

April 27, 2010

Research
North America

Electric Utilities Industry Overview



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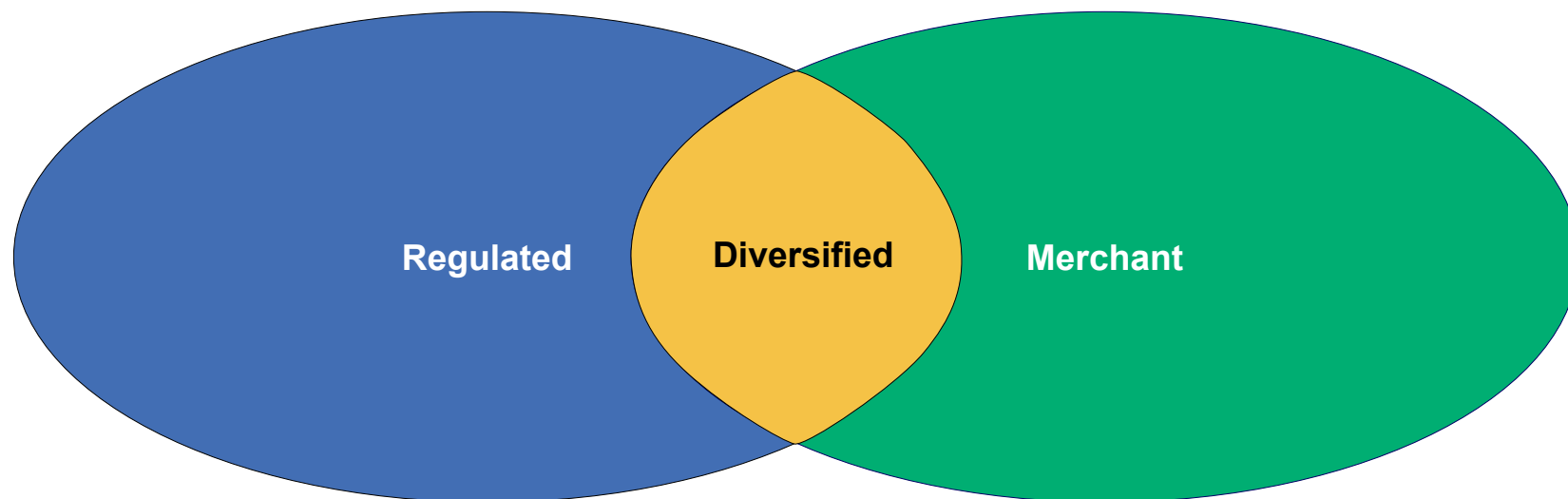
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Utility Business Models Do Matter



REGULATED

Widow and Orphan Stocks

- Rate of returns on investment set by regulators
- High Dividend Yield
- Modest EPS Growth
- Anemic Cash Yields

DIVERSIFIED

Bits of both worlds

- Regulated T&D + Merchant Generation
- Lower Dividend Yields
 - Earnings Cyclical
 - Better Cash Yields

MERCHANT GENERATORS

Harvesting the spread between power and fuel costs

- Commodity exposure
- Typically do not pay dividends
- Earnings cyclical

Regulated Utilities															
Ticker	Company Name	4/27/10 Price	MS Rating	Shares Out	Market Cap	2010 Div Yld	2010 Payout	MS EPS Estimate			P/E Multiple			'09-'12 EPS Growth	Price to Book
								2010	2011	2012	2010	2011	2012		
NST	NStar	\$36.93	UW	104	3,828	4.4%	63%	2.55	2.70	2.80	14.5x	13.7x	13.2x	6.0%	2.0x
SO	Southern Company Inc	\$34.50	UW	827	28,536	5.2%	76%	2.35	2.60	2.70	14.7x	13.3x	12.8x	5.5%	2.0x
ED	Consolidated Edison Inc	\$44.60	UW	282	12,562	5.4%	75%	3.20	3.40	3.55	13.9x	13.1x	12.6x	4.9%	1.2x
DTE	DTE Energy Co	\$46.87	EW	168	7,886	4.5%	60%	3.55	3.65	3.75	13.2x	12.8x	12.5x	4.4%	1.3x
PGN	Progress Energy Inc	\$38.78	EW	284	11,026	6.4%	84%	2.95	3.05	3.15	13.1x	12.7x	12.3x	1.2%	1.2x
XEL	Xcel Energy Inc	\$21.46	EW	460	9,873	4.7%	63%	1.60	1.75	1.85	13.4x	12.3x	11.6x	7.4%	1.4x
WEC	Wisconsin Energy Corp	\$50.88	OW	118	6,004	3.1%	44%	3.65	3.95	4.40	13.9x	12.9x	11.6x	11.2%	1.6x
PCG	PG&E Corp	\$43.21	OW	383	16,534	4.2%	52%	3.45	3.75	3.93	12.5x	11.5x	11.0x	7.0%	1.6x
PNW	Pinnacle West Capital Corp	\$37.10	EW	105	3,909	5.7%	71%	3.00	3.05	3.40	12.4x	12.2x	10.9x	13.4%	1.2x
WR	Westar Energy Inc	\$22.90	OW	116	2,658	5.5%	74%	1.70	1.80	2.10	13.5x	12.7x	10.9x	16.8%	1.2x
TE	Teco Energy Inc	\$16.54	EW	213	3,526	5.0%	64%	1.28	1.42	1.52	13.0x	11.7x	10.9x	12.3%	1.7x
DUK	Duke Energy Corp	\$16.01	UW	1,312	20,998	6.1%	76%	1.30	1.35	1.50	12.3x	11.9x	10.7x	7.7%	1.0x
CMS	CMS Energy Corp	\$16.13	OW	248	3,996	3.7%	45%	1.35	1.45	1.60	11.9x	11.1x	10.1x	8.2%	1.4x
AEP	American Electric Power Co Inc	\$33.34	OW	478	15,951	5.1%	56%	3.06	3.15	3.35	10.9x	10.6x	10.0x	4.1%	1.2x
NVE	NV Energy	\$12.50	OW	235	2,942	3.6%	43%	1.05	1.00	1.35	11.9x	12.5x	9.3x	20.1%	0.9x
Regulated Group Average						4.8%	63%				13.0x	12.3x	11.3x	8.7%	1.4x
Regulated Group Max						6.4%	84%				14.7x	13.7x	13.2x	20.1%	2.0x
Regulated Group Min						3.1%	43%				10.9x	10.6x	9.3x	1.2%	0.9x
Diversified Utilities															
Ticker	Company Name	4/27/10 Price	MS Rating	Shares Out	Market Cap	2010 Div Yld	2010 Payout	MS EPS Estimate			P/E Multiple			'09-'12 EPS Growth	Price to Book
								2010	2011	2012	2010	2011	2012		
AYE	Allegheny Energy Inc	\$21.20	NA	171	3,627	3.1%	30%	2.20	1.90	1.20	9.6x	11.2x	17.7x	-19.5%	1.2x
EXC	Exelon Corp	\$42.85	EW	662	28,367	5.0%	58%	3.70	4.00	2.90	11.6x	10.7x	14.8x	-11.0%	2.2x
CEG	Constellation Energy Group Inc	\$36.43	EW	201	7,333	2.8%	32%	3.20	3.35	2.65	11.4x	10.9x	13.7x	-7.6%	0.8x
D	Dominion Resources Inc	\$41.14	UW	586	24,095	4.3%	53%	3.30	3.10	3.00	12.5x	13.3x	13.7x	-2.8%	2.2x
EIX	Edison International	\$33.28	EW	330	10,976	3.8%	39%	3.25	2.70	2.65	10.2x	12.3x	12.6x	-6.5%	1.1x
PEG	Public Service Enterprise Group Inc	\$31.07	EW	507	15,764	4.4%	43%	3.20	2.85	2.55	9.7x	10.9x	12.2x	-6.5%	1.8x
ETR	Entergy Corp	\$80.36	OW	185	14,886	4.1%	47%	7.00	7.20	6.75	11.5x	11.2x	11.9x	0.4%	1.7x
FE	FirstEnergy Corp	\$36.90	NA	306	11,291	6.1%	63%	3.60	3.55	3.15	10.3x	10.4x	11.7x	-5.6%	1.3x
SRE	Sempra Energy	\$49.02	EW	249	12,219	3.5%	38%	4.50	4.40	4.50	10.9x	11.1x	10.9x	-2.0%	1.4x
FPL	FPL Group Inc	\$50.02	EW	413	20,655	4.0%	46%	4.35	4.45	4.65	11.5x	11.2x	10.8x	4.7%	1.6x
PPL	PPL Corp	\$27.73	EW	379	10,506	5.2%	44%	3.30	3.10	3.25	8.4x	8.9x	8.5x	18.4%	1.9x
Diversified Group Average						4.2%	45%				10.7x	11.1x	12.6x	-3.5%	1.6x
Diversified Group Max						6.1%	63%				12.5x	13.3x	17.7x	18.4%	2.2x
Diversified Group Min						2.8%	30%				8.4x	8.9x	8.5x	-19.5%	0.8x
Morgan Stanley Utility Index - Average						4.6%	55.3%				12.0x	11.8x	11.9x	3.5%	1.5x

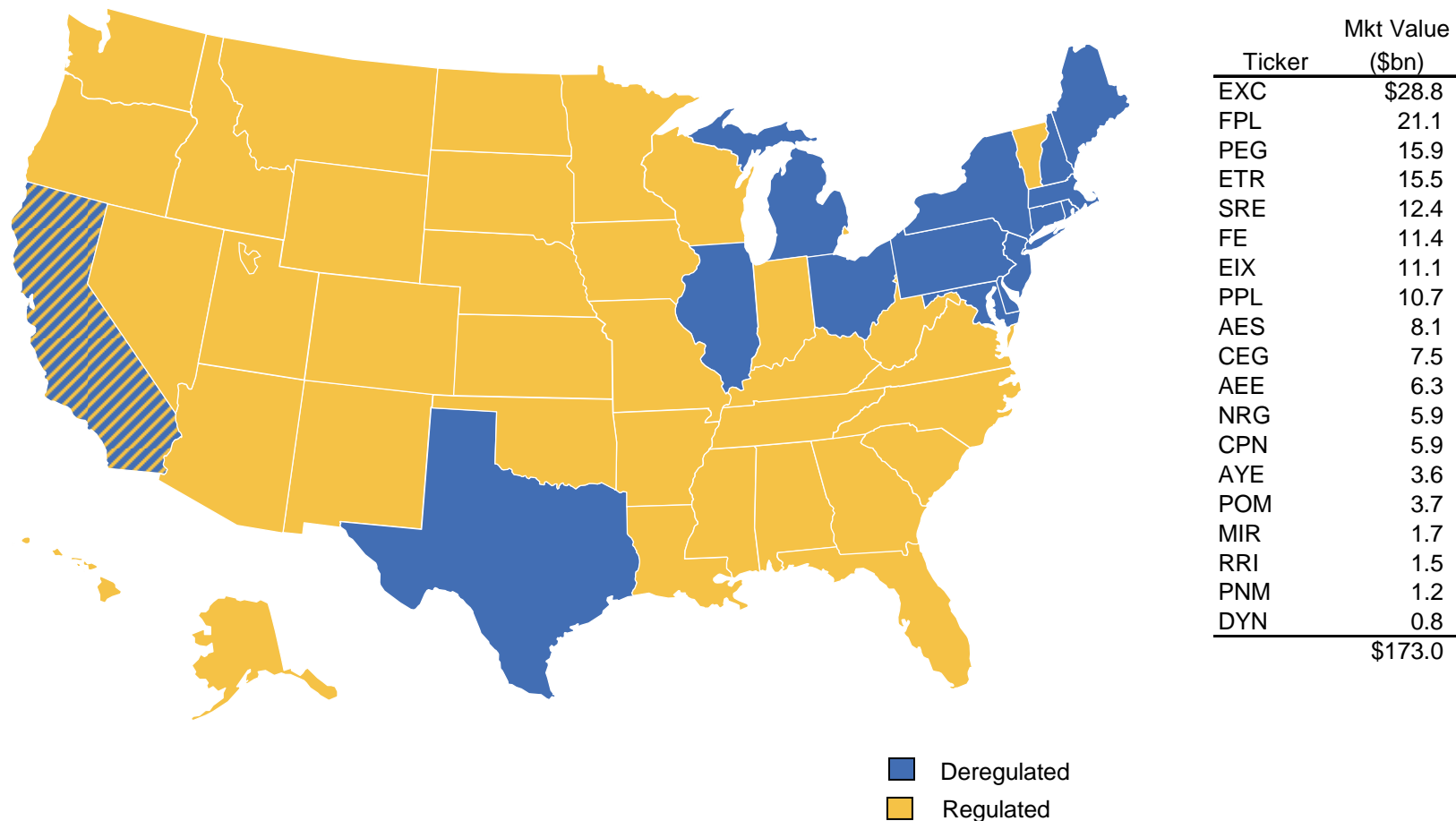
Source: Morgan Stanley Research

FY '09			YTD - 1/1/10 to 4/27/10			LTD - 3/9/09 to 4/27/10			QTD - 1/14/10 to 4/27/10			MTD - 3/1/10 to 4/27/10			WTD - 4/20/10 to 4/27/10			Launch - 9/17/09 to 4/27/10		
1	S&P 500	23.5%	1	S&P 500	6.2%	1	S&P 500	75.0%	1	S&P 500	3.1%	1	S&P 500	6.1%	1	Regulated	(0.4%)	1	Regulated	13.4%
2	Regulated	20.7%	2	Regulated	1.8%	2	Regulated	53.3%	2	Regulated	0.8%	2	Regulated	4.2%	2	Index	(1.0%)	2	S&P 500	11.1%
3	Index	15.2%	3	Index	(1.3%)	3	Index	48.4%	3	Index	(1.4%)	3	Index	2.9%	3	Diversified	(1.5%)	3	Index	7.1%
4	Diversified	8.3%	4	Diversified	(5.4%)	4	Diversified	40.7%	4	Diversified	(4.2%)	4	Diversified	1.2%	4	S&P 500	(1.9%)	4	Diversified	(0.6%)

