS revisions as consensus estimates for 2009/2010 appear 11%/5% too high, (3) potential equity issuances, especially among small/mid cap companies, with multiple companies trading below book value and (4) mean reversion, as Regulated Utilities outperformed the S&P 500 by 1,300 bp on a YTD basis and about

2,000 bp since our late March 2008 upgrade of Regulated Utilities. As summarized in Exhibit 3 below, for longer-term investors, four bullish factors exist as well, but these likely are overshadowed in the near-term by the bearish items, especially the expected decline in consensus forecasts. On balance, we believe these offsetting factors will cause Regulated Utilities shares to trade in line with the overall market, and therefore downgrade our coverage view from Attractive to Neutral.

Demand decoupling, forward test years and rate case timing matter even more in difficult market conditions, creating potential advantages. With demand growth slowing and debt costs rising, companies – like California-based utilities such as PG&E Corp or the regulated subsidiaries of Diversified Utilities Edison International and Sempra Energy – with demand decoupling have competitive advantages, as they are less exposed to overall economic conditions negatively impacting demand. Other companies, like Wisconsin Energy or Con Edison, benefit from forward test years in rate cases, since revenue increases offset the negative impact of regulatory lag. In an unusual turn of events, companies that are filing or need to file rate cases in the near future benefit, as they can reduce lag or update demand assumptions.

Exhibit 3: Bull and Bear cases for Regulated Utilities in 2009

Bull Case	Bear Case
Attractive dividend yields versus benchmark Treasuries	Weak expected demand in 2009/2010
Attractive relative valuation versus the S&P 500	Negative expected EPS revisions, consensus 2009/2010 estimates 11%/5% too high
Attractive absolute valuation versus history	Mean reversion given relative share price out-performance of Regulated Utilities versus the S&P 500
Attractive fundamental DDM valuation	Equity issuances and higher financing costs

Source: Goldman Sachs Research estimates.

The "Bear Case" for Regulated Utilities includes (1) weak expected yoy electricity demand growth, (2) potential for negative EPS revisions and lower consensus estimates, (3) mean reversion given recent relative outperformance versus the S&P500 and (4) potential equity issuances in 2009, especially for several companies trading below book value.

We expect consensus estimates to move lower due to weak yoy electricity demand growth. As discussed above, weather-adjusted electricity demand likely will decline roughly 1% in 2009, driven primarily by GDP contraction, with the trend only slightly improving in 2010. This 2-3 percentage point change in expected yoy demand growth versus our previous expectation likely weighs on sector performance, as Regulated Utilities often benefit from revenue growth tied to annual demand growth, especially between rate cases when regulatory lag means they do not recover higher operating costs. For companies expecting rate cases in the next 1-2 years, "lumpiness" in earnings likely exists as cases to some degree reduces regulatory lag's impact on earnings power. As detailed in Exhibit 4, we decrease our 2009/2010 EPS estimates by approximately 8%/5% on average for the Regulated Utilities, with the greatest impact on El Paso Electric, Great Plains Energy, and Portland General.

Exhibit 4: Reducing estimates given lower expected yoy electricity demand, higher financing costs and – in select cases – lower rate base growth
GS EPS estimates - old versus new

EPS revisions																		
Company	**Ticker**	**Rating**	**2008**			**2009**			**2010**			**2011**			**2012**			
Regulated Utilities			**Old**	**New**	**%**	**Old**	**New**	**%**	**Old**	**New**	**%**	**Old**	**New**	**%**	**Old**	**New**	**%**	
Large Cap																		
American Elec Power	AEP	Buy	$3.13	$3.11	-1%	$3.16	$2.80	-11%	$3.28	$3.09	-6%	$3.51	$3.53	1%	$3.45	$3.42	-1%	
Consolidated Edison	ED	Sell	$2.91	$2.86	-2%	$3.26	$3.20	-2%	$3.41	$3.28	-4%	$3.61	$3.38	-6%	$3.81	$3.51	-8%	
Duke Energy	DUK	Neutral	$1.11	$1.20	8%	$1.25	$1.17	-7%	$1.49	$1.38	-7%	$1.48	$1.48	1%	$1.63	$1.56	-5%	
PG&E	PCG	Buy	$2.86	$2.86	0%	$3.08	$3.08	0%	$3.26	$3.26	0%	$3.69	$3.69	0%	$3.73	$3.73	0%	
Progress Energy	PGN	Neutral	$3.15	$3.04	-4%	$3.15	$2.87	-9%	$3.22	$3.07	-5%	$3.13	$3.24	3%	$3.71	$3.72	0%	
Average					0%			-6%			-4%			0%			-3%	
Small & Mid Cap																		
Cleco	CNL	Neutral	$1.54	$1.52	-1%	$1.62	$1.50	-7%	$2.23	$2.27	2%	$2.38	$2.44	3%	$2.51	$2.59	3%	
El Paso Electric	EE	Neutral	$1.89	$1.90	1%	$1.90	$1.52	-20%	$1.86	$1.67	-10%	$2.26	$2.24	-1%	$2.32	$2.33	0%	
Great Plains Energy	GXP	Neutral	$1.70	$1.59	-6%	$1.53	$1.10	-28%	$1.97	$1.65	-16%	$2.25	$2.07	-8%	$2.33	$2.17	-7%	
NSTAR	NST	Sell	$2.18	$2.20	1%	$2.35	$2.16	-8%	$2.54	$2.27	-11%	$2.79	$2.50	-10%	$2.99	$2.68	-10%	
Northeast Utilities	NU	Neutral	$1.79	$1.79	0%	$1.66	$1.56	-6%	$1.93	$1.95	1%	$1.87	$1.86	-1%	$2.39	$2.46	3%	
NV Energy	NVE	Buy	$0.87	$0.86	-1%	$0.84	$0.76	-10%	$1.27	$1.28	0%	$1.36	$1.37	1%	$1.41	$1.40	-1%	
Portland General Electric	POR	Neutral	$1.90	$1.81	-5%	$1.80	$1.72	-4%	$1.92	$1.64	-15%	$2.34	$2.20	-6%	$2.49	$2.31	-7%	
SCANA Corporation	SCG	Sell	$2.83	$2.71	-4%	$2.76	$2.76	0%	$3.21	$3.12	-3%	$3.32	$3.20	-4%	$3.47	$3.30	-5%	
Westar Energy	WR	Buy	$1.28	$1.25	-2%	$1.92	$1.97	3%	$1.92	$1.94	1%	$2.19	$2.21	1%	$2.29	$2.35	3%	
Wisconsin Energy	WEC	Neutral	$2.86	$2.86	0%	$3.01	$3.01	0%	$4.03	$4.03	0%	$4.56	$4.56	0%	$4.62	$4.62	0%	
Average					-2%			-8%			-5%			-3%			-2%	

Source: Goldman Sachs Research.

Consensus estimates appear 11% too high for 2009, and negative EPS revisions are likely in early 2009. As shown in Exhibit 5, consensus estimates remain 11%/5% higher than our new 2009/2010 forecasts, primarily driven by our bearish demand outlook and assumptions for higher financing costs for many companies. Consensus estimates appear especially high for American Electric Power, El Paso Electric, Great Plains Energy, and Northeast Utilities. We revise our estimates for AEP to reflect the negative impact of a nuclear outage, weighing on near term earnings but not long-term (2012) estimates. We believe negative EPS revisions throughout 2009 – but especially in 1Q2009 when companies update guidance – will create headwinds for Regulated Utilities.

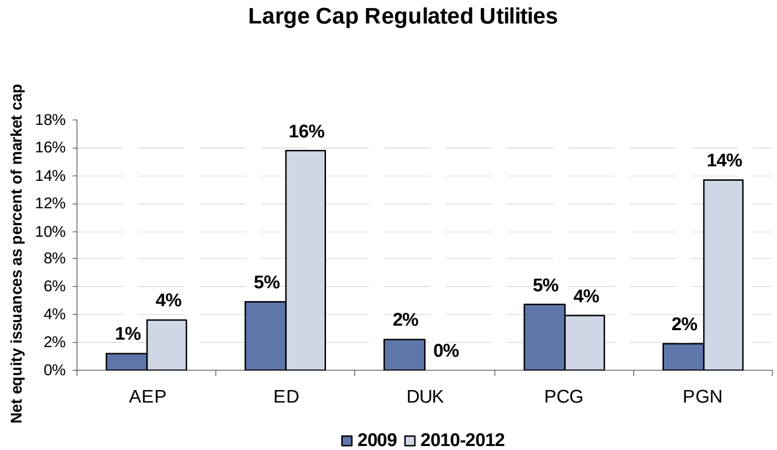
Exhibit 5: Our new estimates for Regulated Utilities are 11%/5% below 2009/2010 consensus

		GS EPS estimates versus consensus					
		2009			2010		
Large Cap Regulated Utilities	Ticker	GS EPS	Cons EPS	% Ch	GS EPS	Cons EPS	% Ch
American Elec Power	AEP	$2.80	$3.28	-15%	$3.09	$3.49	-12%
Duke Energy	DUK	$1.17	$1.28	-9%	$1.38	$1.38	0%
Consolidated Edison	ED	$3.20	$3.17	1%	$3.28	$3.33	-2%
PG&E	PCG	$3.08	$3.19	-3%	$3.26	$3.38	-3%
Progress Energy	PGN	$2.87	$3.12	-8%	$3.07	$3.27	-6%
Large Cap Average				-7%			-5%
Small & Mid Cap Regulated Utilities							
Cleco	CNL	$1.50	$1.84	-19%	$2.27	$2.06	10%
El Paso Electric	EE	$1.52	$1.82	-17%	$1.67	$1.96	-14%
Great Plains Energy	GXP	$1.10	$1.57	-30%	$1.65	$1.91	-13%
NSTAR	NST	$2.16	$2.36	-8%	$2.27	$2.54	-10%
Northeast Utilities	NU	$1.56	$1.90	-18%	$1.95	$2.09	-7%
Portland General Electric	POR	$1.72	$1.86	-8%	$1.64	$2.04	-20%
SCANA Corporation	SCG	$2.76	$2.99	-7%	$3.12	$3.20	-3%
NV Energy	NVE	$0.76	$1.02	-26%	$1.28	$1.22	5%
Wisconsin Energy	WEC	$3.01	$3.16	-5%	$4.03	$3.89	4%
Westar Energy	WR	$1.97	$1.88	5%	$1.94	$1.92	1%
Small & Mid Cap Average				-13%			-5%
Regulated Utility Average				-11%			-5%

Source: GS Research Estimates, Factset.

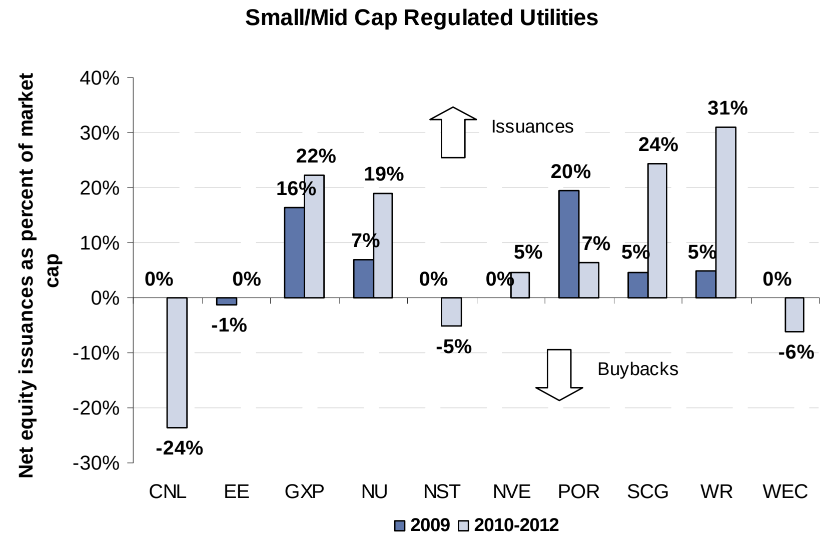
Financing is an issue, as we expect equity issuances for many companies and the costs of new debt have increased. Even though 10-Year Treasury yields declined, the spread between treasuries and new utility debt issuances widened over the last 3-6 months, as shown in Exhibit 8 below, increasing the average cost of debt for Regulated Utilities. In between rate cases, the higher cost of debt may weigh on earnings power for Regulated Utilities, until they can update these debt costs in new rate filings. Many Regulated Utilities, especially small/mid cap companies, likely require equity issuances to finance rate base growth and maintain state authorized/mandated capital structures, as highlighted in Exhibits 6 and 7 below. Given share price performance of companies issuing equity in 4Q2008, we believe this may present an overhang on the sub-sector overall, especially since several Regulated Utilities trade below book value, as shown in Exhibit 9, implying immediate shareholder dilution for companies that need to issue equity at current stock prices.

Exhibit 6: Among large caps, Con Edison and Progress Energy have significant equity financing needs
Net equity issuances among large cap regulated utilities, 2009-2012



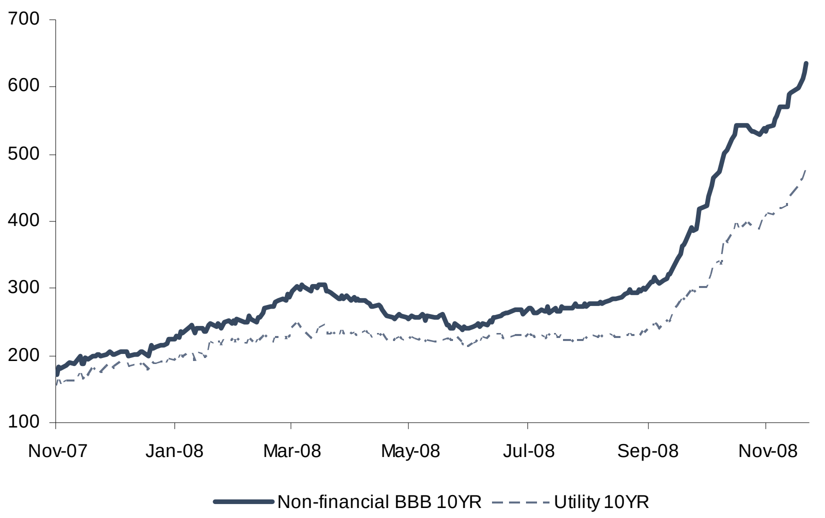
Source: Goldman Sachs Research estimates.

