

- **Did Mortgage-Backed Securities Bring Down Constellation?**
- **The Credit Crunch Hits Home Quickly.**
- **Renewable Tax Credit Extension Tied To Bailout: Will It Survive?**



October 1, 2008. This has been two weeks to remember. Last month's accounting issues at Constellation Energy seemed isolated and survivable at the time. However, a one-two-three knock-out brought Constellation close to the brink and allowed Warren Buffett to swoop in to grab one of the best bargains he has ever picked up. The first punch was CEG's accounting issues, the second punch was the ratings agency downgrades, and the third punch was the short selling frenzy. Buffett's offer is valued at around \$4.6 billion, and for that he picks up four operating nuclear power plants along with 9,000 MWs of U.S. electric generating capacity and a regulated utility suffering from one of the worst designed deregulation plans in the U.S.

While no one accuses Warren Buffett of benevolent ownership, he has a long history of being hands off. He makes sure that good managers are in place, encourages them to call him for advice, but stays out of their way. However, based on Buffett's other U.S. electric and gas utility acquisitions, MidAmerican Energy and PacifiCorp, we expect that Constellation's trading activities will be scaled back, reflecting Buffett's more conservative approach to leverage. And frankly, it was the Constellation's trading activities that led to this situation.

We have deliberately not mentioned the EdF bid for Constellation nor the Spark Spread bankruptcy report. There is more than enough press on these issues.

September 2008 Winners and Losers: Table 1
Percentage Change Market Open 9/1/08 to Market Close 9/30/08
C Three Composite Index = - 9.00%

Top 10		Bottom 10	
PNY (Piedmont Natural Gas)	10.78%	AES (AES Corp)	-23.4%
HE (Hawaiian Elec Ind Inc)	10.06%	WMB (Williams)	-23.4%
CPK (Chesapeake Utilities)	9.68%	EP (El Paso Energy)	-23.9%
CHG (CH Energy Group)	9.47%	EQT (Equitable Resources)	-26.5%
LG (Laclede)	7.92%	CPN (Calpine)	-27.8%
NWN (Northwest Natural Gas)	6.71%	NRG	-34.2%
ALE (Allele)	5.40%	MIR (Mirant)	-38.2%
UIL (UIL Holdings)	5.31%	DYN (Dynergy)	-39.9%
ED (Consolidated Edison)	5.04%	RRI (Reliant Resources)	-56.8%
MGEE (MGE Energy)	4.87%	CEG (Constellation Energy)	-63.6%

The credit crunch has also driven down the value of those companies involved in electricity and natural gas trading. Yesterday, Reliant Energy was able to secure a \$650 million senior secured loan with Goldman Sachs at Libor +4.5 percent and another \$350 million of convertible preferred debt with First Reserve at an interest rate of 14 percent. Its stock closed at \$7.35, down almost 57% since September 1st. OUCH!

Utilities do not need to have significant trading operations to be impacted by the credit crisis. Yesterday, Duke drew down \$1 billion from its master credit agreement. Others that have gone out, such as PECO, UGI and WE Energies have found the spread between Treasury securities has increased significantly during the past few weeks. Utilities have historically been the largest issuer of debt only behind the U.S. Government and financial institutions. Costs have gone up and those with less than stellar credit ratings will have to pay dearly.

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**Table 2: 2008 Year-to-Date Winners and Losers:
Value of \$100 Invested on 1/1/2008 through Market Close 9/30/08
C Three Composite Index = \$84.98**

