US Electric Utilities & IPPs
Taking the Polar Express from Washington

Equities

Americas
Electric Utilities

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'I'm Not a Scientist', but there's a lot of activity in DC in 2015

We returned just in time from our latest trip to Washington DC yesterday to visit with regulators and other industry constituents. As emphasized by the results of our latest client survey, PJM market dynamics remain of central focus, with seemingly all constituencies on board with real reform (driving higher prices in this May's capacity auction for PJM). Demand Response (DR) too continues to garner real attention, with talking around DC remaining that the Supreme Court to yet reject the Solicitor General's petition to take up the case (throwing the industry in yet another tailspin). Lastly, we see carbon and renewables as remaining a key delight in DC, with the question of whether the industry will enjoy future federal tax credits of much debate (among other REIT/MLP tax subsidy schemes contemplated).

Coming down to the wire on PJM: litany of issues for resolution in April

We count a variety of issues to be resolved in coming months, particularly around April 1st, leading up to the PJM capacity auction in May. We suspect efforts around recent interim auction decisions on procuring 'extra' capacity through '15/'16 may help tip FERC's hand on how it will view the broader CP reforms. Also expected around April 1st will be a response to PJM's 'stop-gap' measure to continue to include DR in the BRA in the event of a negative impact on DR in the courts. Lastly by mid-April, a decision could come from the Supreme Court on what it plans to do around DR's jurisdiction (and in turn whether it can continue to participate in the auction). Petitioners may yet launch new lawsuits to keep DR out against the stop-gap. Bottom line, late spring will be quite busy for the PJM markets, with lots of potential for constructive data points.

What are the key CP issues? Bias remains for the Commission to act favorably

Following our latest trip, we have yet stronger confidence that PJM will not only rule on the pending Capacity Performance docket in time (April 1st as asked for by PJM), but also that FERC will largely adopt the proposed rules, seeing reliability metrics as meaningfully at risk following last winter's significant underperformance (up to 22% EFOR – or failure rate on units – in January). We think the focus remains on the interim and transmission auctions as well as offer limits. We suspect the FERC may well be positioned to approve the entire docket rather than push back too substantially on any issue (although rules around higher offer caps have the greatest potential of being modified), offering the auction the best visibility on the subject possible.

What's the timeline for Demand Response? Coming back into view.

While many (including ourselves) have written off an impact on DR in the current auction pending a decision from the Supreme Court (which remains likely to take up the issue at the request of the SG), there remains a distinct chance the court does not ultimately side with the SG's view that that the case should be overturned in favor of the DR industry. In our latest conversations we note an optimism tone within the power industry (and doubt among some DR supporters) that the Supreme Court will ultimately take up the issue – with parties seeing little broader value in delineating the jurisdictional issues involved in breaking up the sector's outlook. We see PJM attempting to limit the negative impacts of even continued uncertainty via its stop-gap measure, which is likely to face significant push back in the interim as well.

Investment conclusions, please? Good for PJM, plus renewable tax candy opportunities.

Our conversations were most directly constructive to shares of PJM generators, where the key question remains whether FERC will ultimately adopt PJM's proposed 'Capacity Performance' reforms. While many are on board, our offsetting note of caution comes from many investors already 'expecting' a run-up in pricing (we have more confidence in our range of $150-200/MW-day) vs. the seemingly ~$200/MW-day 'consensus' emerging. DR remains a further key wildcard to watch in our minds, which has been largely 'pulled out of' expectations (could prove a significant benefit to capacity prices in *future* auctions, pending the court's decision). A further key nuance in the DC debate around the PJM reforms remains whether reforms will be transitioned 'earlier' as regulators seek to implement 'immediate' remedies to polar vortex concerns. Consensus EPS expectations do not appear to have formally reflected either the formal auction upside, nor the interim periods. Energy price formation (and a broader focus on energy market compensation) remains a further upside wildcard.