FY '09			YTD - 1/1/10 to 4/27/10			LTD - 3/9/09 to 4/27/10			QTD - 1/14/10 to 4/27/10			MTD - 3/1/10 to 4/27/10			WTD - 4/20/10 to 4/27/10			Launch - 9/17/09 to 4/27/10		
1	CMS	59.8%	1	DTE	8.7%	1	CEG	139.7%	1	DTE	7.0%	1	NST	8.5%	1	CMS	2.1%	1	DTE	35.6%
2	CEG	44.0%	2	D	6.9%	2	DTE	109.7%	2	D	6.4%	2	WR	8.3%	2	DTE	1.4%	2	CMS	23.6%
3	TE	37.8%	3	WR	6.9%	3	TE	90.8%	3	CEG	5.6%	3	NVE	8.2%	3	PEG	0.9%	3	D	23.6%
4	SRE	35.0%	4	SO	4.9%	4	EE	78.2%	4	EE	5.3%	4	SO	7.6%	4	NST	0.8%	4	TE	20.7%
5	NVE	29.3%	5	CEG	4.3%	5	PNW	70.4%	5	WR	4.6%	5	D	7.4%	5	SO	0.3%	5	EE	19.0%
6	DTE	28.1%	6	CMS	4.0%	6	NVE	61.5%	6	SO	4.5%	6	DTE	7.0%	6	PCG	0.3%	6	NST	17.2%
7	ED	22.8%	7	TE	3.2%	7	WR	59.8%	7	CMS	3.0%	7	TE	6.4%	7	FPL	(0.1%)	7	PNW	15.2%
8	WEC	21.9%	8	EE	3.0%	8	D	57.2%	8	NST	2.5%	8	AEE	6.0%	8	NVE	(0.2%)	8	CEG	15.2%
9	DUK	20.9%	9	WEC	2.9%	9	CMS	56.1%	9	NVE	1.9%	9	FPL	5.6%	9	EE	(0.2%)	9	WEC	13.4%
10	PNW	20.4%	10	PNW	2.9%	10	EIX	46.3%	10	TE	1.5%	10	CMS	4.9%	10	WR	(0.3%)	10	ED	11.6%
11	PCG	19.7%	11	NST	2.5%	11	AEP	44.1%	11	WEC	1.5%	11	EE	4.5%	11	PPL	(0.6%)	11	WR	11.5%
12	XEL	19.6%	12	XEL	2.3%	12	ED	43.6%	12	FPL	1.0%	12	PCG	3.9%	12	XEL	(0.6%)	12	SO	10.3%
13	PEG	18.5%	13	NVE	1.9%	13	DUK	43.6%	13	XEL	0.4%	13	CEG	3.7%	13	TE	(0.7%)	13	XEL	10.1%
14	D	13.5%	14	ED	(0.5%)	14	WEC	43.1%	14	PGN	0.4%	14	ETR	3.3%	14	D	(0.7%)	14	PCG	8.5%
15	EIX	12.2%	15	ETR	(0.9%)	15	NST	40.7%	15	PNW	(0.3%)	15	ED	3.3%	15	ED	(0.7%)	15	AEP	8.0%
16	EE	12.1%	16	PCG	(2.2%)	16	AEE	40.2%	16	PCG	(1.9%)	16	XEL	3.3%	16	WEC	(1.0%)	16	NVE	7.3%
17	WR	11.8%	17	PGN	(2.4%)	17	XEL	40.1%	17	ETR	(2.0%)	17	PEG	3.2%	17	PGN	(1.5%)	17	DUK	4.2%
18	PPL	9.8%	18	AEP	(3.0%)	18	SRE	38.8%	18	ED	(2.2%)	18	WEC	3.2%	18	ETR	(1.6%)	18	AEE	3.8%
19	AEP	9.5%	19	EIX	(3.4%)	19	ETR	36.2%	19	AEE	(3.4%)	19	PGN	1.7%	19	CEG	(1.8%)	19	PGN	3.6%
20	PGN	9.1%	20	FPL	(4.4%)	20	SO	35.2%	20	PEG	(4.3%)	20	PNW	1.3%	20	AEP	(1.8%)	20	ETR	2.9%
21	FPL	8.7%	21	AEE	(5.0%)	21	PEG	34.3%	21	DUK	(4.8%)	21	EIX	0.8%	21	SRE	(1.9%)	21	PEG	0.0%
22	NST	5.0%	22	PEG	(5.5%)	22	PGN	32.9%	22	EIX	(5.2%)	22	SRE	0.2%	22	AEE	(2.0%)	22	EIX	(1.1%)
23	ETR	2.1%	23	DUK	(5.6%)	23	PCG	27.6%	23	AYE	(6.0%)	23	AEP	(1.8%)	23	DUK	(2.1%)	23	SRE	(1.7%)
24	FE	0.1%	24	AYE	(9.1%)	24	FPL	24.3%	24	AEP	(6.8%)	24	DUK	(2.9%)	24	FE	(2.4%)	24	PPL	(7.0%)
25	SO	(5.3%)	25	EXC	(11.2%)	25	PPL	19.0%	25	SRE	(7.8%)	25	PPL	(3.0%)	25	EIX	(2.4%)	25	FPL	(7.2%)
26	EXC	(8.3%)	26	SRE	(11.7%)	26	AYE	6.1%	26	EXC	(11.6%)	26	EXC	(3.6%)	26	PNW	(2.5%)	26	EXC	(15.3%)
27	AEE	(11.3%)	27	PPL	(13.1%)	27	FE	5.5%	27	PPL	(13.0%)	27	FE	(5.6%)	27	EXC	(2.9%)	27	FE	(18.8%)
28	AYE	(28.9%)	28	FE	(19.4%)	28	EXC	2.5%	28	FE	(20.1%)	28	AYE	(6.9%)	28	AYE	(3.9%)	28	AYE	(20.8%)

Source: Morgan Stanley Research

States With Deregulated Generation: \$169 bn Of Market Cap In Competitive Markets



Source: EIA, FactSet, Morgan Stanley Research
Market cap data as of 10/9/2009

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- Valuation Approaches

4 Key Drivers for Regulated Utilities: Regulation & Economic Growth

1. **Regulatory Environment** – The key factor that determines a utility’s ability to make new investments, earn a fair return, and sets the level at which the company will finance externally.
2. **Rate Base Growth** – Rate base represents the amount invested by the utility in the electric system

Capex > Depreciation ➔ Rate Base Growth

Capex < Depreciation ➔ Declining Rate Base

	Rate Base
≈	PPE
—	Depreciation
±	Deferred Taxes

3. **Returns** – Set by regulators. CAPM, DCF models often used to determine allowed return on equity

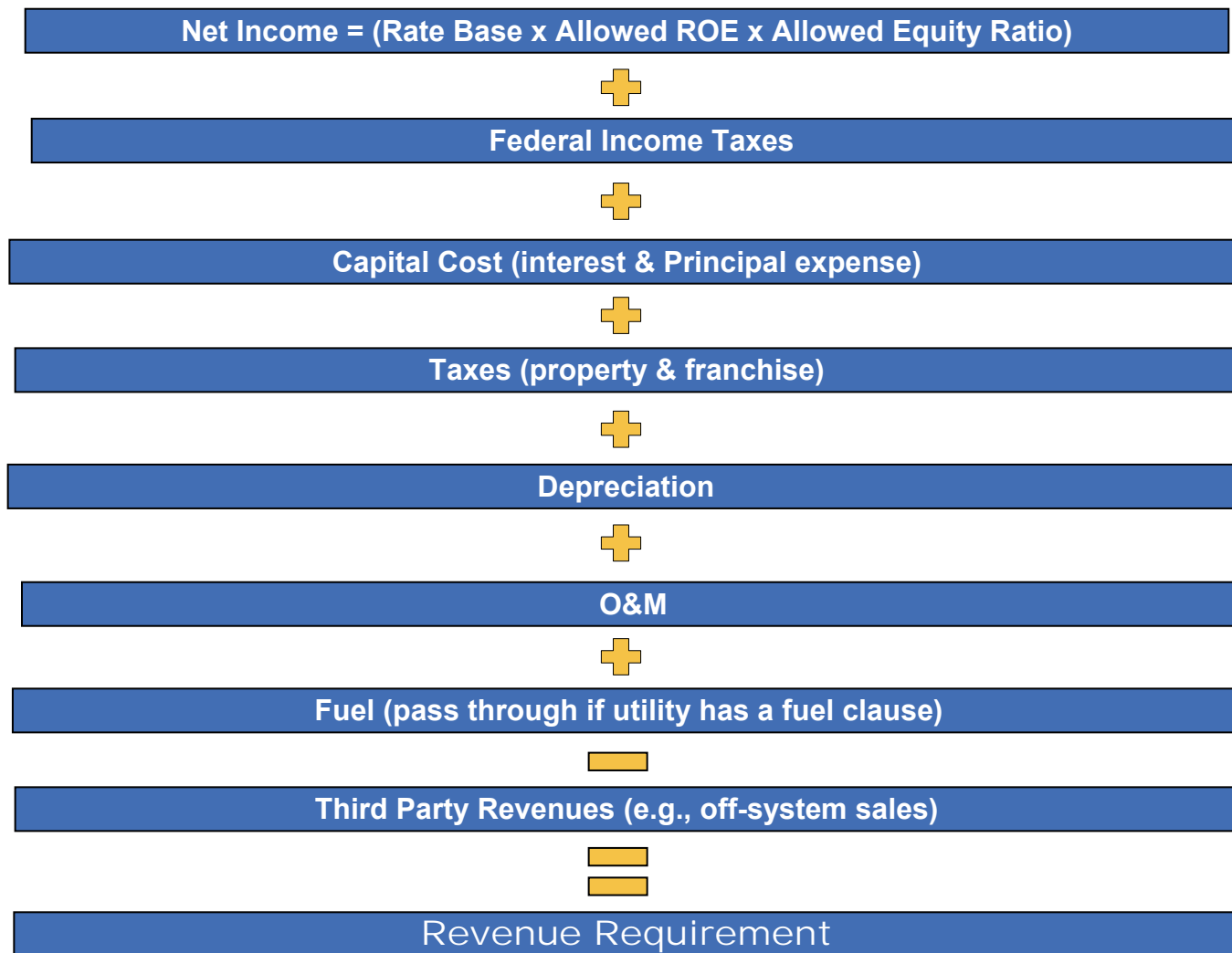
Key Formulas:

Net Income = Rate Base x Allowed Equity Ratio x Allowed Return on Equity

Revenue = Cost + Profit

4. **Regulatory Compact** – A utility should be allowed to earn a “fair and reasonable” return on its “used and useful” capital investments and recover “prudently incurred” costs.

Rate Case Anatomy: Determining Revenue Requirement



Regulated Utilities: Key Drivers

$$\text{Earnings} = f(\text{Assets, Allowed Returns, Capital Ratios})$$

Category	Driver	Impact	Comments
Assets	Rate base growth	Positive	T&D upgrades needed to improve system reliability and move renewable energy to loads. Generation related capex has been generally deferred due to pullback in demand. Environmental retrofits needed to meet tightening standards.
Allowed Returns	Rate cases	Neutral	Allowed ROEs modestly higher. Recessionary pressures have not driven confiscatory decisions, yet.
Capital Ratios	Rate cases	Neutral	Equity ratio is determined by regulators and companies manage to prescribed levels.

Differentiating Factors

- Benefits from growing rate base ultimately impact earnings and dividend growth
- “Regulatory lag” can have a significant impact on earnings and cash flow
- Cost recovery schemes can vary from state to state.
- Local political nuances matter (PUC elected or appointed, Republican or Democrat)

Source: Morgan Stanley Research

Rate Case Anatomy: The Players

Company

- Seeks “fair” rate of return on rate base and timely cost of recovery

PUC Staff

- Evaluates company and intervener testimony
- Makes recommendations

Commission

- Elected or appointed officials who set policy and make final decisions on regulatory matters

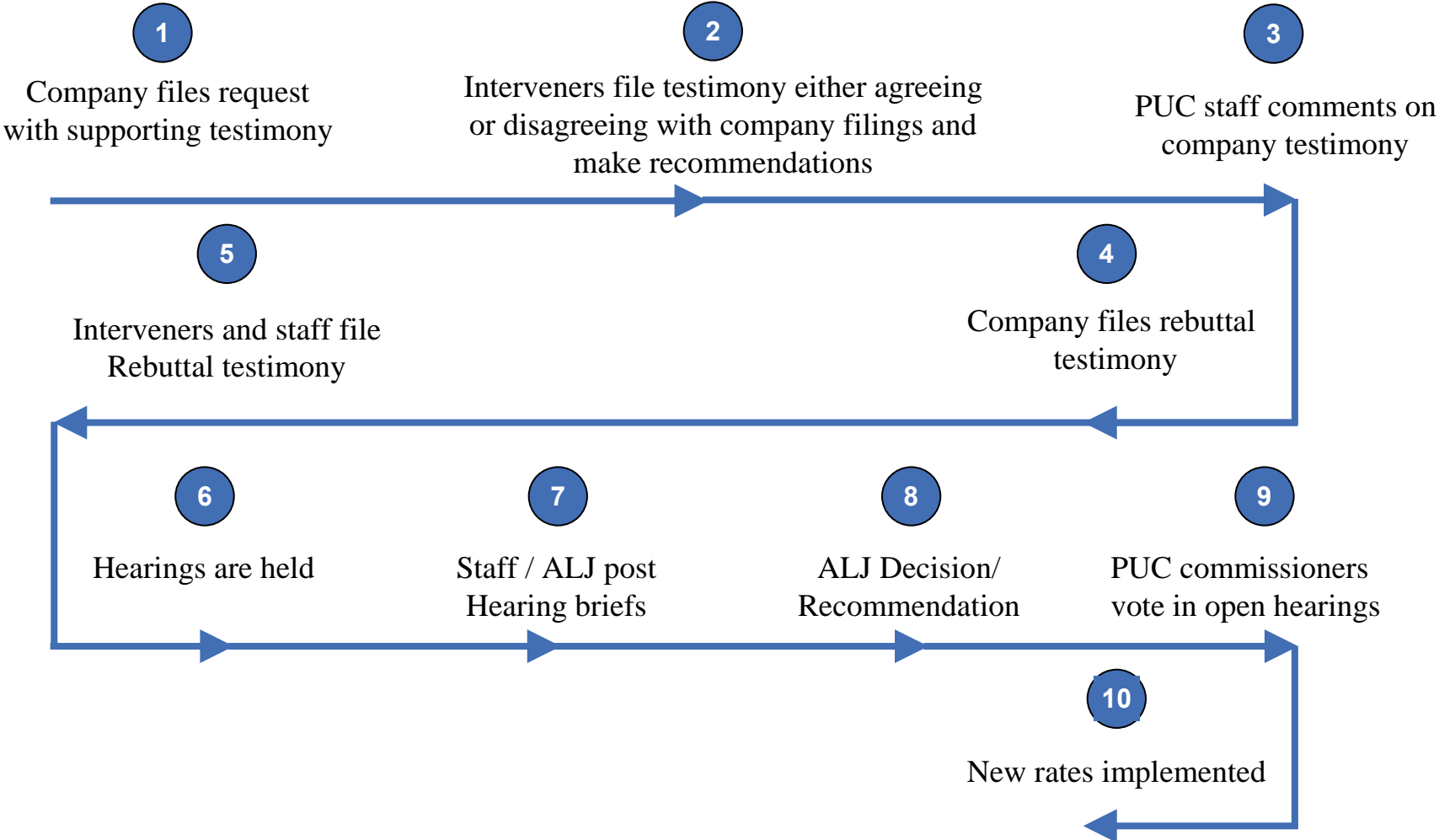
Interveners

- Significant interveners include:
Industrial groups, consumer advocates, environmentalists, State Attorney General