Top 10		Bottom 10	
LG (Laclede)	\$141.62	WMB (Williams)	\$66.10
HE (Hawaiian Elec Ind Inc)	\$127.84	AYE (Allegheny)	\$57.81
PNY (Piedmont Natural Gas)	\$122.17	NRG	\$57.11
ALE (Allele)	\$112.43	SRP (Sierra Pacific)	\$56.42
FPU (Florida Public Utilities)	\$109.79	AES (AES Corp)	\$54.65
NJR (New Jersey Resources)	\$108.23	DYN (Dynergy)	\$50.14
NWN (Northwest Natural Gas)	\$106.86	PNM (PNM)	\$47.74
ENSI (Energy South)	\$105.91	MIR (Mirant)	\$46.92
MDU (MDU Resources)	\$105.03	RRI (Reliant Resources)	\$28.01
GAS (Nicor)	\$104.72	CEG (Constellation Energy)	\$23.70

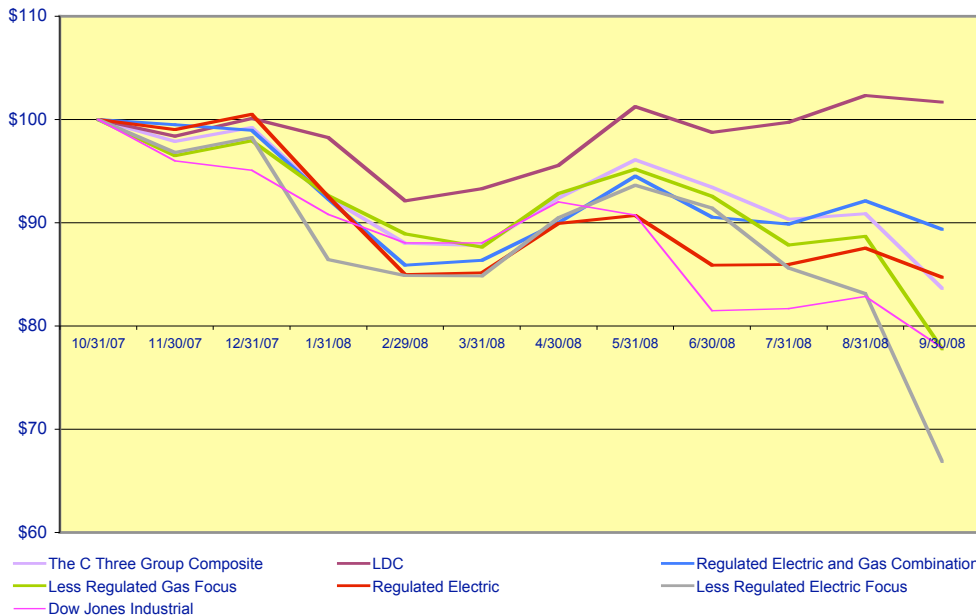
Renewable tax credit extension suffers near-death experience. The window for survival shortens. Last night, the extension was attached to the bailout plan that the Senate is scheduled to vote on this evening. Currently, C Three estimates over 33,000 MWs of wind capacity are scheduled to come on-line after the expiration of the tax credits at the end of 2008.

Many of these projects will probably not see the light of day without the extension. Same goes for the dozens of significant solar projects.

Earlier in this week, it looked like that the House would go home without voting on the renewable tax credit extension. "All sides in the fray have been chastened by the near-death experience," said senior director of government affairs for the American Wind Energy Association. "We're still in the game, but it's a narrow window." Heaven knows what could happen to the bill between now and the time that it is actually voted on.