Turning to renewables, the real question in 2015 remains what direction EPA will take in its final version of the Clean Power Plan (CPP) and whether any further tax candy will be provided in future tax extender bills. We remain constructive on both solar and wind, seeing 2015 as poised to score potential wins on 'commence construction' language extensions for both hopefully, extending the time period permissible to begin projects. This would be a particularly strong benefit for solar, seeing ITCs as benefitting from an implicit extension to 2018 (off current year-end 2016 expiration). Corresponding 'commence construction' language for the latest 1-year PTC extension has yet to be approved (providing a safe harbor for wind projects completed in 2016). Here too, we maintain our Buy rating on shares of NEE and constructive view on the YieldCo sector among others.

Coming down to the FERC Chair transition on April 16th

Which way will Honorable sway?

We look for the handoff of the FERC reigns to Commissioner Bay on April 16th to result in little fanfare, seeing little change in FERC's direction. Current Chair LaFleur appears committed to serve out the balance of her appointment in her role as Commissioner (expiring on June 30th, 2019). We see little change in her strategic direction – tackling not just capacity reforms, but infrastructure, LNG, and addressing wider concerns over EPA's implications from Clean Power Plan (CPP) implementation [the latter is the latest addition to the present Chair's priorities]. Turning to newly confirmed Commissioner Honorable, expectations remain for her to side more with Republicans Moeller and Clark on pending issues before the Commission, particularly those issues impacting coal (on which her home state of AR is quite dependent). It's unclear how a renewed emphasis on 'tempering' the impact of EPA's reforms would tangibly manifest itself.

What Lies Beneath the Surface? **Energy Price Formation**

Among the key 'sleeper' issues in DC is a focus on Energy Price Formation (aka – all that has to do with how energy prices are set). Seeing just how contentious capacity compensation has become, we see an ongoing strategic focus to get energy market signals 'right'. We see this strategic focus as aligned between

generation interests, FERC Commissioner interests, and lastly FERC staff interest. Following a year of debating these issues across three separate technical conferences, the latest issuance on the subject is posed to whittle down the focus from (11) proposed issues (see the January 16th filing in Docket AD14-14 for a full list of questions from FERC on issues; comments are due February 19th). The bottom line is energy price formation could prove an 'alternative' for future price improvements vs. increased capacity compensation. We see 2015 as a potential 'year of action', with few investors expecting such reforms or knowing how to price them. Lastly, uplift remains a key component, with PJM load suffering last January and February from substantial out-of-market payments.

Among the key points potentially receiving scrutiny out of FERC & FERC's staff's inquiry include:

- Defining price caps more appropriately for involuntary load shed events; it would appear expectations on how to define a price cap remain all over the map (from as low as the marginal unit to as high as $10,000/MWh).
- Pricing Fast-start resources: Removing averages from real time dispatch (allowing generators to receive up to 5-minute scarcity price intervals).

What are next steps? We expect FERC to respond with to-do's

Following the latest comment period, we look for FERC to move forward with a more specific Notice of Proposed Rulemaking, NOPR, or something of the like in order to drive conclusion to the latest process. We suspect this could eventually push RTOs to ensure that prices received by generators are both accurate (can reflect real time scarcity value) as well as potentially higher values for scarcity pricing, alongside modifications to limit (and reduce) out of market compensation to generators. We suspect this could become a greater priority once capacity market issues are addressed by late Spring (and among future Chair Bay's first major issues to tackle in 2H15 among power market issues).

Preparing for the worst: with 11 GW of DR at risk, PJM files for one-time permission to bypass RPM (2 filings) and a "stop-gap" rule

While a decision on Capacity Performance around March/April is likely to be far more significant for the future of Demand Response (DR), PJM nevertheless has filed multiple dockets aimed at both keeping cleared DR in the system this summer and developing a contingency in case the courts and FERC effectively eliminate it from the power stack.

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On December 24th, PJM filed two separate dockets with FERC (ER-15-738/739) to essentially bypass the reliability pricing model (RPM) and pay conventional generators capacity payments outside of the usual auction process. The filings were made to hedge against the possibility of a worst case outcome in the recent federal appellate decision in EPSA that ruled against paying retail demand response (DR) in the energy markets under Order 745 and the pending FirstEnergy complaint that argues against DR capacity payments as well.

