expect the company to continue to execute on its strategy to add customers through conversions due to low natural gas prices. Effective management of regulatory relations that provide for full and timely recovery of all expenses and investments is also very important to help preserve current ratings. See UIL. Holdings Corp. for consolidated financials.

Connecticut Water Service Inc. (A/Negative/--)

Financial performance at Connecticut Water continued to remain weak during the second quarter of 2012, which is reflected in our negative outlook on the company. Credit measures are affected by higher leverage due to acquisition-related debt the company issued to fund the purchase of Aqua Maine and debt issued to fund capital spending. While we expect the company to issue common equity to pay down some of the acquisition debt, the current ratings could come under pressure depending on the size and the timing of the equity issuance. Gabe Grosberg

Consolidated Edison Co. of New York Inc. (A-/Stable/A-2)

The company's credit profile continues to benefit from the 2010 three-year electric, gas, and steam rate settlements and revenue decoupling mechanisms that help mitigate the impact of variations in revenues caused by weather and energy conservation. The company plans to file new electric, gas, and steam rate plans with the New York regulator in November 2012 for new rates to become effective in October 2013. An investigation by the regulator regarding the company's contracting practices (for which rates are being collected subject to refund) is underway. See Consolidated Edison Inc. for further details. Barbara A. Eiseman

Consolidated Edison Inc. (A-/Stable/A-2)

The company's credit profile benefits from multiyear rate settlements and revenue decoupling. Yet, the utilities still need to effectively manage regulatory risk and control costs to earn close to allowed ROEs and sustain or improve cash flow generation. An unregulated unit recently purchased a firm that is developing 70 MW of solar projects, which has resulted in increased capital outlays. We view the unregulated business as having higher risk than the regulated operations, necessitating stronger financial measures and excellent risk management. Meanwhile, the company's financial performance has benefited from full realization of rate relief as well as lower cash taxes providing for adjusted FFO to debt of about 20% and total debt to total capital of about 55%. Barbara A. Eiseman

Consumers Energy Co. (BBB-/Positive/--)

The company continues to effectively manage its regulatory risk and reduce its regulatory lag through its strategic decision to file rate cases consistently while managing its operating and maintenance (O&M) costs. The company recently filed for an electric rate increase of $148 million and will self-implement interim rates in March 2013. For consolidated financial information, see CMS Energy. Gabe Grosberg

DPL Inc. (BBB-/Watch Neg/--)

DPL's utility subsidiary Dayton Power & light recently withdrew its Market Rate Offer and filed an Electric Security Plan in Oct. 2012. The change in filing could delay the review process into early 2013. Low wholesale electric prices and increasing competitive pressure continue to materially stress DPL's profit margins. DPL's credit quality is adversely influenced by the substantial amount of additional debt due to the merger with AES Corp. (BB-/Stable/--). We expect total debt to total capital to hover around 57% and adjusted FFO to debt to be about 11%. Matthew L. O'Neill

DTE Energy Co. (BBB+/Stable/A-2)

The company's financial measures have remained in line with our expectations and are adequate for the current rating. For the 12 months ending June 30, 2012, FFO/debt improved slightly to 19.9% from 19.5% at year-end 2011, debt/EBITDA was maintained at 3.8x and debt to total capital also maintained at about 56%. We expect 2012 discretionary cash flow to be negative, reflecting the company's $1.9 billion in capital spending, of which it will invest more than 75% in its regulated utilities. The Michigan economy has gradually revitalized. While Michigan's 9.4% unemployment rate is still greater than the 8.1% national average, it has nevertheless improved considerably from the 14.6% high in 2009. Gabe Grosberg

Dayton Power & Light Co. (BBB-/Watch Neg/--)

Dayton Power & Light recently withdrew its Market Rate Offer and filed an Electric Security Plan in Oct. 2012. The change in filing could delay the review process into early 2013. Low wholesale electric prices and increasing competitive pressure continue to materially stress DPL's profit margins. DPL's credit quality is adversely influenced by the substantial amount of additional debt due to the merger with AES Corp. (BB-/Stable/--). We expect total debt to total capital to hover around 57% and adjusted FFO to debt to be about 11%. Matthew L. O'Neill

Delmarva Power & Light Co. (BBB+/Stable/A-2)

The company continues to manage its regulatory lag by filing regular rate cases. The company recently received rate increases in Delaware of $22 million and Maryland $11 million. The rate increases should help to bolster operating cash flow. See PEPCO Holdings for consolidated financial ratios.	Matthew L. O'Neill
Detroit Edison Co. (BBB+/Stable/A-2)	
The company continues to effectively manage its regulatory risk as evidenced by its ability to earn its allowed return. The company has benefited in 2012 from warmer weather and received approval to defer the reversal of its $127 million revenue decoupling mechanism liability until 2014, which will allow the company to delay its rate case filing until 2015. We expect Detroit Edison's discretionary cash flow to remain negative over the intermediate term, reflecting a consistently higher level of capital spending. The increase in capital spending mostly reflects increases in environmental and renewable projects. For consolidated financial information, see DTE Energy Co.	Gabe Grosberg
Dominion Resources Inc. (A-/Stable/A-2)	
Fewer and smaller unregulated activities and solid regulation in Virginia have significantly and durably improved business risk. Aggressive capital plans and low market prices on the unhedged merchant portion of the business will hold back improvement in financial measures, dampening potential ratings or outlook improvements, but we expect steady financial performance as improving regulated earnings and cash flow make up for lower unregulated margins. Greater strategic emphasis on gas midstream development could mildly increase business risk if accelerated. Recent financial performance has been in line with expectations, with FFO to debt at 18.2% and debt to EBITDA at 4.8x.	Todd A. Shipman, CFA
Duke Energy Carolinas LLC (BBB+/Negative/A-2)	
Duke Energy Carolina's last rate case provide for a base rate increase of $309 million and is planning to file a subsequent rate case by the end of 2012 to recover incremental investments. The company is completing construction of the 820 MW Cliffside coal-fired unit and the 620 MW Dan River combined-cycle unit. Weather normalized sales increased 1.3% in 2012, reflecting the robust local economy. See Duke Energy for the financial basis for the rating.	Dimitri Nikas
Duke Energy Corp. (BBB+/Negative/A-2)	
Duke Energy is confronting multiple challenges in 2012, including an investigation by the North Carolina regulator into the abrupt change of the chief executive officer after the merger with Progress Energy closed; approval of the settlement agreement in Indiana regarding the recovery of costs for the Edwardsport integrated gasification combined cycle (IGCC) unit; two rate case filings in the Carolinas; decision as to whether to repair or retire the Crystal River 3 nuclear plant in Florida, which has been off line since 2009; and harvesting the merger integration savings. For the 12 months ended June 30, 2012, Duke Energy's stand-alone financial performance was largely stable, with FFO to debt of 17.3% and debt to capital of 50%.	Dimitri Nikas
Duke Energy Indiana Inc. (BBB+/Negative/A-2)	
Duke Energy Indiana is completing work on the Edwardsport IGCC, which has a target in-service date of early 2013. The company reached a settlement with intervenors that capped the plant's costs at $2.6 billion and is awaiting approval of the settlement from the Indiana regulator. The settlement caused an impairment to the project of $400 million, which is incremental to earlier impairments of $266 million. See Duke Energy Corp. for consolidated financials.	Dimitri Nikas
Duke Energy Kentucky Inc. (BBB+/Negative/--)	
Duke Energy Kentucky agreed to not file for new rates for two years after the Kentucky regulator approved the merger of Duke Energy and Progress Energy. See Duke Energy for consolidated financials.	Dimitri Nikas
Duke Energy Ohio Inc. (BBB+/Negative/A-2)	
Duke Energy Ohio filed rate cases for its electric and gas regulated transmission and distribution operations, requesting increases of $87 million and $45 million respectively. The company is also in the process of separating the Ohio generation assets for the regulated operation, but has not yet reached a final structure for the separation. The company currently operates under an electric security plan approved in November 2011 and which provides for the recovery of an annual rate stability charge of $110 million through 2014. See Duke Energy for consolidated financials.	Dimitri Nikas
Duquesne Light Co. (BBB-/Stable/--)	
Duquesne Light's recently approved distribution and transmission rate increases ($46 million and $11 million, respectively) have helped improve the company's cash flow measures. The company's provider-of-last-resort plan, effective from Jan. 1, 2011 through May 31, 2013, has helped to improve cash flow due to slightly higher rates.	Matthew L. O'Neill

Customer switching has increased slightly due to the higher rates, but is in line with our projections. The company filed its latest provider of last resort plan in April 2012. The plan, which will become effective June 1, 2013, is expected to be approved near the end of 2012. See Duquesne Light Holdings for consolidated financials.

Duquesne Light Holdings Inc. (BBB-/Stable/--)

Duquesne's cash flow measures have improved due to increased revenues based on subsidiary Duquesne Light's approved rate case. The company's provider-of-last-resort plan, effective from Jan. 1, 2011 through May 31, 2013, has helped to improve cash flow due to slightly higher rates. Customer switching has increased slightly due to the higher rates, but is in line with our projections. The company filed its latest provider-of-last-resort plan in April 2012. The plan, which will become effective June 1, 2013, is expected to be approved near the end of 2012. Existing financial obligations, including debt service, could improve with better cost recovery and a stronger balance sheet. Financial performance continues to be in line with our expectations.