Exhibit 7: Great Plains Energy, Northeast Utilities, and SCANA have significant equity financing needs among small/mid cap Regulated Utilities
Net equity issuances among small/mid cap regulated utilities, 2009-2012



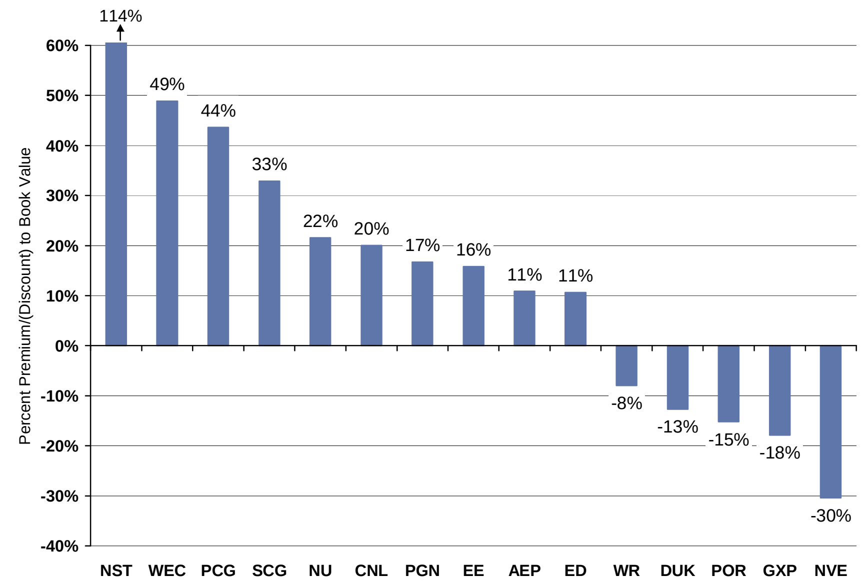
Source: Goldman Sachs Research estimates.

Exhibit 8: Bond spreads have widened significantly in the last 6-12 months
Utility and non-financial investment grade cash bond spreads versus benchmark Treasuries, November 2007-present



Source: IBoxx, Goldman Sachs Research estimates

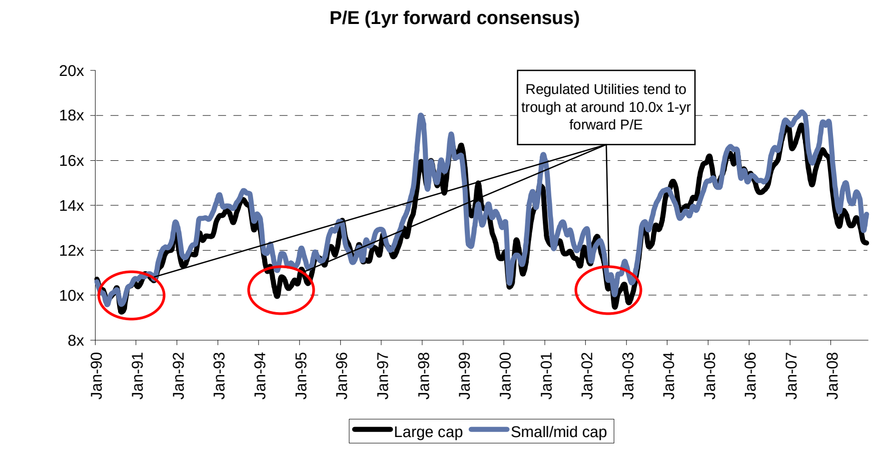
Exhibit 9: Several Regulated Utility stocks trade near or below book value
Percent difference from book value, Regulated Utilities



Source: Factset, Goldman Sachs Research estimates.

Trough multiples indicate 17% downside if investors do not "look through" a difficult 2009. We reiterate our view that investors should value Regulated Utilities on longer-term normalized earnings power, driven by rate base growth and authorized returns set by regulators. However, a focus by investors solely on a bearish 2009 presents downside risk for Regulated Utilities, as they currently trade at 13.0x our 2009 EPS estimates, well above the trough multiples of 9.5x-10.5x seen in 1991, 1994, and 2003, as shown in Exhibit 9. Assuming trough multiples of 10.0x our 2009 estimates, 17% average downside from current levels exists for Regulated Utilities, as highlighted in Exhibit 10. However, we do not expect Regulated Utilities to reach these trough levels, as (1) the 2003 sell-off tied much more closely to non-regulated activities that fared poorly, most of which have since been divested and (2) the 1991 and 1994 periods included significantly higher bond yields than currently expected, which weighed on dividend focused utility equity prices.

Exhibit 10: The trough on historical on 1-year forward consensus EPS estimates is closer to 10x earnings
P/E multiples on 1-year forward consensus estimates, Regulated Utilities, 1990-present



Source: Factset

Exhibit 11: Average potential downside of about 16% exists if Regulated Utilities trade to historical trough valuations
Trough valuations on 2009 estimates, Regulated Utilities

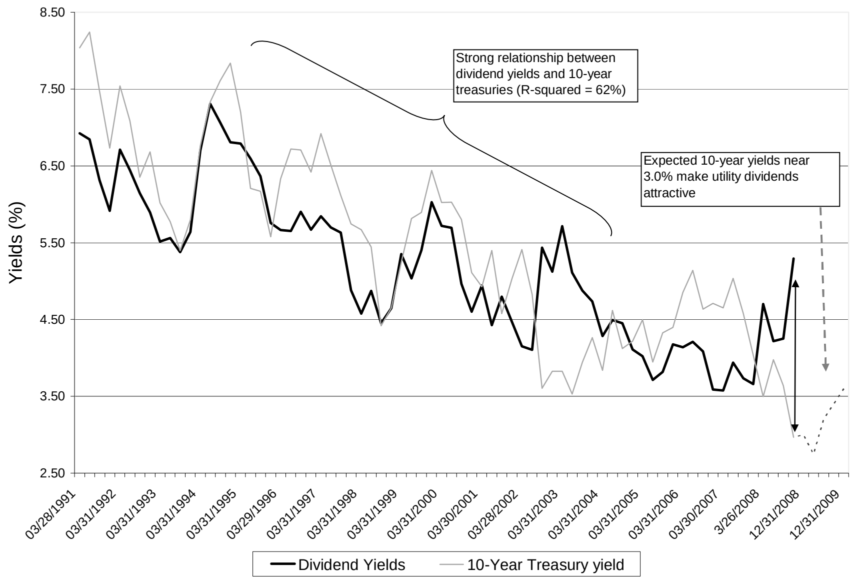
Regulated Utilities	Ticker	Close 12/10/08	Dividend Yield	2009E EPS	Current 2009 Multiple	Trough 2009 Multiple	Trough Value	Trough Return
Large Cap								
American Elec Power	AEP	$30.09	5.5%	$2.80	10.8x	10.0x	$28	-2%
Consolidated Edison	ED	$39.38	5.9%	$3.20	12.3x	10.0x	$32	-13%
Duke Energy	DUK	$14.72	6.3%	$1.17	12.6x	10.0x	$12	-14%
PG&E	PCG	$36.77	4.2%	$3.08	11.9x	10.0x	$31	-12%
Progress Energy	PGN	$39.47	6.2%	$2.87	13.7x	10.0x	$29	-21%
Small & Mid Cap								
Cleco	CNL	$21.21	4.2%	$1.50	14.2x	10.0x	$15	-25%
El Paso Electric	EE	$18.44	0.0%	$1.52	12.1x	10.0x	$15	-18%
Great Plains Energy	GXP	$18.88	8.8%	$1.10	17.1x	10.0x	$11	-33%
Northeast Utilities	NU	$23.49	3.6%	$1.56	15.0x	10.0x	$16	-30%
NSTAR	NST	$35.79	3.9%	$2.16	16.6x	10.0x	$22	-36%
NV Energy	NVE	$9.38	4.3%	$0.76	12.4x	10.0x	$8	-15%
Portland General Electric	POR	$18.40	5.1%	$1.72	10.7x	10.0x	$17	-2%
SCANA Corporation	SCG	$34.73	5.3%	$2.76	12.6x	10.0x	$28	-15%
Westar Energy	WR	$18.66	6.2%	$1.97	9.4x	10.0x	$20	12%
Wisconsin Energy	WEC	$41.59	2.6%	$3.01	13.8x	10.0x	$30	-25%
Average			**4.8%**		**13.0x**			**-17%**

Source: Goldman Sachs Research estimates

A "Bull" case exists for Regulated Utilities, given (1) the spread between Treasuries and dividend yields, (2) attractive relative PE multiples versus the S&P500, (3) attractive current valuations versus the last 3-4 years and (4) traditional DDM analyses that imply significant upside.

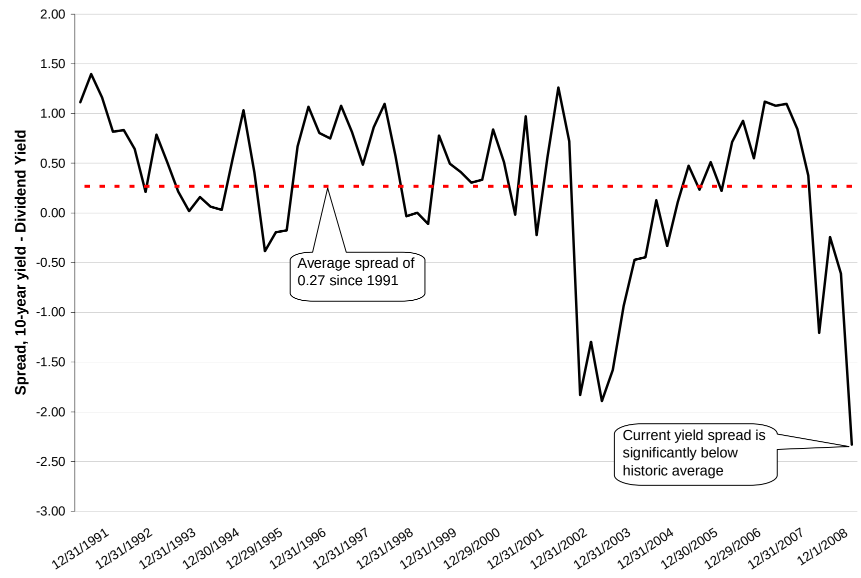
The interest rate environment should remain favorable for Regulated Utilities through 2009. As shown in Exhibits 12 and 13 below, the spread between the 10-year Treasury yield and dividend yields for Regulated Utilities widened and remain far apart from the historical average, implying potential equity price increases if bond yields do not increase significantly. Regulated Utility dividends currently yield 5.3% on average versus the 10 Year Treasury level of 2.9% currently and forecast YE2009 levels of 3.6%, expected by the Goldman Sachs Economic Research team.

Exhibit 12: Low 10-year Treasury yields indicate share price upside for Regulated Utilities
Yields, 10-year Treasury note and dividends on Regulated Utilities



Source: Factset, Goldman Sachs research estimates.

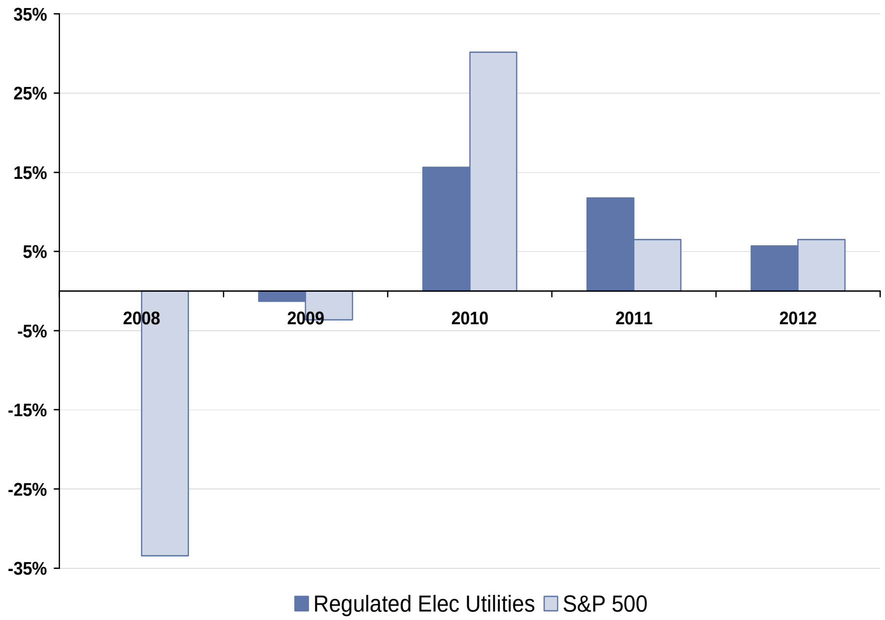
Exhibit 13: The current yield spread is significantly below the historic average, making Regulated Utility dividends attractive for yield-oriented investors
Spread, 10-year Treasury yield and average dividend yield on Regulated Utilities



Source: Factset, Goldman Sachs Research estimates.

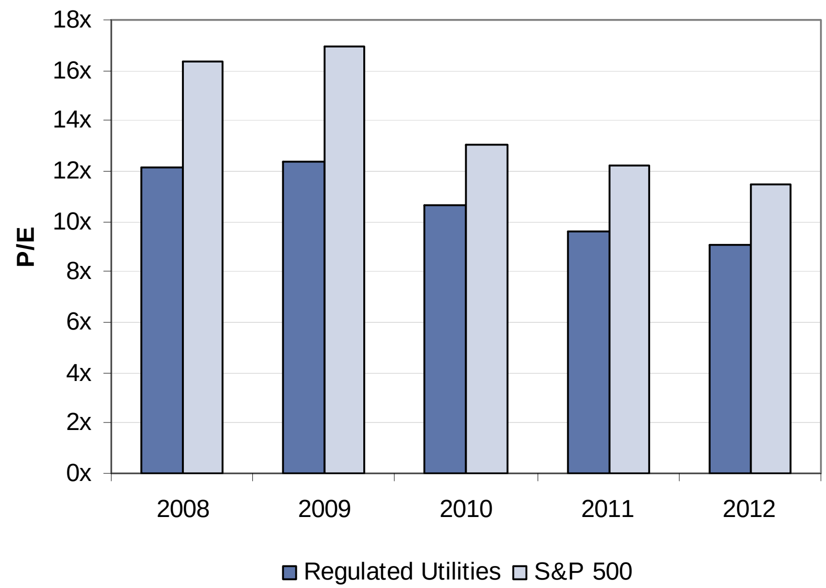
Regulated Utilities screen attractively relative to the market, trading at a 20-25% discount to the S&P 500 despite solid multi-year average annual EPS growth. As shown in Exhibit 14, we expect compound earnings growth of 8% through 2012 for Regulated Utilities, roughly in line with the S&P 500 assuming significant rebound in S&P earnings in 2010 from expected 2008/2009 levels. However, the “path” of earnings growth could prove less volatile for Regulated Utilities, with only a 1%-2% decline in 2009 followed by 8%-10% growth in 2010-2012, versus much higher earnings volatility for the S&P 500. Regulated Utilities screen attractively on P/E multiples versus the S&P 500, with the group at a 2x-3x or 20%-25% discount on forecasted earnings, as shown in Exhibit 15. Regulated Utilities have traded roughly in-line with the S&P 500 over the last 3-4 years, as shown in Exhibit 16, but over a longer 15-20 year cycle have generally traded at a 2x-3x multiple discount to the market, as shown in Exhibit 17.