Administrative Law Judge

- Evaluates testimony
- Sets hearings/timetables
- Runs procedural issues
- Issues Proposed Decisions

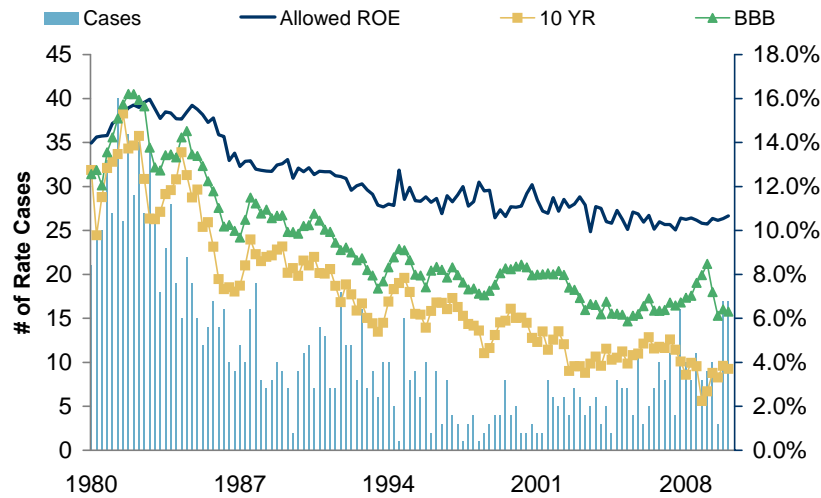
Rate Case Anatomy: Typical Timeline



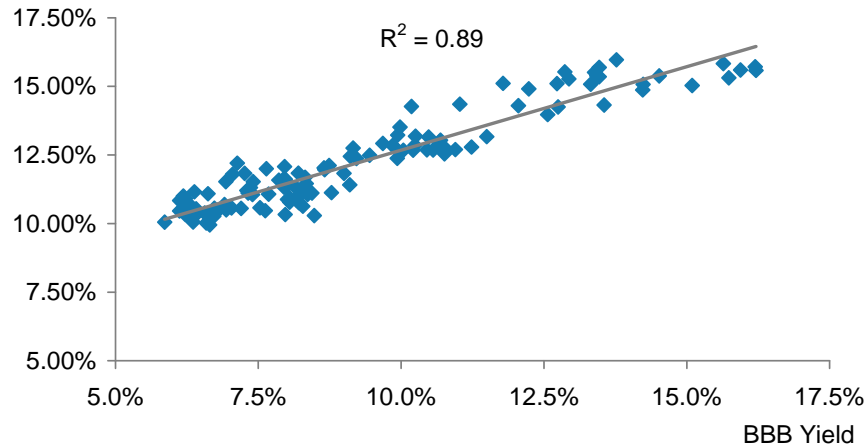
Source: Morgan Stanley Research

Authorized ROE's Have Averaged 10.55% Over the Last Twelve Months

Range For Authorized ROE: 10% to 12.4%



BBB Yield vs. Allowed Utility ROE



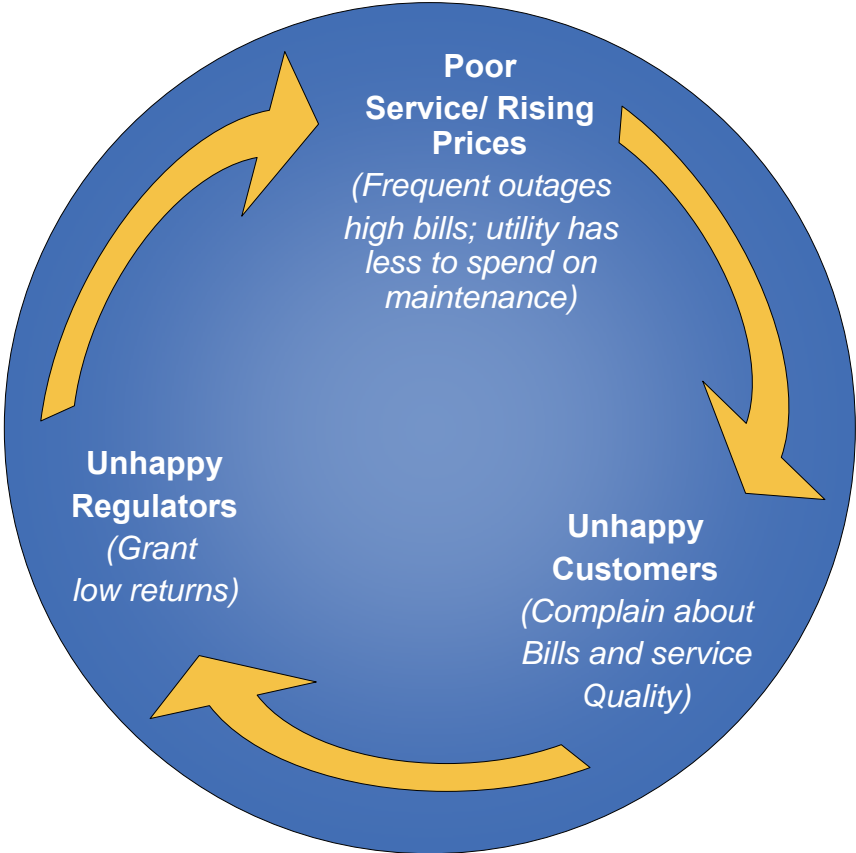
Source: Morgan Stanley Research

Regulatory Environment: Why It Matters

Circle of Life



Downward Spiral

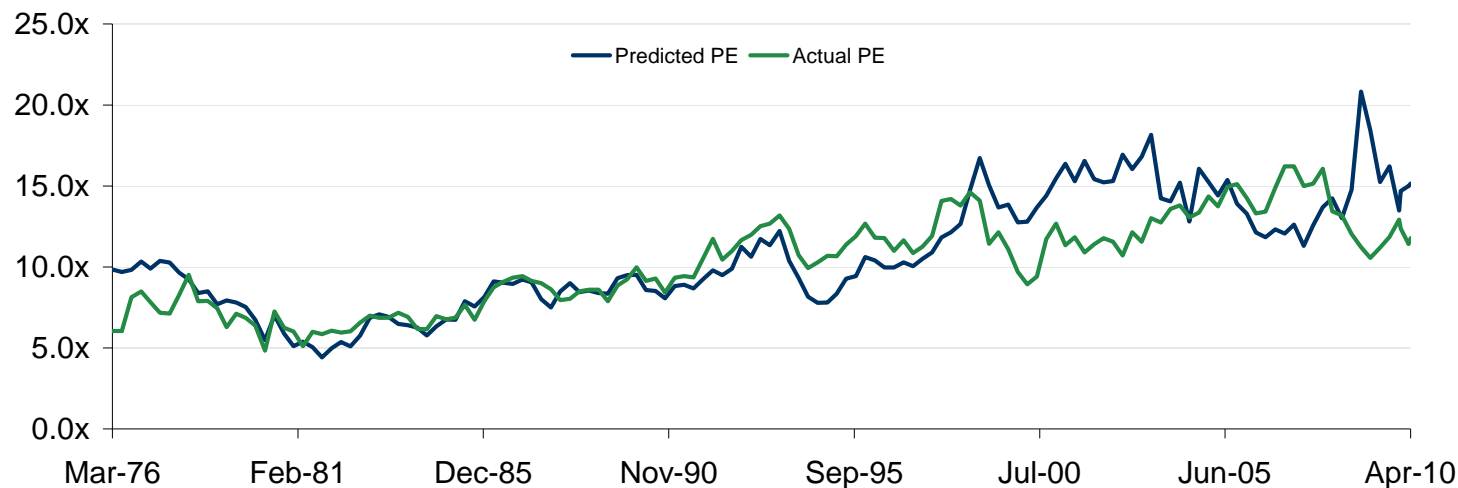


Source: Morgan Stanley Research

The Group Overall Looks Fairly Valued

Assumptions	Historical Snapshots of DDM Predictions Vs Actual						Current @ Equity Risk Premium of			
	Dec-96	Sep-08	Dec-08	Mar-09	Jun-09	Jan-10	6.0%	7.0%	8.0%	5.2%
10 Year Yield	6.30%	3.62%	2.24%	2.72%	3.52%	3.68%	3.80%	3.80%	3.80%	5.50%
Beta	0.72	0.74	0.70	0.71	0.71	0.71	0.68	0.68	0.68	0.68
Projected Earned ROE	12.9%	11.4%	10.5%	11.2%	10.8%	10.7%	10.8%	10.8%	10.8%	10.8%
5 Yr Rate Base CAGR	2.6%	5.8%	6.0%	5.6%	5.7%	5.4%	6.1%	6.1%	6.1%	6.1%
Predicted P/E	10.7x	15.7x	22.6x	19.8x	16.2x	15.6x	13.4x	11.9x	10.7x	11.5x
Actual P/E	11.6x	12.0x	11.2x	10.6x	11.2x	12.4x	11.5x	11.5x	11.5x	11.5x
Ratio	0.92x	1.31x	2.01x	1.87x	1.45x	1.26x	1.16x	1.03x	0.93x	1.00x

Forward P/E Predicted by DDM vs. Actual



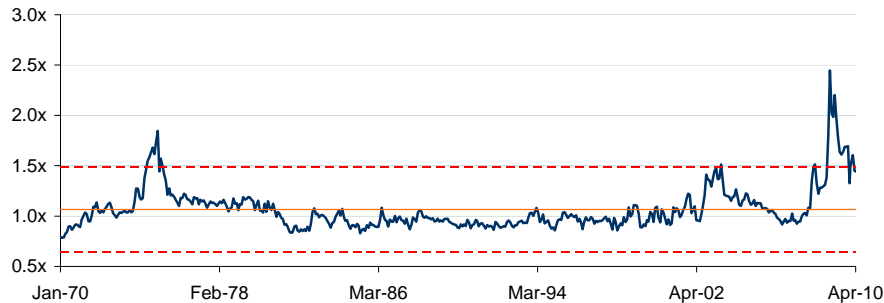
Source: FactSet, Morgan Stanley Research

How Do Regulated Names Trade? Group Dynamics Correlated to the Bond Market

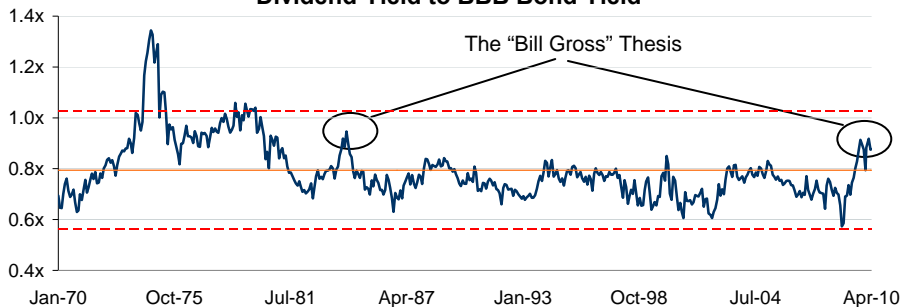
BBB Bond Yield vs. Treasury Yields



Dividend Yield Premium to 10 Year Treasury Yield



Dividend Yield to BBB Bond Yield



Dividend Yield to Bond Yield - Today

Confidence Intervals	BBB Yield %	Expected Defensive Index Yld	Implied 2012 P/E	Upside / (Downside) for Index
- 68.0% Confidence Interval	4.91%	3.67%	16.8x	43.8%
	5.11%	3.84%	16.0x	37.4%
	5.31%	4.01%	15.4x	31.5%
	5.51%	4.18%	14.7x	26.1%
	5.71%	4.35%	14.2x	21.1%
	5.91%	4.52%	13.6x	16.6%
	6.11%	4.70%	13.1x	12.3%
	Predicted Valuation	6.31%	4.87%	12.7x
Current Valuation	6.51%	5.04%	12.2x	4.7%
	6.71%	5.21%	11.8x	1.2%
	6.91%	5.38%	11.4x	-2.0%
	7.11%	5.55%	11.1x	-5.0%
	7.31%	5.72%	10.8x	-7.9%
+ 68.0% Confidence Interval	7.51%	5.90%	10.4x	-10.6%

Dividend Yield to Bond Yield – 5-5.5% 10-Yr

Confidence Intervals	BBB Yield %	Expected Defensive Index Yld	Implied 2012 P/E	Upside / (Downside) for Index	
- 68.0% Confidence Interval	5.60%	4.26%	14.5x	23.8%	
	5.80%	4.43%	13.9x	19.0%	
	6.00%	4.60%	13.4x	14.6%	
	6.20%	4.77%	12.9x	10.5%	
	6.40%	4.94%	12.5x	6.6%	
	6.60%	5.12%	12.0x	3.1%	
	6.80%	5.29%	11.7x	-0.3%	
	Current Valuation	7.00%	5.46%	11.3x	-3.4%
Predicted Valuation	7.20%	5.63%	10.9x	-6.3%	
	7.40%	5.80%	10.6x	-9.1%	
	7.60%	5.97%	10.3x	-11.7%	
	7.80%	6.14%	10.0x	-14.2%	
	8.00%	6.32%	9.8x	-16.5%	
	+ 68.0% Confidence Interval	8.20%	6.49%	9.5x	-18.7%

Source: FactSet, Morgan Stanley Research

Risk Reward Appears Favorable Considering Interest Rate / Tax Exposure

Scenarios:	Low Rates / Low Taxes	Low Rates / High Taxes	High Rates / Low Taxes	High Rates / High Taxes	Target Multiple
Rate Assumptions					
10 Year Treasury Yield	3.8%	3.8%	5.0%	5.0%	
Assumed BBB Bond Yield	6.3%	6.3%	7.0%	7.0%	
Tax Assumptions					
Tax Rate Levelized at Ordinary Income Tax Rate ¹		✓		✓	
Tax Rate Levelized at 15% Income Tax Rate ²	✓		✓		
Target 2012 PE					
Target 2011 Dividend Yield	4.1%	4.7%	4.7%	5.2%	5.0%
Upside to our Target Multiple of 11.5x	18.3%	7.0%	5.2%	-4.3%	0.0%
Upside to Current Market Multiple of 11.4x	19.3%	7.9%	6.1%	-3.5%	0.9%

1) Assumes a positive adjustment to post 2003 dividends in our regression series by approximately 7%. This represents the delta between the current 15% dividend tax rate and an assumed rate of 33%, adjusted by our assumption that 40% of shareholders are individual taxpayers. The sensitivity to the PE multiple from a 1% change in the assumed tax rate is 0.1x. The sensitivity to the PE multiple from a 10% change in our assumption relating to the proportion of tax-paying shareholders is 0.1x

2) Assumes a negative adjustment to pre 2003 dividends in our regression series by approximately 11%. This represents the delta between the current 15% dividend tax rate and a pre-2003 assumed rate of 33%, reduced by our assumption that 60% of shareholders were individual tax payers. The sensitivity to the PE multiple from a 1% change in the assumed tax rate is 0.1x. The sensitivity to the PE multiple from a 10% change in our assumption relating to the proportion of tax-paying shareholders is 0.1x

But We Know Better

- The Stocks Underperform in Anticipation of Fed Rate Increase...