Matthew L. O'Neill

Edison International (BBB-/Stable/--)

Continued poor financial performance at Edison Mission Energy has led to more negative rating actions, but ratings on Edison remain unaffected and will be so as long as management does not to support the ailing merchant energy company. Ratings continue to reflect the favorable performance of higher-rated subsidiary Southern California Edison. Recent financial performance has been in line with expectations, with FFO to debt at 15% and debt to EBITDA at 5.2x.

Todd A. Shipman, CFA

El Paso Electric Co. (BBB/Stable/--)

El Paso Electric's general rate review, initiated by the City of El Paso, was filed in February 2012 and resulted in a 5% rate decrease in Texas. El Paso Electric continues to benefit from growth at Fort Bliss, as well as unemployment rates below national averages, combined with new construction that emphasizes the use of refrigerated air conditioning. Continued customer growth continues to facilitate the need for new generation, which keeps pressure on financial measures. Debt leverage increased to 59.1% as of June 30 2012 from 55.3% a year ago, due in large part to the restoration of common dividends. However, FFO to total debt was an improved 24.7% for the year ended June 30, 2012 and overall financial performance continues to meet expectations for the rating level.

Michael T. Ferguson, CFA, CPA

Empire District Electric Co. (BBB-/Stable/A-3)

As of June 30, 2012, Empire's customer count was down 1,100 and restoration costs were about $24.7 million following the May 2011 tornado. Empire expects to spend an additional $6.6 million to rebuild a substation, but expects insurance to cover most of the costs. Meanwhile, capital outlays are rising for environmental upgrades, commercial operations, and to a lesser extent, for a combined cycle-conversion. Pending before the Missouri commission is a request for a $30.7 million (7.56%) electric and a $516,400 (29.6%) water rate hike. Rate orders are expected in mid-2013. We expect adjusted FFO to debt to remain around 15% and debt to capital below 58%.

Barbara A. Eiseman

Entergy Arkansas Inc. (BBB/Stable/--)

The Arkansas regulator approved EAI's acquisition and cost recovery of the Hot Springs 620 MW combined-cycle unit from KGen Power, but the transaction has not yet closed pending approval by the Dept. of Justice. The company continues to operate under a $63.7 million base rate increase implemented in mid-2010 as part of its settlement agreement to earn closer to the allowed ROE of 10.2%. The Arkansas PSC is also reconsidering some of the conditions it set forth in approving EAI's move to the Midwest Independent System Operator (MISO), which we view as a largely credit neutral event. See Entergy Corp. for consolidated financials.

Dimitri Nikas

Entergy Corp. (BBB/Stable/A-2)

Damage from Hurricane Isaac is in the range of $400 million to $500 million and the company is currently well positioned to fund storm costs. Entergy's plan to join MISO and subsequently spin its transmission assets into an entity that will merge with ITC is moving forward, a transaction that we expect to be largely neutral for credit quality. The merchant generation business remains challenged by low power prices, but is preserving its hedging program ensuring at least minimum level of cash flow stability. Entergy received a license extension for the Pilgrim nuclear unit in June 2012 and the relicensing process for Indian Point Units 2 and 3 is still slowly moving forward. For the 12 months ended June 30, 2012, credit protection measures remained just adequate, with FFO to debt of 17.5% and debt leverage of 61.5%.

Dimitri Nikas

Entergy Gulf States Louisiana LLC (BBB/Stable/--)

EGSL's latest formula rate plan (FRP) compliance filing indicated that the company earned an ROE of 11.94% in 2011, which is above the allowed range necessitating a rate reduction of about $6.5 million. In addition, rates will decline by $22.9 million outside of the FRP to reflect lower capacity costs. The company's FRP has been extended through 2012 and EGSL must now file a full rate case by January 2013. EGSL's retail sales were marginally down in 2012. Hurricane Isaac damage is estimated in the $70 million to $90 million range. See Entergy Corp. for

Dimitri Nikas

consolidated financials.

Entergy Louisiana LLC (BBB/Stable/--)

ELL incurred significant damage from Hurricane Isaac, of about $240 million to $300 million and the company is well positioned to fund these costs while pursuing regulatory recovery at a later time. ELL's formula rate plan compliance filing for 2011 indicated an earned ROE of 9.63% and requiring no change in rates. However, rates will need to change by $18.1 million to recover capacity costs outside the FRP. The FRP has been extended through 2012 and ELL must now file for a base rate increase by January 2013. Retail sales grew by 3% in 2012. See Entergy Corp. for consolidated financials. — Dimitri Nikas

Entergy Mississippi Inc. (BBB/Stable/--)

EMI's latest formula rate plan compliance filing indicated that the company earned an ROE of 10.92% in 2011, which is within the allowed range and requiring no change in base rates. In August 2012, the Mississippi regulator approved EMI's purchase of the Hinds Energy Facility, a 450 MW combined-cycle unit from KGen Power for a total cost of $246 million and pending regulatory approvals. The transaction has not yet closed, pending approval by the Dept. of Justice. Total retail sales declined by about 3% in 2012 due to unfavorable weather. See Entergy Corp. for consolidated financials. — Dimitri Nikas

Entergy New Orleans Inc. (BBB/Stable/--)

ENOI's latest FRP filing for 2011 indicated earned returns below the allowed range for electric and gas operations, necessitating modest rate increases. In addition, the New Orleans City Council approved ENOI's purchase of a 20% ownership interest in the Nine Mile Unit 6 that affiliate ELL. is building. Damage from Hurricane Isaac is in the $50 million to $60 million range, which the company is well positioned to fund. See Entergy Corp. for consolidated financials. — Dimitri Nikas

Entergy Texas Inc. (BBB/Stable/--)

Regulatory conditions for ETI remain challenging, with the Texas regulator approving a $27.2 million base rate increase for ETI in September 2012, which was well below the company's request of $104.8 million. In addition, the Texas commission rejected the company's request to implement a purchased power recovery rider. Customer growth remained robust in 2012 but retail sales declined by 5% due to warmer than normal weather. See Entergy Corp. for consolidated financials. — Dimitri Nikas

FirstEnergy Corp. (BBB-/Stable/--)

The company's current financial measures are at the very low end for the rating, reflecting mild weather and storm restoration costs. For the 12 months ended June 30, 2012, adjusted FFO to total debt decreased to 10.5% from 13.5% at the end of 2011, adjusted debt to EBITDA improved to 4.6x from 4.9x at year-end 2011, and adjusted debt to total capital weakened to 62.2% compared with 61.1% at the end of 2011. We expect that FFO to debt will improve to 14% to 17% range over the next three years reflecting normal weather but continuing to be affected by weak electricity commodity prices. — Gabe Grosberg

Florida Power & Light Co. (A-/Stable/A-2)

We base the ratings on the consolidated credit profile of parent NextEra Energy. The downturn in Florida's economy and regulatory trends at Florida Power & Light have slightly eroded credit quality, which is a significant contributor to NextEra's earnings and cash flow. Renewed economic growth and a less intense political atmosphere could return our view of the regulatory environment to previous levels of risk. A pending base rate case has been partially settled and suggests that a reasonable outcome is possible. See NextEra for the financial basis for the ratings. — Todd A. Shipman, CFA

Florida Power Corp. d/b/a Progress Energy Florida Inc. (BBB+/Negative/A-2)

PEF's Crystal River 3 nuclear plant remains out of service while the new owner, Duke Energy, considers the option to repair or retire the unit per the terms of a settlement agreement approved in February 2012 by the Florida regulator and the lack of progress in insurance coverage for the accident. The agreement provides PEF with a framework to repair or retire the plant and, importantly, allows for the recovery of fuel costs through a rider until 2016. The company estimates the total repair costs in the $900 million to $1.3 billion range. See Duke Energy for consolidated financials. — Dimitri Nikas

Georgia Power Co. (A/Stable/A-1)

Full construction on the new nuclear units at the Vogtle site is proceeding on schedule and on budget after Georgia Power received the construction license in early 2012 and the company is collecting the approved financing costs for 2012. Base rates increased by $122 million in April 2012 as part of the three-year rate plan to reflect recovery of — Dimitri Nikas

the proposed McDonough units currently under construction. The estimated compliance costs with the EPA's Mercury and Air Toxics Standards rule have declined and are expected to total about $650 million through 2014. See Southern Co. for consolidated financials.