Exhibit 14: We expect approximately 8% compound annual EPS growth for Regulated Utilities through 2012, in-line with the S&P 500
Annual forecasted EPS growth, Regulated Utilities and S&P 500



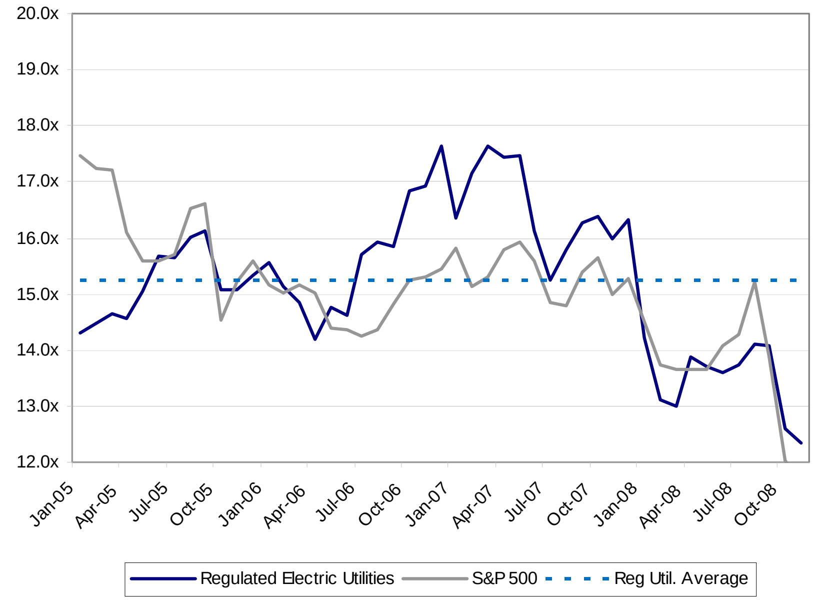
Source: Goldman Sachs Research estimates

Exhibit 15: Current forecasted P/Es for the Regulated Utilities are at a 20%-25% discount to the S&P 500 through 2012
Forecasted P/E ratios, Regulated Utilities and S&P 500



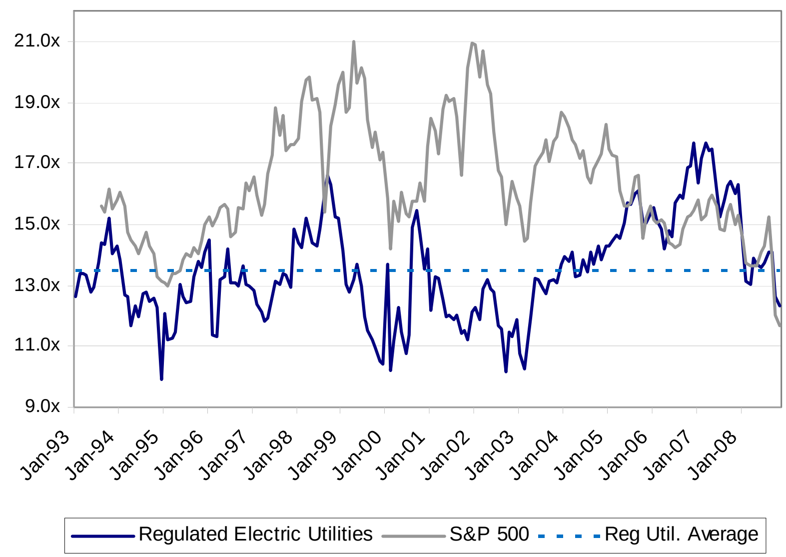
Source: Goldman Sachs Research estimates.

Exhibit 16: Regulated Utilities traded roughly in line with the S&P 500 over the last 3-4 years. . .
One year forward P/E multiple on consensus EPS estimates, Regulated Utilities and S&P 500, January 2005 – present



Source: Factset, Goldman Sachs Research estimates.

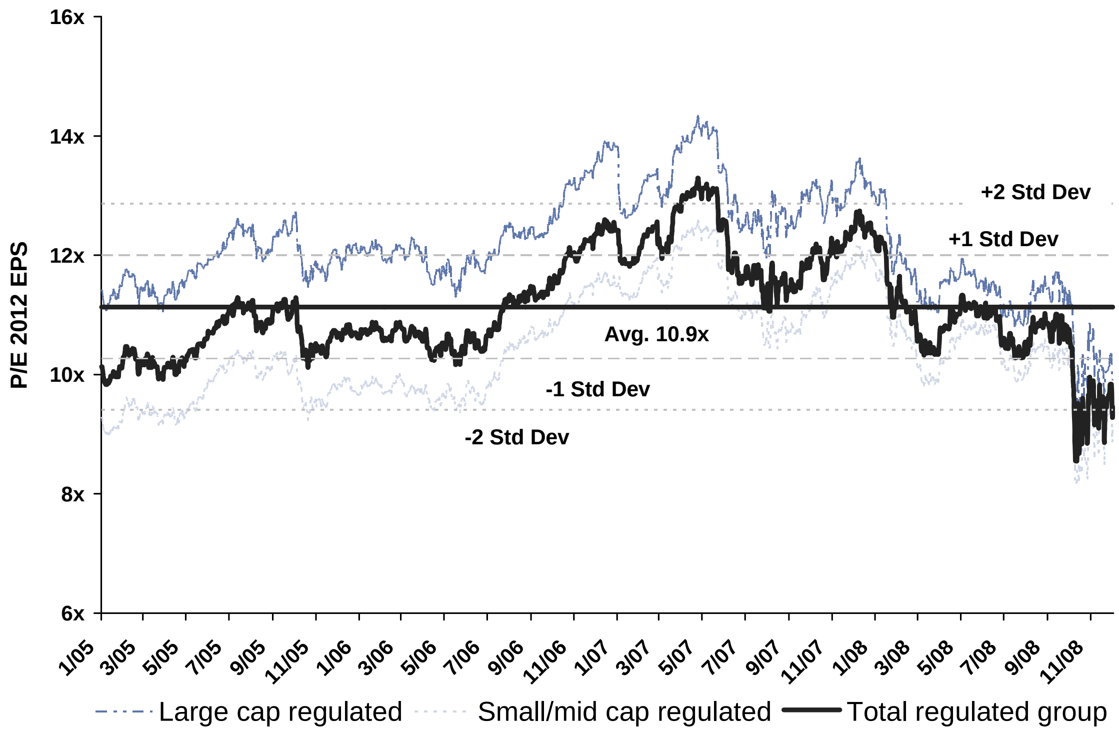
Exhibit 17: . . .but have traded at 2.0x-3.0x P/E discount to the S&P 500 over a longer time frame
One-year forward P/E multiples on consensus EPS estimates, Regulated Utilities and S&P 500, January 1993 - present



Source: Factset, Goldman Sachs Research estimates.

On longer-term earnings power, Regulated Utilities screen attractive compared to recent historical levels. As detailed in Exhibit 18 below, Regulated Utilities trade at approximately 9x our 2012 expected EPS estimates, their lowest valuation since 2005 and roughly two standard deviations below the average of 11x. Assuming mean reversion implies roughly 20% return upside for Regulated Utilities.

Exhibit 18: Regulated Utilities trade at the lowest P/E multiple since 2005
P/E multiple on 2012E EPS, Regulated Utilities



Source: Factset, Goldman Sachs Research estimates

We decrease our baseline target P/E multiples for Regulated Utilities and highlight a range of potential trading values – with approximately 16% total return upside.

For valuation of Regulated Utilities, we continue to employ both a DDM analysis and PE multiple screens to set target prices. We value regulated utilities using a 50/50 weighting on (1) P/E multiples for longer-term regulated earnings power and (2) a DDM model, as shown in Exhibit 19. Our 12-month target prices imply 16% upside from current levels.

- **We assume the shares trade between the low and mid-range of historic valuations.** For P/E multiples, we assume over the next 12 months the stocks trade to 9.0x our 2012 EPS estimates versus our previous assumption of 11.0x. As shown in Exhibit 18 above, Regulated Utilities have traded on average at 11x 2012 EPS estimates since 2005, with high-end valuations near 13.0x and low-end near 7.0x. Our 9.0x estimate is slightly below current levels of 9.3x.

- **Our DDM model assumes an 8.5% cost of equity and 2.5% terminal growth rate.** Our DDM values dividends explicitly for each company through 2012, with each company paying a 75% payout ration in the terminal year for "apples to apples" comparisons. We also incorporate a 2.5% terminal growth rate, roughly in line with expected long-term trend GDP growth. Assuming a risk free rate of 4% and risk premium of 4%-5%, and betas below 1x implies average cost of equity at or below the 8.5% level used in our DDM analysis.

Exhibit 19: Regulated Utilities valuation
DDM and P/E valuation, Regulated Utilities

	Ticker	Rating	12/10/2008 Price	DDM Value	Current Yield	Total Return, DDM Only	2012 EPS	Multiple Applied	P/E-based Value	12-month Target Price	Total Return to 12-Month Target
Large-Cap											
American Electric Power	AEP	Buy	$30.09	$41	5.5%	**42%**	$3.42	9.0x	$31	**$36**	**25%**
Consolidated Edison	ED	Sell	$39.38	$41	5.9%	**9%**	$3.51	9.0x	$32	**$36**	**-2%**
Duke Energy	DUK	Neutral	$14.72	$18	6.3%	**29%**	$1.56	9.0x	$14	**$16**	**15%**
PG&E	PCG	Buy	$36.77	$41	4.2%	**15%**	$3.73	9.0x	$34	**$37**	**5%**
Progress Energy	PGN	Neutral	$39.47	$46	6.2%	**22%**	$3.72	9.0x	$33	**$40**	**6%**
Large-Cap Mean					***5.6%***	***23%***					***10%***
Large-Cap Median					***5.9%***	***22%***					***6%***
Mid & Small-Cap											
Cleco	CNL	Neutral	$21.21	$29	4.2%	**39%**	$2.59	9.0x	$23	**$26**	**27%**
El Paso Electric	EE	Neutral	$18.44	$23	0.0%	**23%**	$2.33	9.0x	$21	**$21**	**14%**
Great Plains Energy	GXP	Neutral	$18.88	$26	8.8%	**44%**	$2.17	9.0x	$20	**$23**	**28%**
Northeast Utilities	NU	Neutral	$23.49	$28	3.6%	**23%**	$2.46	9.0x	$22	**$25**	**10%**
NSTAR	NST	Sell	$35.79	$34	3.9%	**-2%**	$2.68	9.0x	$24	**$29**	**-15%**
NV Energy	NVE	Buy	$9.38	$15	4.3%	**66%**	$1.40	9.0x	$13	**$14**	**52%**
Portland General	POR	Neutral	$18.40	$25	5.1%	**42%**	$2.31	9.0x	$21	**$23**	**30%**
SCANA	SCG	Sell	$34.73	$38	5.3%	**14%**	$3.30	9.0x	$30	**$34**	**2%**
Westar	WR	Buy	$18.66	$26	6.2%	**48%**	$2.35	9.0x	$21	**$24**	**34%**
Wisconsin Energy	WEC	Neutral	$41.59	$50	2.6%	**24%**	$4.62	9.0x	$42	**$46**	**13%**
Mid & Small-Cap Mean					***4.4%***	***32%***					***20%***
Mid & Small-Cap Median					***4.3%***	***32%***					***21%***
Regulated Utilities Mean					***4.8%***	***29%***					***16%***
Regulated Utilities Median					***5.1%***	***24%***					***14%***

Notes: Assumed cost of equity of 8.5%, terminal growth rate of 2.5% and 75% dividend payout ratios in 2012 for all companies

Source: Company data, Goldman Sachs Research estimates.

Risk/reward appears favorable for Regulated Utilities, as "trading bands" suggest limited downside and significant upside to our target prices. Under a bear-case scenario, where the stocks trade at only 7x our 2012 estimates and removing the DDM component to our analysis, we would expect only 18% downside on average from current levels, as shown in Exhibit 20. On the other hand, the potential to the trade to the mid or high-case scenario implies substantial upside if the stocks trade above 10x our 2012 estimates, closer to the average trading levels since 2005 and our target price assumptions. We believe the stocks will trade between our low and mid-case values over the next 6-12 months and apply a 9.0x P/E to determine valuation. Returning to peak multiples implies average total return above 48%, levels not likely to occur in the near term.

Exhibit 20: Risk-reward looks favorable for Regulated Utilities, based on our new low/mid/high scenarios
Low-Mid-High valuations, Regulated Utilities

Assumption					Low		Mid		High	
Regulated 2012 P/E multiple					7.0x		10.0x		13.0x	
Regulated Utilities	Ticker	Close 12/10/08	2012 EPS	Dividend Yield	Value	Return	Value	Return	Value	Return
Large Cap										
American Elec Power	AEP	$30.09	$3.42	5.5%	$24	-15%	$34	19%	$45	53%
Consolidated Edison	ED	$39.38	$3.51	5.9%	$25	-32%	$35	-5%	$46	22%
Duke Energy	DUK	$14.72	$1.56	6.3%	$11	-20%	$16	12%	$20	44%
PG&E	PCG	$36.77	$3.73	4.2%	$26	-25%	$37	6%	$49	36%
Progress Energy	PGN	$39.47	$3.72	6.2%	$26	-28%	$37	0%	$48	29%
Small & Mid Cap										
Cleco	CNL	$21.21	$2.59	4.2%	$18	-10%	$26	26%	$34	63%
El Paso Electric	EE	$18.44	$2.33	0.0%	$16	-12%	$23	26%	$30	64%
Great Plains Energy	GXP	$18.88	$2.17	8.8%	$15	-11%	$22	24%	$28	59%
Northeast Utilities	NU	$23.49	$2.46	3.6%	$17	-23%	$25	8%	$32	40%
NSTAR	NST	$35.79	$2.68	3.9%	$19	-44%	$27	-21%	$35	1%
NV Energy	NVE	$9.38	$1.40	4.3%	$10	9%	$14	53%	$18	98%
Portland General Electric	POR	$18.40	$2.31	5.1%	$16	-7%	$23	31%	$30	68%
SCANA Corporation	SCG	$34.73	$3.30	5.3%	$23	-28%	$33	0%	$43	29%
Westar Energy	WR	$18.66	$2.35	6.2%	$16	-6%	$23	32%	$30	70%
Wisconsin Energy	WEC	$41.59	$4.62	2.6%	$32	-20%	$46	14%	$60	47%
Average						**-18%**		**15%**		**48%**

Source: Goldman Sachs Research estimates.

Reiterating our Conviction Buy rating on NV Energy and upgrading defensive-oriented PG&E Corp to the Buy list, while downgrading Portland General and Con Edison.

Among Regulated Utilities, we upgrade PG&E Corp from Neutral to Buy given relative valuation and structural advantages, while downgrading Portland General (POR) from Buy to Neutral and Con Edison (ED) from Neutral to Sell. Compared to large cap peers, PG&E now trades at a modest discount, even though decoupling of usage provides a competitive advantage during periods of declining MWh usage. Although Portland General screens attractively on relative valuations, we downgrade the company to Neutral as an overhang exists – due to potential equity issuances of $225 mn-$250 mn in early/mid 2009. Shares of other small/mid-cap Regulated Utilities, including Pepco Holdings (POM-Not Covered), underperformed upon issuing common equity in the current market environment. We downgrade Con Edison to Sell on both relative valuations and potential equity needs, although forward rate cases and test years do provide some protection from declines in demand. Relative valuation drives our ratings on American Electric Power (AEP, Buy), NV Energy (NVE, Conviction Buy), Westar, NSTAR (NST, Sell) and SCANA (SCG, Sell).