Performance Before and After Initial Rate Tightening				10-Yr Treas. Yield Change	
Period	MS Utility	S&P 500	MS Utility vs. S&P 500	Yield Change in Bps	% Change in Yield
Prior to Rate Tightening					
12 Months	2.7%	19.8%	(17.1%)	86 bps	16.5%
6 Months	1.6%	5.3%	(3.7%)	88 bps	14.7%
3 Months	(2.7%)	2.5%	(5.2%)	56 bps	9.8%
After Rate Tightening					
3 Months	(1.9%)	(3.6%)	1.8%	(6 bps)	(1.2%)
6 Months	(2.3%)	(3.2%)	0.9%	20 bps	3.3%
12 Months	7.1%	4.6%	2.5%	(4 bps)	(1.1%)
Since 8/09	7.8%	19.8%	(11.9%)	40 bps	11.7%

FED Steps to tightening

1. End liquidity facilities
2. Remove excess reserves
3. Stop buying MBS
4. Raise rates (Sep '10)

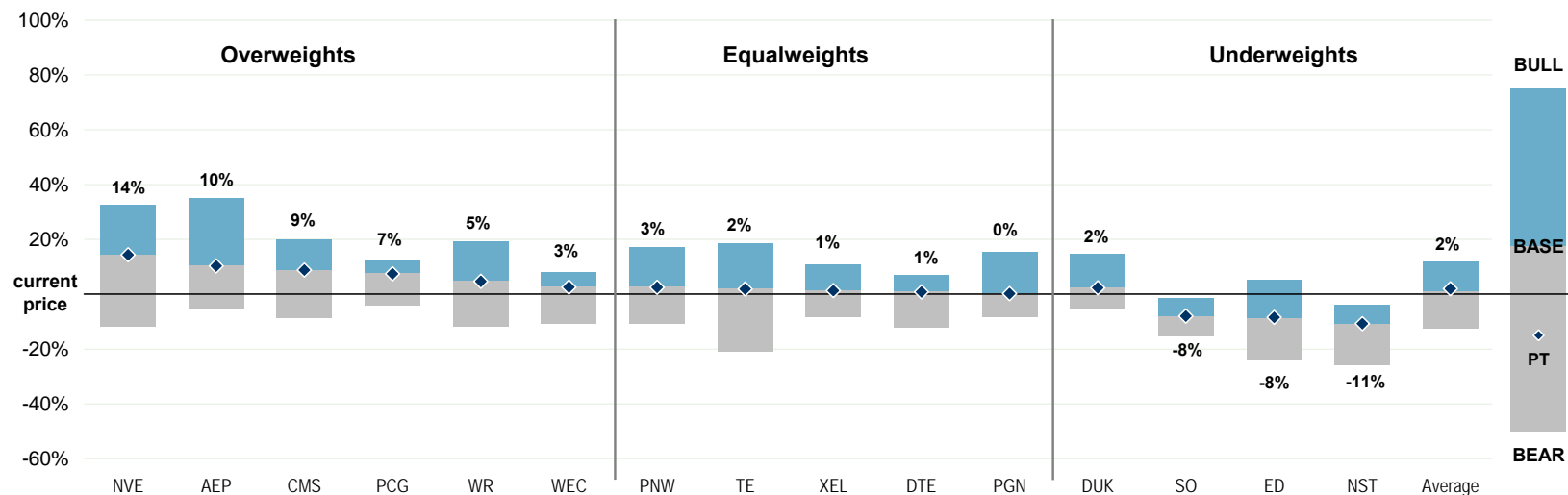
...and / or rising 10 YR yields

- Thus Our Cautious Industry View

Stock Selection: Rising Rate Backdrop Favors Growth Over Yield

- Overweight: AEP, CMS, NVE, PCG, WEC, WR
- Equal-weight: DTE, PGN, PNW, TE, XEL
- Underweight: DUK, ED, NST, SO

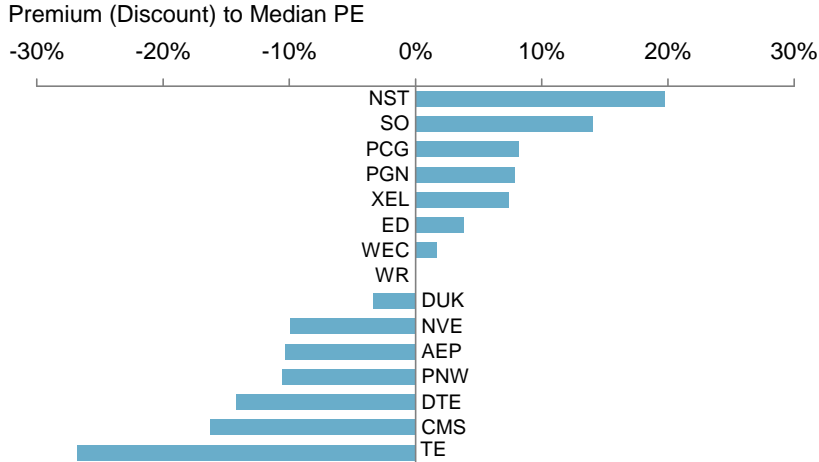
Regulated Utility Risk Reward Profiles



Source: Morgan Stanley Research

Dividend vs. Total Return Strategy – 3/9/2009 – Market Bottom

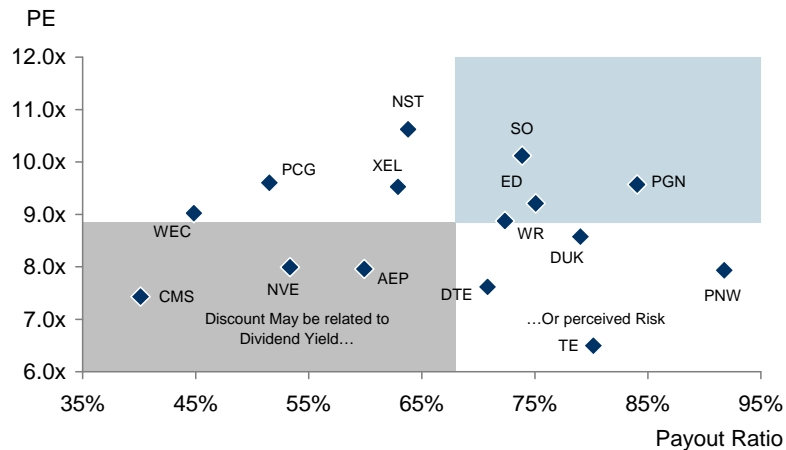
We liked stocks with discounted PE multiple...3/9/09



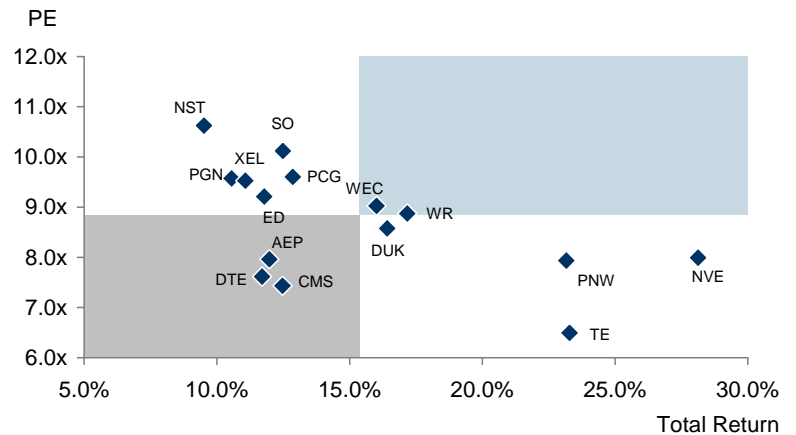
Actual Total Return 3/9/09-4/15/10

Attractive		Unattractive		Neutral	
DTE	107%	XEL	39%	NVE	61%
TE	90%	NST	39%	DUK	45%
PNW	75%	PGN	32%	AEP	46%
WR	58%	SO	33%	ED	44%
CMS	53%	PCG	26%	WEC	43%
Average	77%	Average	34%	Average	48%

...and low payout ratios relative to their PEs, 3/9/09



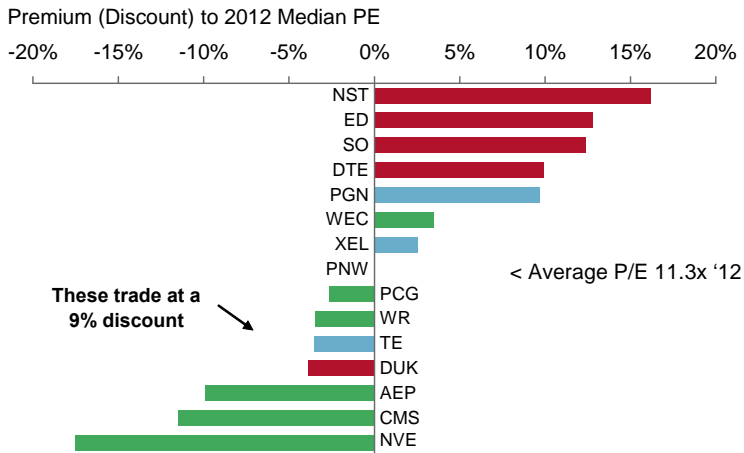
...but with higher relative total returns, 3/9/09



Source: FactSet, Morgan Stanley Research

Dividend vs. Total Return – Now

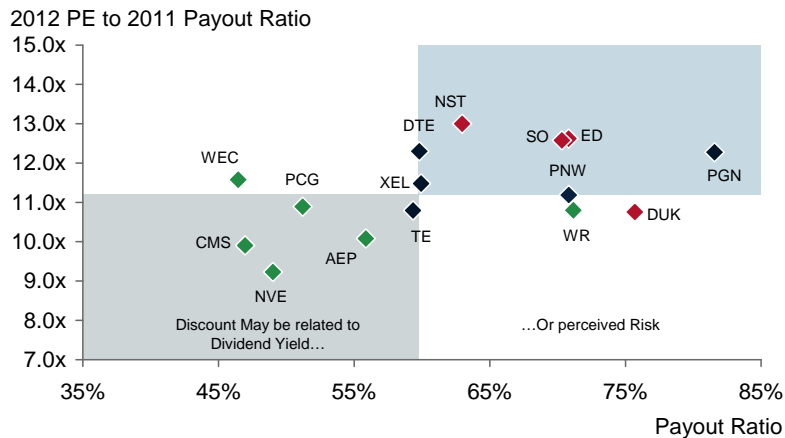
We like stocks at a discounted 2012 PE multiple



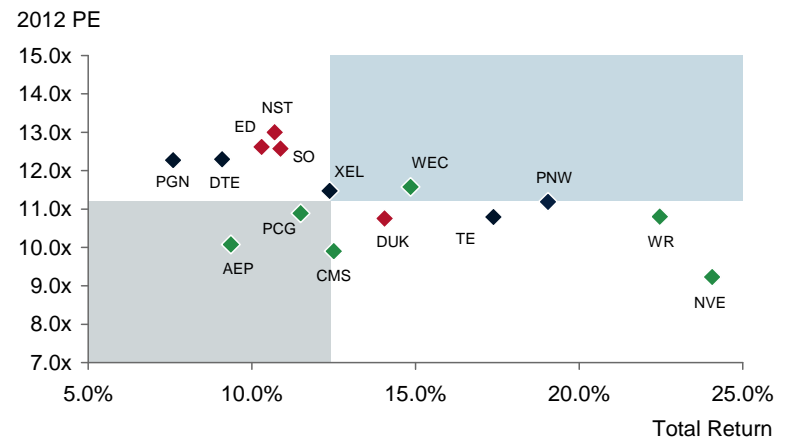
Estimated Total Return

Overweight		Underweight		Equalweight	
NVE	18%	DUK	8%	PNW	8%
AEP	15%	SO	-3%	TE	7%
CMS	13%	ED	-3%	PGN	7%
PCG	12%	NST	-6%	XEL	6%
WR	10%			DTE	5%
WEC	6%				
Average 12%		Average -1%		Average 7%	
Avg Div Yield	4.5%	Avg Div Yield	5.4%	Avg Div Yield	5.4%
Avg 2012 PE	10.4x	Avg 2012 PE	12.2x	Avg 2012 PE	11.6x

...and low payout ratios relative to their PEs



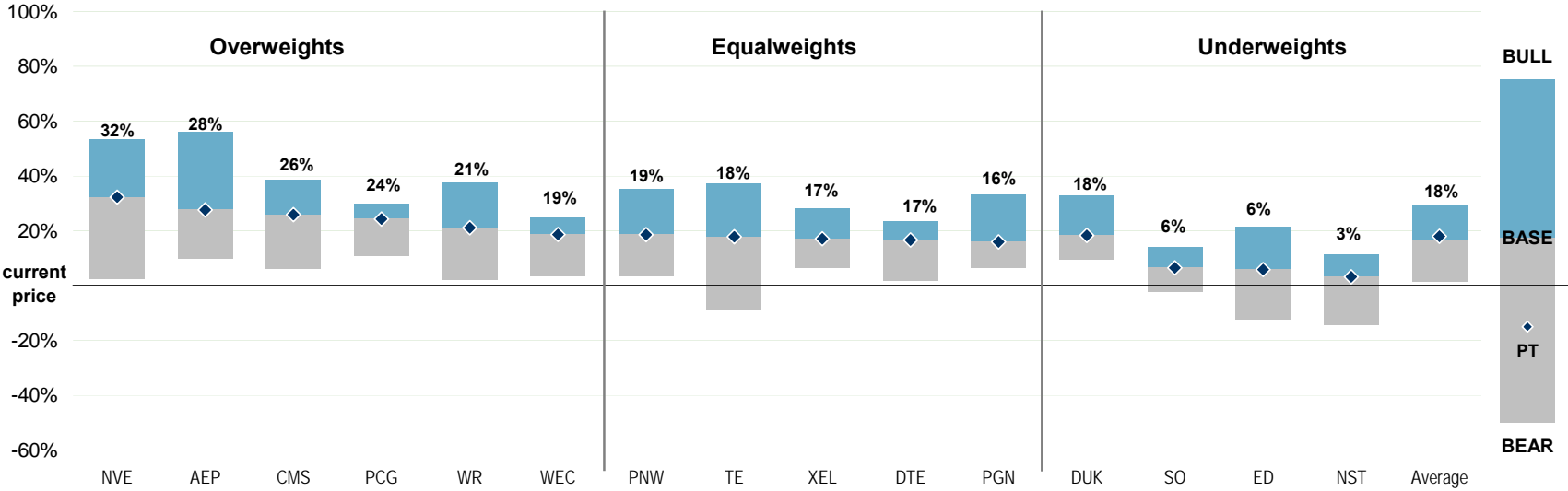
...but with higher relative total returns