Golden State Water Co. (A+/Stable/--)

We base Golden State Water's ratings on the consolidated credit profile of its ultimate parent, American States Water. Credit measures are adequate for the rating, with FFO/debt expected to be in low 20% range in 2013. We expect 2013 financial measures to benefit from the rate increases as part of the general rate case settlement and the changes in the Water Revenue Adjustment Mechanism, which reduces the amortization period of deferral balances. — Gabe Grosberg

Great Plains Energy Inc. (BBB/Stable/A-2)

Financial measures have rebounded from 2011 lows. For the 12 months ended June 30, 2012, FFO to total debt increased to 15.7%, debt to EBITDA improved to 4.8x, and debt to total capital improved to 54%. In Missouri, the company's utilities have filed for a $189 million recovery of ongoing operating costs and capital investments. An order is expected in the beginning of 2013. In Kansas, the utility is seeking a $64 million rate increase with a decision by year-end. These rate increases should strengthen cash flow measures. For the La Cygne environmental work, construction risk has been significantly mitigated since there is a contract for about 75% of the project costs. Although the Wolf Creek nuclear plant is operating, the NRC recently determined that it will increase inspections and oversight after concluding that a loss-of-power event in January 2012 had substantial safety significance. — Gerrit W. Jepsen, CFA

Green Mountain Power Corp. (BBB/Stable/--)

Parent company Gaz Metro Inc. recently completed its acquisition of Central Vermont Public Service Co. and is in the process of integrating it with Green Mountain Power. The company's 63 MW Kingdom Community Wind Farm is on schedule for completion later this year. The wind project, along with its Seabrook nuclear and Hydro-Quebec contracts, demonstrates the significant steps the company has taken to diversify its power supply and to secure alternative power supplies due to the end of its Vermont Yankee nuclear contract in March 2012. The company's financial measures remain in line with our expectations, with adjusted FFO to total debt near 16%. — Matthew L. O'Neill

Gulf Power Co. (A/Stable/A-1)

Gulf Power's base rates increased by $68 million after the Florida regulator approved the company's settlement agreement in early 2012. The rate increase included $38.5 million in interim rates implemented in August 2011. The estimate compliance costs with the EPA's Mercury and Air Toxics Standards rule are about $295 million through 2014. Recovery of these costs, similar to fuel costs, will be through clauses that ensure timely recovery of the investment, once the regulatory commission approves them. See Southern Co. for consolidated financials. — Dimitri Nikas

Hawaiian Electric Co. Inc. (BBB-/Stable/A-3)

Despite the implementation of decoupling across all three utilities, the lag inherent in the rate structures and decoupling mechanisms could still prevent the subsidiaries from earning close to the allowed returns, while making such returns and financial performance more predictable. HECO's plan to invest up to $3 billion in capital projects over the next five years (roughly double historic levels) presents a risk in the company recovering such large investment in a timely manner. Part of the large capital spending program is to increase renewable energy projects and the company appears well on track to meet its near-term renewable portfolio obligation of 15% by 2015. See Hawaiian Electric Industries for consolidated financials. — Dimitri Nikas

Hawaiian Electric Industries Inc. (BBB-/Stable/A-3)

The improving results for HEI's utility operations, which are due largely to rate increases for all three utility subsidiaries and the implementation of decoupling mechanisms, along with stable performance for American Savings Bank continue to support HEI's credit profile. HECO's plan to invest up to $3 billion in capital projects over the next five years (roughly double historic levels) presents a risk that the company won't be able to recover such large investments in a timely manner. Financial performance weakened somewhat for the 12 months ended June 30, 2012, with FFO to debt of 12.9% and debt to capital of 57.8%, which remain aggressive. — Dimitri Nikas

IDACORP Inc. (BBB/Stable/A-2)

Northwest hydrogeneration output has been robust during the past two years, helping its financial metrics due to substantial hydro assets. The company has effectively managed its relationships with the Idaho regulator, and has achieved credit-supportive regulatory outcomes, including a power cost adjustment. Mild weather resulted in slightly lower sales and cash flows in 2011 and 2012. As of June 30, 2012, credit measures diminished somewhat, with adjusted FFO to total debt of 13.0%, similar to the year before and consolidated adjusted debt to total capitalization of 54.5%, a mild decrease from the previous year. The financial profile remains aggressive. — Michael T. Ferguson, CFA, CPA

IPALCO Enterprises Inc. (BBB-/Stable/--)

The company's rating is three notches higher than parent, AES Corp., due to insulation measures in place and our expectation that AES' financial policy toward IPALCO will be credit neutral. IPALCO's cash flow measures have gradually improved and are consistent with our expectations for the current rating. For the 12 months ended Sept. 30, 2009, FFO to debt was 14.7% and FFO interest coverage was 2.9x. Capital spending is expected to be around $454 million through 2011, including $98 million for environmental projects. — Matthew L. O'Neill

ITC Great Plains LLC (BBB+/Stable/--)

The company's credit quality relies on the FERC's constructive regulation. This includes being able to recover costs on a forward-looking basis, an allowed ROE of 12.16%, and an actual capital structure targeted at 60% equity. The company's three major projects (Hugo to Valliant, KETA, and the V-Plan), which the company expects to collectively cost $540 million, continue to remain on track, and in certain cases even ahead of schedule. For consolidated financial information, see ITC Holdings. — Richard W. Cortright

ITC Holdings Corp. (BBB+/Stable/--)

The company's financial measures declined for the 12 months ended June 30, 2012, due to one-time adjustments, but otherwise remained in line with our expectations. FFO/debt was 10.3%, down from 12.7% at year-end 2011, and debt to EBITDA weakened to 5.9x from 5.3x at year-end 2011. The company continues to grow rapidly, adding $429million in capital investments through mid-year, in line with its 2012 capital spending midpoint estimate of $780 million. The anticipated acquisition of Entergy Corp.'s transmission assets, expected by year-end 2013, will double ITC's size, further diversify its cash flow, and broaden ITC's customer base. Absent the Entergy transaction, we expect FFO/debt to be about 13% to 15%, reflecting higher cash flows from the company's growing rate base. — Richard W. Cortright

ITC Midwest LLC (BBB+/Stable/--)

The company's credit quality is mainly a function of highly constructive regulation by the FERC. This includes the ability to recover costs on a forward-looking basis, an allowed ROE of 12.38%, and an actual capital structure targeted at 60%. The company's capital investment program for 2012 is on pace for about $325 million, up substantially from $269 million in 2011 due largely to connecting wind power. For consolidated financial information, see ITC Holdings. — Richard W. Cortright

Idaho Power Co. (BBB/Stable/A-2)

In 2012, the company received a $60 million rate increase in Idaho for recovery costs associated with the Langley Gulch plant. In February, the Oregon commission approved a settlement stipulation for a $1.8 million base rate increase, with an ROE of 9.9%. Disagreements by policy makers over wind renewable resources continued as a wind moratorium bill passed out of committee in Idaho. This follows PURPA reductions put in place in 2011. We anticipate decreased capital spending, which has exceeded cash from operations over the past two years after 2012, as a result of decreased expected growth. Northwest hydrogeneration output has been robust during the past two years. The company does have substantial hydro concentration, but, importantly, this has helped its financial measures in recent years. See IDACORP for comments on consolidated financials. — Michael T. Ferguson, CFA, CPA

Indiana Gas Co. Inc. (A-/Stable/--)

The regulated rate structure enables Indiana Gas to generate consistent earnings, regardless of natural gas prices, by allowing the utility to pass on the costs to ratepayers via purchased gas adjustment clauses. Regulation permits the company to earn an ROE in the 10% area, although actual returns sometimes fall short of the allowed returns between rate cases. IGC also benefits from several other regulatory mechanisms, such as decoupling, weather-normalization, and bad-debt trackers. These rate mechanisms further reduce cash flow volatility and regulatory lag. In addition, state legislation enacted in Indiana in 2011 supports additional investments in infrastructure modernization that may be required as new federal safety or environmental rules are enacted. See Vectren Corp. for further details. — Barbara A. Eiseman

Indiana Michigan Power Co. (BBB/Stable/--)

In Indiana, the utility filed for a $149 million rate increase. Intervenor testimony recommended a $28 million increase based on 9.2% ROE. Higher revenues would provide for recovery of investments and higher operating expenses. See American Electric Power for consolidated financial ratios. — Gerrit W. Jepsen, CFA

Indianapolis Power & Light Co. (BBB-/Stable/--)

Historically, the company has effectively managed its regulatory risk (including last filing for a rate case in 1994) by carefully managing its operating and maintenance costs and capital budgets and using regulatory mechanisms such as a fuel-adjustment charge and an environmental recovery adjustment clause. However, heightened scrutiny of Duke Indiana's Edwardsport coal plant, whose projected completion costs have risen sharply, raises the possibility that the added scrutiny could extend to all companies under the commission's regulation. For consolidated — Matthew L. O'Neill

financial information, see IPALCO Enterprises.

Integrys Energy Group Inc. (A-/Stable/A-2)

For the 12 months ending June 30, 2012, FFO/debt decreased to 19.7% from 26.6% at year-end 2011, debt/EBITDA improved to 4.2x from 4.4x at year-end 2011, and debt to total capital also improved to 50% from 50.4% at year-end 2011. The weakening of FFO/debt partially reflects the impact of mild weather. We expect that cash flow measures will continue to be affected due to the continued slow economy and the phase-out of bonus depreciation. Under our base case scenario, which assumes normal weather, we expect FFO/debt will consistently exceed 21%. The company continues to strategically file rate cases to reduce regulatory lag. The company has four rate cases pending, collectively requesting to increase rates by about $185 million. — Gabe Grosberg

International Transmission Co. (BBB+/Stable/--)

The company's credit quality is mainly a function of highly constructive regulation by FERC. This includes the ability to recover costs on a forward-looking basis, an allowed ROE of 13.88%, and an actual capital structure targeted at 60%. The company's capital investment program for 2012 is on pace for about $210 million, more than doubling the $93 million in 2011 as the company moves forward on its $510 million Thumb Loop Project. For consolidated financial information, see ITC Holdings. — Richard W. Cortright

Interstate Power & Light Co. (BBB+/Stable/A-2)

Interstate is working on installing environmental equipment at the Ottumwa plant through an engineering, procurement, and construction contractor. It is considering building a 600 MW gas-fired combined-cycle unit for $700 million and if the project moves forward, the utility will make the necessary regulatory filings for pre-approval. In August 2012, the utility filed for Iowa regulatory approval of a new Duane Arnold purchased power contract. See Alliant Energy for consolidated financial measures. — Gerrit W. Jepsen, CFA