Exhibit 21: AEP, NVE and PCG trade at discounts on long-term earnings; ED, NST, and SCG trade at premiums on 2011-2012 EPS estimates
EPS estimates and P/E multiple comparisons, Regulated Utilities

Target Price and EPS Summary																
			Close	Price	Tot Ret	EPS Estimates					P/E Multiples					Dividend
	Ticker	Rating	12/10/08	Target	to Target	2008	2009	2010	2011	2012	2008	2009	2010	2011	2012	Yield
Regulated Utilities																
Large-Cap																
American Elec Power	**AEP**	**Buy**	$30.09	$36	**25%**	$3.11	$2.80	$3.09	$3.53	$3.42	9.7x	10.8x	9.7x	8.5x	8.8x	5.5%
Duke Energy	**DUK**	**Neutral**	$14.72	$16	**15%**	$1.20	$1.17	$1.38	$1.48	$1.56	12.3x	12.6x	10.6x	9.9x	9.4x	6.3%
Consolidated Edison	**ED**	**Sell**	$39.38	$36	**-3%**	$2.86	$3.20	$3.28	$3.38	$3.51	13.8x	12.3x	12.0x	11.6x	11.2x	5.9%
PG&E	**PCG**	**Buy**	$36.77	$37	**5%**	$2.86	$3.08	$3.26	$3.69	$3.73	12.9x	11.9x	11.3x	10.0x	9.9x	4.2%
Progress Energy	**PGN**	**Neutral**	$39.47	$40	**8%**	$3.04	$2.87	$3.07	$3.24	$3.72	13.0x	13.7x	12.9x	12.2x	10.6x	6.2%
		Large-Cap Mean			**10%**						12.3x	12.3x	11.3x	10.5x	10.0x	5.6%
		Large-Cap Median			**8%**						12.9x	12.3x	11.3x	10.0x	9.9x	5.9%
Mid & Small-Cap Regulated Utilities																
Cleco	**CNL**	**Neutral**	$21.21	$26	**27%**	$1.52	$1.50	$2.27	$2.44	$2.59	13.9x	14.2x	9.3x	8.7x	8.2x	4.2%
El Paso Electric	**EE**	**Neutral**	$18.44	$21	**14%**	$1.90	$1.52	$1.67	$2.24	$2.33	9.7x	12.1x	11.0x	8.2x	7.9x	0.0%
Great Plains Energy	**GXP**	**Neutral**	$18.88	$23	**31%**	$1.59	$1.10	$1.65	$2.07	$2.17	11.9x	17.1x	11.4x	9.1x	8.7x	8.8%
NSTAR	**NST**	**Sell**	$35.79	$29	**-15%**	$2.20	$2.16	$2.27	$2.50	$2.68	16.3x	16.6x	15.8x	14.3x	13.3x	3.9%
Northeast Utilities	**NU**	**Neutral**	$23.49	$25	**10%**	$1.79	$1.56	$1.95	$1.86	$2.46	13.2x	15.0x	12.1x	12.6x	9.5x	3.6%
NV Energy	**NVE**	**Buy**	$9.38	$14	**54%**	$0.86	$0.76	$1.28	$1.37	$1.40	10.9x	12.4x	7.3x	6.9x	6.7x	4.3%
Portland General Electric	**POR**	**Neutral**	$18.40	$23	**30%**	$1.81	$1.72	$1.64	$2.20	$2.31	10.2x	10.7x	11.3x	8.3x	8.0x	5.1%
SCANA Corporation	**SCG**	**Sell**	$34.73	$34	**3%**	$2.71	$2.76	$3.12	$3.20	$3.30	12.8x	12.6x	11.1x	10.9x	10.5x	5.3%
Wisconsin Energy	**WEC**	**Neutral**	$41.59	$46	**13%**	$2.86	$3.01	$4.03	$4.56	$4.62	14.6x	13.8x	10.3x	9.1x	9.0x	2.6%
Westar Energy	**WR**	**Buy**	$18.66	$24	**35%**	$1.25	$1.97	$1.94	$2.21	$2.35	15.0x	9.4x	9.6x	8.5x	8.0x	6.2%
		Small / Mid Cap Mean			**20%**						12.8x	13.4x	10.9x	9.7x	9.0x	4.4%
		Small / Mid Cap Median			**20%**						13.0x	13.2x	11.1x	8.9x	8.4x	4.3%
		Regulated Utilities Mean			**17%**						**12.7x**	**13.0x**	**11.1x**	**9.9x**	**9.3x**	**4.8%**
		Regulated Utilities Median			**14%**						**12.9x**	**12.6x**	**11.1x**	**9.1x**	**9.0x**	**5.1%**

Source: Company data, Goldman Sachs Research estimates.

Mean reversion opportunities may exist across market caps, as small/mid caps trade at a discount on longer term earnings compared to many larger cap names, although likely equity issuances create an overhang. On 2011-2012 earnings power, many small/mid cap Regulated Utilities trade at a 1.0x-1.5x PE multiple discount to large cap companies likely due to potential need for equity issuances and general market reversion to large cap stocks in periods of economic turmoil. Great Plains Energy (GXP, Neutral) screens attractively on relative 2010-2012 P/E multiples, but similar to Portland General, we remain Neutral given significant expected equity financing to fund rate base growth and capital spending needs. As shown in Exhibits 6-7 above, equity capital needs in 2009 are significant as a percentage of market capitalization for GXP, POR, NU and SCANA. El Paso Electric (EE, Neutral) also appears undervalued on relative P/E, but the company's lack of a dividend and uncertainty given the new executive leadership drive our Neutral rating.

Remaining positive on IPPs, given share price underperformance versus Diversified Utilities and due to significant expected free cash flow

Lower expected industrial demand, as well as decreased expected electricity demand, will weigh on natural gas prices and marginal heat rates. In line with the Goldman Sachs' Oil & Gas- E&P team, we adopt a lower natural gas price

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forecast and lower marginal heat rates, as outlined in Exhibits 22 and 23 below. Lower 2009 natural gas pricing negatively impacts companies like Reliant Energy (RRI-Not Rated) with significant unhedged generation capacity, while others – especially NRG Energy (NRG-Buy) – with significant hedging are less impacted. Offsetting lower natural gas prices, we also lower expected 2009 coal prices, positively impacting unhedged fuel costs for Reliant. EBITDA estimates for Reliant – due to the gradual withdrawal from its large C&I segment in its Texas and Northeast retail segments – are down roughly 8% for 2010, while we only lower the EBITDA forecast for NRG by 1%, as detailed in Exhibit 24.

Exhibit 22: We adopt lower 2009 natural gas price estimate by $1.75/MMBtu, but maintain our 2010-2012 estimates
Changes to natural gas prices (old v. new)

Potential new natural gas price forecast

	New	Old	Difference
1Q	$5.00	$8.00	($3.00)
2Q	$5.00	$7.25	($2.25)
3Q	$5.50	$6.75	($1.25)
4Q	$6.50	$7.00	($0.50)
2009E	$5.50	$7.25	($1.75)
2010E	$7.50	$7.50	NA
2011E	$8.00	$8.00	NA
2012N	$7.00	$7.00	NA

Source: GS Research estimates.

Exhibit 23: We modestly decreased marginal heat rate assumptions for several regions
Goldman Sachs marginal heat rate forecasts

	2009		2010		2011		2012	
	New	Old	New	Old	New	Old	New	Old
ERCOT - South	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500
MISO CIN / PJM NIHUB	6,100	6,100	6,200	6,200	6,300	6,300	6,400	6,400
NEPOOL MASS	7,800	7,800	7,900	7,900	8,000	8,000	8,100	8,100
NYPP NYC	9,100	9,100	9,300	9,300	9,500	9,500	9,700	9,700
NY - Zone A	6,600	6,600	6,500	6,750	6,400	6,900	6,300	7,050
NY - Zone G	8,800	8,800	8,600	8,950	8,600	9,100	8,600	9,250
Palo Verde	8,500	8,500	8,300	8,600	8,100	8,700	8,100	8,800
PJM East	8,500	7,800	7,900	7,900	8,000	8,000	8,100	8,100
PJM West	7,100	7,100	7,200	7,200	7,300	7,300	7,400	7,400
SERC + ETR	6,200	6,700	6,500	6,900	7,100	7,100	7,300	7,300
WSCC SP15	8,800	8,800	8,900	8,900	9,000	9,000	9,100	9,100
WSCC NP15	8,300	8,300	8,400	8,400	8,500	8,500	8,600	8,600

Source: GS Research estimates.

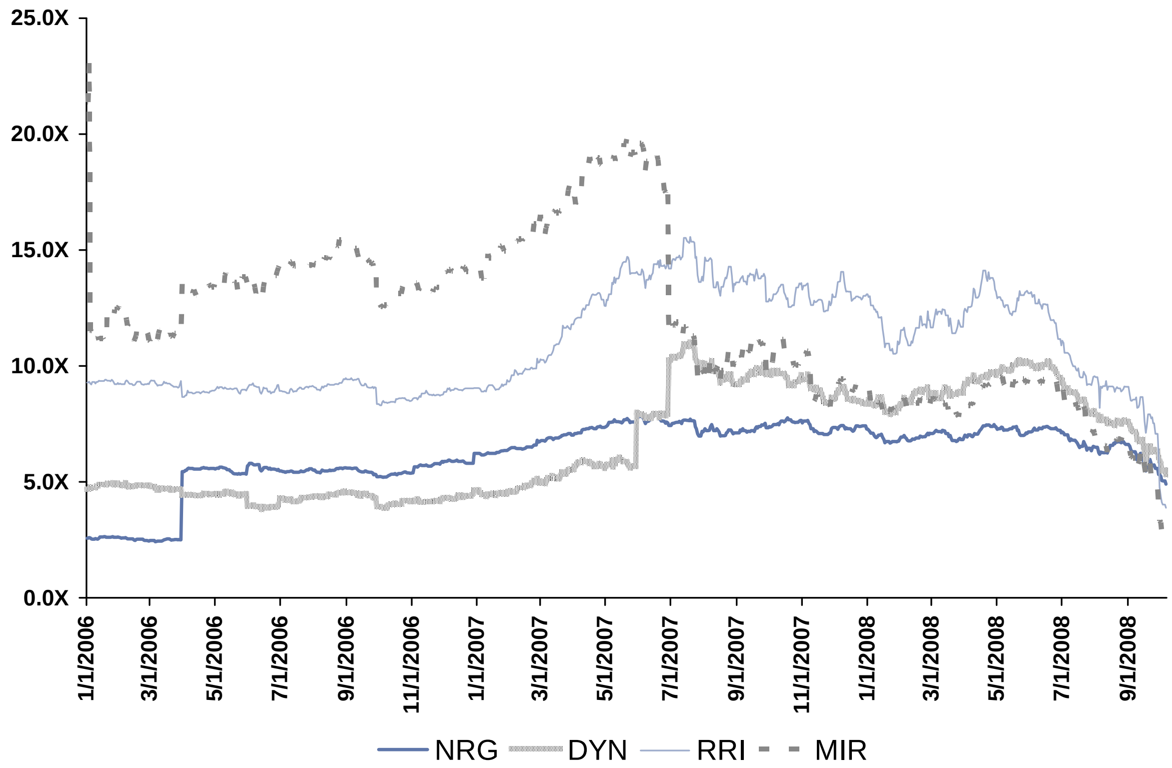
Exhibit 24: Lowering estimates for IPPs with minimal near-term impact for NRG Energy given its hedging policies
Old v. new EBITDA estimates, $ millions

			EBITDA Revisions														
			2008			2009			2010			2011			2012		
	Ticker	Rating	Old	New	%	Old	New	%	Old	New	%	Old	New	%	Old	New	%
Independent Power Producers (IPPs)																	
NRG Energy	NRG	Buy	$2,456	$2,453	*0%*	$2,406	$2,416	*0%*	$2,835	$2,812	*-1%*	$2,583	$2,531	*-2%*	$2,414	$2,339	*-3%*
Ormat Technologies	ORA	Neutral	$126	$113	*-10%*	$184	$178	*-3%*	$249	$178	*-28%*	$284	$295	*4%*	$269	$307	*14%*
Reliant Energy	RRI	NR	$1,539	($663)	*-143%*	$726	$795	*9%*	$865	$795	*-8%*	$916	$828	*-10%*	$1,258	$1,123	*-11%*
Average					*-51%*			*2%*			*-12%*			*-3%*			*0%*

Source: GS Research estimates.

IPPs currently trade near the low end of their historical valuation range and expected free cash flow implies ability for significant debt reduction or share buybacks. As highlighted in Exhibit 25, EV multiples for the IPPs compressed significantly in the last 3-6 months, trading well below average and peak multiples. FCF yields of 20%-25% imply sizable potential share repurchases or debt reduction opportunities over the next few years, as shown in Exhibit 26.

Exhibit 25: Significant EV/EBITDA multiple contraction over time for IPPs



Source: GS Research Estimates, Factset.

Exhibit 26: We expect IPPs to create significant free cash flow

Company	Ticker	Rating	Close 12/10/08	2008E	2009E	2010E	2011E	2012E
<u>Independent Power Producers (IPPs)</u>								
NRG Energy	NRG	Buy	$24.32	11.9%	15.3%	21.0%	18.7%	19.1%
Ormat Technologies	ORA	Neutral	$31.74	-15.6%	-4.3%	-27.6%	-0.4%	8.2%
Reliant Energy	RRI	NR	$5.12	31.1%	-0.7%	25.3%	38.8%	72.1%
Special Situation and IPP Median				*11.9%*	*-0.7%*	*21.0%*	*18.7%*	*19.1%*
Special Situation and IPP Mean				*9.1%*	*3.4%*	*6.2%*	*19.0%*	*33.1%*

1. FCF (2008E - 2012E) = CFO + CFI

Source: Goldman Sachs Research Estimates.

NRG Energy remains our top pick among the IPPs. We maintain our Buy rating on NRG and apply a slight premium to our baseline multiple of 6.0X on our 2011 EBITDA outlook – versus current trading levels near 5.3x. NRG Energy should generate free cash flow yields above 20%, with which, at its current market capitalization, the company effectively repurchase its entire market capitalization in approximately 4-5 years. While weaker NT natural gas prices negatively impact sentiment, prior hedging enables the company to forestall a significant decline in profitability. NRG additionally trades at a discount to peers on EV/EBITDA in the next 2-3 years, a discount we believe is unwarranted given its cash flow outlook. We apply a 6.2x EV multiple on 2011 estimates to derive our $29/sh target price – but even at peer group multiples on 2010 forecasts, NRG screens attractively given its current discount. Sum of the parts valuations for NRG imply significantly higher share price values than our current 12 month target price. We remain Neutral-rated on Ormat Technologies (ORA), which faces near-term pressure due to lower oil prices negatively impacting its Hawaii-based power plants, offset potentially by increased sentiment towards renewable generators. Exhibit 27 shows our new estimates, and Appendix F details our new target prices for IPPs.