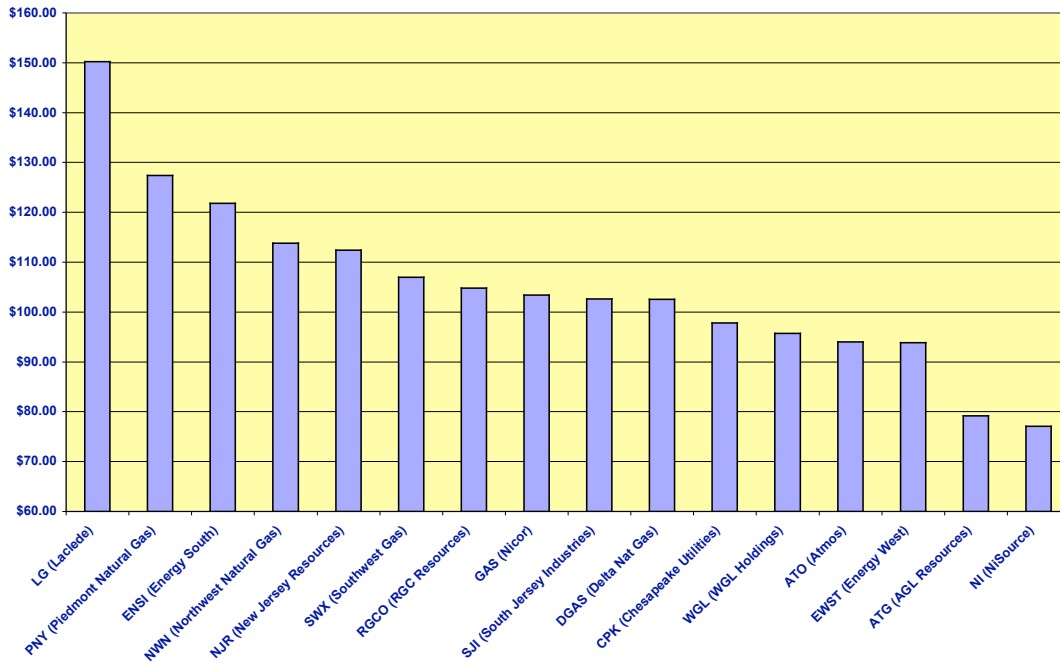
There are not adequate words to describe the stupidity and short sightedness of the political partisanship that has brought us to this situation. Continued transfer of a measurable portion of our GDP in exchange for oil to countries that would like to see us annihilated makes no sense. A rational energy policy that encourages renewable energy, sets real gas mileage targets, provides for alternative energy incentives, contemplates clean coal technologies and supports nuclear power have to be the cornerstones of weaning ourselves off of foreign oil.

12 Month Value of \$100 Invested on 10/1/2007 through 9/30/2008



LDC's Win. There are some good news stories buried in all of this doom and gloom. The flight to safety has kept the more regulated natural gas distribution utilities above even for the parts of the past twelve months: no easy feat in these times. The chart on the next page presents the performance of each company that is part of our LDC index during the past year.

September 30, 2008 Value of \$100 Invested on October 1, 2007
Regulated Natural Gas Distribution Utilities (LDC Index)



Many of the gas distribution companies have insulated themselves from natural gas price swings through decoupling mechanisms. Also, most are not facing the huge capital needs that many of the electric distribution companies are currently facing. Few electric distribution companies that have taken the plunge of decoupling, lacking the regulatory structures and financial incentives to do so.

The following chart presents the five year performance of our indices. There were several years of remarkable recovery after the Enron-led meltdown of late 2002 and early 2003. Since then, only the more heavily regulated electric portions of the energy utility industry have occasionally lagged behind the Dow Jones Industrial Average. Hopefully we have about hit the bottom of this cycle and will begin to see rational and reasoned political decisions being made (that maybe asking too much). Have a great October. Jean

PS. EnergyEast was finally acquired by Iberdrola and has been removed from our indices. Kraft Foods replaced AIG in the Dow Industrial Index.