Jersey Central Power & Light Co. (BBB-/Stable/--)

The New Jersey regulator ordered the company to file a rate case by November 2012 based on a 2011 test year. The commission intends to examine if the company was overearning. The company's stand-alone financial measures continue to be more than adequate for its credit rating. For the 12 months ending June 30, 2012, FFO to debt decreased to 14.2% from 14.6% at year-end 2011, debt to EBITDA weakened to 3.8x from3.1x, and debt to total capital also weakened to 45.9% from 44.1% at year-end 2011. The utility's ratings continue to be affected by FirstEnergy's nonrate-regulated generation and retail business that are materially pressured by low electricity prices. For consolidated financial information, see FirstEnergy. — Gabe Grosberg

KCP&L Greater Missouri Operations Co. (BBB/Stable/--)

The utility filed to increase base rates by $84 million to recover various expenses, including costs for energy efficiency and demand side management. The utility is also seeking rate riders for items such as transmission costs and property taxes. It expects a decision in January 2013. For consolidated financial information see Great Plains Energy. — Gerrit W. Jepsen, CFA

Kansas City Power & Light Co. (BBB/Stable/A-2)

In a Missouri rate filing, the utility seeks $106 million for recovery on ongoing operating costs and capital investments. It expects an order in the beginning of 2013. In Kansas, the utility is seeking a $64 million rate increase with a decision by year-end. These rate increase levels would be expected to strengthen cash flow measures. For the La Cygne environmental work, construction risk has been significantly mitigated because about 75% of the project cost is under a contract. Although the Wolf Creek nuclear plant is operating, the NRC recently determined that it will increase inspections and oversight after concluding that a loss-of-power event in January 2012 had substantial safety significance. For consolidated financial information, see Great Plains Energy. — Gerrit W. Jepsen, CFA

Kansas Gas & Electric Co. (BBB/Stable/--)

Rate increases will be necessary to recover ongoing construction costs to maintain financial measures. Although the Wolf Creek nuclear plant has been operating, the NRC recently determined that it will increase inspections and oversight after concluding that a loss-of-power event in January 2012 had a substantial safety significance. The construction risk around the La Cygne emission-control project seems well mitigated, with contractors building about 75%. For consolidated financial information, see Westar Energy. — Gerrit W. Jepsen, CFA

Kentucky Power Co. (BBB/Stable/--)

Kentucky Power currently plans to retire Big Sandy coal Unit 1, but the retirement status of Unit 2 is unknown. After significant pushback, the utility withdrew its request to retrofit unit 2 with pollution-control equipment. See American Electric Power for consolidated financial ratios. — Gerrit W. Jepsen, CFA

Kentucky Utilities Co. (BBB/Stable/A-2)

Kentucky Utilities will be retiring--along with affiliate Louisville Gas & Electric--a combined 800 MW of coal generation within the next few years. The utilities received approval for a $2.3 billion environmental-compliance plan and will receive rider recovery of the costs. Of this amount, Kentucky Utilities will be spending $800 million on its power plants. The utility is seeking an $82 million electric rate increase and a final ruling could be in the first quarter of 2013. See PPL Corp. for consolidated financial measures. — Gerrit W. Jepsen, CFA

KeySpan Corp. (A-/Stable/--)

We base the ratings on KeySpan on the consolidated credit profile of ultimate parent, U.K.-based National Grid PLC. KeySpan distributes gas in New York and Massachusetts. It also owns and operates generating units on Long Island and under contract provides power, distribution, and transmission services for the Long Island Power Authority (LIPA). LIPA did not select KeySpan to manage and operate its electric system beyond the current contract, which expires at year-end 2013. The pact represents less than 3% of the U.S. profit. However, LIPA recently renewed its power supply agreement with the company for 15 years, eliminating a considerable degree of risk. In July 2012, KeySpan sold its New Hampshire gas and electric businesses for $285 million. The New Hampshire operations accounted for 2% of the U.S. rate base. For further details see National Grid USA. — Barbara A. Eiseman

KeySpan Gas East Corp. (A/Stable/--)

We base the ratings on KeySpan Gas East on the credit profile of ultimate parent U.K.-based National Grid PLC. Gas East operates under a five-year rate plan through 2012. Delivery rates rose $60 million in 2008. A $10 million annual surcharge for recovery of regulatory assets was implemented in 2009. The surcharge increases each year by $10 million, for recovery of $100 million over five years. The hikes are deferred and used to offset future hikes for environmental costs. The utility has proposed a 2.7% hike to 2009 revenues through a surcharge effective Jan. 1, 2011, seeking to recover $33.4 million of regulatory assets. The proceeding is ongoing at the commission. We rate Gas East one notch higher than National Grid, reflecting regulatory insulation and stronger financial measures. FFO to debt exceeds 30% and debt to capital hovers around 23%. For more details see National Grid USA. — Barbara A. Eiseman

LG&E and KU Energy LLC (BBB/Stable/--)

Intermediate holding company LG&E and KU Energy's parent is PPL Corp, so its rating directly relates to that of PPL. The intermediate holding company owns utilities Louisville Gas & Electric and Kentucky Utilities. See PPL Corp. for more details and consolidated financial measures. — Gerrit W. Jepsen, CFA

Laclede Gas Co. (A/Stable/A-1)

We base Laclede Gas' ratings on those of the parent, Laclede Group. We expect the regulated utility to maintain stable cash flows. The company's last base rate increase became effective in September 2010. Because Laclede Gas files base rate cases every three years, we expect a new rate application to be filed later this year for new rates to become effective in 2013. Given increasing costs and infrastructure investments, the company's ability to continue to effectively manage regulatory risk will be critical to credit quality. We expect consolidated financial measures to continue to be in line for the rating with FFO to total debt hovering around 22% and total debt to capital at about 48%. — Barbara A. Eiseman

Liberty Utilities Co. (BBB-/Positive/--)

Liberty recently closed on the acquisition of Atmos Energy's Iowa, Illinois, and Missouri gas assets for $127 million. The company also reached an agreement to purchase Atmos' gas assets in Georgia for $140 million. The ratings reflect our consolidated assessment of its parent, Algonquin Power and Utilities Corp. (APUC; not rated). We expect APUC will achieve consolidated adjusted and sustained FFO-to-total debt of 15% to 17%, with about 40% to 50% of its consolidated cash flows supported by regulated cash flows from Liberty Utilities Co. — Matthew L. O'Neill

Louisville Gas & Electric Co. (BBB/Stable/A-2)

Louisville Gas & Electric has numerous environment-related proceedings, including plans to retire, along with affiliate Kentucky Utilities, a combined 800 MW of coal generation in the next few years. The utilities received approval for a $2.3 billion environmental compliance plan and rider recovery of these expenditures. Of this amount, the utility's portion is $1.4 billion. LG&E filed for $62 million electric and $17 million natural gas rate increases and a final order could be issued in the first quarter of 2013. See PPL Corp. for consolidated financial measures. — Gerrit W. Jepsen, CFA

Madison Gas & Electric Co. (AA-/Stable/A-1+)

Pending before the Wisconsin Public Service Commission is the utility's request for a $22.5 million (5.8%) electric and a $4.3 million (2.6%) gas rate hike based on a 10.3% ROE. An order is expected at the end of 2012 for new rates to become effective in January 2013. The company's capital program focuses on environmental and — Barbara A. Eiseman

transmission upgrades and infrastructure additions. We expect financial measures to slip somewhat in 2012 and 2013 and to rebound once capital outlays moderate in 2014. Our base case projections indicate that parent MGE Energy consolidated FFO to total debt will decline to roughly 22% from about 26%, while total debt to capital continues to hover around 47% through 2013. In 2014, FFO to debt should approach the high 20% range.

Massachusetts Electric Co. (A-/Stable/A-2)

We base the ratings on Massachusetts Electric on the consolidated credit profile of its ultimate parent, U.K.-based National Grid PLC. Massachusetts Electric is a retail distribution company that provides electric service in Massachusetts. The company has an excellent business risk profile, reflecting relatively low operating risk of electric distribution operations, a relatively healthy service area, and a regulatory climate in Massachusetts that we view as credit supportive. The company has received regulatory approval for revenue decoupling and implementation of various tracking mechanisms. For further details see National Grid USA.

Barbara A. Eiseman

Metropolitan Edison Co. (BBB-/Stable/--)

As of the end of the second quarter of 2012, about 60% of the company's load was serviced by a retail provider. The commission continues to look at alternative proposals that could end the company's current role as a default provider. We expect that this possible transition would be credit neutral to the utility, preserving its credit quality. The utility's ratings continue to be affected by FirstEnergy-s nonrate-regulated generation and retail business that are materially pressured by the low price of electricity. For consolidated financial information, see FirstEnergy.

Gabe Grosberg

Michigan Consolidated Gas Co. (BBB+/Stable/A-2)

The company continues to manage its regulatory lag by filing regular rate cases. The company recently filed for an approximate $76 million rate increase and the staff has recommended a $6 million rate decrease. The company's stand-alone financial measures continue to be more than adequate for its credit rating. However, they were materially affected by mild weather. For the 12 months ending June 30, 2012, FFO/debt decreased to 23.8% compared with 35.1% at year-end 2011. MichCon's credit rating continues to be affected by its parent's mix of nonutility business, specifically energy trading. For consolidated financial information, see DTE Energy.