Exhibit 27: IPPs currently trade at relatively low EV/EBITDA multiples, with NRG trading at a discount compared to peers
EV/EBITDA, 2008E-2010E, Independent Power Producers

	Rating	Enterprise value	EBITDA estimates ($mn)			EV/EBITDA		
			2008E	2009E	2010E	2008E	2009E	2010E
NRG Energy	Buy	$13,505	$2,453	$2,416	$2,812	5.5x	5.6x	4.8x
Dynegy	NC	$6,713	$869	$1,009	$1,087	7.7x	6.7x	6.2x
Mirant	NC	$3,802	$822	$1,002	$843	4.6x	3.8x	4.5x
Reliant Energy	NR	$3,884	$588	$643	$770	6.6x	6.0x	5.0x
Calpine Corp	NC	$12,214	$1,593	$1,659	$1,625	7.7x	7.4x	7.5x
Average						**6.4x**	**5.9x**	**5.6x**

Note : Represents Adjusted EBITDA for GS covered companies

Note: 2008, 2009 and 2010 EBITDA at RRI includes the impact of $411mn, $138m and $47m, respectively, for gains or (losses) related to wholesale hedges and energy derivative contracts.

Note : NC-Not covered; consensus estimates shown.

Source: Factset, Goldman Sachs Research estimates.

Downgrading Diversified Utilities, as consensus forecasts remain too high

Lower commodity price expectations and decreased regulated earnings – leading to EPS estimates below consensus – drive our tactical downgrade of Diversified Utilities from Attractive to Neutral.

Lower electric demand and lower expected power prices decrease the earnings potential for Diversified Utilities. Given their integrated operations and ownership of regulated and non-regulated subsidiaries, lower electric demand and lower power prices negatively impact earnings for Diversified Utilities, with demand affecting the regulated subsidiaries and power prices impacting the merchant generation segments. In line with the Goldman Sachs E&P research team, we adopt lower natural gas prices that drive power price assumptions, as outlined in Exhibit 22 above. Hedging activity partially offsets decreases in power prices and marginal heat rates, and we reduce our 2009 estimates by roughly 10% and our 2010 forecasts by 4%.

Exhibit 28: We lower our 2009/2010 EPS estimates by 10%/4% for Diversified Utilities
EPS estimates, old v. new, Diversified Utilities

			EPS Revisions														
			2008			2009			2010			2011			2012		
	Ticker	Rating	Old	New	%	Old	New	%	Old	New	%	Old	New	%	Old	New	%
Diversified Utilities																	
Ameren	AEE	Sell	$2.86	$2.76	-3%	$3.29	$3.06	-7%	$2.89	$2.91	0%	$3.71	$3.44	-7%	$3.52	$3.20	-9%
Edison International	EIX	Buy	$3.93	$3.78	-4%	$3.83	$3.36	-12%	$4.45	$4.18	-6%	$4.69	$4.14	-12%	$4.50	$3.92	-13%
Entergy	ETR	Buy	$6.45	$6.24	-3%	$7.24	$6.52	-10%	$7.81	$7.70	-1%	$8.25	$8.35	1%	$8.63	$8.88	3%
Exelon	EXC	Buy	$4.18	$4.18	0%	$4.26	$4.11	-3%	$4.12	$3.92	-5%	$5.97	$5.81	-3%	$5.46	$5.32	-3%
Sempra Energy	SRE	Neutral	$3.39	$3.26	-4%	$4.28	$3.56	-17%	$4.79	$4.26	-11%	$5.19	$4.76	-8%	$5.83	$5.52	-5%
Average					-3%			-10%			-5%			-6%			-5%

Source: GS Research Estimates.

Consensus estimates are not moving quickly enough and remain too high. In our October 12, 2008 note *Commodity oriented power stocks oversold, even though reducing estimates and targets,* we lowered our 2009-2010 EPS estimates for Diversified Utilities by 7%-8% to reflect updated commodity price assumptions. We now decrease our estimates again given the sharply deteriorating economy and lower expected power demand and pricing. Consensus estimates now appear unrealistically high, with our estimates 14%/9% below the 2009/2010 consensus. We do not believe the stocks can work until the cycle of negative EPS revisions is complete and consensus estimates more properly reflect reality.

Exhibit 29: Our estimates are 14%/9% below consensus for Diversified Utilities
GS versus consensus EPS estimates, 2009-2010

		GS EPS estimates versus consensus					
		2009			2010		
Diversified Utilities	Ticker	GS EPS	Cons EPS	% Ch	GS EPS	Cons EPS	% Ch
Ameren	AEE	**$3.06**	$3.34	-8%	**$2.91**	$3.06	-5%
Edison International	EIX	**$3.36**	$4.24	-21%	**$4.18**	$4.66	-10%
Entergy	ETR	**$6.52**	$7.65	-15%	**$7.70**	$8.32	-7%
Exelon	EXC	**$4.11**	$4.25	-3%	**$3.92**	$4.42	-11%
Sempra Energy	SRE	**$3.56**	$4.48	-21%	**$4.26**	$4.91	-13%
Average				-14%			-9%

Source: GS Research Estimates

Still employing a sum of the parts methodology, although revising baseline multiples, with roughly 20%-25% average upside for Diversified Utilities.

We continue to value Diversified Utilities using a sum-of-the-parts methodology, separately valuing the regulated and non-regulated segments, and incorporating premium/discount multiples, especially for exposure to eventual Co2-related regulations. As detailed in our October 12th note, *Commodity oriented power stocks oversold, even though reducing estimates and targets*, we value the "parts" of Diversified Utilities using two methodologies: (1) P/E metrics on regulated operations and (2) EV/EBITDA metrics on the non-regulated Generation or IPP segment, with adjustments due to (a) returns on capital, (b) free cash flow, and (c) exposure to carbon dioxide regulation. We now apply a 9.0x P/E trading multiple to long-term (2012) regulated earnings, consistent with our treatment of Regulated Utilities, and maintain our 6.0x baseline EV/EBITDA multiple, consistent with our methodology for IPPs, as detailed in Exhibit 30 below.

Exhibit 30: We employ a sum of the parts valuation methodology for Diversified Utilities, incorporating the long-term impact of carbon regulations and near term differences in FCF and returns

Target price methodology, Diversified Utilities

Estimated Target Prices - Forecast PE Multiple for Regulated Subsidiaries and EV Multiple on Merchant Generation

All figures in $ millions unless otherwise noted

Company	AEE[1]	EIX[2]	ETR[3]	EXC[4]	Average
Utility 2012 EPS	$2.49	$3.68	$5.16	$1.18	
Applied Target PE Multiple	9.0x	9.0x	9.0x	9.0x	
Utility Equity Value per Share	**$22**	**$33**	**$46**	**$11**	
Generation 2011 EBITDA	$673	1,145	$1,314	$5,473	
Other 2011 EBITDA	($27)	(25)	$55	($167)	
Total Generation & Other Non-Utility EBITDA	**$645**	**$1,120**	**$1,369**	**$5,306**	
Baseline EV/EBITDA Multiple	6.0x	6.0x	6.0x	6.0x	
Adjustments to Baseline Multiple					
Carbon Exposure	-0.2x	-0.1x	2.3x	2.3x	
Returns on Capital	-1.0x	0.0x	0.5x	0.5x	
Free Cash Flow Yield	-0.5x	0.0x	0.5x	0.3x	
Target EV/EBITDA Multiple	**4.3x**	**5.9x**	**9.3x**	**9.1x**	**7.2x**
Enterprise Value - Generation & Other Non-Utility	**$2,796**	**$6,621**	**$12,710**	**$48,139**	
Generation & Non-Utility Net Debt	$1,849	$5,024	$3,287	$5,921	
Equity Value - Generation & Other Non-Utility	**$947**	**$1,598**	**$9,423**	**$42,218**	
Current Diluted Share Count	210	326	195	657	
Equity Value per Share - Generation & Other Non-Utility	**$5**	**$5**	**$48**	**$64**	
Target Price per Share	**$27**	**$38**	**$95**	**$75**	
Current Share Price	$33.34	$31.37	$80.89	$55.82	12/10/08
Dividend yield	7.6%	3.9%	3.7%	3.6%	4.7%
Total Return to Target	**-12%**	**25%**	**21%**	**38%**	**18%**

	AEE	EIX	ETR	EXC	Average
Carbon NPV, $/sh	**($1)**	**($0)**	**$16**	**$19**	NM
Generation Returns on Capital 2010-2012	4.3%	5.2%	14.2%	12.5%	9.1%
Generation Free Cash Flow Yield 2010-2012	-1.0%	0.8%	4.6%	3.9%	2.1%
Carbon value	($109)	($98)	$3,129	$12,321	
Carbon EV/EBITDA multiple premium/(discount)	-0.2x	-0.1x	2.3x	2.3x	1.1x

Notes:

(1) AEE Generation EBITDA includes AERG, Genco, and 80% of EEI. Return on Capital calculation is for Genco only.

(2) EIX Generation EBITDA is Edison Mission. Non-Utility Net Debt includes $526mn of Edison Capital debt, and $1.62bn of Edison Mission operating leases.

(3) ETR Generation EBITDA is merchant nuclear assets. Non-Utility Net Debt includes $507mn NYPA liability.

(4) EXC Non-Utility Net Debt excludes all Utility-level debt and excludes Utility transition funding bonds.

Source: Factset, company reports, Goldman Sachs Research estimates.

Exhibit 31: We expect nuclear generators EXC and ETR to trade at a premium, while EIX's YTD underperformance appears unwarranted

Target prices, total returns, and P/E multiples

P/E Multiples Summary																
			Close	Price	Tot Ret	Estimates					P/E Multiples				
	Ticker	Rating	12/10/08	Target	to Target	2008	2009	2010	2011	2012	2008	2009	2010	2011	2012
Natural Gas Price Forecast ($/MMBtu)						**$9.00**	**$5.50**	**$7.50**	**$8.00**	**$7.00**					
Diversified Utilities															
Ameren	**AEE**	**Sell**	**$33.34**	**$27**	**-11%**	$2.76	$3.06	$2.91	$3.44	$3.20	12.1x	10.9x	11.5x	9.7x	10.4x
Edison International	**EIX**	**Buy**	**$31.37**	**$38**	**25%**	$3.78	$3.36	$4.18	$4.14	$3.92	8.3x	9.3x	7.5x	7.6x	8.0x
Entergy	**ETR**	**Buy**	**$80.89**	**$95**	**21%**	$6.24	$6.52	$7.70	$8.35	$8.88	13.0x	12.4x	10.5x	9.7x	9.1x
Exelon	**EXC**	**Buy**	**$55.82**	**$75**	**38%**	$4.18	$4.11	$3.92	$5.81	$5.32	13.3x	13.6x	14.2x	9.6x	10.5x
Sempra Energy	**SRE**	**Neutral**	**$44.48**	**$46**	**7%**	$3.26	$3.56	$4.26	$4.76	$5.52	13.7x	12.5x	10.4x	9.4x	8.1x
		Diversified Utilities Median			***16%***						***12.1x***	***11.7x***	***10.8x***	***9.2x***	***9.2x***
		Diversified Utilities Mean			***21%***						***13.0x***	***12.4x***	***10.5x***	***9.6x***	***9.1x***
IPP's															
NRG Energy	**NRG**	**Buy**	**$24.32**	**$29**	**19%**	$2.24	$2.98	$4.37	$3.95	$3.67	10.9x	8.2x	5.6x	6.2x	6.6x
Ormat Technologies	**ORA**	**Neutral**	**$31.74**	**$34**	**7%**	$0.64	$1.01	$1.19	$1.69	$1.90	49.7x	31.4x	26.6x	18.8x	16.7x
Reliant Energy	**RRI**	**NR**	**$5.12**	**--**	**--**	($0.10)	$0.47	$0.34	$0.83	$1.83	-49.8x	10.8x	15.0x	6.2x	2.8x
		Special Situation and IPP Median			**13%**						***3.6x***	***16.8x***	***15.7x***	***10.4x***	***8.7x***
		Special Situation and IPP Mean			**13%**						***10.9x***	***10.8x***	***15.0x***	***6.2x***	***6.6x***

Source: Goldman Sachs Research estimates.

Risk/reward appears favorable for Diversified Utilities, as "trading bands" suggest moderate downside but significant upside. Under a bear-case scenario, where the stocks trade (1) at only 8x P/E on regulated operations, (2) on a 4x on EV/EBITDA estimates for the non-regulated businesses, and (3) receive zero value for carbon exposure, we estimate Diversified Utilities have roughly 30% downside from current levels, as shown in Exhibit 32. However, a mid-case scenario would imply 22% upside if the stocks trade at 10x on P/E regulated earnings and receive credit for carbon exposure. As discussed above, we apply a 9.0x P/E multiple, 6.0x EV multiple, and adjust for returns, free cash flow, and carbon exposure to derive our target prices, with roughly 20%-25% average upside from current levels.

Exhibit 32: Risk-reward appears favorable for Diversified Utilities, given our new low/mid/high valuation scenario analysis
Low-mid-high valuations, Diversified Utilities

Assumptions							Low		Mid		High	
Regulated 2012 P/E multiple							7.0x		10.0x		13.0x	
Non-Regulated baseline 2011 EV/EBITDA multiple							4.0x		6.0x		8.0x	
Carbon							No value		Value		Value	
Diversified Utilities	**Ticker**	**Close 12/10/08**	**Dividend Yield**	**Target Price**	**Return to Target**		**Value**	**Return**	**Value**	**Return**	**Value**	**Return**
Ameren	AEE	$33.34	7.6%	$27	-11%		$16	-44%	$29	-4%	$48	52%
Edison International	EIX	$31.37	3.9%	$38	25%		$25	-16%	$43	41%	$68	122%
Entergy	ETR	$80.89	3.7%	$95	21%		$54	-29%	$100	27%	$133	68%
Exelon	EXC	$55.82	3.6%	$75	38%		$38	-29%	$76	40%	$97	78%
Sempra Energy	SRE	$44.48	3.1%	$46	7%		$29	-32%	$45	5%	$62	43%
Average					**16%**			**-30%**		**22%**		**72%**

Note: SRE values derived via sum-of-the parts, and include low/mid/high values of: 7x/10x/13x Utility P/E, $350/$500/$650 Generation $/kW, 4x/6x/8x Pipeline EV/EBITDA, 0.3x/0.6x/1.0x Commodities Book Value, 8x/10.5x/13x Diversified P/E, and 4x/6x/8x Diversified EV/EBITDA

Source: Company data, Goldman Sachs Research estimates.

Valuation appears attractive, but we recommend taking profits. We upgraded Diversified Utilities in late March 2008 based on positive commodity price exposure, relative earnings stability, and attractive valuation, and the group has outperformed the S&P 500 by roughly 700-800 basis points since then. Valuation remains attractive based on our sum-of-the-parts methodology shown above, with 20-25% upside to our 12-month target prices, and risk-reward appears favorable, also discussed above. However, we recommend investors take profits on Diversified Utilities given weakening near-term fundamentals and likely earnings disappointments.