Source: FactSet, Morgan Stanley Research

Macro Bull Case: They All Go Up

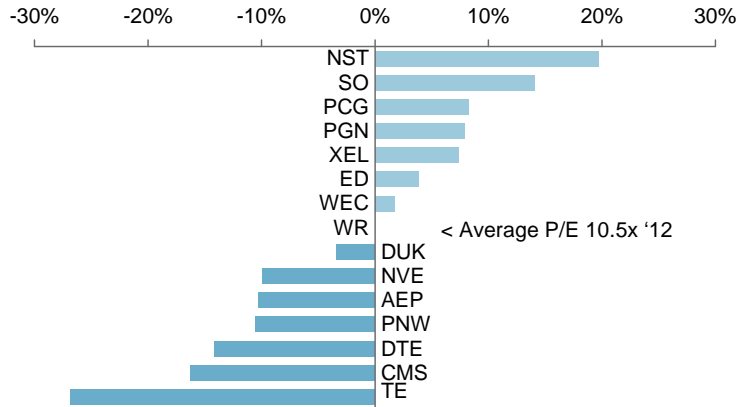
Regulated Utility Risk Reward Profiles



Source: Morgan Stanley Research

Macro Bear Case: We Would BE Wrong on A “Double Dip”

Premium (Discount) to 2012 Median PE Under 3/9/09 Skew



Best Performing

NVE -OW	7%
WR -OW	5%
PCG -OW	4%
SO -UW	0%
NST -UW	-2%

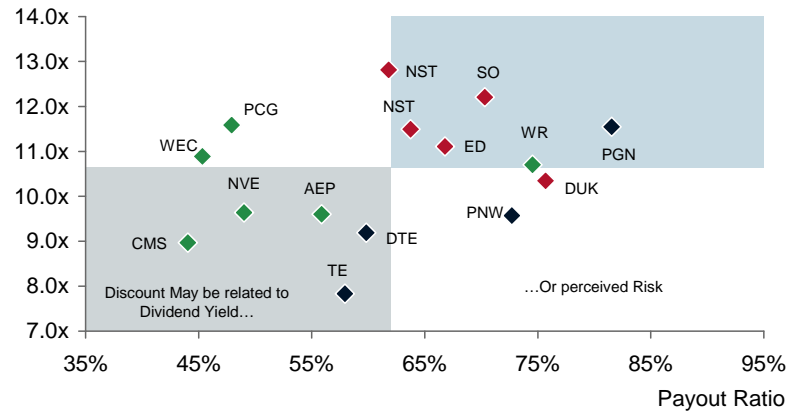
Middle Performing

PGN -EW	-4%
WEC -OW	-5%
XEL -UW	-5%
CMS -OW	-6%
DUK -UW	-9%

Worst Performing

AEP -OW	-9%
ED -UW	-10%
PNW -EW	-11%
DTE -EW	-16%
TE -EW	-21%

2012 PE to 2011 Payout Ratio - Bear Case Skew



Source: Morgan Stanley Research

Stocks are Catalyst Driven

- Earnings revisions matter
- But separate structural from temporary issues
 - Weather events: Hot summer, cool winter, hurricanes
 - Regulatory Events: Fuel cases, resource planning and siting, rate case decisions.
- Invest In Change
 - Investors perpetuate premiums on unsustainably good performance and discounts on issues that may not last forever
 - Don't presume the market discounts something that looks obvious. If I had a penny for every time I thought that I would have a big jar of pennies!
- Look For Opportunities To Both Avoid Market Risk Or Buy Cheap Growth
 - Both the risk aversion trade (overvaluing yield) and the rotation out (undervaluing growth) can be profitable thematic opportunities
- Watch Earnings vs. Cash Flow
 - Weak cash flow profiles can presage credit downgrades and/or dividend cuts, which are rare but major catalysts.

Dividend Yield Rankings

Rank	Sector	Current Yield 4/23/10	15% Div Tax Impact*	Current Tax Adjusted Yield
1	MLPs	6.30%	3.3%	6.09%
2	Telecommunications	6.48%	15.0%	5.51%
3	High Yield Index (YTM)	8.13%	33.0%	5.44%
4	Broad Investment Grade BBB Credit - Average	6.18%	33.0%	4.14%
5	MS Regulated Electric Utility Average	4.84%	15.0%	4.12% →
6	MS Electric Utility Average	4.56%	15.0%	3.87% →
7	S&P Utilities	4.2%	15.0%	3.6%
8	Natural Gas- Utility Average	4.04%	15.0%	3.43% →
9	MS Diversified Electric Utility Average	3.96%	15.0%	3.37% →
10	AAA 10-Year Municipal Bond Index	2.67%	0.0%	2.67%
11	10-Year Treasury	3.82%	33.0%	2.56%
12	S&P Consumer Staples	2.60%	15.0%	2.21%
13	S&P Industrials	2.03%	15.0%	1.73%
14	S&P Energy	1.88%	15.0%	1.60%
15	S&P 500 Aggregate	1.78%	15.0%	1.51%
16	REITs	2.16%	33.0%	1.45%
17	S&P Health Care	1.65%	15.0%	1.40%
18	S&P Materials	1.62%	15.0%	1.38%
19	10-Year Treasury Inflation Adjusted	1.95%	33.0%	1.31%
20	S&P Consumer Discretionary	1.18%	15.0%	1.00%
21	S&P Financials	0.89%	15.0%	0.76%
22	S&P Information Technology	0.68%	15.0%	0.58%
23	Certified Deposit Yields (90 & 180 Day Avg)	0.85%	33.0%	0.57%

*MLPs: 10% of distribution is taxable at ordinary income tax rate, remainder is tax deferred

Rank	Sector	Current Yield 4/23/10	33% Div Tax Impact*	Current Tax Adjusted Yield
1	MLPs	6.30%	3.3%	6.09%
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6	MS Electric Utility Average	4.56%	33.0%	3.05%
7	S&P Utilities	4.24%	33.0%	2.84%
8	Natural Gas- Utility Average	4.04%	33.0%	2.70%
9	AAA 10-Year Municipal Bond Index	2.67%	0.0%	2.67%
10	MS Diversified Electric Utility Average	3.96%	33.0%	2.65%
11	10-Year Treasury	3.82%	33.0%	2.56%
12	S&P Consumer Staples	2.60%	33.0%	1.74%
13	REITs	2.16%	33.0%	1.45%
14	S&P Industrials	2.03%	33.0%	1.36%
15	10-Year Treasury Inflation Adjusted	1.95%	33.0%	1.31%
16	S&P Energy	1.88%	33.0%	1.26%
17	S&P 500 Aggregate	1.78%	33.0%	1.19%
18	S&P Health Care	1.65%	33.0%	1.10%
19	S&P Materials	1.62%	33.0%	1.09%
20	S&P Consumer Discretionary	1.18%	33.0%	0.79%
21	S&P Financials	0.89%	33.0%	0.60%
22	Certified Deposit Yields (90 & 180 Day Avg)	0.85%	33.0%	0.57%
23	S&P Information Technology	0.68%	33.0%	0.45%

*MLPs: 10% of distribution is taxable at ordinary income tax rate, remainder is tax deferred

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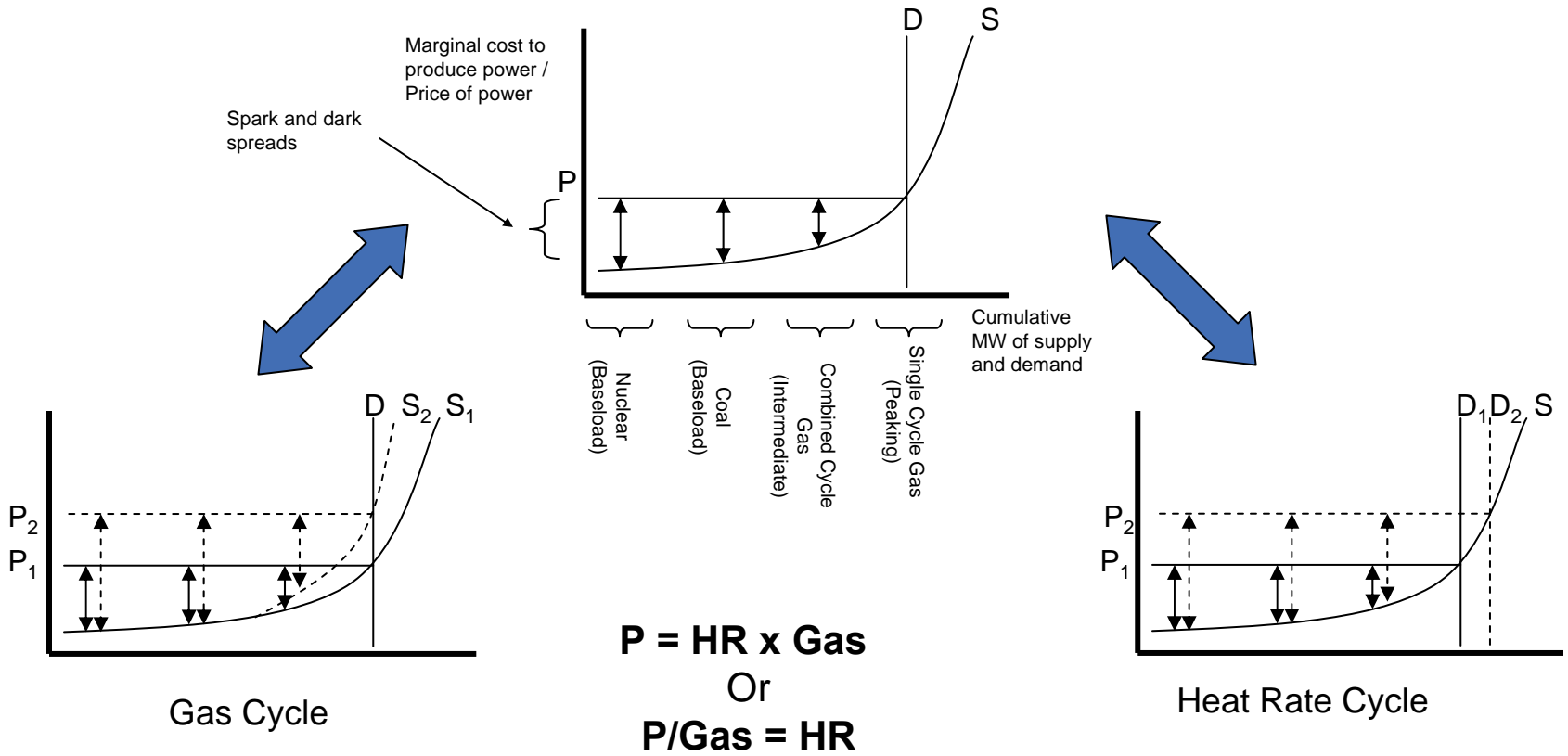
5 Key Drivers for Merchant Generation

The 5 Cs

1. **Commodity** – Determine generation margins.
2. **Capacity prices** – A function of reserve margins. Tightening reserve margins, rising construction costs increase value of existing generation.
3. **Capex** – New investments facilitate future earnings growth; environmental retrofit obligations consume cash without enhancing returns.
4. **Capital Optimization** – Prior to financial crisis, FCF positive companies had been leveraging to buying back shares.
5. **Carbon** – Implementation of carbon market would benefit nuclear, hurt coal generators.

Two Energy Merchants Cycles

Two Independent but Interdependent Cycles. Commodity Price and Supply vs. Demand



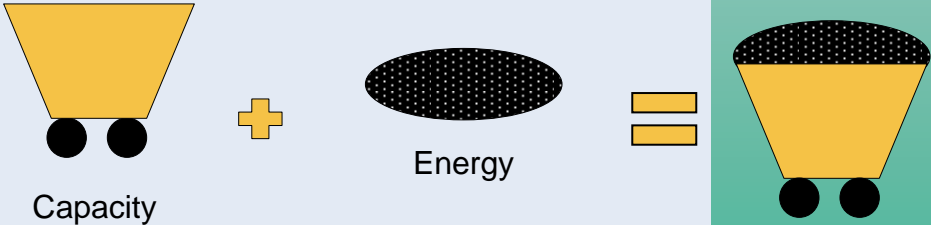
Source: Morgan Stanley Research

Merchant Generation

Two Main Streams of Revenue

- 1 Capacity = Capacity x Price
Ability to deliver Energy
- 2 Energy = Volume x Price
Converted into Heat and
Mechanical Motion