A summary of points made in these filings are included below: 11 GW of DR cleared the 2015/16 RPM Base Residual Auction in 2012 and could be at risk for nonpayment in the energy markets if the stay on the DC Circuit ruling is lifted or the US Supreme Court rules against such payments.

- PJM asks FERC to waive the requirement to release the 2 GW of 'excess' capacity in the upcoming incremental capacity auction. (Docket ER15-738)

- As a result of a lower revised demand forecast since the base auction, about 2 GW of capacity that cleared the 2015/16 auction are slated to be released back to the market in the upcoming Feb 23rd Third Incremental RPM Auction.

- PJM has also asked FERC to allow it to make payments to conventional generators outside of the usual RPM auction context in order to line up required resources for the summer in the event PJM can no longer pay DR to satisfy its obligations. This explicit out-of-market procurement is likely to face future scrutiny if approved; the primary focused would be to either delay the retirement of some generators or to accelerate the construction of others. (Docket ER15-739)

- Responses to both of these near-term reliability fixes are due in February, to address the next round of incremental auctions (60-day clock has started on Section 205 filings, asking for February 23rd) – and could prove telling around FERC's willingness to go along with PJM's slew of proposed improved reliability reforms despite their added cost. Approval of even one of these would be a positive.

- FERC may also choose to invalidate capacity payments to DR as argued in the FirstEnergy complaint.

- The 2015/16 delivery year is also a time of unprecedented plant retirement and replacement, placing additional stress on the system for this particular time period. 11.8 GW of coal plants are planning to retire, with 3,800 MW of new generation expected to come online (another 1.6 GW that cleared the auction has been delayed into 2016/17). This net 8.0 GW reduction in 'steel in the ground' compares to only 359 net-MW lost in the prior 2014/15 auction.

- PJM is seeking to prepare a contingency against the possible loss of all 11 GW DR, which would effectively push the installed reserve margin for this delivery year down to 13.2% from 15.6%, a situation that could "present serious risks" in extreme weather events with high peak load.

Stop-gap ruling on Demand Response puts in place (precarious) solution?

The so-called "stop-gap" rule revisions would only take effect in the event that the Supreme Court rejects the certiorari petition – and would allow some DR to participate in the May 2015 Base Residual Auction

On January 14th, PJM also filed FERC docket ER-15-852, the so-called "stop-gap" rule revisions that would only take effect in the event that the Supreme Court rejects the certiorari petition seeking review of EPSA v FERC. The rule would effectively allow a portion of DR to participate in the upcoming May capacity auction by adjusting the demand curve downward for reduced load. While this filing narrowly attempts to fill in 2015 procurement needs, we suspect this issue could garner growing attention as this procurement methodology is expanded beyond just the narrow scope of the current "stop-gap" to include a more permanent solution to addressing DR procurement under any 'retail' jurisdictional ownership of DR at the state level. What's important to recognize is while Order 745 may yet get overturned in the courts, this order was specific to energy market participation; addressing how DR contributes to capacity markets is seemingly a separate topic.

Fuel Assurance Order: More than meets the eye?

Do you know where your fuel is?

In an interesting twist of FERC legal authority, the Commissioners issued an order on technical conference, mandating RTOs to submit their plans for fuel assurance order within 60 days. We look for RTOs to respond by early February with their compliance plans to ensure fuel adequacy in their respective regions. While we see PJM and New England as having largely 'addressed' the FERC's concerns through their respective pay-for-performance filings, we remain intrigued by what MISO, NYISO, and CAISO will opt to file. With MISO having previously been quite vocal on the subject – and still seeing multiple SSR deals as necessary to transition effectively through MATS implementation, this could be a particularly interesting filing (a potential surprise positive for Dynegy?). Meanwhile, we see filings as likely supportive of PJM and New England's efforts, although unlikely to shift any core of their compliance schemes.

But what is included in Fuel Assurance? This could be bigger than we think.