Gabe Grosberg

Michigan Electric Transmission Co. (BBB+/Stable/--)

The company's credit quality is principally a function of highly constructive regulation by FERC. This includes the ability to recover costs on a forward-looking basis, an allowed ROE of 13.38%, and an actual capital structure targeted at 60%. The company's capital investment program for 2012 is on pace for about $150 million, virtually unchanged from $157 million in 2011. For consolidated financial information, see ITC Holdings Corp.

Richard W. Cortright

MidAmerican Energy Co. (A-/Stable/A-2)

The utility reached a settlement with the Iowa consumer advocate to implement a rate rider to recover coal and rail transportation costs, along with environmental costs. The Iowa commission could rule on the settlement by year-end 2012. Financial measures remain adequate for the rating with operations to total debt, debt to EBITDA, and debt to total capital of 32%, 4.4x, and 50%, respectively.

Gerrit W. Jepsen, CFA

MidAmerican Energy Holdings Co. (BBB+/Stable/A-2)

In addition to its utilities filing for ongoing rate recovery in their various jurisdictions to recover new capital investments and growing operating expenses, the company has been investing in solar photovoltaic generation in California. The company formed a subsidiary to invest in future unregulated renewable power plants. For the 12 months ended June 30, 2012, FFO to total debt was 17.7%, debt to EBITDA was 5.3x, and debt to total capital was 60%.

Gerrit W. Jepsen, CFA

Middlesex Water Co. (A-/Stable/--)

Middlesex's financial measures remain in line with our expectations, are largely unchanged from year-end 2011, and are adequate for the current rating. Middlesex, along with two of its smaller utility systems, Tidewater and Tidewater Environmental Services, received rate increases of $8.1 million and $4.5 million in July 2012 and June 2012 respectively, which we expect will benefit credit measures over the next 10 to 12 months.

Gabe Grosberg

Midwest Independent Transmission System Operator Inc. (A+/Stable/--)

MISO expects to close by year-end 2013 on the integration of Entergy's multistate transmission system in conjunction with the system's acquisition by ITC Holdings. This transaction will double MISO's scale and enhance its business risk profile due to the increased scale as well as the enhanced diversity of geography, resources, and load. Financial measures remain in line with our expectations. For the 12 months ending June 30, 2012, FFO/debt was 38.8%, compared with 36.4% at year-end 2011. Over the intermediate term, we expect that FFO/debt will fall into the more typical 21% to 23% range as one-time benefits fall away and Entergy-related costs that MISO is

Richard W. Cortright

currently absorbing are recovered.

Mississippi Power Co. (A/Stable/A-1)

Mississippi Power's business risk increased due to unfavorable regulatory developments that have prevented the collection of financing costs during the construction of the Kemper IGCC unit. Construction is proceeding on schedule; however, the projected cost has increased to $2.8 billion. Mississippi Power's standa-lone financial profile weakened for the 12 months ended June 30, 2012, with FFO to debt of 10.7% and debt leverage of 58.1%. See Southern Co. for consolidated financials. — Dimitri Nikas

Monongahela Power Co. (BBB-/Stable/--)

The company received regulatory approval for and has since retired 660 MW of coal-fired power plants because of the EPA's Mercury and Air Toxics Standards rule. The company's stand-alone financial measures continue to be more than adequate for the rating. For the 12 months ending June 30, 2012, FFO to debt increased to 20.3% from 15.1% at year-end 2011, debt to EBITDA improved to 4.8x from 5.5x, and debt to total capital also improved to 66.7% from 68.6% at year-end 2011. The utility's ratings continue to be affected by FirstEnergy's nonrate-regulated generation and retail business that are materially pressured by the low price of electricity. For consolidated financial information, see FirstEnergy. — Gabe Grosberg

NSTAR Electric Co. (A-/Stable/A-2)

The ratings on NSTAR Electric reflect the consolidated credit profile of Northeast Utilities. In February 2012, the company agreed to provide a one-time $15 million rate credit to customers and keep base distribution rates frozen until 2016 in a merger-related settlement with state agencies in Massachusetts. It also pledged further environmental commitments to solar, wind, hydro, energy efficiency and electric vehicle development, including entering into a purchase power contract with Cape Wind, an off-shore wind farm. The company expects to complete construction of its $110 million Cape Cod transmission line in mid-2013. Meanwhile, economic conditions in the company's service area continue to improve, with housing permits rising and unemployment claims declining. The unemployment rate now stands at about 6%. See Northeast Utilities for more details. — Barbara A. Eiseman

NSTAR Gas Co. (A-/Stable/--)

The ratings on NSTAR Gas reflect the consolidated credit profile of parent Northeast Utilities. In February 2012, the company agreed to provide a one-time $3 million rate credit to customers and keep base distribution rates frozen until 2016 in a merger-related agreement with state agencies in Massachusetts. NSTAR Gas expects to add new customers and envisions continued growth in conversions from oil to natural gas space heating due to the price advantage gas has over heating oil in New England. Meanwhile, economic conditions in the company's service area continue to improve, with housing permits rising and unemployment claims declining. The unemployment rate now stands at about 6%. See Northeast Utilities for more details. — Barbara A. Eiseman

NSTAR LLC (A-/Stable/--)

The ratings on NSTAR LLC reflect the consolidated credit profile of parent Northeast Utilities. In early 2012, the company agreed to provide a one-time $15 million rate credit to NSTAR Electric customers and a one-time $3 million rate credit to NSTAR Gas customers in a merger-related settlement with state agencies in Massachusetts. The agreement also calls for a freeze in base distribution rates until 2016. In addition, the company pledged further environmental commitments to solar, wind, hydro, energy efficiency, and electric vehicle development, including entering into a purchase power contract with Cape Wind, an off-shore wind farm. Meanwhile, economic conditions in the company's service area continue to improve, with housing permits rising and unemployment claims declining. The unemployment rate is now about 6%. See Northeast Utilities for more details — Barbara A. Eiseman

NV Energy Inc. (BB+/Stable/--)

However, there are compelling signs of improvement in the gaming sector in southern Nevada, and mining remains strong in the North. Rate cases for its two utilities have been mixed, and consolidated credit measures remain weaker that sector averages, but significantly lower capital spending is likely to result in reduced borrowings and an improved balance sheet. For the year ended June 30, 2012, adjusted FFO to total debt was 14.9% while debt leverage reduced to 63.3% from 64.8% a year ago. We anticipate that credit ratios will improve over the next few years, as the company's capital spending budget decreases. Future capital spending is more likely to focus on improving transmission. — Michael T. Ferguson, CFA, CPA

Narragansett Electric Co. (A-/Stable/--)

We base the ratings on Narragansett Electric (NE) on the consolidated credit profile of ultimate parent, U.K.-based National Grid PLC. NE is a retail distribution company providing electric and gas service in Rhode Island. Currently pending before the state commission is a request for a $31.4 million electric and $20 million gas rate hike based on a 10.75% ROE. The application includes requests certain true-ups and tracking mechanisms. An order is expected — Barbara A. Eiseman

in January 2013. For further details see National Grid USA.

National Grid Holdings Inc. (A-/Stable/A-2)

We base the ratings on National Grid Holdings (NGHI) on the consolidated credit profile of U.K.-based parent National Grid PLC. NGHI is the intermediate holding company of National Grid USA and acts as a funding company on behalf of National Grid PLC for certain subsidiaries' borrowings. Given a heavy capital spending program in the U.S. and escalating cost pressures, timely and sufficient rate relief and alternative cost recovery rate mechanisms, as well as credit-supportive action by management, will be important to enhance cash flow and earnings protection. Certain state regulators, however, will be reviewing prospective rate requests at a time of economic weakness, so the subsidiaries' ability to manage regulatory risk will be critical to credit quality. For consolidated financial information and further details see National Grid PIC.

Barbara A. Eiseman

National Grid USA (A-/Stable/A-2)

We base the ratings on National Grid USA on the consolidated credit profile of ultimate parent, U.K.-based National Grid PLC. Given a heavy capital program in the U.S. and escalating cost pressures, timely and sufficient rate relief and alternative rate mechanisms, as well as credit-supportive actions by management, will be important to enhance cash flow and earnings protection. Certain state regulators, however, will be reviewing rate requests at a time of economic weakness, so the ability to manage regulatory risk will be critical to credit quality. We see National Grid PLC's consolidated adjusted FFO to total debt of more than 12% as being commensurate with the current rating. For consolidated financial information and further details see National Grid PLC.

Barbara A. Eiseman

Nevada Power Co. (BB+/Stable/--)

There are compelling signs of improvement in the gaming sector in southern Nevada, and mining remains strong in the North, indicative of a recovering economy. Nevada Power's general rate increase in January was fully offset by reductions in fuel and purchased power costs. Overall, the result supports the current rating, but regulators reduced the allowed ROE to 10%. See NV Energy Inc. for comments on consolidated financials.

Michael T. Ferguson, CFA, CPA

New England Power Co. (A-/Stable/A-2)

We base the ratings on New England Power on the consolidated credit profile of ultimate parent, U.K.-based National Grid PLC. New England Power's business is transmitting wholesale electricity to other utilities. About 62% of the company's local transmission service is provided to certain sister companies. New England Power is subject to FERC regulation, which we view favorably. In 2011, several state and municipal parties in New England filed with FERC a complaint under Section 206 of the Federal Power Act against certain transmission owners, including the company, to lower the base ROE for regional and local network service from the FERC-approved rate of 11.14% to 9.2%. FERC expects to issue a final order in the second half of 2013. For further details see National Grid USA.