Coal Analogy

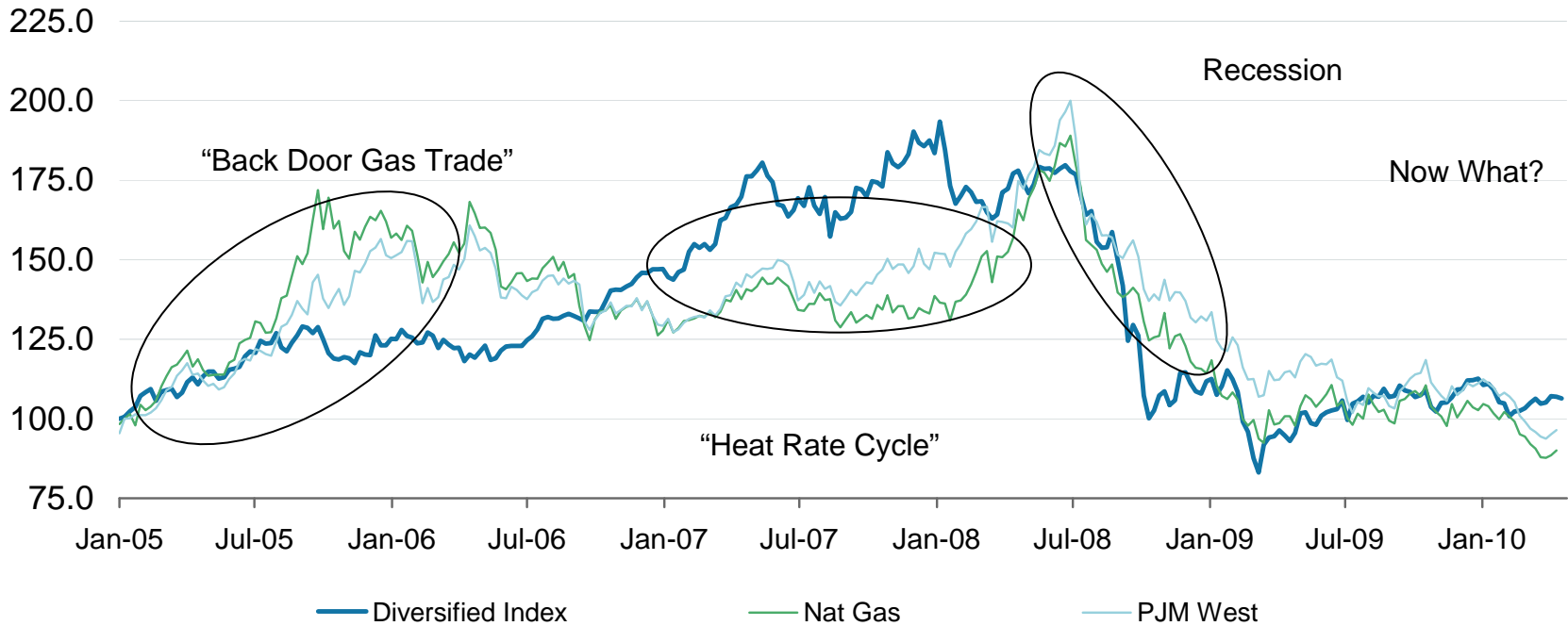


Diversified Utilities Leveraged to Power Prices

→ The stocks rise and fall with power markets

Diversified Utility and IPP Stock Performance vs. Power and Gas Prices

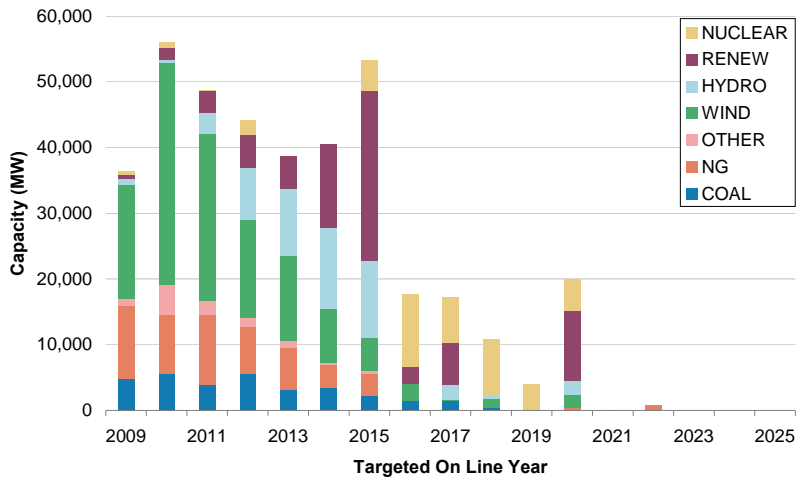
Relative Prices (Indexed to 100)



Source: FactSet, Morgan Stanley Research

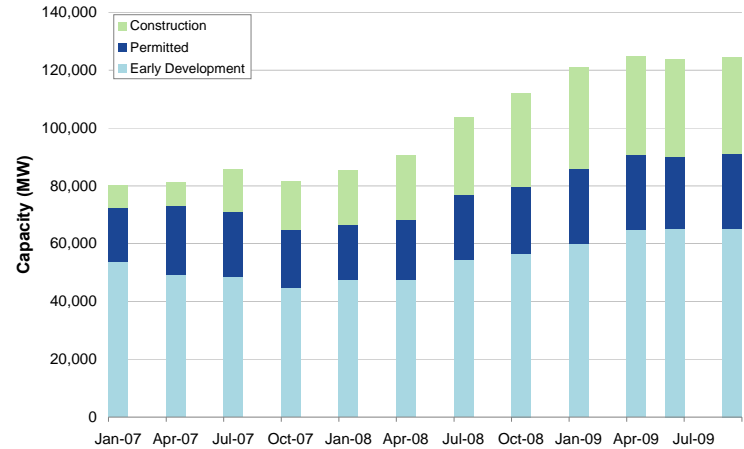
Generation Supply/Demand Balance: Looking Oversupplied, For Now

Wind Dominates Generation Pipeline



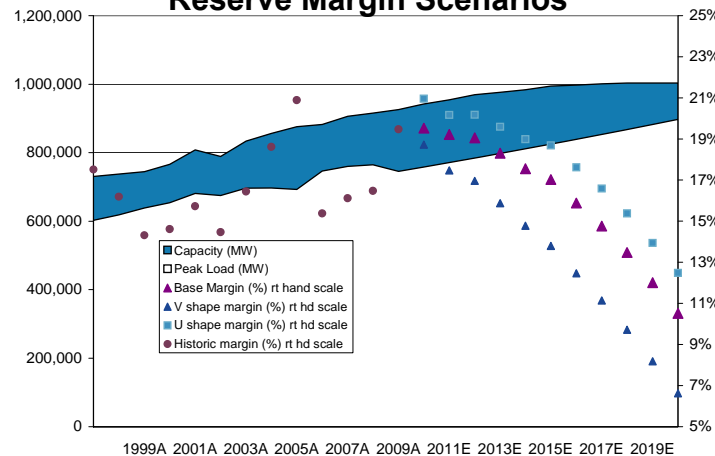
Source: Ventyx, Morgan Stanley Research

Generation Pipeline Has Plateaued



Source: Ventyx, Morgan Stanley Research

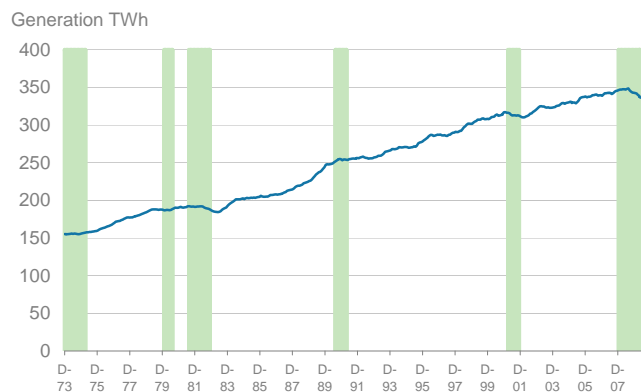
Reserve Margin Scenarios



Source: EIA, Morgan Stanley Research

Generation Supply/Demand Balance: Could Tighten Quickly

Usage Declines During Recessions



Source: Morgan Stanley Research

But Recovers Strongly During Recovery

Dates		Change (%)		
Recession Start	Recession Trough	Start to Trough	Trough plus 6 months	Trough plus 12 months
Nov-73	Mar-75	1.3%	0.9%	2.5%
Jan-80	Jul-80	0.9%	1.5%	0.5%
Jul-81	Nov-82	-2.3%	-1.9%	3.3%
Jul-90	Mar-91	1.3%	0.6%	0.9%
Mar-01	Nov-01	-1.2%	-0.2%	2.5%
Dec-07	May-09	-2.9%		

Source: EIA, Morgan Stanley Research

Reserve Margins Could Tighten In a V-shaped Recovery Scenario

Driver	2010	2011	2012	2013
Development Success Rate - V	10.0%	10.0%	10.0%	10.0%
Development Success Rate - Base	20.0%	20.0%	20.0%	20.0%
Development Success Rate - U	25.0%	25.0%	25.0%	25.0%
Load Growth - V	3.0%	2.0%	1.7%	1.7%
Load Growth - Base	1.7%	1.7%	1.7%	1.7%
Load Growth - U	0.0%	1.7%	1.7%	1.7%
Reserve Margin - V	18.7%	17.5%	17.0%	15.9%
Reserve Margin - Base	19.5%	19.2%	19.1%	18.3%
Reserve Margin - U	21.0%	20.2%	20.2%	19.6%

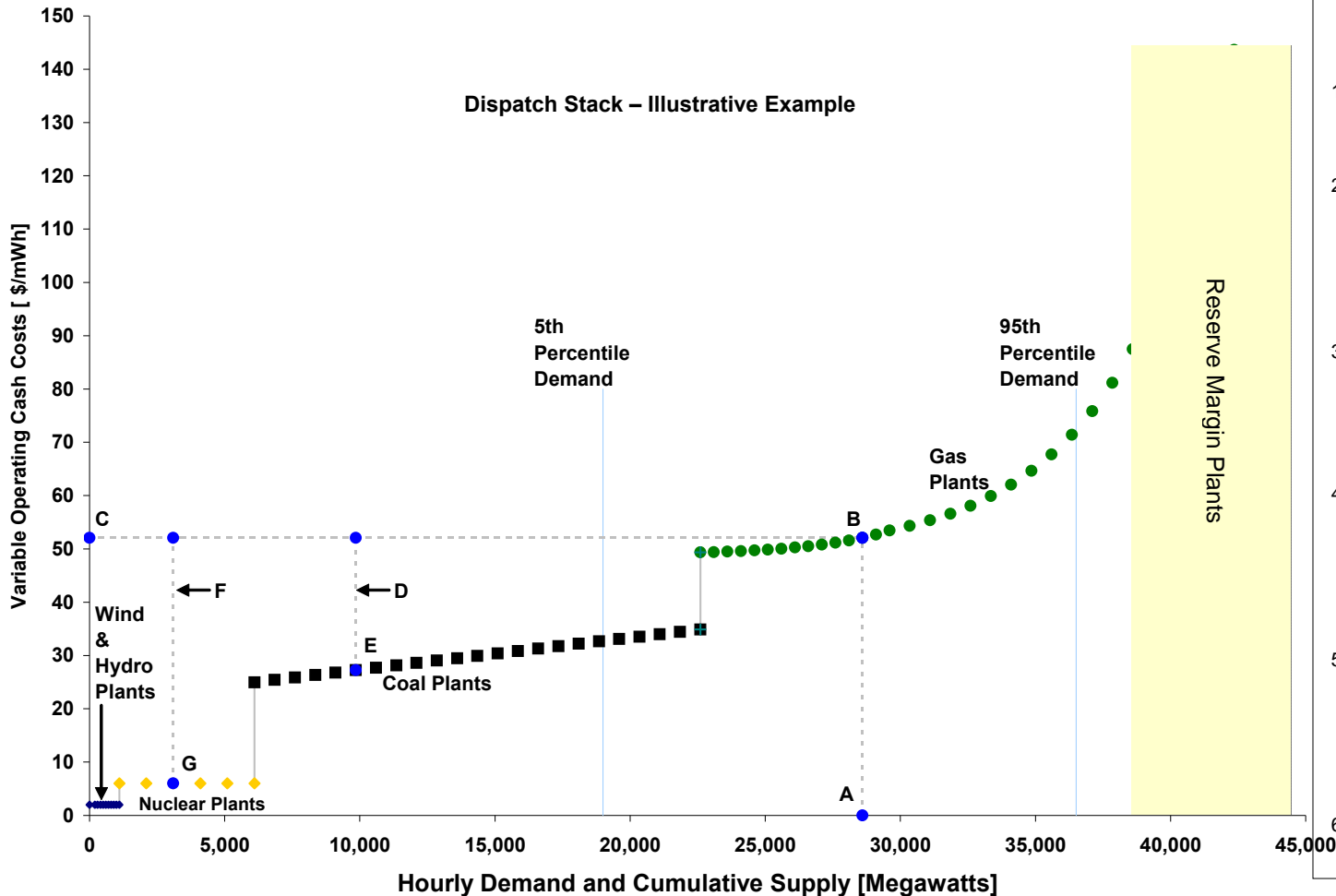
Source: EIA, Ventyx, Morgan Stanley Research

Power Prices Still Have Upside To Mid-Cycle

Market Region	2012 ATC	Mid Cycle Price NYMEX Gas			Variance from 2012 ATC NYMEX Gas		
		5.00	6.00	7.00	5.00	6.00	7.00
Mass Hub	52.24	50.16	56.74	63.32	-4.0%	13.1%	11.6%
NY A	34.17	46.35	49.45	52.54	35.6%	6.7%	6.3%
NY G	53.62	50.68	55.92	61.17	-5.5%	10.4%	9.4%
NY J	61.06	52.38	59.72	67.06	-14.2%	14.0%	12.3%
PJM W	43.67	46.32	49.78	53.23	6.1%	7.5%	6.9%
PJM E	51.90	46.75	50.73	54.71	-9.9%	8.5%	7.8%
Cinergy	33.55	42.09	45.02	47.95	25.4%	7.0%	6.5%
Ni Hub	32.15	38.01	40.94	43.87	18.2%	7.7%	7.2%
ERCOT Houston	45.77	44.22	50.80	57.38	-3.4%	14.9%	12.9%
ERCOT North	43.05	38.25	42.77	47.30	-11.1%	11.8%	10.6%
ERCOT South	43.15	41.33	46.41	51.50	-4.2%	12.3%	10.9%
Palo Verde	45.51	41.98	47.77	53.55	-7.8%	13.8%	12.1%
SP 15	49.94	45.50	51.28	57.07	-8.9%	12.7%	11.3%
NP 15	51.01	46.66	52.44	58.22	-8.5%	12.4%	11.0%
Mid C	43.84	38.58	42.75	46.93	-12.0%	10.8%	9.8%

Source: Morgan Stanley Research

How Power Prices Are Set In The Wholesale Market



Example

1. Point A shows 27,000 megawatts of demand at a given point in time.
2. In order to reach a cumulative supply of 27,000 megawatts, all of the available wind, hydro, nuclear, and coal plants will run.
3. Additionally, all of the gas plants to the left of plant B and including plant B will run. This makes plant B the marginal plant.
4. Plant B's \$52 per megawatt bid at point C becomes the market price (the market clearing price) for that hour and all plants get that same price.
5. Line D represents the generating margin for coal plant E. The margin is the spread between the clearing price and plant E's variable cost.
6. Line F is the generating margin for nuclear plant G.

Source: Morgan Stanley Research

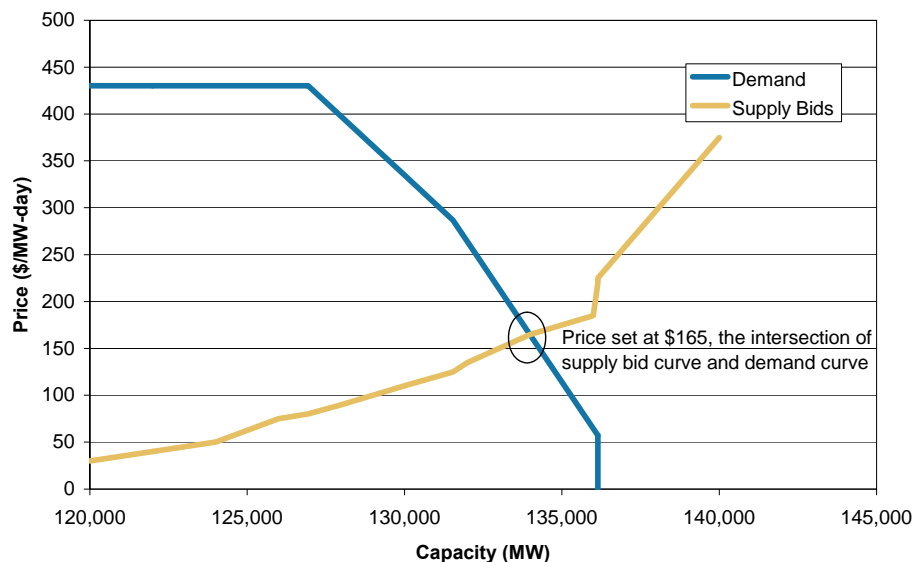
PJM RPM Capacity Prices

What Is Capacity? Load pays generator to stand ready to provide energy during peak usage periods, since power cannot be stored and must be available on demand. Analogous to paying a hotel for a block of rooms at a conference regardless of whether clients actually occupy the room. PJM, New York and New England ISOs run organized capacity markets.