Beyond just addressing natural gas pipeline adequacy and the ability for gas plants to tap dual-fired capabilities (i.e. – fire with oil if need), we suspect the filing could push RTOs to explore policies to re-examine their support for nuclear power. Should PJM capacity prices clear high, we're pessimistic Illinois will prove successful in pushing through legislation, leaving the Clinton nuclear plant in MISO as vulnerable. Further afield, the fuel assurance filing could also yet prove the avenue the commission uses to further explore adequate pipeline capacity in restructured markets.

And turning the legislative agenda:

And what of the chances of an energy bill? Still quite slim.

We remain skeptical

Given the Republican control of both House and the Senate—and their pressing desire to get the Keystone XL pipeline approved, there appears to be a narrow window for energy legislation in the upcoming energy session. The commentary follows on Obama's infrastructure proposal alluded in the State of the Union address last week. While this would appear to primarily focus on highway spending, any wider 'energy' compromise would likely include demand from the White House around increased renewable support. That said, we remain skeptical about the potential for the legislation to come to fruition.

The real focus should remain on the tax extenders bill for renewable success.

'Safe Harbor' for the ITC like the PTC could extend the solar runway

We're still quite closely tracking is the potential for any further Production Tax Credit (PTC) or Investment Tax Credit (ITC) extensions. Given their broader lack of support, many remain quite skeptical of any further extension. We continue to see PTC extension as seeing more 'potential', with many more red states benefitting. We ultimately see any window to extend the PTCs as designed to shift the ratepayer impact of the EPA's Clean Power Plan (carbon reduction scheme) to the federal government, away from the states. That said, we see the key question as being whether there is any legislative will to approves 'Commence Construction' language for the ITC in the current Republican controlled legislature; with this 'compromise' having been put in earlier versions of the tax extenders bill in 2014 vs. what was ultimately approved, we see this as potentially making a comeback. Notably, this would really only provide support for utility-scale projects (rather than

for short development/construction-cycle distributed generation solutions). We expect many of the 'next' wave of utility-scale projects will be located in Republican states across the Southeast (VA, NC, SC, GA, FL, and even TX) as well as CO and MN among others.

Please see our latest note on the US solar outlook in 2015 from SEIA here.

What about tax vehicles: Can renewables get the same treatment as Oil & Gas?

Widespread expansion of REITs may not be a near-term event

We don't think the country is ready for yet another tax-advantaged vehicle. We understand there remains wide debate across the administration on the subject, suggesting to us limited latitude for REITs or MLPs to find legislative support to get off the ground. We suspect many will continue to push the concept through applying for Private Letter Rulings (PLRs) for such status – such as Renewable Energy Trust (RET), a potential YieldCo/REIT structure for renewables.

And what of FERC's thoughts on REITs? Still a wide open field.

We remain surprised that FERC still has yet to be pushed on the subject. <u>We suspect the Commission will likely have to address the concept directly in coming months.</u> Our initial take suggests the FERC remains quite open to the concept, with the primary opposition likely from states that would seek limit to recovery of FERC rates in their respective state-level tariffs. We expect the debate over RETI eligibility will be a 2015 or 2016 focus.

How about authorized transmission returns at FERC:

Formula transmission rate protocols intend to cap ROE for each project individually

FERC transmission ROEs process may not be as stringent as we once thought

Our discussion with Chairman LaFleur clarified her opinion that the intent of ROE banding and caps under FERC's formula transmission rate protocols is to cap each transmission project <u>individually rather than on a whole-portfolio basis</u> (per company, for example). We note that this is potentially important for Northeast Utilities, which has taken reserves for lower base and incentive ROEs pending the outcome of three complaints last year (for three different time periods). For more information on FERC's ROE process, see our 8/19 note "Breaking down the New FERC ROE Methodology". NU has been conservative in capping all its projects at 11.74% and booking $23.8M of reserves for possible incentive earnings above this level if allowed to cap the portfolio as a whole instead (with a higher average earned ROE overall). Thus we don't expect any change to earnings from a negative decision in this regard – just no upside.