Barbara A. Eiseman

New Jersey Natural Gas Co. (A/Stable/A-1)

The ratings on New Jersey Natural Gas reflect the consolidated credit profile of parent New Jersey Resources Corp. (not rated), of which the company is the principal subsidiary. The cash flows benefit from above-average customer growth of about 1.5% due to new home construction and conversions from other fuels. However, ongoing investments in solar energy, midstream assets, and energy marketing have led to higher unregulated cash flows for the company, which we expect will be about 25% to 30% in 2012. Our baseline forecast includes FFO to debt of 24% and debt/EBITDA of 3.2x.

Matthew L. O'Neill

New Jersey-American Water Co. (BBB+/Positive/--)

We expect credit measures for New Jersey-American Water to remain stable and in line with our expectations due to a steady financial performance. The company is investing in energy-efficient ways to operate to reduce costs. We base the company's ratings on the consolidated credit profile of its ultimate parent, American Water Works Co. See American Water Works for consolidated financials.

Matthew L. O'Neill

New York State Electric & Gas Corp. (BBB+/Watch Neg/A-2)

We base New York State Electric & Gas Corp.'s (NYSEG) ratings on stand-alone credit characteristics due to the remoteness of ultimate parent Iberdrola S.A. NYSEG's ratings are currently capped at Iberdrola's rating. Pass-through rate mechanisms for most major costs support ratings. The last base rate case settlement by New York regulators indicate that regulatory risk has abated. Recent financial performance has been in line with expectations, with FFO to debt at 28% and debt leverage at 54%, and higher rates and service territory economic conditions should allow that to continue or improve.

Matthew L. O'Neill

NextEra Energy Inc. (A-/Stable/--)

The downturn in the Florida economy and regulatory trends at regulated unit Florida Power & Light have slightly eroded credit quality. Florida Power & Light is a significant contributor to NextEra's earnings and cash flow. Ratings also reflect continued strategic emphasis and growth in the unregulated merchant generation and related businesses. Financial measures and disciplined financial and risk management provide support for the ratings, but any uptick in growth or risk appetite in the nonutility side of the business could imperil ratings stability. Recent financial performance has been in line with expectations, with FFO to debt at 19.5% and debt leverage at 4.4x debt-to-EBITDA. — Todd A. Shipman, CFA

NiSource Inc. (BBB-/Stable/A-3)

NiSource announced a growth strategy with significant investment in its gas distribution operations, NIPSCO's power plants, and the gas transmission and storage business. Gas gathering operations are also set to grow. The combination of mostly rate-regulated investments with rate rider cost recovery should help maintain financial ratios in line with the current rating. For 12 months ended June 30, 2012, FFO to total debt, debt to EBITDA, and debt to total capital were 18%, 5.4x, and 63%, respectively. We will monitor these already modestly weak financial measures for any degradation during construction projects. — Gerrit W. Jepsen, CFA

Niagara Mohawk Power Corp. (A-/Stable/A-2)

We base the ratings on Niagara Mohawk (NiMo) on the credit profile of its parent, U.K.-based National Grid PLC. Currently pending before the New York regulator is NiMo's request for a $145.4 million electric and $29 million gas rate hike that will be offset by the end of deferral recoveries. A decision is expected in March 2013. In early 2011, the regulator granted a $119 million rate hike, of which $50 million is contingent on the results of an audit related to the company's cost allocations, policies, and procedures. NiMo has reserved $50 million pending resolution of those contingencies. For further details see National Grid USA. — Barbara A. Eiseman

Nicor Gas Co. (BBB+/Stable/A-2)

We base Nicor's rating on the credit profile of its parent, AGL Resources. Integrating its recent acquisition of Nicor Inc. will keep AGL busy in 2012, making for a steady business profile. Regulated utilities will generate stable cash flows, while its unregulated business (particularly, wholesale marketing and trading) continue to face challenging markets. We project the regulated businesses to generate about 70% of consolidated EBITDA in 2012, although the percentage could vary depending on the performance of the nonregulated businesses, and FFO to debt will be 17% to 20%. — Todd A. Shipman, CFA

North Shore Gas Co. (A-/Stable/--)

Recently, the company received a $1.9 million rate increase based on a 9.45% ROE. In addition, the commission determined that the volume balancing adjustment rider will continue to be used permanently, which we view as credit supportive. For consolidated financial information, see Integrys Energy Group. — Gabe Grosberg

NorthWestern Corp. (BBB/Stable/A-2)

An outage at the Dave Gates power plant did not materially affect the company because most of the costs were under warranty and the facility was repaired promptly; all but $1.4 million has been recovered. The company has demonstrated a disciplined growth strategy, and is ramping up capital investments, in renewable resources, environmental compliance, and distribution replacement. We anticipate that the company will avoid further debt leverage while successfully executing its capital plans, as it can recover many of these costs in a timely fashion. Cash credit measures have continued to improve as a result of competitive base rate increases, as well as certain tax benefits. Adjusted FFO to total debt was 19.4% for the year ended June 30, 2012. Debt leverage remained about the same at 56.7% at June 30, 2012; it has come down in recent years. — Michael T. Ferguson, CFA, CPA

Northeast Utilities (A-/Stable/A-2)

On April 10, 2012, Northeast Utilities (NU) and NSTAR merged in an all-stock transaction in which NSTAR (renamed NSTAR LLC) became a subsidiary of NU. In a merger-related rate settlement, the companies agreed to provide rate credits and rate freezes, and to invest in renewable energy, adopt new energy efficiency programs, and meet other concessions. NU faces a heavy capital spending program, at about $7.9 billion from 2012 to 2016, a significant portion of which is targeted for new transmission projects. Given a large construction program, which will require some outside financing, we expect that credit protection measures will be in the lower end of the significant financial risk category. We expect consolidated FFO to debt to hover around the high teens and debt to EBITDA to be at about 4.5x. We also expect debt to capital at about 53% to 54%. — Barbara A. Eiseman

Northern Indiana Public Service Co. (BBB-/Stable/--)

NIPSCO is installing pollution-control equipment on its Schahfer coal station. The project is on time and budget. The utility's Michigan City facility may also have scrubber installed. To install scrubbers on these plants, the utility will need to spend upward of $775 million. Rider recovery during construction should help boost operating cash — Gerrit W. Jepsen, CFA

flows and help support consolidated financial measures. NIPSCO is considering two MISO multi-value transmission projects in Northern Indiana. See NiSource for consolidated financial measures.

Northern States Power Co. (A-/Stable/A-2)

Northern States Power has a $19 million rate proceeding in South Dakota seeking a revenue increase to recover incremental operating expenses and capital investment. An interim increase of about $13 million was implemented pending a final decision. Before year-end, the utility expects to file a Minnesota electric rate case that would include an interim increase effective January 2013. Life extensions on its three nuclear units were approved and uprate requests continue to be reviewed by either the NRC or Minnesota commission. See Xcel Energy Inc. for consolidated financial ratios. — Gerrit W. Jepsen, CFA

Northern States Power Wisconsin (A-/Stable/A-2)

In conjunction with affiliate Northern States Power, the utility is participating in the CapX2020 transmission projects. A pending Wisconsin rate case for $39 million electric and $5.3 million gas rate increases will help to support financial measures. A decision is expected by year-end 2012. See Xcel Energy for consolidated financial ratios. — Gerrit W. Jepsen, CFA

Northwest Natural Gas Co. (A+/Stable/A-1)

We continue to expect 2012 measures to be at the lower end of expectation for the rating, with FFO/debt in the low 20% area; for the year ended June 30, 2012, FFO to debt was 26.1%, while debt leverage reached 53.7%. Weak natural gas storage rates has continued to hurt the unregulated business, although this is only a small fraction of the business. Performance should improve in Oregon 2013 due to a generous rate case, but the rate case currently awaiting resolution has been more hotly contested. — Michael T. Ferguson, CFA, CPA

OGE Energy Corp. (BBB+/Stable/A-2)

OG&E contributes about 70% to consolidated operating income, and is spending on wind generation, transmission, and pollution control equipment. Oklahoma authorizes recovery of mandated environmental costs. The company's ownership in Enogex contributes about 30% of consolidated operating income. Enogex recently announced investments plans, including new gathering and production assets and a 15-year agreement with Chesapeake Energy Corp. subsidiaries for the right to gather and produce their production over 500,000 acres, in the Cleveland Sands and Granite Wash production areas of northwestern Oklahoma and the Texas Panhandle. We expect Enogex to maintain debt to EBITDA at or below 2.5x. Consolidated financial measures for the 12 months ended June 30, 2012, were mostly supportive of credit quality, including FFO to debt of 25%, debt to EBITDA of 3.5x, and debt to capital of 56%. — Gerrit W. Jepsen, CFA

Ohio Edison Co. (BBB-/Stable/A-3)

The Ohio regulator's recently approved the company's electric security plan that extends the current plan through May 2016. Under the plan, the company will freeze its distribution rates, but will be allowed to maintain its distribution capital rider, partially mitigating the effects of the rate freeze. The utility's ratings continue to be affected by FirstEnergy's nonrate-regulated generation and retail business that are materially pressured by the low price of electricity. For consolidated financial information, see FirstEnergy. — Gabe Grosberg

Ohio Power Co. (BBB/Stable/--)

Ohio Power has better regulatory certainty around its path to a competitive generation model by mid-2015 and operating cash flow stability during the transition via a rate stability rider that should help mitigate financial degradation due to customer shopping. We will monitor pending rehearing requests around the Ohio commission's August 2012 order authorizing the utility's electric security plan that includes the rate stability rider. Ohio Power has also begun rate recovery of over $500 million of deferred fuel costs. Authority to securitize $320 million of deferred regulatory assets would provide a cash boost that the company could use to fund capital spending or debt reduction. See American Electric Power for consolidated financial ratios. — Gerrit W. Jepsen, CFA

Ohio Valley Electric Corp. (BBB-/Stable/--)

Once the installation of the flue gas desulfurization equipment at both plants is complete by mid-2013, capital spending should decline to more modest levels. The financial measures are expected to remain adequate for the investment-grade rating. We do expect the company to maintain a debt service coverage ratio above 1.2x, except for 2013 when a $100 million debt maturity comes due, driving coverage down. — Gerrit W. Jepsen, CFA

Oklahoma Gas & Electric Co. (BBB+/Stable/A-2)

The utility contributes about 70% to OGE Energy's operating income. Ongoing rate recovery will be necessary as the utility continues with capital spending initiatives around transmission and distribution, renewable generation, — Gerrit W. Jepsen, CFA

and pollution control equipment. Conservative financing and credit-supportive actions by management will be essential to support financial measures at levels suitable for current ratings. See OGE Energy for consolidated financial measures.