September 30, 2008 Five Year Value \$100
Invested On October 1, 2003

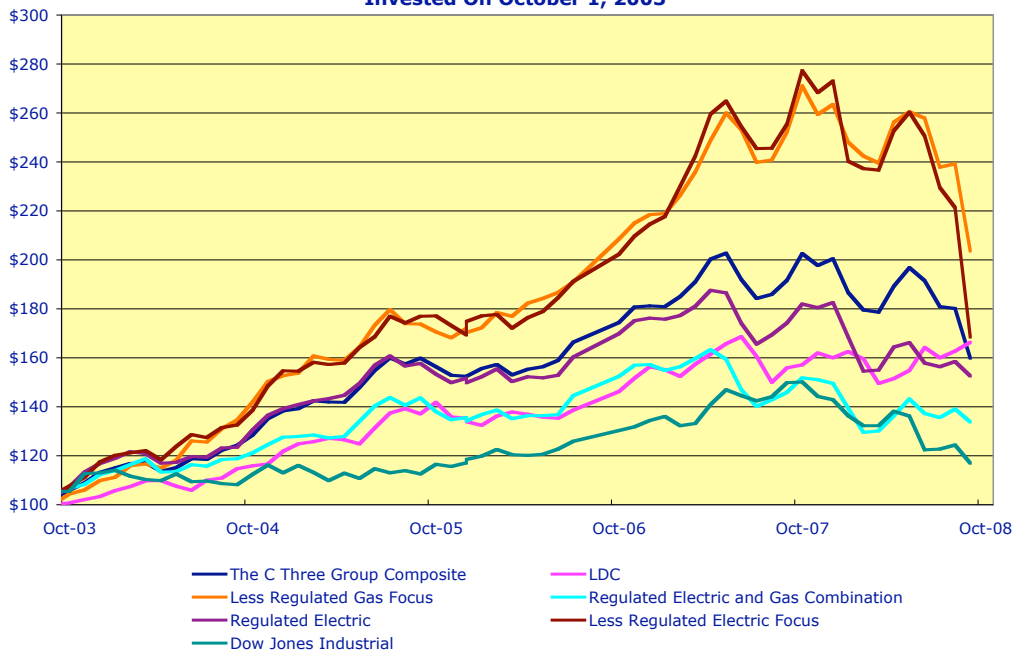


TABLE 3: Value of \$100 Invested on September 1, 2007

Company	12 Months Value Through 9/30/2008	Rank	Company	12 Months Value Through 9/30/2008	Rank
LG (Laclede)	\$139.38	1	PNW (Pinnacle West)	\$85.17	53
HE (Hawaiian Elec Ind Inc)	\$125.47	2	Regulated Electric	\$84.70	54
PNY (Piedmont Natural Gas)	\$125.19	3	TCLP (TC Pipelines)	\$84.05	55
NJR (New Jersey Resources)	\$110.13	4	POR (Portland General)	\$84.05	56
ENSI (Energy South)	\$109.31	5	The C Three Group Composite	\$83.65	57
RGCO (RGC Resources)	\$108.60	6	IDA (Idacorp)	\$83.38	58
NWN (Northwest Natural Gas)	\$107.95	7	NU (Northeast Utilities Service Co)	\$83.20	59
FPU (Florida Public Utilities)	\$107.32	8	SRE (Sempra Energy)	\$82.05	60
MGEE (MGE Energy)	\$106.12	9	DTE (DTE Energy)	\$80.89	61
MDU (MDU Resources)	\$102.98	10	OGE (OGE Energy)	\$80.63	62
SO (Southern Company)	\$102.81	11	LNT (Alliant)	\$80.53	63
GAS (Nicor)	\$102.50	12	OKS (ONEOK Partners)	\$80.51	64
DGAS (Delta Nat Gas)	\$101.95	13	POM (PEPCO)	\$80.41	65
ALE (Allete)	\$101.85	14	Dow Utilities	\$80.09	66
SWX (Southwest Gas)	\$101.68	15	ATG (AGL Resources)	\$79.38	67
LDC	\$101.68	16	NGG (National Grid)	\$78.32	68
VVC (Vectren)	\$99.32	17	Dow Jones Industrial	\$77.89	69
KMP (Kinder Morgan Energy Partners)	\$99.10	18	Less Regulated Gas Focus	\$77.78	70
AVA (Avista)	\$98.46	19	AEP (American Electric Power)	\$76.81	71
EWST (Energy West)	\$97.70	20	PCG (PG&E)	\$76.54	72
UIL (UIL Holdings)	\$97.58	21	TAC (Transalta)	\$76.50	73
UGI (UGI)	\$96.84	22	EXC (Exelon)	\$75.65	74
FE (First Energy)	\$96.11	23	S&P 500	\$75.28	75
SCG (Scana Corp)	\$95.91	24	PEG (Public Services Enterprise Group)	\$74.98	76