ROE policy: midpoint of high point and mid-point <u>only</u> for New England

While the recent New England decision did provide for a broader framework with which to calculate a narrower range of the Zone of Reasonableness for setting transmission ROEs (using the 2-step gas methodology), the policy precedent does <u>not</u> appear to extend to future cases in using the midpoint of the midpoint and the high end (ie – ~75th percentile) in establishing an ROE from this peer group. <u>That said, ongoing settlement discussions would likely reflect this higher midpoint given the ongoing low interest rate environment.</u> We continue to await a potential settlement in pending cases, which include FE's ATSI case (following its pro-active 205 filing) as well as even the broader MISO case (although this case is less clear).

Renewable Policy:

Renewable Portfolio Standard 2.0: Upping the ante?

We see a shift back *towards* RPS-driven compliance as necessary if PTCs are phased-out

With many states having largely achieved their respective RPS compliance targets, the coming 24-month period will see renewable advocacy organizations advocate for yet higher targets. While this is likely led by California's hike to 50% by 2030 (off 33% by 2020), we see MI and IL as poised to increase their respective takes (albeit IL would simply 'fix' its program). We see any efforts to hike forward looking targets for RPS compliance (in the 2020+ period) as implicitly addressing carbon reduction targets from EPA's forthcoming 111(d) implementation. We believe states could become more explicit in linking higher RPS targets to carbon as the EPA's plans are finalized through 2015. For example, states in the Southeast could prove an unexpected rapid developer of assets in order to capitalize on the forthcoming Investment Tax Credit (ITC) expiration. We see a shift back *towards* RPS-driven compliance as necessary, seeing much of the build in recent years driven by PTC-related tax holidays which are likely to fall away (if ever before) under a Republican controlled House and Senate.

But could RPS reform take the shape of a 'Clean Energy Standard'?

With the focus on carbon only growing, we see the potential for states to begin implicitly migrating towards a Clean Energy Standard rather than just a Renewable Target. We suspect this could be particularly well received in many states seeking to portray themselves as 'green' without really changing their underlying generation mix. For example in states with large existing zero-carbon sources of nuclear and hydro, we see an ability to claim 70%+ 'clean' standards. This could quite possibly be an outcome in Illinois and Michigan, in part to get bipartisan support for bills that have much less substantial impacts.

Blurring the line between renewable and carbon credits

We see the shift towards a Clean Energy Standard as potentially blurring the line in distinct and separate value ascribed to renewable and carbon credits. While any clean energy standard would continue to value credits in $/MWh likely (and likely at a discount to even the depressed value for generic RECs in the secondary market), we see the value of these 'Clean' emissions as effectively tied to an implicit value on carbon. We suspect these state level programs could yet be the latest manifestation of a more explicit value on carbon.

EPA: the Low Down on the Carbon Plan

Looking at finalizing the Clean Power Plan (CPP) later this year.

EPA appears committed to pursuing its finalization process around its existing source 111(d) regulations by ~mid-year; we see EPA as deep into the comment process following the litany of input received on December 1st. *Meaningful legal battles remain a key risk around any carbon program implement – and the administration appears keen to try and avoid as many pitfalls as possible through the finalization process.*

Juxtaposing New Source and Existing Source remains the conundrum

Treatment of new emissions remains a gap that will be addressed

Among the key questions for EPA to resolve in its finalization process is *how* the state would address new sources of emissions, rather than simply regulated *existing* sources of emissions. We see this as a major potential source of leakage in any eventual program, seeing a strong incentive to *close* existing plants and open up new plants (with equal or greater emissions) without coming up the coverage of these rules. It remains unclear if EPA has any legal latitude at precedent to expand units included under the guise of the existing source standards to include new sources. We flag the forthcoming finalization of both the new and existing source regulations in June as a further indication the administration takes this leakage concern seriously (finalization of 111b regulations for *new* source regulation had been due earlier in January).

Translating between mass and the emissions rates?

Among interesting clues in addressing the controversy between new and existing sources is how to translate the emission rate-based compliance targets that EPA provided into specific mass-tons (nominal targets). Under the EPA's proposed conversion rate from emission rate-to-mass target, there would be several adjustments (transmission losses, demand growth) as well as reflecting incremental new generation. We see this as the start of a compliance policy designed to address potential leakage as well as provide the ground work for a compliance scheme that would enable a cap-and-trade regime (as an emissions rate program would seem tricky to institute).