Oncor Electric Delivery Co. LLC (BBB+/Stable/--)

Oncor's financial performance remains robust, benefiting from a base rate increase in early 2012, a 1.1% increase in residential delivery points and favorable weather that contributed to increased sales for all customer classes. We expect that capital spending will remain high over the next three years in large part to complete the funding the CREZ transmission projects. Liquidity remains adequate and the company has no debt maturities until 2015. For the 12 months ended June 30, 2012, consolidated financial performance supported current ratings, with FFO to debt of 17.1% and debt leverage of 66.5%. — Dimitri Nikas

Orange and Rockland Utilities Inc. (A-/Stable/A-2)

Orange and Rockland is a subsidiary of Consolidated Edison and accounts for about 5% of consolidated earnings. In June 2012, the New York regulator approved a joint proposal that covers the three years from July 2012 through June 2015. The order provides for annual electric base rate hikes of $15.2 million effective July 2012 and 2013 and $13.1 million base rate and $2.1 million temporary increase effective July 2014 and includes a continuation of revenue decoupling. It also reflects an ROE of 9.4%, 9.5%, and 9.6% for the rate years ending June 30, 2012, 2014 and 2013. See Consolidated Edison Inc. for further details. — Barbara A. Eiseman

Otter Tail Corp. (BBB-/Stable/--)

Otter Tail continues to strategically realign its portfolio to improve business risk by selling some of its unregulated portfolio. The company recently entered into definitive agreements with Trinity Industries Inc. to sell the property, plant, and equipment of DMI Industries for $20 million. Otter also recently sold its DMS health services unit. We expect cash flow measures to improve, as the wind tower business had been a large drag on the company's financial performance. As of June 30, 2012, FFO to total debt was 20% and debt to capital was 53%. — Matthew L. O'Neill

Otter Tail Power Co. (BBB-/Stable/--)

Otter Tail Power placed into service a 70-mile, 230-kilovolt transmission line across northern Minnesota as part of the CapX 2020 initiative designed to strengthen the region's grid reliability and interconnect wind resources. Otter Tail Power has spent roughly $130 million on the project as part of its capital spending plan. See Otter Tail Corp. for consolidated financials. — Matthew L. O'Neill

PECO Energy Co. (BBB/Stable/A-2)

The company's stand-alone financial measures continue to be more than adequate for its credit rating. For the 12 months ending June 30, 2012, FFO/debt was 36.3% and debt/EBITDA was 3.1x. PECO's credit rating is limited to the lower of its stand-alone credit quality or that of its parent, Exelon Corp. Exelon's credit quality is affected by its large nonrate-regulated generation and retail businesses that are directly affected by the low price of electricity. — Gabe Grosberg

PEPCO Holdings Inc. (BBB+/Stable/A-2)

Driving the credit quality of Pepco Holdings, which owns three regulated transmission and distribution utilities, is capital spending in conjunction with cost recovery. The company continues to manage regulatory lag by filing rate cases. Pepco continues to face reliability issues especially after the June 29 storm that knocked out power for 730,000 customers. Some were without power for more than a week. The Maryland regulator is investigating all of the utilities' response to the storm. The company's largest capital project, the Mid-Atlantic Power Pathway, has been canceled as the PJM Interconnection indicated the project was no longer needed. Our baseline forecast includes FFO to debt of 15% and debt to EBITDA OF 5.0x. — Matthew L. O'Neill

PG&E Corp. (BBB/Stable/--)

Financial measures continue to be in line with expectations as the company is fulfilling its commitment to issue equity to support the utility capital structure. For the 12 months ending June 30, 2012, FFO/debt was 19.3%, debt/EBITDA was 4.5x, and debt to capital was 59.1%. The current rating on PG&E assumes that the company will incur at least $1.7 billion in out-of-pocket costs and fines not recoverable in customer rates or about equal to 20 years of the gas operations earnings. — Gabe Grosberg

PNG Cos. LLC (BBB-/Stable/--)

PNG's measures have continued to improve considerably due to a recent rate increase. We expect PNG to continue pursuing additional rate increases and cost-recovery mechanisms. Our baseline forecast shows consolidated FFO to debt of 12% over the next 12 months. — Matthew L. O'Neill

PNM Resources Inc. (BBB-/Stable/--)

The company continues to make progress toward improving regulatory relationships and financial stability, by exiting competitive businesses. In 2012, the New Mexico legislature considered three bills associated with utility regulation. The bills, if passed, would increase the qualification requirements to serve on the New Mexico Public Regulation Commission, and remove the regulation of corporations from the commission's oversight. This follows a recent elimination of cap and trade in the New Mexico, which the company would have been subject to in 2013, and a supportive $72 million general rate case result last year. Adjusted FFO coverage of debt increased to 25% for the year ended June 30, 2012 due to higher rates at Public Service New Mexico and Texas-New Mexico Power and favorable weather conditions. Debt leverage of 57.4% is slightly higher than in years past. — Michael T. Ferguson, CFA, CPA

PPL Corp. (BBB/Stable/--)

With most operating cash flow coming from regulated operations, timely recovery of operating and capital expenses through regulatory filings will be critical. Regulators approved the Kentucky utilities' $2.3 billion environmental-compliance plan along with associated operating expenses and the companies will recover the costs in a regulatory rider. The Susquehanna-Roseland transmission project is advancing. On a consolidated basis, for the 12 months ended June 30, 2012, FFO to total debt was 16.8% and debt to EBITDA was around 4.2x, both modest improvements from year-end 2011. Debt to total capital was 59%, slightly weaker than the year-end figure of 58%. Discretionary cash flow after dividends and capital spending is negative, indicating the need for external funding. — Gerrit W. Jepsen, CFA

PPL Electric Utilities Corp. (BBB/Stable/A-2)

Transmission initiatives continue to move forward. The Susquehanna-Roseland project will earn a 12.93% ROE and a cash return on construction work in progress. Along with distribution improvements, the utility will be committing significant capital to new projects. Timely cost recovery will help maintain robust financial measures during construction. See PPL Corp. for consolidated financial ratios. — Gerrit W. Jepsen, CFA

PacifiCorp (A-/Stable/A-2)

PacifiCorp operates in six states, requiring ongoing rate filings to recover new capital spending and operating expenses. In Oregon, PacifiCorp is facing opposition from consumer and environmental groups on pro rata recovery on pollution control equipment. In July, a settlement was reached that would provide for a $24 million increase that would take effect in January 2013. For 12 months ended June 30, 2012, financial measures were in line with the rating. FFO to total debt was 21%, debt to EBITDA was 4.3x, and debt to total capital was 51%. — Gerrit W. Jepsen, CFA

Pacific Gas & Electric Co. (BBB/Stable/A-2)

The new management team continues to execute on its strategy of accepting responsibility for the San Bruno pipeline accident, improving the company's operations, and trying to move the company forward by attempting to restore its relationships with all of its stakeholders. However, while we recognize that the company's strategy is prudent, we also recognize that successful execution of this strategy will take significant time. Near-term material rulings that could affect the company's credit quality include the outcome of its pipeline safety-enhancement program and the commission's decisions regarding its multiple investigations. — Gabe Grosberg

Pennsylvania Electric Co. (BBB-/Stable/--)

Sales growth for FirstEnergy's Pennsylvania transmission and distribution utilities was flat for the second quarter of 2012, reflecting continued slow growth. This tread is in line with the state's 8.1% unemployment rate that is consistent with the U.S. average. The utility's ratings continue to be affected by FirstEnergy's nonrate-regulated generation and retail business that are materially pressured by the low price of power. For consolidated financial information, see FirstEnergy Corp. — Gabe Grosberg

Pennsylvania Power Co. (BBB-/Stable/--)

The company's stand-alone financial measures have remained more than adequate for its current rating. For the 12 months ending June 30, 2012, FFO to debt increased to 42.3% from 35.6% at year-end 2011, debt to EBITDA was steady at 1.9x, and debt to total capital improved to 41.1% from 42.5% at year-end 2011. The company's lower risk rate-regulated distribution electric utility's credit quality is pressured by FirstEnergy's merchant businesses that continue to be pressured by the low market price for electricity. For consolidated financial information, see FirstEnergy. — Gabe Grosberg