CNL (CLECO)	\$95.83	25	GXP (Great Plains Energy)	\$74.46	77
WGL (WGL Holdings)	\$95.67	26	ETR (Entergy)	\$74.26	78
NST (Nstar)	\$95.28	27	CV (Central Vermont)	\$73.76	79
SJI (South Jersey Industries)	\$95.05	28	FPL (FPL Group)	\$73.52	80
ATO (Atmos)	\$94.90	29	CMS (CMS Energy)	\$73.48	81
PSD (Puget Energy)	\$94.51	30	EP (El Paso Energy)	\$72.25	82
WEC (Wisconsin Energy Corp)	\$93.78	31	AEE (Ameren)	\$72.20	83
CPK (Chesapeake Utilities)	\$93.76	32	NI (NiSource)	\$72.18	84
TE (Teco Energy)	\$93.46	33	STR (Questar)	\$71.69	85
CHG (CH Energy Group)	\$93.22	34	PPL (PPL)	\$71.61	86
Integrus Energy Group (TEG)	\$92.81	35	EGN (Energen)	\$70.75	87
UNS (Unisource Energy)	\$92.02	36	BKH (Black Hills)	\$69.95	88
SE (Spectra Energy)	\$91.61	37	OKE (Oneok Inc)	\$68.88	89
ED (Consolidated Edison)	\$91.23	38	EIX (Edison Intl)	\$68.62	90
NWE (Northwestern Corp)	\$91.12	39	Less Regulated Electric Focus	\$66.87	91
ITC Holdings	\$90.95	40	SUG (Southern Union)	\$65.56	92
DUK (Duke)	\$90.92	41	EQT (Equitable Resources)	\$65.13	93
D (Dominion Resources)	\$90.58	42	WMB (Williams)	\$64.81	94
PGN (Progress Energy)	\$89.85	43	AYE (Allegheny)	\$60.62	95
Regulated Electric and Gas Combination	\$89.35	44	SRP (Sierra Pacific)	\$56.79	96
EDE (Empire District)	\$88.77	45	AES (AES Corp)	\$54.60	97
OTTR (Otter Trail Power)	\$88.71	46	NRG	\$54.20	98
XEL (Xcel Energy)	\$88.65	47	MIR (Mirant)	\$43.18	99
NFG (National Fuel Gas Co)	\$86.99	48	PNM (PNM)	\$40.94	100
CNP (Centerpoint Energy)	\$86.93	49	DYN (Dynergy)	\$38.87	101
WR (Westar)	\$86.55	50	RRI (Reliant Resources)	\$26.71	102
EL Paso Electric EE	\$86.24	51	CEG (Constellation Energy)	\$25.66	103
DPL (DPL Inc)	\$85.40	52			
NFG (National Fuel Gas Co)	\$90.11	53			