In organized capacity markets, prices are determined through auctions held annually (PJM, New England) or monthly (New York)

- PJM uses an administrative demand curves where x-axis represents reserve margin and y-axis is a function of the net cost of new entry (CONE) as determined by PJM. Net Cone = Gross CONE – Energy and Ancillary Services Revenue
- Price is where supply bids intersects the demand curve

Illustrative PJM Supply/Demand Curve



$$\text{Calculating Reserve Margin} = \frac{\text{Capacity}}{\text{Peak Load}}$$

Source: PJM, Morgan Stanley Research; Curves shown are for illustration purposes only

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Valuation – Typical Approaches

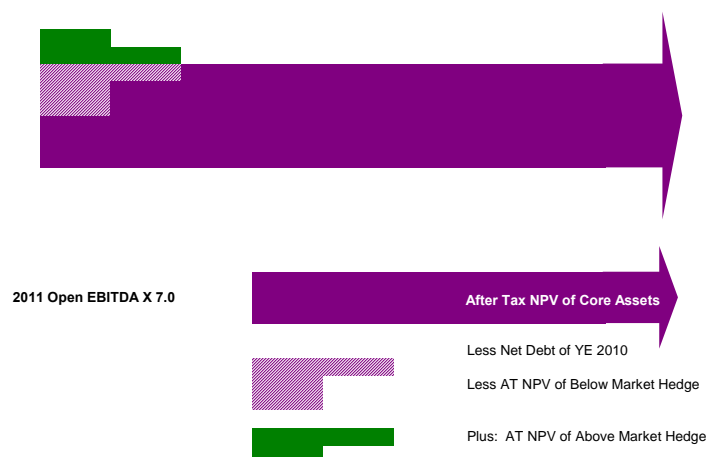
Company Type	Valuation Method
Regulated	PE multiples determined by Dividend Discount Model Bond Yield Spread Relationships
Merchant	Modified EV/EBITDA: Use "open" methodology, which includes hedging impact Use mid-cycle commodity prices Adjust for the present value of hedges
Diversified	Diversified = Regulated + Merchant DDM used to value regulated segment Open EBITDA used to value merchant segment

Merchant Segment Valuation: More Complex Than The Regulated Utility Piece

Merchant Segments Vary Across Companies:

- Different Asset Fuel Types and Technologies
- Different Markets
- Different hedge Profiles
- Varying leverage to carbon

We Utilize “Open” EBITDA to value merchant segment (mid-cycle cash flow)

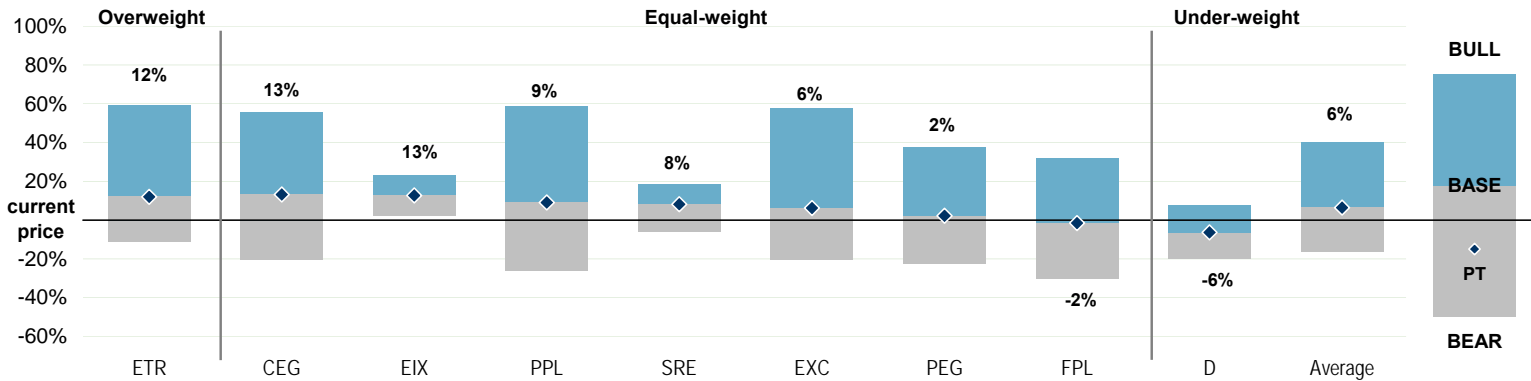


Why Open EBITDA?

- Hedging and commodity price volatility can distort valuation perceptions of merchant generators.
- Using mid-cycle pricing assumptions attempts to remove distortions that occur when commodity prices reach extremes.
- We model the impact of the carbon footprint outside the forecast period.

Valuations Currently Imply Favorable Risk/Reward

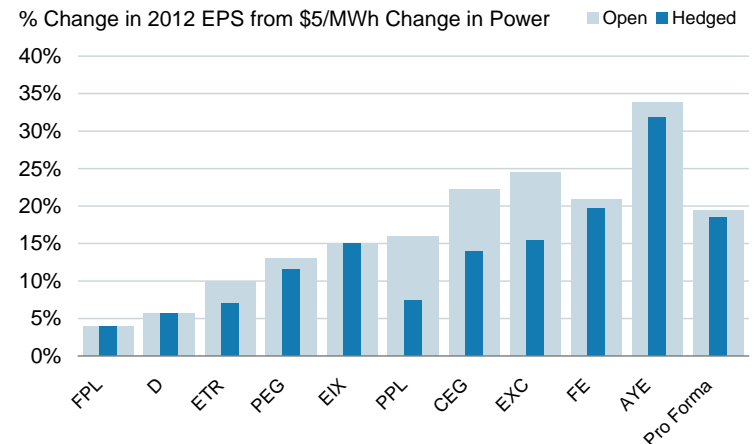
Diversified Utility Risk Reward Profiles



Source: Morgan Stanley Research

But Stocks Look Cheap Under Reasonable Long Term Assumptions

	Bear	Base	Bull
1. Gas Price	\$5.00	\$6.00	\$7.00
2. EBITDA	6.0x	7.0x	8.0x
3. Carbon Bill Passed	0%	0%	50%
4. Utility Valuation	11.0x	12.0x	13.0x
5. Average TR Potential	-18%	5%	38%



Source: Morgan Stanley Research

Implied EV / EBITDA at Market and Midcycle

Metric	Diversified Utility Tickers							
	CEG	D	EIX	ETR	EXC	FPL	PEG	PPL
Current Share Price	36.43	41.14	33.28	80.36	42.85	50.02	31.07	27.73
2012 Regulated EPS	1.06	2.87	3.31	4.40	1.15	2.44	1.13	1.12
x 2012 Regulated PE Multiple	11.5x	13.0x	12.0x	11.4x	10.5x	11.6x	12.0x	12.1x
Less: Regulated Value Per Share	12.20	37.39	39.69	50.20	12.04	28.26	13.57	13.56
Other Non-Regulated Business 1	6.20	0.00	1.06	0.00	0.00	7.97	1.38	0.00
Other Non-Regulated Business 2	0.00	1.59	2.00	0.00	0.00	4.36	0.00	0.00
Other Non-Regulated Business 3	0.00	0.00	0.00	0.00	0.00	1.64	0.00	0.00
Less: Other Non-Regulated Value / Sh	6.20	1.59	3.06	0.00	0.00	13.97	1.38	0.00
Implied GenCo Value Per Share	18.03	2.16	-9.47	30.16	30.81	7.79	16.12	14.17
Plus: Parent Net Debt / Sh	-7.96	0.67	2.28	-2.92	2.35	18.17	1.50	0.21
(Less) / Plus NPV of MTM Hedges / Sh	-1.57	-0.30	-0.22	-2.21	-2.17	-0.36	-0.90	-2.09
(Less) / Plus NPV of Carbon Upside / Sh	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other Adjustments	3.70	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Adjusted Merchant Value Per Share	12.20	2.54	-7.41	25.03	31.00	25.60	16.71	12.29
Adjusted Merchant Enterprise Value	2,457	1,463	-2,483	4,426	20,520	10,751	8,480	4,716
Plus Merchant Net Debt	1,814	5,303	3,104	112	2,943	6,799	4,523	4,832
Implied EV of Merchant	4,283	6,769	614	4,563	23,494	17,575	13,019	9,560
2012 Merchant OPEN EBITDA	449	506	-267	620	1,991	2,267	1,454	1,190
Implied EV / 2012 EBITDA (Forward Curve)	9.5x	13.4x	NA	7.4x	11.8x	7.8x	9.0x	8.0x
Implied EV of Merchant	4,283	6,769	614	4,563	23,494	17,575	13,019	9,560
(Less) / Plus NPV of Forward Curve	247	432	920	558	2,880	381	654	369
Implied EV of Merchant (Midcycle Adj)	4,530	7,202	1,534	5,122	26,374	17,956	13,674	9,929
Merchant OPEN EBITDA at Midcycle (\$6.00 Gas)	679	807	388	968	4,004	2,513	1,999	1,561
Implied EV / 2012 EBITDA (Midcycle)	6.7x	8.9x	4.0x	5.3x	6.6x	7.1x	6.8x	6.4x
Genco Unhedged Enterprise Value	4,755	5,647		6,778	28,026	17,588	13,992	10,924
Less: Merchant Net Debt	-1,814	-5,303		-112	-2,943	-6,799	-4,523	-4,832
(Less) / Plus NPV of Forward Curve	-247	-432		-558	-2,880	-381	-654	-369
(Less) / Plus NPV of Hedges	316	171		391	1,437	151	457	800
(Less) / Plus NPV of Carbon Upside / Sh	0	0		0	0	0	0	0
Adjusted Genco Equity Value	3,010	83		6,499	23,640	10,559	9,272	6,524
Genco Value Per Share	14.95	0.14		36.75	35.71	25.15	18.27	17.00
Regulated Value Per Share (see above)	12.20	37.39	39.69	50.20	12.04	28.26	13.57	13.56
Other Non-Regulated Value Per Share	6.20	1.59		0.00	0.00	13.97	1.38	0.00
Less: Parent Net Debt Per Share	7.96	-0.67	-2.28	2.92	-2.35	-18.17	-1.50	-0.21
Base Case Valuation Per Share	41.31	38.45	37.41	89.87	45.39	49.20	31.73	30.35
Price Return	13%	-7%	12%	12%	6%	-2%	2%	9%
2010 Dividend	3%	4%	4%	4%	5%	4%	4%	5%
Total Return	16%	-2%	16%	16%	11%	2%	7%	15%
2012 EPS Estimate	2.65	3.00	2.65	6.75	2.90	4.65	2.55	3.25
2012 Open EPS at Forward Curve	2.26	3.00	2.56	6.02	2.27	4.65	2.29	2.25
2012 Open EPS at Midcycle	2.98	3.33	3.79	7.26	4.19	5.02	2.97	2.86
Current 2012 PE	13.7x	13.7x	12.5x	11.9x	14.8x	10.8x	12.2x	8.5x
2012 Price to Open EPS at Forward Curve	16.1x	13.7x	13.0x	13.4x	18.8x	10.8x	13.5x	12.3x
2012 Price to Open EPS at Midcycle	12.2x	12.4x	8.8x	11.1x	10.2x	10.0x	10.5x	9.7x

Source: Morgan Stanley Research

We Like ETR....

Carbon Exposure is a “Call Option”

Waxman-Markey Allocation Scenario						
	AT NPV	AT NPV/ Mkt Cap	AT NPV per share	Year 1 Impact		
				EBITDA	Net Inc.	EPS
EXC	11,030	33.3%	\$16.74	1,897	1,178	\$1.79
FE	3,697	27.1%	\$12.13	542	336	\$1.10
ETR	2,749	18.0%	\$14.55	468	281	\$1.49
PEG	2,210	13.6%	\$4.37	402	241	\$0.48
PPL	2,105	17.9%	\$5.59	301	187	\$0.50
FPL	1,211	5.5%	\$2.93	1,211	124	\$0.30
D	1,017	4.4%	\$1.70	136	85	\$0.14
CEG	108	1.6%	\$0.54	15	9	\$0.05
AYE	-40	-1.1%	(\$0.24)	16	9	\$0.06
EIX	-219	-1.9%	(\$0.67)	1	1	\$0.00

No Allocation Scenario						
	AT NPV	AT NPV/ Mkt Cap	AT NPV per share	Year 1 Impact		
				EBITDA	Net Inc.	EPS
EXC	10,807	32.6%	\$16.40	1,851	1,116	\$1.69
FE	2,680	19.6%	\$8.79	339	210	\$0.69
ETR	2,749	18.0%	\$14.55	468	281	\$1.49
PPL	1,569	13.3%	\$4.17	199	123	\$0.33
PEG	1,797	11.0%	\$3.55	306	184	\$0.36
FPL	1,211	5.5%	\$2.93	1,211	124	\$0.30
D	927	4.1%	\$1.55	117	73	\$0.12
CEG	105	1.6%	\$0.52	14	9	\$0.04
EIX	-925	-8.1%	(\$2.84)	-157	-94	(\$0.29)
AYE	-468	-12.4%	(\$2.76)	-80	-48	(\$0.28)

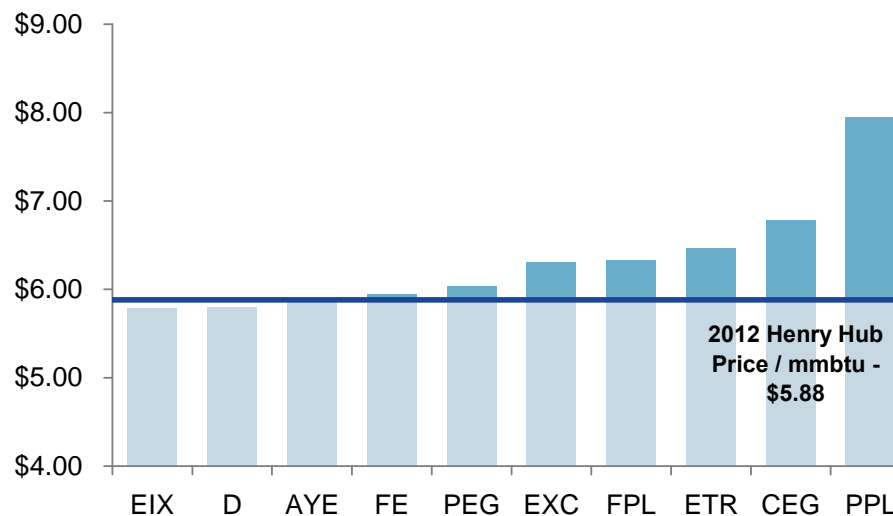
We Like ETR...