Pennsylvania-American Water Co. (BBB+/Positive/--)

We base the company's ratings on the consolidated credit profile of its ultimate parent, American Water Works Co. We expect Pennsylvania-American Water's credit quality to remain stable based on steady operating and financial performance. See American Water Works for consolidated financials. — Matthew L. O'Neill

Peoples Energy Corp. (A-/Stable/--)

The company has continued to effectively manage its regulatory risk, including its 2012 rate case orders that raised rates by almost $60 million and its recent rate case filings for about $90 million. Marginally offsetting that is the recent Illinois Appellate Court ruling, which said the commission did not have the authority to approve the infrastructure cost recovery rider that allows the company to recover its costs and earn a return on its gas main replacement program for costs above the annual baseline. However, we expect the company will manage the regulatory lag over the short term by continuing to consistently file forward-looking rate cases. For consolidated financial information, see Integrys Energy Group. — Gabe Grosberg

Piedmont Natural Gas Co. Inc. (A/Stable/A-1)

Piedmont's capital spending will remain elevated to address new pipelines, related compression facilities, pipeline integrity, and customer growth. The company benefits from constructive regulatory outcomes, as well as attractive service territories that will likely increase the customer base by about 1% in 2012. For the 12 months ended July 31, 2012, FFO to debt remained robust at 26.3%, but debt leverage increased to about 53%, while still remaining supportive of current ratings. — Dimitri Nikas

Pinnacle West Capital Corp. (BBB/Positive/A-2)

The company continues to prudently manage regulatory risks and its financial profile. Subsidiary Arizona Public Service's general rate case settlement was settled in a reasonably favorable fashion. The purchase of Four Corners Units 4 and 5 is also pending regulatory approval and will allow Arizona Public Service to retire older, less-efficient coal units. Pinnacle West's cash flow credit measures for the year ended June 30, 2012 remains strong, with adjusted FFO to debt of 21.8%, driven by tax benefits and improved earnings along with limited additional debt. Debt leverage was 55%, roughly consistent with the prior year, but higher capital spending could increase leverage depending on approvals and financing decisions. Credit measures are trending at the higher end of our expectations for the current rating level. — Michael T. Ferguson, CFA, CPA

Portland General Electric Co. (BBB/Stable/A-2)

The company has begun issuing request for proposals for new generation projects to accommodate a growing population, as well as to increase renewable energy. A balance of external financing may be needed to stabilize debt leverage if capital investment rises significantly above current levels. Northwest hydro generation prospects are mixed, but have exceeded historical levels in recent years. Customer growth and employment trends remain positive. For the year ended June 30, 2012, adjusted FFO to total debt increased to 23.6% driven by higher rates. However, adjusted debt leverage remains higher at 56.3%, but should taper off with decreasing capital spending and reduced financing needs. — Michael T. Ferguson, CFA, CPA

Potomac Edison Co. (BBB-/Stable/--)

The company successfully handled the Derecho storm over the summer when the company lost power to 147,000 customers. Recently, the company agreed in a settlement filing to meet specific reliability targets starting in 2014. We expect that the company will require increased spending to meet these higher reliability targets. Despite Potomac's "excellent" business risk profile--reflecting its low risk, rate-regulated distribution electric utility--credit quality is pressured by FirstEnergy's merchant businesses that continue to be pressured by low electricity prices. For consolidated financial information, see FirstEnergy. — Gabe Grosberg

Potomac Electric Power Co. (BBB+/Stable/A-2)

The company continues to manage regulatory lag by filing rate cases. The company recently received rate increases in D.C. of $24 million and in Maryland of $18 million. The rate increases should help to bolster operating cash flow, but the company was denied recovery mechanisms that would have helped ease some of its regulatory lag issues. The company is also dealing with reliability issues after a June 29 storm, which caused some customers to be without power for more than a week. Regulators are investigating the company's response to the storm. See PEPCO Holdings Inc. for consolidated financial ratios. — Matthew L. O'Neill

Progress Energy Inc. (BBB+/Negative/A-2)

In North Carolina, Progress has completed the first of three new combined cycle units and is on track to retire about 1,500 MW of older coal-fired units while preparing to file for a new rate case, the first since 1998. In Florida, the company is deciding whether to repair or retire the Crystal River 3 nuclear plant in light of the recently approved settlement agreement and the lack of progress in insurance coverage for the plant. For the 12 months ended June 30, 2012, consolidated financial performance continued to weaken due to modest sales growth, unfavorable weather, and nuclear outage costs, with adjusted FFO to debt of 10.5%% and debt leverage of 62%. — Dimitri Nikas

Public Service Co. of Colorado (A-/Stable/A-2)

The utility plans to retire 900 MW of coal generation and retrofit 700 MW with pollution control equipment and increase gas-fired generation by 900 MW. The City of Boulder continues to pursue the acquisition of the utility's — Gerrit W. Jepsen, CFA

distribution assets in the city. Discussions continue around the purchase price. The utility's service territory was unaffected by wildfires in Colorado. See Xcel Energy for consolidated financial ratios.

Public Service Co. of New Hampshire (A-/Stable/--)

The ratings on Public Service Co. of New Hampshire (PSNH) reflect the consolidated credit profile of parent Northeast Utilities. PSNH is operating under a settlement that provides base rate hikes of $9.5 million in 2012 and $11.1 million in 2013. The company agreed not to pursue additional increases until June 30, 2015, unless its earned ROE falls below 7% for two consecutive quarters. PSNH completed construction of its Merrimack Station Clean Air Project, for $422 million, about $35 million below budget. State regulators recently granted temporary rates to reflect in its energy service charge two-thirds of the operating and capital costs of the project. The balance is being deferred. The company expects recovery of those to be addressed in the commission order in 2013. See Northeast Utilities for more details.

Barbara A. Eiseman

Public Service Co. of New Mexico (BBB-/Stable/--)

On Feb. 16, 2012, the New Mexico legislature passed three bills associated with utility regulation. The bills, which are to be put before voters in the next election, would increase the qualification requirements to serve on the New Mexico Public Regulation Commission, and remove the regulation of corporations and insurance companies from PRC oversight. This follows a recent elimination of cap-and-trade in New Mexico, which the company would have been subject to in 2013, and a supportive general rate case result last year. The utility continues to experience weather-adjusted load growth and unemployment remains below national levels. The company lost an appeal in early March to delay pollution controls at the San Juan coal plant and increased investments are likely, with a resolution expected in October 2012. See PNM Resources Inc. for consolidated financials.

Michael T. Ferguson, CFA, CPA

Public Service Co. of North Carolina Inc. (BBB+/Stable/A-2)

PSNC continues to benefit from a constructive regulatory environment in North Carolina that allows for a reasonable ROE of 10.25%, and incorporates a customer usage tracker that allows the company to adjust rates to earn close to its allowed ROE. The local economy appears to be rebounding, and the customer base increased almost 2% in second quarter 2012 compared with a year ago, in large part due to conversions. See SCANA Corp. for consolidated financials.

Dimitri Nikas

Public Service Co. of Oklahoma (BBB/Stable/--)

The utility filed to retire its Northeastern coal unit 4 and retrofit unit 3 with pollution-control equipment. The utility also plans to modify various gas plants to further lower emissions. See American Electric Power for consolidated financial ratios.

Gerrit W. Jepsen, CFA

Public Service Electric & Gas Co. (BBB/Positive/A-2)

The utility continues to maintain strong financial measures. For the 12 months ending Dec. 31, 2011, FFO/debt was 25.7% compared with 24.7% at year-end 2011. The company continues to spend heavily in its regulated transmission and distribution businesses. Regulated capital spending is expected to cumulatively exceed $5 billion over the next three years. The utility's ratings continue to be affected by its parent's large nonrate-regulated generation business that is directly affected by the low price of electricity.

Gabe Grosberg

Puget Energy Inc. (BB+/Stable/--)

Consolidated debt leverage increased to 62% at June 30, 2012, moving slightly above what we anticipate for the rating. However, capital spending in 2011 and 2012 has been high, which was largely expected due to the timing of certain projects. We anticipate an improvement driven by a significant reduction in capital investments in 2012 and 2013. Consolidated adjusted FFO to total debt improved to 13.2% for the year ended June 30, 2012, due to higher retail sales, deferred taxes, and lower power and fuel costs at the utility. The company continues to reduce refinancing risk, including successfully renewing its holding company credit facility in the first quarter, and issuing $450 million in senior secured notes in June.

Michael T. Ferguson, CFA, CPA

Puget Sound Energy Inc. (BBB/Stable/A-2)

The 343 MW Lower Snake River Wind Facility-Phase I project in southeastern Washington started commercial operations in March 2012, greatly increasing the company's renewable capacity. The residents of Thurston County, Washington have determined to take over electric transmission in that county, although the costs currently appear to be prohibitive. Northwest hydrogeneration has been robust for the past two years, which is important for a company with such substantial hydro investments. The utility received increases of 3.2% (electric) and 1.3% (gas) in a 2012 rate case, figures that were much lower than requested due to lower natural gas costs. Puget Sound's adjusted debt leverage was 54.9% at June 30, 2012, having decreased somewhat from previous years. Adjusted FFO to debt improved to 21.4% at the utility for the year ended June 30, 2012.

Michael T. Ferguson, CFA, CPA