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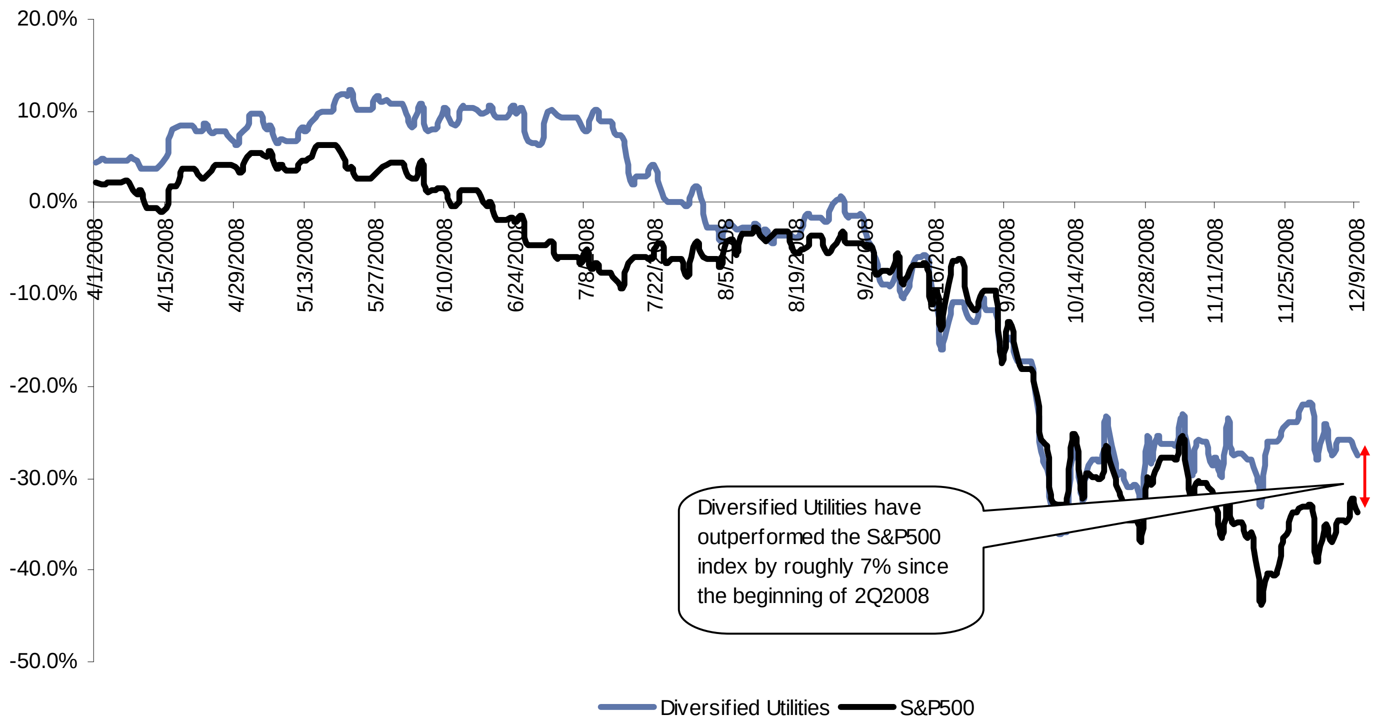
Exhibit 33: Diversified Utilities have outperformed the S&P500 since 2Q2008,
Diversified Utilities equity performance vs. S&P



Source: Factset

Upgrading Edison International to Buy given (1) valuation, (2) structural advantages – given expected decline in demand - for its regulated segment and (3) relative share price underperformance YTD, while downgrading Sempra Energy to Neutral and Ameren (AEE) to Sell

We upgrade Edison International from Neutral to Buy and remain bullish on nuclear generators Entergy and Exelon. Edison International, which expects roughly 80% of its long-term earnings power from its fast-growing regulated utility, has underperformed YTD other Diversified Utilities by about 700 bp and Regulated Utilities by about 1900 bp, implying mean reversion potential exists. Earnings power for the regulated segment in a difficult economic environment benefits compared to many peers, since demand decoupling exists for the California utilities – the company's regulated operations serve much of Southern California. We reiterate Buy ratings on Entergy and Exelon, especially since nuclear generators are primary beneficiaries of carbon regulations likely implemented by the middle of the next decade. Appendix D highlights the expected NPV benefits Entergy and Exelon will accrue – worth over $15/sh for each company.

On a YTD basis, Sempra Energy (SRE) outperformed many large cap Diversified Utilities by 200-1300 bp, driving our downgrade from Buy to Neutral, while we also downgrade Ameren Corp from Neutral to Sell. We downgrade Ameren (AEE, Sell) from Neutral to Sell, as the shares screen expensive on relative valuation versus peer Diversified Utilities. Our $27 target price implies roughly 18% capital depreciation, offset by a 7%+ yield. We revise our SOTP methodology for Sempra Energy, as detailed in Appendix C, to reflect lower earnings for the commodity trading segment and recognize risk exists given (1) uncertainty regarding counterparty and JV partnership structure and (2) shrinkage volumes within the commodity trading sector overall. More importantly, Sempra's shares, down roughly 30% YTD, outperformed all large-cap Diversified Utilities in our coverage universe by 400-600 bp and has traded in line or outperformed multiple others.

Appendices

Appendix A: Company overviews

Company Name: American Electric Power
Sub-Sector: Regulated Utilities
Ticker Symbol: AEP
Rating: Buy
Estimate changes: We reduce 2008-2010 EPS estimates to reflect (1) lower demand, especially in the Midwest, to reflect a yoy decline from 2008 levels, with minimal improvement in 2010, (2) decreased off-system MWh sales to reflect the negative 2009 outage of the Cook nuclear facility and (3) lower commodity prices negatively impacting gross margins on off-system sales.
Target price and ratings changes: We decrease our 12-month DDM and PE based target price from $40/sh to $36/sh for AEP given (1) lower assumed PE trading multiples and bands for Regulated Utilities and (2) lower earnings given decrease in electricity demand. We maintain our Buy rating on AEP.

Company Name: Ameren Corp
Sub-Sector: Diversified Utilities
Ticker Symbol: AEE
Rating: Sell
Estimate changes: We decrease 2009 EPS estimates to reflect lower demand at the company's regulated subsidiaries and decreased power prices for AEE's non-regulated operations. We also lower 2011+ earnings to reflect higher costs of coal/rail transportation to supply the coal generation portfolio.
Target price and ratings changes: We lower our SOTP-based target price from $34/sh to $27/sh to reflect a lower assumed trading multiple and band for the regulated subsidiaries of AEE, in line with methodology for the Regulated Utilities sub-sector. We are downgrading AEE from Neutral to Sell.

Company Name: Cleco Corp
Sub-Sector: Regulated Utilities
Ticker Symbol: CNL
Rating: Neutral
Estimate changes: We decrease 2008/2009 EPS estimates to reflect lower demand in Louisiana given economic conditions. We largely maintain or modestly increase our longer-term estimates for 2010-2012 given rate case timing and more normalized demand growth after 2010.
Target price and ratings changes: We decrease our 12-month DDM and PE based target price from $28/sh to $26/sh for CNL given (1) lower assumed trading multiples and bands for Regulated Utilities and (2) lower earnings given decrease in electricity demand. We maintain our Neutral rating on CNL.

Company Name: Consolidated Edison
Sub-Sector: Regulated Utilities

Ticker Symbol: ED
Rating: Sell
Estimate changes: We decrease our 2008-2012 EPS estimates to reflect (1) slightly lower longer-term rate base growth and (2) higher financing costs and increased share count given decline in equity values.
Target price and ratings changes: We decrease our 12-month DDM and PE based target price from $43/sh to $36/sh for ED given (1) lower assumed trading multiples and bands for Regulated Utilities, (2) decreased regulated earnings power and (3) lower EPS given increased share count. We downgrade ED from Neutral to Sell primarily on relative valuation. We expect a sizable equity issuance, creating a negative catalyst, by mid-year 2009.

Company Name: Duke Energy
Sub-Sector: Regulated Utilities
Ticker Symbol: DUK
Rating: Neutral
Estimate changes: We increase our 2008 EPS estimate to reflect 3Q2008 reporting and revised financing assumptions for FY2008, although we decrease 2009-2010 estimates given lower MWh demand growth assumptions and lower commodity prices in 2009.
Target price and ratings changes: We decrease our 12-month DDM and PE based target price from $18/sh to $16/sh for DUK driven by (1) lower assumed trading multiples and bands for Regulated Utilities, applying, (2) decreased long-term rate base growth assumptions and (3) higher financing costs, especially given current equity valuations. We remain Neutral rated on DUK.

Company Name: Edison International
Sub-Sector: Diversified Utilities
Ticker Symbol: EIX
Rating: Buy
Estimate changes: We reduce our 2008/2009 estimates for EIX to reflect lower commodity prices negatively impacting the unhedged portion of the company's merchant generation portfolio, while decreasing our longer-term forecast to reflect slightly higher coal transportation costs and modestly lower than previously expected utility rate base growth.
Target price and ratings changes: We decrease our 12-month SOTP-based target price from $47/sh to $38/sh to reflect a lower assumed trading multiple and band for the regulated subsidiary of EIX, as, in line with methodology for the Regulated Utilities sub-sector, as well as modestly lower non-regulated earnings power. Given relative underperformance on a YTD basis by EIX, we are upgrading from Neutral to Buy.

Company Name: El Paso Electric
Sub-Sector: Regulated Utilities
Ticker Symbol: EE
Rating: Neutral
Estimate changes: We lower our 2008-2011 estimates to reflect (1) decreased commodity price and marginal heat rate assumptions negatively impacting wholesale margins and (2) slightly higher costs of incremental debt issued to finance rate base growth.
Target price and ratings changes: We decrease our 12-month DDM and PE based target price from $25/sh to $21/sh for EE driven by lower assumed trading multiples and bands for Regulated Utilities, applying an 9.0x PE multiple on long-term 2012 EPS estimates.

Company Name: Entergy Corp
Sub-Sector: Diversified Utilities
Ticker Symbol: ETR
Rating: Buy
Estimate changes: We reduce our 2008-2010 estimates for ETR to reflect (1) decreased commodity price assumptions negatively impacting the unhedged portion of the company's non-regulated generation portfolio, (2) lower demand across ETR's utility subsidiaries in 2009 and 2010 and (3) slightly higher operating costs and fuel costs at the non-regulated nuclear generation fleet.
Target price and ratings changes: We decrease our 12-month SOTP-based target price from $108/sh to $95/sh to reflect a lower assumed trading multiple and band for the regulated subsidiaries of ETR, in-line with the methodology for the Regulated Utilities sub-sector, as well as modestly lower non-regulated earnings power. We maintain our Buy rating on ETR.

Company Name: Exelon Corp
Sub-Sector: Diversified Utilities
Ticker Symbol: EXC
Rating: Buy
Estimate changes: We reduce our 2008-2010 estimates for EXC to reflect (1) decreased commodity price assumptions negatively impacting the unhedged portion of the company's non-regulated nuclear and coal generation portfolio, (2) lower demand across EXC's utility subsidiaries in 2009 and 2010 and (3) slightly higher operating costs and fuel costs at the non-regulated nuclear generation fleet impacting 2011/2012 earnings.
Target price and ratings changes: We decrease our 12-month SOTP-based target price from $77/sh to $75/sh to reflect a lower assumed trading multiple and band for the regulated subsidiaries of EXC, in line with the methodology for the Regulated Utilities sub-sector, as well as modestly lower non-regulated earnings power. We maintain our Buy rating on EXC.

Company Name: Great Plains Energy
Sub-Sector: Regulated Utilities
Ticker Symbol: GXP
Rating: Neutral
Estimate changes: We lower our 2008-2011 estimates to reflect (1) incremental shares outstanding given large expected equity issuances in 2009-2011, (2) reduced demand expectations in 2009/2010 and (3) higher costs of new debt issuances.
Target price and ratings changes: We decrease our 12-month DDM and PE based target price from $26/sh to $23/sh for GXP driven by (1) lower assumed trading multiples and bands for Regulated Utilities and (2) our decreased EPS outlook given higher costs of both debt/equity financing. We remain Neutral rated on GXP and anticipate a significant capital raise in the next 12 months, likely an overhang on the company's shares.

Company Name: Northeast Utilities
Sub-Sector: Regulated Utilities
Ticker Symbol: NU
Rating: Neutral
Estimate changes: We reduce 2009 EPS estimates to reflect lower demand at the operating subsidiaries and slightly higher financing costs. We largely maintain 2010-2011 estimates, as earlier-than-expected PSNH generation rate base growth roughly offsets lower expected transmission growth. We increase 2012-2013 estimates based on higher expected transmission spending, particularly at PSNH.

Target price and ratings changes: We decrease our 12-month DDM and PE based target price from $26/sh to $25/sh for NU given lower assumed trading multiples and bands for Regulated Utilities partially offset by higher earnings estimates. We maintain our Neutral rating on NU.

Company Name: NSTAR
Sub-Sector: Regulated Utilities
Ticker Symbol: NST
Rating: Sell
Estimate changes: We decrease 2009-2012 EPS estimates to reflect lower electricity demand, partially offset by lower operating expenses.
Target price and ratings changes: We decrease our 12-month DDM and PE based target price from $34/sh to $29/sh for NST based on (1) lower assumed trading multiples and bands for Regulated Utilities and (2) lower expected earnings. We maintain our Sell rating on NST.

Company Name: NRG Energy
Sub-Sector: Independent Power Producers
Ticker Symbol: NRG
Rating: Buy
Estimate changes: We decrease 2009-2012 EBITDA estimates to reflect (1) decreased un-hedged power pricing due to lower natural gas prices in 2009 and lower marginal heat rates in 2010-2012, (2) slightly higher un-hedged coal prices and rail transportation costs.
Target price and ratings changes: We maintain our EV/EBITDA based target price of $29, which assumes the shares trade at 6.2x our 2011 EBITDA estimate. We maintain our Buy rating on NRG.

Company Name: NV Energy
Sub-Sector: Regulated Utilities
Ticker Symbol: NVE
Rating: Conviction Buy
Estimate changes: We lower our 2008/2009 estimates to reflect lower estimated power demand in Nevada, while making only $0.01-$0.02/sh adjustments to our long-term forecast of regulated earnings power.
Target price and ratings changes: We decrease our 12-month DDM and PE based target price from $15/sh to $14/sh for NVE driven by (1) lower assumed trading multiples and bands for Regulated Utilities. We reiterate our Conviction Buy rating and expect the shares to mean revert closer to group multiples over the coming months.

Company Name: Ormat Technologies
Sub-Sector: Independent Power Producers
Ticker Symbol: ORA
Rating: Neutral
Estimate changes: We decrease 2009-2012 EPS estimates to reflect (1) decreased un-hedged power pricing due to lower oil and natural gas prices, (2) adjustments to timing of power plant start dates and contract dates and (3) higher financing, especially higher interest expenses.
Target price and ratings changes: We decrease our DCF based target price from $42/sh to $34/sh for ORA based on our lower estimates. We maintain our Neutral rating on ORA.

