

FitchRatings

The Environment:

A rating agency view of the effect of environmental concerns upon the Electric Power Industry

29nd July 2004

The Pollutants

- SO₂ – the Clean Air Act
- NO_x – the Clean Air Act
- Ng – the Clean Air Act?
- CO₂ – RGGI, MA, NH, etc...
 - Fitch believes that there will be a carbon law at the federal level however it may be a number of years off.
 - The reduction program will probably include a cap and trade structure

The Effect on Credit Profiles

- Increasing CapEx
- Rising allowance credit prices
- Leading to
 - Higher energy costs
 - Increased leverage and
 - Lower profit margins

Lessons Learned from SO₂

- Complying?
 - pollution control devices, fuel switching or buying credits.
 - best solution was probably a combination.
- Buying credits buys time
- Fuel switching was feasible because of the abundance of low sulfur coal

Lessons Learned from SO₂

- Building/switching to gas-fired capacity was not always optimal
 - Volatile natural gas prices
 - Limited supply of natural gas
- Avoiding the installation of pollution control devices may be costly
 - The recent run up in prices for SO₂ credits has caused the building of scrubbers to be more economic than buying allowance credits
 - Fines and other expenses relating to the failure to pass a New Source Review

Challenges for CO2

- The Power Industry will need economically feasible CO2 emission control technology
- The development of these devices will be challenged by:
 - A realistic estimate for the price of “carbon”
 - The time horizon for investors and developers
 - The time horizon for electric power generators

Credit Environment

<u>Total Sector Power & Gas</u>	<u>2003</u>	<u>2002</u>
Upgrades to downgrades	1:2	1:12
Stable outlooks (at year end)	80%	64%
Negative to positive outlooks	2:1	6:1

Ratings stable, but lower:

- Competitive wholesale energy
- Regulated utility
- Utility group parent

Median Rating

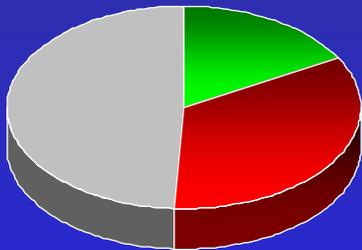
B

A-

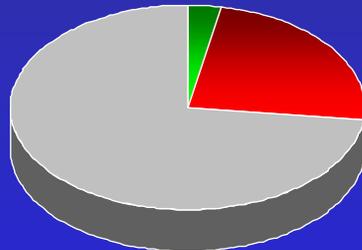
BBB+

Credit Outlook by Sub-sector

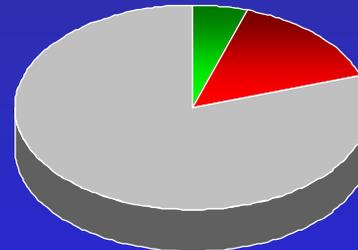
December 31, 2002



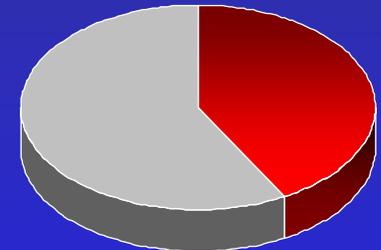
Parent Companies



Integrated Utilities

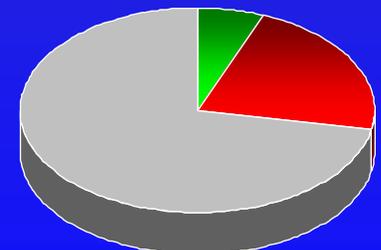
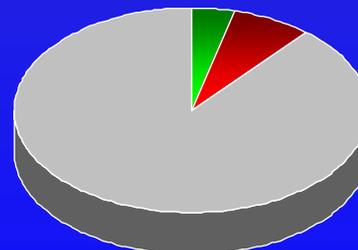
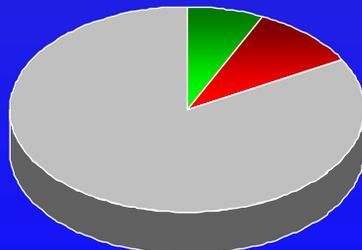
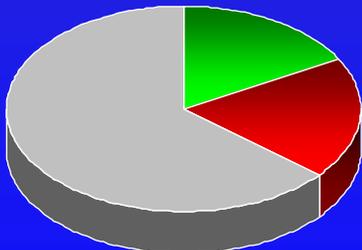


Distribution Utilities



Diversified/Merchant Energy

December 31, 2003



Note: Refers to the percentage of senior ratings in each sector with Positive Rating Outlook or Rating Watch status, Negative Rating Outlook or Rating Watch status or Stable Rating Outlook/Evolving Watch status.

U.S. Global Power Rating Changes 2004

through June 30

Issuer Name	Current rating	Last Rating	Current Outlook	Rating change date
Allegheny Energy Supply	B-	B- ▼	Stable	03-11-2004
Allegheny Generating Co	B-	B- ▼	Stable	03-11-2004
Dayton Power & Light Co.*	A- ▼	A		03-17-2004
Dayton Power & Light Co.*	BBB ▼	A- ▼		04-01-2004
Idaho Power Co	A- ▼	A-		06-22-2004
Kansas Gas & Electric Co. *	BBB-	BB+	Stable	03-02-2004
Mississippi Power Co	A+	A	Stable	06-18-2004
Monongahela Power Co	BBB-	BBB- ▼	Negative	03-16-2004
Southern California Edison Co	BBB	BB	Stable	04-02-2004
Westar Energy Inc	BB+	BB-	Stable	03-02-2004
Ferrellgas Partners, L.P.	BB+ ▼	BB+		02-10-2004
Ferrellgas Partners, L.P.	BB+	BB+ ▼	Negative	02-25-2004
Transwestern Pipeline**	B+	B+ ◆	Positive	05-20-2004
Transwestern Pipeline**	B+ ▲	B+		05-21-2004
Atmos Energy	A- ▼	A-		06-17-2004
Illinois Power Co	CCC+ ▲	CCC+		02-03-2004
Metropolitan Edison Co	BBB	BBB+	Stable	03-29-2004
Michigan Consolidated Gas Co.*	A ▼	A		05-14-2004
Nicor Gas*	AA-	AA	Stable	06-29-2004
Potomac Edison Co	BBB-	BBB- ▼	Stable	03-16-2004
Texas-New Mexico Power Co	BB+ ▼	BB+		06-10-2004
TXU Gas Co	BBB- ◆	BBB-		04-26-2004
West Penn Power Co	BBB-	BBB- ▼	Stable	03-16-2004
Allegheny Energy Inc	BB-	BB- ▼	Stable	03-16-2004
DPL Inc	BBB- ▼	BBB-		03-17-2004
DPL Inc	BB ▼	BBB- ▼		04-01-2004
Edison International	BB	B	Stable	04-02-2004
Idacorp Inc	BBB+ ▼	BBB+		06-22-2004
Nicor Inc.**	A	A+	Stable	06-29-2004
Pepco Holdings Inc	BBB	BBB+	Negative	05-19-2004
PSEG Energy Holdings LLC	BB	BBB-	Negative	04-12-2004

▲ Rating Watch Positive, ▼ Rating Watch Negative, ◆ Rating Watch Evolving

Fitch Ratings