What about the next round of Ozone standards? Yet another angle for regulation via CSAPR 2.0

Implementation of 2008 ozone standards could be expedited to as soon as the ~2018 period

We suspect the courts may well be positioned to put EPA in a position to move forward on states that are deficient on their compliance with the 2008 NAAQS (National Ambient Air Quality Standards). We suspect a pending court case in Northern California could yet compel the states to move forward on imposing Federal Implementation Plans (FIPs) on states found to be deficient. Such a filing later this year could trigger a 2-year FIP imposition process, resulting in compliance deadlines soon after this 2-year period. We suspect implementation of 2008 ozone standards could yet be expedited to as soon as the ~2018 period. As a reminder, the focus on CSAPR was entirely predicated on implementing only the 1997 NAAQS Ozone standards. We suspect this could yet lead to a further ratcheting up of rules – and another round of investment. CSAPR v2.0 would remain primarily focused on Texas as well as Maryland and Pennsylvania (with other northeast brought into the fold, much as the initial program was crafted, albeit perhaps with a few less Western states). The key question is whether the timeline for FIP implementation following the pending case will allow the current Obama

administration to push forward on the CSAPR v2.0 prior to leaving office in late 2016.

2015 Ozone regs will be published in October. Lastly, CSAPR 3.0 would be established under regulations requiring a further re-evaluation of air quality standards this year. While this is quite long-dated for implementation, the question is how much further background air quality would be improved upon the last round.

And version 3 of CSAPR slated for October too?

We're focused on the meat-and-potatoes EPA rules.

We think the upcoming regulations around revised Ozone standards, Regional Haze, implementation of proposed 1-hour SO_2 standards, alongside the effluent guidelines on coal ash (conversions to dry ash). We see these regulations – and the ensuing capital requirements – as particularly relevant amidst what is likely to be a depressed future dispatch and energy margin to account for the impact of the EPA's Clean Power Plan (CPP) regulations. We see the next 5 years of compliance as driving coal plants between a rock (complying with near-term $SO_2$and NO_X targets) and a hard place (long-term outlook for carbon regulations). The question remains whether even modest capital investment requirements, such as compliance with coal ash regulations, could yet result in incremental coal plant retirements (particularly for units with costly wet-to-dry ash handling systems required). *Focus on these rules appears to be taking a clear sidelining vs. the strategic priority at EPA to finalize carbon regulations to an adequate level.*

EPA will drive fuel switching away from coal plants towards gas, rather than necessarily result in outright retirements of plants

Will the CPP itself result in coal plant retirements? We think it's about switching primarily.

We suspect most of the Clean Power Plan (CPP) will primarily result in <u>fuel switching away from coal plants towards gas, rather than necessarily result in outright retirements of plants</u>. While much of the rhetoric has been tied to prospective plant retirements, we see the potential for coal dispatch to be substantially reduced in favor of running gas plants. Plant retirements will remain more explicitly tied to the rules requiring specific capital investments for NOx and SO2 retrofits. With many more of these oriented out West (unscrubbed PRB plants), we see the potential for disproportionate retirements in this region relative to the East (where much has already been addressed).

Notion of 'carbon dispatch' getting increasing traction among constituents.

Acknowledging that coal plants will need to run less in order to achieve the EPA's CPP targets, we hear growing efforts from states (particularly those in MISO) to 'bid in' the incremental costs of dispatch into clearing power prices (LMPs). It appears these efforts are being spearheaded by Great River Coop in conjunction with the Brattle group. As states increasingly appear poised to cooperate to arrange dispatch, we hear from EPA an increasing need to design rules to enable the ability to eventually merge SIPs prospectively (rather than initially at inception of the SIPs). We see the likely disjointed timelines as each state has its own back-and-forth with EPA on exact implementation as only further reflecting the need for future flexibility as 'partnerships' are created.

MISO generators could incorporate incremental dispatch costs into bids

We see the inter-state dispatch issue as particularly thorny.