Company Name: PG&E Corp
Sub-Sector: Regulated Utilities
Ticker Symbol: PCG
Rating: Buy
Estimate changes: We largely maintain our EPS estimates for PCG, updated multiple times in the last few months for quarterly earnings and changes to project approvals and financing assumptions.
Target price and ratings changes: We decrease our 12-month DDM and PE based target price from $41/sh to $37/sh for PCG given lower assumed trading multiples and bands for Regulated Utilities. Given the company's strategic advantage due to demand decoupling and its relative PE multiples versus other large cap Regulated Utilities we upgrade PCG from Neutral to Buy.

Company Name: Progress Energy
Sub-Sector: Regulated Utilities
Ticker Symbol: PGN
Rating: Neutral
Estimate changes: We decrease estimates for 2008-2010 to reflect (1) lower than previously forecast demand growth, especially in the company's Florida-based subsidiary and (2) higher financing costs.
Target price and ratings changes: We decrease our 12-month DDM and PE based target price from $43/sh to $40/sh for PGN given lower assumed trading multiples and bands for Regulated Utilities. We maintain our Neutral rating on PGN.

Company Name: Portland General
Sub-Sector: Regulated Utilities
Ticker Symbol: POR
Rating: Neutral
Estimate changes: We decrease 2009-2012 EPS estimates to reflect decreased power demand, higher financing costs and increased share count, given the need for equity issuances in 2009 at lower-than-previously assumed market prices.
Target price and ratings changes: We decrease our 12-month DDM and PE based target price from $27/sh to $23/sh for POR given lower assumed trading multiples and bands for Regulated Utilities. While POR screens attractively on longer-term earnings, the potential overhang of a sizable equity issuance may provide more attractive buying opportunities, especially since the shares trade below book value. We downgrade POR from Buy to Neutral.

Company Name: Reliant Energy
Sub-Sector: Independent Power Producers
Ticker Symbol: RRI
Rating: Not Rated
Estimate changes: We revise our forecasts for RRI to reflect (1) negative impact of abnormal weather and power price purchases in 2008, (2) lower commodity prices in 2009, (3) decreased retail customer exposure, margins and associated operating expenses and (4) lower than previously forecast financing costs.
Target price and ratings changes: We remain "Not Rated" on RRI.

Company Name: SCANA Corp
Sub-Sector: Regulated Utilities
Ticker Symbol: SCG

Rating: Sell

Estimate changes: We decrease our 2010-2012 estimates for SCG to reflect (1) lower power demand, especially in 2009/2010 and (2) increased share count due to equity issuances at lower market values.

Target price and ratings changes: We decrease our 12-month DDM and PE based target price from $39/sh to $34/sh for SCG given lower assumed trading multiples and bands for Regulated Utilities. We maintain our SELL rating on SCG given it trades at a relative premium to peers on longer-term earnings power.

Company Name: Sempra Energy
Sub-Sector: Diversified Utilities
Ticker Symbol: SRE
Rating: Neutral

Estimate changes: We decrease our EPS estimates for SRE to reflect (1) significantly lower expected earnings from the company's commodity trading joint venture, (2) lower near-term commodity prices and (3) slightly higher financing costs.

Target price and ratings changes: We decrease our SOTP-based target price from $52/sh to $46/sh for SRE and downgrade the shares from Buy to Neutral.

Company Name: Westar Energy
Sub-Sector: Regulated Utilities
Ticker Symbol: WR
Rating: Buy

Estimate changes: We revise EPS estimates for WR to reflect (1) modest changes to financing costs, (2) updated forecasts for non-fuel operational costs and (3) slight increase to expected long-term share count.

Target price and ratings changes: We decrease our 12-month DDM and PE based target price from $26/sh to $24/sh for WR given lower assumed trading multiples and bands for Regulated Utilities. We maintain our BUY rating on WR.

Company Name: Wisconsin Energy
Sub-Sector: Regulated Utilities
Ticker Symbol: WEC
Rating: Neutral

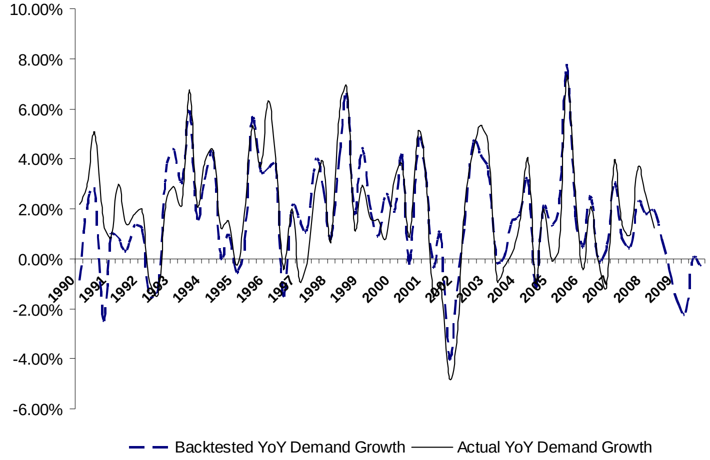
Estimate changes: We largely maintain our EPS estimates, having updated our forecast after the company's 3Q2008 earnings release and 10Q filing.

Target price and ratings changes: We decrease our 12-month DDM and PE based target price from $51/sh to $46/sh for WEC given lower assumed trading multiples and bands for Regulated Utilities. We maintain our Neutral rating on WEC**.**

Source: Goldman Sachs Research

Appendix B: Our regression analysis indicates for every 1% change in yoy GDP growth, there is a about 0.65% change in yoy electricity demand

yoy quarterly power demand growth vs. backtested yoy quarterly power demand growth



Dependent Variable: *% Year Over Year Change in Demand*

Number of Observations: 72

Sample 1990-2007

	Coefficient	*Standard Error*	*T-statistic*
% Year Over Year Change in GDP	0.648215	0.047671	13.60
Year Over Year Change in Cooling Degree Days	0.00032	0.000026	12.32
Year Over Year Change in Heating Degree Days	0.0000961	0.00000989	9.71

R-Squared: 0.737

Source: EIA, NOAA, Goldman Sachs Research estimates.

Appendix C: Sempra Energy sum-of-the-parts valuation and target price

Sum-of-the-parts valuation including Commodities	Segment Earnings or Equiv.	Multiple / Value Applied	Metric Desc.	Per Share Value
California Utilities				
SDG&E 2012E EPS	$1.71			
SoCalGas 2012E EPS	$1.17			
Total	**$2.88**	9.0x	(P/E)	**$26**
Generation				
Total MW Capacity (2007)	**2,630**	$500	($/kW value)	**$5**
Pipelines & Storage				
2012 EBITDA Forecast	$587			
Implied EV	$3,519			
Debt, Pipelines & Storage	$169			
Equity Value	**3,350**	6.0x	(EV/EBITDA)	**$13**
LNG				
Cameron and Energia Costa Azul			(DCF)	**$7**
Commodities				
Book Value, SRE Portion	$1,600	0.60x	(P/B)	**$4**
Parent/Other				
Long-term debt	**$2,920**			**($11)**
Cash/Equiv.	**$643**			**$2**
Total SoP Value				**$45**

Valuations and Price Target		
SoP	*12-month Price target based on equal-weighted average*	$45
P/E		$42
EV/EBITDA - excluding RBS Sempra Commodities		$51
12-month price target		**$46**

Source: Goldman Sachs Research estimates.

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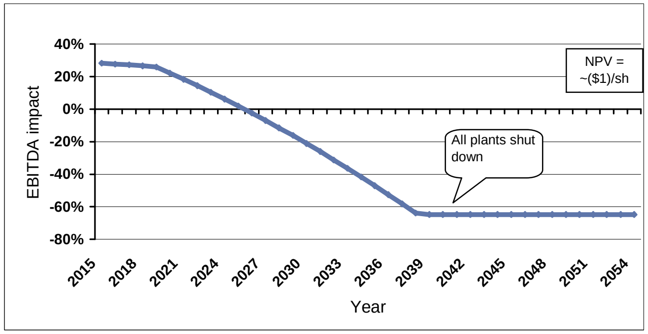
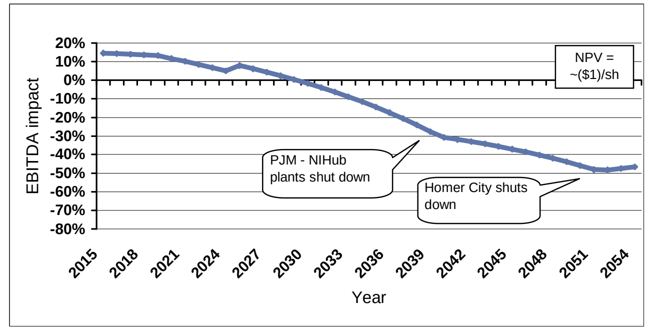
Appendix D: Coal generators expected to benefit initially, but EBITDA decline over time compared to 2012E levels

Percentage improvement or decline from baseline 2012E EBITDA

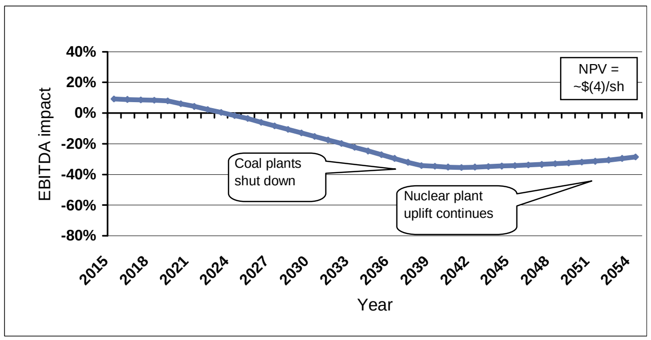
Ameren (AEE, Sell)



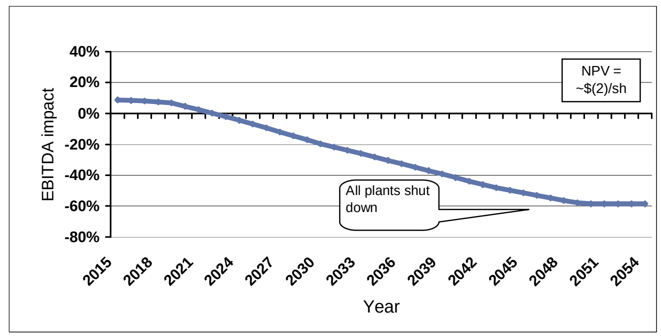
Edison International (EIX, buy)



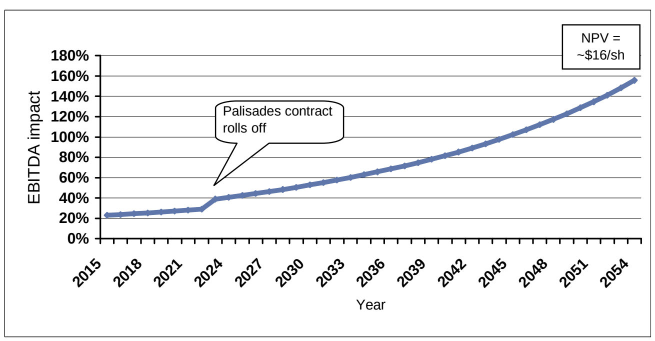
NRG Energy (NRG, Buy)



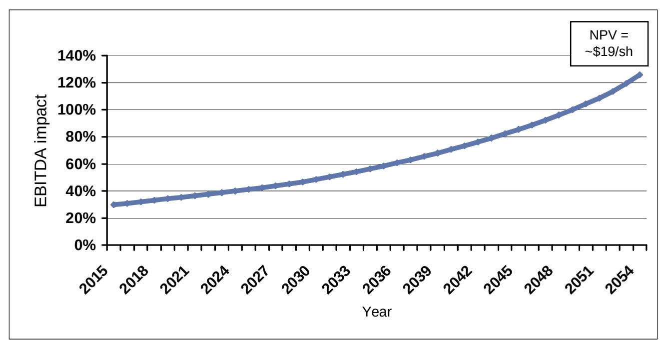
Reliant (RRI, Not Rated)



Entergy (ETR, Buy)



Exelon (EXC, Buy)



Source: Company data, Goldman Sachs Research estimates

Appendix E: Old vs. new 12-month target prices

Target price revisions						
Company	**Ticker**	**Rating**	**Target**			
Regulated Utilities			**Old**	**New**	**% Change**	**Return to New Target**
Large Cap						
American Elec Power	AEP	Buy	$40	$36	*-10%*	*25%*
Consolidated Edison	ED	Sell	$43	$36	*-16%*	*-2%*
Duke Energy	DUK	Neutral	$18	$16	*-11%*	*15%*
PG&E	PCG	Buy	$41	$37	*-10%*	*5%*
Progress Energy	PGN	Neutral	$43	$40	*-7%*	*6%*
Small & Mid Cap						
Cleco	CNL	Neutral	$28	$26	*-7%*	*27%*
El Paso Electric	EE	Neutral	$25	$21	*-16%*	*14%*
Great Plains Energy	GXP	Neutral	$26	$23	*-12%*	*28%*
Northeast Utilities	NU	Neutral	$26	$25	*-4%*	*10%*
NSTAR	NST	Sell	$34	$29	*-15%*	*-15%*
NV Energy	NVE	Buy	$15	$14	*-7%*	*52%*
Portland General Electric	POR	Neutral	$27	$23	*-15%*	*30%*
SCANA Corporation	SCG	Sell	$39	$34	*-13%*	*2%*
Westar Energy	WR	Buy	$26	$24	*-8%*	*34%*
Wisconsin Energy	WEC	Neutral	$51	$46	*-10%*	*13%*
Average					*-11%*	*16%*
Diversified Utilities						
Ameren	AEE	Sell	$34	$27	*-21%*	*-11%*
Edison International	EIX	Buy	$47	$38	*-19%*	*25%*
Entergy	ETR	Buy	$108	$95	*-12%*	*21%*
Exelon	EXC	Buy	$77	$75	*-3%*	*38%*
Sempra Energy	SRE	Neutral	$52	$46	*-12%*	*7%*
Average					*-13%*	*16%*
Independent Power Producers (IPPs)						
NRG Energy	NRG	Buy	$29	$29	*0%*	*19%*
Ormat Technologies	ORA	Neutral	$42	$34	*-19%*	*7%*
Reliant Energy	RRI	NR	--	--	--	--
Average					*-10%*	*13%*