Earnings Growth Profile is Palatable...

Ticker	Forecast EPS				EPS CAGR	2011 PE
	2009	2010	2011	2012		
ETR	\$6.67	\$6.60	\$7.05	\$7.20	2.6%	10.9x
Diversified Avg					0.9%	10.5x

ETR is Not Hedged Meaningfully Above Current Market....

2012 Implied Gas



Source: Morgan Stanley Research

Price Deck

Updated as at April 21, 2010

Benchmark Fuel Prices	Price (\$/MMBTU)				Price (\$/ton)				Price (\$/MWh)			
	2010	2011	2012	2013	2010	2011	2012	2013	2010	2011	2012	2013
NYMEX Natural Gas	4.60	5.42	5.88	6.18	NA	NA	NA	NA	32.18	37.92	41.15	43.25
CAPP Coal	2.38	2.81	3.19	3.38	57.03	67.54	76.44	81.03	23.76	28.14	31.85	33.76
PRB Coal	0.66	0.77	0.81	0.81	11.70	13.62	14.18	14.18	6.65	7.74	8.06	8.06
Regional Power Prices	\$ / MWh (ATC)				\$ / MWh (Peak)				\$ / MWh (Off-Peak)			
	2010	2011	2012	2013	2010	2011	2012	2013	2010	2011	2012	2013
Mass Hub	43.13	49.58	52.82	56.18	48.88	56.00	59.50	63.25	37.91	43.75	46.75	49.75
NY Zone A	33.74	35.63	36.25	37.35	37.79	41.00	41.75	43.50	30.05	30.75	31.25	31.75
NY Zone G	45.39	51.14	54.23	57.01	52.59	59.00	63.00	65.00	38.84	44.00	46.25	49.75
NY Zone J	50.00	57.25	60.83	62.95	59.41	68.25	72.75	75.00	41.45	47.25	50.00	52.00
PJM West	41.58	43.67	45.02	46.87	47.85	51.00	52.75	55.25	35.89	37.00	38.00	39.25
PJM East	46.49	49.10	51.07	53.05	53.59	58.00	60.50	63.00	40.04	41.00	42.50	44.00
Cinergy	31.26	32.65	34.76	37.39	38.13	40.25	42.75	45.25	25.02	25.75	27.50	30.25
NI Hub	30.36	31.51	33.00	35.12	37.69	39.50	41.25	43.50	23.70	24.25	25.50	27.50
ERCOT Houston	36.17	41.46	46.73	50.20	42.98	50.50	55.50	59.50	29.98	33.25	38.75	41.75
ERCOT North	35.25	39.38	44.14	47.11	41.69	47.50	52.00	55.75	29.40	32.00	37.00	39.25
ERCOT South	35.97	40.35	44.49	46.48	42.80	49.25	53.00	55.25	29.77	32.25	36.75	38.50
Palo Verde	37.81	42.29	45.79	47.96	43.11	48.50	52.75	55.25	30.73	34.00	36.50	38.25
SP 15	40.98	46.32	50.68	53.25	46.29	52.75	57.75	60.75	33.89	37.75	41.25	43.25
NP 15	41.59	47.04	51.75	54.71	46.52	53.25	58.50	62.00	35.02	38.75	42.75	45.00
Mid C	40.40	41.57	44.93	46.96	43.81	45.75	49.75	52.00	35.86	36.00	38.50	40.25
Delivered Gas / Spark Spreads	Delivered Gas (\$/mmbtu)				\$ / MWh (Peak)				\$ / MWh (Off-Peak)			
	2010	2011	2012	2013	2010	2011	2012	2013	2010	2011	2012	2013
Mass Hub / Tetco M3	5.12	5.92	6.28	6.58	13.05	14.58	15.55	17.20	2.09	2.33	2.80	3.70
NY Zone A / Tetco M3	5.12	5.92	6.28	6.58	1.97	-0.42	-2.20	-2.55	-5.77	-10.67	-12.70	-14.30
NY Zone G / Transco Z6 (NY)	5.33	6.12	6.53	6.83	15.31	16.18	17.30	17.20	1.56	1.18	0.55	1.95
NY Zone J / Trnasco Z6 (NY)	5.33	6.12	6.53	6.83	22.12	25.43	27.05	27.20	4.17	4.43	4.30	4.20
PJM West / Tetco M3	5.12	5.92	6.28	6.58	12.03	9.58	8.80	9.20	0.07	-4.42	-5.95	-6.80
PJM East / Tetco M3	5.12	5.92	6.28	6.58	17.77	16.58	16.55	16.95	4.22	-0.42	-1.45	-2.05
Cinergy / TCO Pool	4.72	5.52	5.93	6.28	5.09	1.63	1.25	1.30	-8.03	-12.87	-14.00	-13.70
NI Hub / Chicago Citygate	4.67	5.42	5.88	6.18	5.02	1.58	0.10	0.25	-8.96	-13.67	-15.65	-15.75
ERCOT Houston / HSC	4.56	5.37	5.83	6.08	11.06	12.93	14.70	16.95	-1.93	-4.32	-2.05	-0.80
ERCOT North / Waha	4.52	5.32	5.78	6.03	10.05	10.28	11.55	13.55	-2.23	-5.22	-3.45	-2.95
ERCOT South / HSC	4.56	5.37	5.83	6.08	10.88	11.68	12.20	12.70	-2.15	-5.32	-4.05	-4.05
Palo Verde / El Paso (San Juan)	4.38	5.22	5.63	5.93	12.42	11.98	13.35	13.75	0.04	-2.52	-2.90	-3.25
SP 15 / SoCal Border	4.62	5.42	5.88	6.18	13.96	14.83	16.60	17.50	1.57	-0.17	0.10	0.00
NP 15 / PG&E Citygate	4.90	5.62	6.08	6.33	12.25	13.93	15.95	17.70	0.75	-0.57	0.20	0.70
Mid C / Malin	4.61	5.37	5.78	5.98	11.56	8.18	9.30	10.15	3.61	-1.57	-1.95	-1.60

Valuation and Risks – Defensive

Ticker	Rating	Price	PT	Valuation	Risks
AEP	OW	\$33.76	\$37.25	Our target price is 11.1 times our 2012e EPS. We derive our target PE multiple using our DDM.	Continued demand weakness and failure to maintain balance sheet discipline would change our assessment of EPS growth and financial health.
CMS	OW	\$16.55	\$17.25	Our target price is 11.0 times our 2012e EPS. We derive our target PE multiple using our DDM.	Negative outcome in Michigan rate case and continued weakness in industrial demand would change our EPS growth estimates.
DTE	EW	\$47.55	\$46.50	Our target price is 11.0 times our 2012e EPS. We derive our target PE multiple using our DDM.	Negative outcome in Michigan rate case and continued weakness in industrial demand would change our EPS growth estimates.
DUK	UW	\$16.24	\$16.50	Our target price is 11.0 times our 2012e EPS. We derive our target PE multiple using our DDM.	Adverse outcome in Carolina rate cases, weakening business conditions in Latin America and continued weak industrial demand would change our EPS growth estimates.
ED	UW	\$45.29	\$41.00	Our target price is 11.2 times our 2012e EPS. We derive our target PE multiple using our DDM.	Adverse outcome in pending CECONY gas and steam cases would change our EPS growth estimates
NST	UW	\$36.87	\$32.50	Our target price is 11.6 times our 2012e EPS. We derive our target PE multiple using our DDM.	Delays in implementing transmission expansion, continued weakness in power demand would change our EPS growth estimates.
NVE	OW	\$12.83	\$14.25	Our target price is 10.5 times our 2012e EPS. We derive our target PE multiple using our DDM.	Continued weakness in demand and poor economic conditions in Nevada create a difficult environment for ratemaking in 2011 changing our EPS growth estimates.
PCG	OW	\$43.66	\$46.00	Our target price is 11.5 times our 2012e EPS. We derive our target PE multiple using our DDM.	Unfavorable ratemaking environment for upcoming 2011 GRC would change our EPS growth estimates.
PGN	EW	\$39.41	\$38.75	Our target price is 11.5 times our 2012e EPS. We derive our target PE multiple using our DDM.	Adverse outcome in pending Florida rate case and cancellation of planned Levy County nuclear project would change our rate base and EPS growth estimates.
PNW	EW	\$38.16	\$39.00	Our target price is 11.7 times our 2012e EPS. We derive our target PE multiple using our DDM.	Adverse decision on APS rate settlement by APSC and continued weakness in demand would change our EPS growth estimates and assessment of financial health.
SO	UW	\$34.87	\$31.25	Our target price is 11.6 times our 2012e EPS. We derive our target PE multiple using our DDM.	Delayed recovery in demand and weak economic conditions create a difficult environment for 2011 Georgia Power rate case potentially reducing earnings power.
TE	EW	\$17.06	\$16.75	Our target price is 11.4 times our 2012e EPS. We derive our target PE multiple using our DDM.	Difficult controlling O&M when demand recovers and continued weakness in coal markets would reduce earnings power.
WEC	OW	\$51.85	\$52.25	Our target price is 11.9 times our 2012e EPS. We derive our target PE multiple using our DDM.	Adverse ratemaking decision in Wisconsin and adverse judgement in Bechtel contract dispute would reduce our EPS growth estimates.
WR	OW	\$23.16	\$23.75	Our target price is 11.2 times our 2012e EPS. We derive our target PE multiple using our DDM.	Weak demand and adverse outcome of 2011 rate case would reduce our EPS growth estimates.
XEL	EW	\$21.83	\$21.50	Our target price is 11.6 times our 2012e EPS. We derive our target PE multiple using our DDM.	Adverse ratemaking outcomes and delays implementing transmission expansion plans would reduce EPS growth estimates.

Source: Morgan Stanley Research

Valuation and Risks - Diversified

Ticker	Rating	Price	PT	Valuation	Risks
AYE	++	\$21.41	++	++	++
CEG	EW	\$37.11	\$41.25	We derive our price target using a sum of the parts approach applying as a 12 times multiple to 2011 earnings for the regulated segment and our mid-cycle open EBITDA model for the merchant segment.	Retail margins falling faster than our forecast would negatively impact EPS and the stock
D	UW	\$41.86	\$38.50	We derive our price target using a sum of the parts approach applying as a 12 times multiple to 2011 earnings for the regulated segment and our mid-cycle open EBITDA model for the merchant segment.	Less than favorable outcome in the VEPCO rate case will impact EPS. An unfavorable sale price for the Marcellus shale holdings will impact cash flow and increase D's financing requirements.
EIX	EW	\$34.09	\$37.50	We derive our price target using a sum of the parts approach applying as a 12 times multiple to 2011 earnings for the regulated segment and our mid-cycle open EBITDA model for the merchant segment.	Forced implementation of environmental capex at Midwest coal units, continued weakness in power prices would change our assessment of financial condition and earnings growth.
ETR	OW	\$81.73	\$90.00	We derive our price target using a sum of the parts approach applying as a 12 times multiple to 2011 earnings for the regulated segment and our mid-cycle open EBITDA model for the merchant segment.	Adverse ratemaking decisions at the utilities would change our assessment of earnings growth and valuation.
EXC	EW	\$43.62	\$45.50	We derive our price target using a sum of the parts approach applying as a 12 times multiple to 2011 earnings for the regulated segment and our mid-cycle open EBITDA model for the merchant segment.	Degradation in nuclear plant performance and continued weakness in power markets would change our earnings growth assessment.
FE	++	\$37.32	++	++	++
FPL	EW	\$51.06	\$49.25	We derive our price target using a sum of the parts approach applying as a 12 times multiple to 2011 earnings for the regulated segment and our mid-cycle open EBITDA model for the merchant segment.	Adverse decision in Florida rate case, difficulties in implementing wind development targets would change our earnings growth estimates.
PEG	EW	\$31.39	\$31.75	We derive our price target using a sum of the parts approach applying as a 12 times multiple to 2011 earnings for the regulated segment and our mid-cycle open EBITDA model for the merchant segment.	Adverse decision in NJ rate case and leverage lease tax dispute with IRS would change our assessment of earnings growth and valuation.
PPL	EW	\$28.34	\$30.25	We derive our price target using a sum of the parts approach applying as a 12 times multiple to 2011 earnings for the regulated segment and our mid-cycle open EBITDA model for the merchant segment.	Failure to improve trading margins, foreign currency exposure in the UK, and an unfavorable regulatory outcome in the PA delivery business would adversely affect the stock
SRE	EW	\$50.20	\$53.00	We derive our price target using a sum of the parts approach applying as a 12 times multiple to 2011 earnings for the regulated segment and our mid-cycle open EBITDA model for the merchant segment.	Adverse ratemaking decision in 2011 rate case, weak LNG import volumes, and underperformance at trading JV would change our assessment on earnings growth.

++ Rating and price target for this company have been removed from consideration in this report because, under applicable law and/or Morgan Stanley policy, Morgan Stanley may be precluded from issuing such information with respect to this company at this time


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FirstEnergy has agreed to pay fees to Morgan Stanley for its financial advice, including transaction fees that are contingent upon the consummation of the proposed transaction. Please refer to the notes at the end of this report.

Source: Morgan Stanley Research

Disclosure Section

	<p>Morgan Stanley ModelWare is a proprietary analytic framework that helps clients uncover value, adjusting for distortions and ambiguities created by local accounting regulations. For example, ModelWare EPS adjusts for one-time events, capitalizes operating leases (where their use is significant), and converts inventory from LIFO costing to a FIFO basis. ModelWare also emphasizes the separation of operating performance of a company from its financing for a more complete view of how a company generates earnings.</p>
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Disclosure Section

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Disclosure Section (cont.)

Global Stock Ratings Distribution

(as of March 31, 2010)

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Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	1042	41%	325	43%	31%
Equal-weight/Hold	1095	43%	348	46%	32%
Not-Rated/Hold	15	1%	4	1%	27%
Underweight/Sell	373	15%	87	11%	23%
Total	2,525		764		

Data include common stock and ADRs currently assigned ratings. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations. Investment Banking Clients are companies from whom Morgan Stanley or an affiliate received investment banking compensation in the last 12 months.

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Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

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Underweight (U). The stock's total return is expected to be below the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

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Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

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Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.

Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index.

Disclosure Section (cont.)

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