TABLE 4: Value of \$100 Invested on October 1, 2003

Company	5 Year Value Through 9/30/2008	5 Year Rank	Company	5 Year Value Through 9/30/2008	5 Year Rank
AYE (Allegheny)	\$396.66	1	NU (Northeast Utilities Service Co)	\$156.12	53
ENSI (Energy South)	\$297.34	2	Regulated Electric	\$152.62	54
STR (Questar)	\$281.62	3	CPK (Chesapeake Utilities)	\$152.06	55
WMB (Williams)	\$263.07	4	XEL (Xcel Energy)	\$149.51	56
EGN (Energen)	\$261.73	5	HE (Hawaiian Elec Ind Inc)	\$149.05	57
NRG	\$247.50	6	TE (Teco Energy)	\$147.56	58
FE (First Energy)	\$247.38	7	AVA (Avista)	\$146.89	59
ALE (Allete)	\$229.89	8	OKS (ONEOK Partners)	\$145.99	60
EXC (Exelon)	\$227.54	9	POM (PEPCO)	\$145.74	61
TAC (Transalta)	\$224.14	10	KMP (Kinder Morgan Energy Partners)	\$145.34	62
EIX (Edison Intl)	\$223.40	11	SO (Southern Company)	\$145.18	63
EWST (Energy West)	\$213.03	12	GAS (Nicor)	\$144.65	64
Less Regulated Gas Focus	\$203.70	13	SWX (Southwest Gas)	\$143.34	65
ITC Holdings	\$203.66	14	AEP (American Electric Power)	\$142.42	66
PPL (PPL)	\$200.22	15	WR (Westar)	\$140.49	67
SJI (South Jersey Industries)	\$200.00	16	Integrus Energy Group (TEG)	\$139.26	68
NFG (National Fuel Gas Co)	\$198.40	17	NGG (National Grid)	\$138.26	69
NWN (Northwest Natural Gas)	\$197.87	18	MDU (MDU Resources)	\$135.45	70
EQT (Equitable Resources)	\$196.68	19	VVC (Vectren)	\$134.35	71
LG (Laclede)	\$194.12	20	Regulated Electric and Gas Combinatio	\$133.82	72
DUK (Duke)	\$193.45	21	PSD (Puget Energy)	\$133.70	73
SRP (Sierra Pacific)	\$190.46	22	FPU (Florida Public Utilities)	\$130.43	74
UIL (UIL Holdings)	\$189.98	23	IDA (Idacorp)	\$130.33	75
CMS (CMS Energy)	\$186.96	24	SUG (Southern Union)	\$128.58	76
PEG (Public Services Enterprise)	\$184.42	25	OTTR (Otter Trail Power)	\$125.74	77
CNP (Centerpoint Energy)	\$182.58	26	DTE (DTE Energy)	\$125.49	78
EL Paso Electric EE	\$181.82	27	SCG (Scana Corp)	\$123.94	79
EP (El Paso Energy)	\$180.74	28	MGEE (MGE Energy)	\$120.96	80
ETR (Entergy)	\$180.62	29	ED (Consolidated Edison)	\$120.67	81
AES (AES Corp)	\$180.40	30	ATG (AGL Resources)	\$120.55	82
SRE (Sempra Energy)	\$180.19	31	DGAS (Delta Nat Gas)	\$120.07	83
UGI (UGI)	\$178.90	32	ATO (Atmos)	\$118.84	84
DJU (Dow Utilities)	\$178.84	33	CV (Central Vermont)	\$118.38	85
PNY (Piedmont Natural Gas)	\$178.75	34	PGN (Progress Energy)	\$118.29	86
CNL (CLECO)	\$177.69	35	Dow Industrials	\$116.99	87
OKE (Oneok Inc)	\$176.41	36	DYN (Dynergy)	\$115.86	88
DPL (DPL Inc)	\$174.40	37	GSPC (S&P 500)	\$115.71	89
FPL (FPL Group)	\$173.63	38	TCLP (TC Pipelines)	\$111.62	90
NJR (New Jersey Resources)	\$173.05	39	PNW (Pinnacle West)	\$109.83	91
PCG (PG&E)	\$171.79	40	EDE (Empire District)	\$109.66	92
Less Regulated Electric Focus	\$168.53	41	CHG (CH Energy Group)	\$108.03	93
LNT (Alliant)	\$166.46	42	BKH (Black Hills)	\$103.77	94
LDC	\$165.27	43	AEE (Ameren)	\$102.25	95
UNS (Unisource Energy)	\$164.17	44	NWE (Northwestern Corp)	\$91.18	96
NST (Nstar)	\$163.97	45	SE (Spectra Energy)	\$91.12	97
WEC (Wisconsin Energy Corp)	\$161.98	46	GXP (Great Plains Energy)	\$84.26	98
D (Dominion Resources)	\$161.80	47	NI (NiSource)	\$83.01	99
The C Three Group Composite	\$159.89	48	POR (Portland General)	\$77.37	100
RRI (Reliant Resources)	\$159.09	49	MIR (Mirant)	\$74.35	101
RGCO (RGC Resources)	\$158.93	50	CEG (Constellation Energy)	\$70.50	102
OGE (OGE Energy)	\$157.63	51	CPN (Calpine)	\$68.86	103
WGL (WGL Holdings)	\$156.54	52	PNM (PNM)	\$59.47	104
NU (Northeast Utilities Service Co)	\$156.12	53			