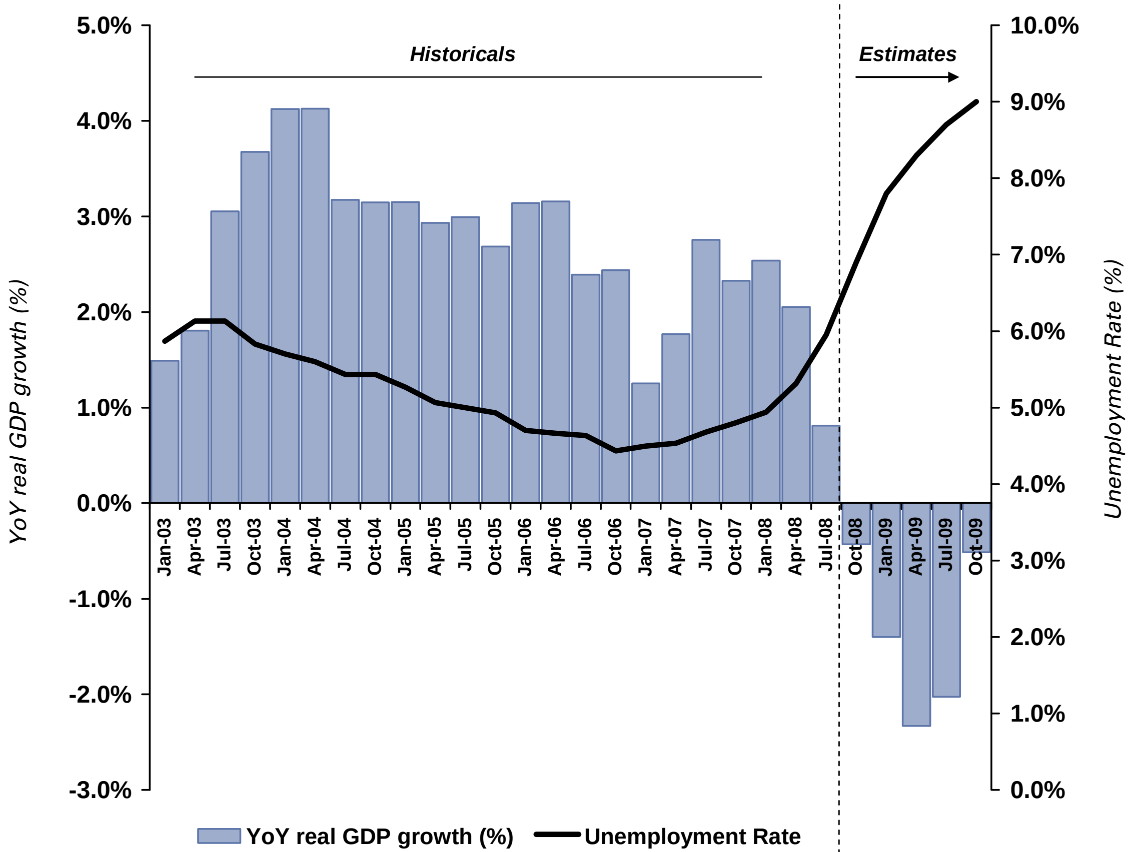
Source: Goldman Sachs estimates

Appendix F: Valuation methodology and risks

	Identification Ticker	Rating	Valuation Methodology	Main Company Risks
Diversified Utilities				
Ameren	**AEE**	**Sell**	SoP	Regulatory risk in Missouri (rate case); Regulatory risk in Illinois
Edison International	**EIX**	**Buy**	SoP	Environmental capex potentially significant; Commodity risk due to minimal hedging
Entergy	**ETR**	**Buy**	SoP	LT Commodity prices put non-regulated earnings at risk; Hurricane cost recovery
Exelon	**EXC**	**Buy**	SoP	LT Commodity prices as company becomes increasingly dependent on nonregulated business; Regulatory risk in Illinois
Sempra Energy	**SRE**	**Neutral**	SoP	Lower-than-expected earnings from trading business; Commodity price risk; SoCal utilities rate case risk
Regulated Utilities				
Large-Cap				
American Elec Power	**AEP**	**Buy**	DDM & P/E	Cost recovery of capital invested in major projects; Greater-than-expected wholesale margins and environmental capex; Above-average debt levels
Duke Energy	**DUK**	**Neutral**	DDM & P/E	Rate case risk at DUK's regulated Franchise Electric business
Consolidated Edison	**ED**	**Sell**	DDM & P/E	Below-average growth; Heavy capital spending to require substantial equity issuances in excess of guidance
PG&E	**PCG**	**Buy**	DDM & P/E	Delays in rate base growth
Progress Energy	**PGN**	**Neutral**	DDM & P/E	Lower-than-expected rate base growth, regulatory proceedings, greater-than-anticipated financing requirements
Mid and Small-Cap				
Cleco	**CNL**	**Neutral**	DDM & P/E	Rate case exposure in Louisiana after Rodemacher completion; worse-than-anticipated cash flows from non-regulated plants
El Paso Electric	**EE**	**Neutral**	DDM & P/E	Operational risk at Palo Verde may lead to less FCF and lower-than-expected equity repurchases
Great Plains Energy	**GXP**	**Neutral**	DDM & P/E	Risks to RoE in KS/MD; Greater-than-expected declines
Northeast Utilities	**NU**	**Neutral**	DDM & P/E	Regulatory approval of transmission projects, construction risk, and general regulatory and rate case risk
NSTAR	**NST**	**Sell**	DDM & P/E	Lower-than-expected load growth, failure to capture incentive revenues, higher-than-expected O&M
NV Energy	**NVE**	**Buy**	DDM & P/E	Lower-than-expected rate base or load growth, long-term rate case risk
Portland General Electric	**POR**	**Neutral**	DDM & P/E	Regulatory risk from the OPUC; long-term rate base growth that varies from our estimates
SCANA Corporation	**SCG**	**Sell**	DDM & P/E	Rate case risk, lower-than-expected gross margins, customer growth or market share at Scana Energy
Wisconsin Energy	**WEC**	**Neutral**	DDM & P/E	Construction delays; Regulatory environment may become less friendly
Westar Energy	**WR**	**Buy**	DDM & P/E	Regulatory risk
Special Situation Utilities and IPPs				
NRG Energy	**NRG**	**Buy**	EV/EBITDA	Delay/cost increases on planned construction; LT Commodity price risk
Ormat Technologies	**ORA**	**Neutral**	DCF	Elimination or reduction of Production Tax Credits; decreased capacity factors at existing plants; lower long-term commodity prices
Reliant Energy	**RRI**	**NR**		Lower-than-expected retail margins and generation capacity factors; Commodity risk

Source: GS Research estimates

Appendix G: Lower GDP growth has proven to be a driver of lower power demand in prior recessions
Annual power demand growth versus GDP growth, 1975 - 2006



Source: Goldman Sachs Research estimates.

Appendix H: Sempra's share price performance versus peer group
Price as of December 10, 2008

Company	Ticker	Primary analyst	Price currency	Price as of 12/10/08	Price as of 07/31/07	Price performance since 07/31/07	3 month price performance	6 month price performance	12 month price performance
Americas Power & Utilities Peer Group									
Sempra Energy	**SRE**	**Michael Lapides**	**$**	**44.48**	**52.72**	**-15.6%**	**-21.9%**	**-21.1%**	**-30.3%**
AGL Resources Inc.	ATG	Michael Lapides	$	28.57	37.70	-24.2%	-11.7%	-19.2%	-25.2%
Ameren Corp.	AEE	Michael Lapides	$	33.34	47.98	-30.5%	-15.5%	-24.7%	-38.4%
American Electric Power	AEP	Michael Lapides	$	30.09	43.49	-30.8%	-22.0%	-29.3%	-38.8%
Atmos Energy Corp.	ATO	Michael Lapides	$	22.39	28.07	-20.2%	-15.1%	-17.2%	-17.7%
Cleco Corp.	CNL	Michael Lapides	$	21.21	23.75	-10.7%	-14.0%	-15.6%	-25.0%
Consolidated Edison, Inc.	ED	Michael Lapides	$	39.41	43.68	-9.8%	-8.1%	-2.1%	-21.5%
Edison International	EIX	Michael Lapides	$	31.37	52.89	-40.7%	-24.9%	-40.3%	-45.4%
El Paso Electric Co.	EE	Michael Lapides	$	18.44	23.27	-20.8%	-12.8%	-14.4%	-30.0%
Exelon Corp.	EXC	Michael Lapides	$	55.82	70.15	-20.4%	-13.1%	-37.2%	-35.2%
Great Plains Energy Inc.	GXP	Michael Lapides	$	18.89	27.76	-32.0%	-18.3%	-27.8%	-37.8%
Northeast Utilities	NU	Michael Lapides	$	23.49	27.34	-14.1%	-6.8%	-11.8%	-27.7%
NRG Energy Inc.	NRG	Michael Lapides	$	24.32	38.55	-36.9%	-22.5%	-43.9%	-43.0%
NV Energy, Inc.	NVE	Michael Lapides	$	9.38	15.89	-41.0%	-11.2%	-32.1%	-45.5%
Ormat Technologies, Inc.	ORA	Michael Lapides	$	31.84	41.45	-23.2%	-21.6%	-40.3%	-39.9%
Progress Energy Inc.	PGN	Michael Lapides	$	39.47	43.66	-9.6%	-9.4%	-8.4%	-21.1%
Reliant Energy, Inc.	RRI	Michael Lapides	$	5.12	25.68	-80.1%	-65.7%	-79.1%	-81.5%
SCANA Corp.	SCG	Michael Lapides	$	34.73	37.38	-7.1%	-13.5%	-12.6%	-19.7%
WGL Holdings, Inc.	WGL	Michael Lapides	$	32.62	29.94	9.0%	-1.2%	-7.3%	-2.8%
Wisconsin Energy Corp.	WEC	Michael Lapides	$	41.63	42.93	-3.0%	-6.5%	-12.7%	-16.3%
S&P 500				**899.24**	**1455.27**	**-38.2%**	**-27.0%**	**-33.8%**	**-40.7%**

Note: Prices as of most recent available close, which could vary from the price date indicated above
This table shows movement in absolute share price and not total shareholder return. Results presented should not and cannot be viewed as an indicator of future performance.

Source: Factset, Quantum database.

Since being added to the Buy List on July 31, 2007, shares of SRE were down 16% but outperformed the S&P500 by 23% and the UTY by 7%. Over the last 12 months, shares of SRE have outperformed the S&P500 by 10% and the UTY by 3% over the last twelve months.

Appendix I: Portland General's share price performance
Price as of December 10, 2008

Company	Ticker	Primary analyst	Price currency	Price as of 12/10/08	Price as of 10/10/08	Price performance since 10/10/08	3 month price performance	6 month price performance	12 month price performance
Americas Power & Utilities Peer Group									
Portland General Electric Co.	**POR**	**Michael Lapides**	**$**	**18.44**	**20.29**	**-9.1%**	**-25.3%**	**-22.0%**	**-33.4%**
AGL Resources Inc.	ATG	Michael Lapides	$	28.57	26.27	8.8%	-11.7%	-19.2%	-25.2%
Ameren Corp.	AEE	Michael Lapides	$	33.34	27.54	21.1%	-15.5%	-24.7%	-38.4%
American Electric Power	AEP	Michael Lapides	$	30.09	28.00	7.5%	-22.0%	-29.3%	-38.8%
Atmos Energy Corp.	ATO	Michael Lapides	$	22.39	21.17	5.8%	-15.1%	-17.2%	-17.7%
Cleco Corp.	CNL	Michael Lapides	$	21.21	20.39	4.0%	-14.0%	-15.6%	-25.0%
Consolidated Edison, Inc.	ED	Michael Lapides	$	39.41	37.61	4.8%	-8.1%	-2.1%	-21.5%
Edison International	EIX	Michael Lapides	$	31.37	30.24	3.7%	-24.9%	-40.3%	-45.4%
El Paso Electric Co.	EE	Michael Lapides	$	18.44	17.45	5.7%	-12.8%	-14.4%	-30.0%
Exelon Corp.	EXC	Michael Lapides	$	55.82	47.38	17.8%	-13.1%	-37.2%	-35.2%
Great Plains Energy Inc.	GXP	Michael Lapides	$	18.89	17.21	9.8%	-18.3%	-27.8%	-37.8%
Northeast Utilities	NU	Michael Lapides	$	23.49	19.15	22.7%	-6.8%	-11.8%	-27.7%
NRG Energy Inc.	NRG	Michael Lapides	$	24.32	15.17	60.3%	-22.5%	-43.9%	-43.0%
NV Energy, Inc.	NVE	Michael Lapides	$	9.38	7.55	24.2%	-11.2%	-32.1%	-45.5%
Ormat Technologies, Inc.	ORA	Michael Lapides	$	31.84	24.09	32.2%	-21.6%	-40.3%	-39.9%
Progress Energy Inc.	PGN	Michael Lapides	$	39.47	35.42	11.4%	-9.4%	-8.4%	-21.1%
Reliant Energy, Inc.	RRI	Michael Lapides	$	5.12	3.07	66.8%	-65.7%	-79.1%	-81.5%
SCANA Corp.	SCG	Michael Lapides	$	34.73	30.03	15.7%	-13.5%	-12.6%	-19.7%
WGL Holdings, Inc.	WGL	Michael Lapides	$	32.62	24.84	31.3%	-1.2%	-7.3%	-2.8%
Wisconsin Energy Corp.	WEC	Michael Lapides	$	41.63	38.02	9.5%	-6.5%	-12.7%	-16.3%
S&P 500				**899.24**	**899.22**	**0.0%**	**-27.0%**	**-33.8%**	**-40.7%**

Note: Prices as of most recent available close, which could vary from the price date indicated above
This table shows movement in absolute share price and not total shareholder return. Results presented should not and cannot be viewed as an indicator of future performance.

Source: Factset, Quantum database

Since being added to the Buy List on October 10, 2008, shares of POR are down 9% and underperformed the S&P500 by 9% and the UTY by 22%. Over the last 12 months, shares of POR have outperformed the S&P500 by 7% and are in line with UTY.

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The precise calculation of each metric may vary depending on the fiscal year, industry and region but the standard approach is as follows:

Growth is a composite of next year's estimate over current year's estimate, e.g. EPS, EBITDA, Revenue. **Return** is a year one prospective aggregate of various return on capital measures, e.g. CROCI, ROACE, and ROE. **Multiple** is a composite of one-year forward valuation ratios, e.g. P/E, dividend yield, EV/FCF, EV/EBITDA, EV/DACF, Price/Book. **Volatility** is measured as trailing twelve-month volatility adjusted for dividends.

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Exhibit 2

AFFIDAVIT OF WARNER L. BAXTER

I, WARNER L. BAXTER, having first been duly sworn, state as follows:

1. I am the Executive Vice President and Chief Financial Officer for Ameren Corporation and its subsidiaries AMEREN ENERGY GENERATING COMPANY and AmerenENERGY RESOURCES GENERATING COMPANY (collectively "Ameren"). In my capacity as principal financial officer of Ameren, I am responsible for all aspects of the financial status of Ameren including financial reporting, accounting procedures, capital budgets and expenditures, and their debt and credit securities.

2. I also serve on the Board of Managers of Ameren Energy Resources Company, LLC, which owns 80% of the common stock of ELECTRIC ENERGY, INC., one of the petitioner companies in this matter.

2. I have reviewed the public comments filed by certain environmental organizations and Ameren's and Electric Energy, Inc.'s response to those comments.

3. The statements of facts contained in the petitioners' joint response are true and correct to the best of my knowledge and belief.

FURTHER, AFFIDIANT SAYETH NOT.

Warner L. Baxter
Warner L. Baxter

Subscribed and sworn to before me this 29th day of December, 2008.

Carol A. Head
Notary Public

Carol A. Head - Notary Public
Notary Seal, State of
Missouri - St. Charles County
Commission #06477170
My Commission Expires 11/20/2010