While coordinated dispatch appears an ideal solution to cost-effectively achieving regional carbon reduction goals, we see the issue of multi-state utilities (with

assets owned in one state and sold into another) as particularly thorny. We suspect allocation issues will remain to the states and utilities to discretely resolve.

Getting a clue on how to comply? Expect feds to tell states up front how to do so.

EPA will be issuing in conjunction with the finalized rules their own proposed Federal Implementation Plans (FIPs) for states looking for 'a way to comply'. We suspect those dragging their feet on rules could well see eventual imposition of these plans; as such this element of finalized rules will remain an important part of any finalized package.

Statement of Risk

Risks for Utilities and Independent Power Producers (IPPs) primarily relate to volatile commodity prices for power, natural gas, and coal. Risks to IPPs also stem from load variability, and operational risk in running these facilities. Rising coal and, to a certain extent, uranium prices could pressure margins as the fuel hedges roll off Competitive Integrateds. Further, IPPs face declining revenues as in the money power and gas hedges roll off. Other non-regulated risks include weather and for some, foreign currency risk, which again must be diligently accounted in the company's risk management operations. Major external factors, which affect our valuation, are environmental risks. Environmental capex could escalate if stricter emission standards are implemented. We believe a nuclear accident or a change in the Nuclear Regulatory Commission/Environment Protection Agency regulations could have a negative impact on our estimates. Risks for regulated utilities include the uncertainty around the composition of state regulatory Commissions, adverse regulatory changes, unfavorable weather conditions, variance from normal population growth, and changes in customer mix. Changes in macroeconomic factors will affect customer additions/subtractions and usage patterns.

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Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%
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Source: UBS. Rating allocations are as of 31 December 2014.
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UBS Securities LLC: Julien Dumoulin-Smith; Michael Weinstein; Paul Zimbardo.

Company Disclosures

Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
NextEra Energy[2, 4, 5, 6, 16]	NEE.N	Buy	N/A	US$109.75	26 Jan 2015

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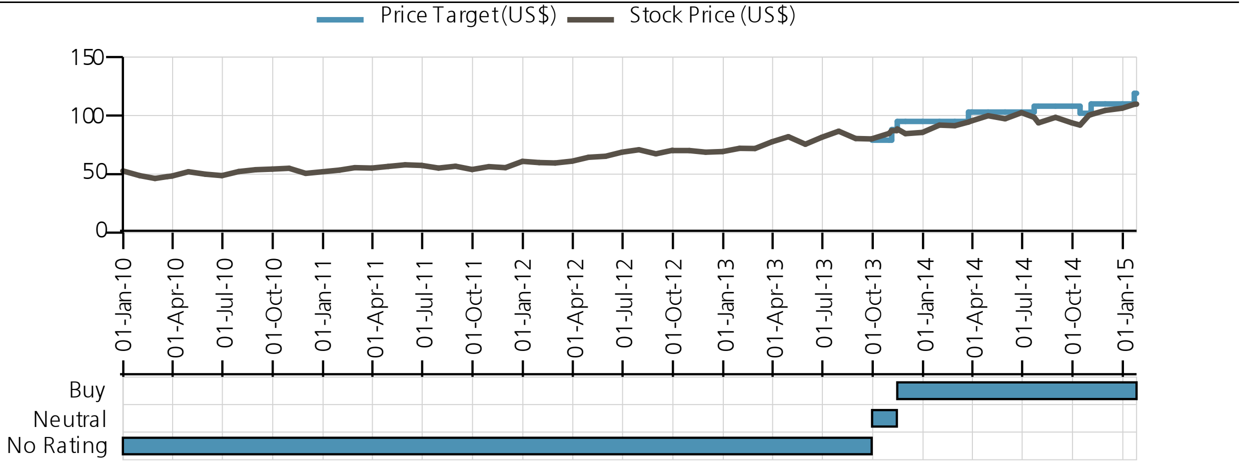
NextEra Energy (US$)



Source: UBS; as of 26 Jan 2015

Additional Prices: FirstEnergy Corp., US$41.35 (26 Jan 2015); Source: UBS. All prices as of local market close.

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