Methodology and Components of Each Index Tracked by The C Three Group

- **Less Regulated Electric Focus** = More than 50% of revenues come from non-state regulated sources and/or more than 33% of assets are non-state regulated.
- **Less Regulated Gas Focus** = More than 50% of revenues come from non-state regulated natural gas distribution and/or more than 33% of assets are non-state regulated.
- **Regulated Electric** = No more than 20% of revenues can come from natural gas distribution and no more than 49% of revenues and 33% of assets can be associated with non-regulated activities.
- **LDC** = No more than 20% of revenues can come from electric distribution or generation and no more than 50% of revenues and 33% of assets can be associated with non-regulated activities.
- **Regulated Electric and Gas Combination** = More than 20% of revenues derived from natural gas distribution, no more than 50% of revenues and 33% of assets from non-regulated activities.
- **The C Three Index** = the non-weighted average of each of the companies included in the groupings above.

The C Three Indices are developed based on a straightforward premise: if you invested \$100 in each of the stocks of the companies that we track, what would the value of those shares be worth after a certain time-frame? Historical share prices are adjusted for dividends, splits and spin-offs.

LDC	Regulated Electric	Regulated Electric and Gas Combo	Dow Jones Industrials
AGL Resources Atmos Energy Chesapeake Utilities Delta Natural Gas Energy South Energy West Laclede Group Nicor Nisource Northwest Natural Gas Piedmont Natural Gas RGC Resources South Jersey Industries Southwest Gas WGL Holdings	Allele Ameren American Electric Power Black Hills Central Vermont CLECO Dominion Resources DPL Duke Energy Edison International El Paso Electric Empire District FirstEnergy Great Plains Energy IdaCorp National Grid Northeast Utility Services Nstar PEPCO Pinnacle West Portland General Electric Progress Energy Sierra Pacific Southern Company UIL Holdings Unisource Energy Westar	Alliant Avista Centerpoint Energy CH Energy Group CMS Energy Consolidated Edison DTE Energy Energy East Florida Public Utilities MGE Energy Northwestern Corp. PCG PNM Resources Puget Energy SCANA TECO Energy Vectren Wisconsin Energy Xcel Energy	Alcoa American Express AT&T Boeing Caterpillar Citigroup Coca Cola Dupont Exxon Mobil GE General Motors Home Depot Honeywell IBM Intel Johnson and Johnson JP Morgan Kraft Foods McDonalds Merck Microsoft P&G Pfizer United Technology Verizon WalMart Wait Disney
Less Regulated Gas	Less Regulated Electric	Dow Utility Average	C Three Index
El Paso Corp. Energen Equitable Resources National Fuel Gas NJ Resources Southern Union Oneok Questar UGI	AES Corp. Allegheny Energy Calpine Constellation Energy Dynergy Entergy Exelon FPL Group Hawaian Electric Integrus ITC Holdings MDU Resources Mirant NRG OGE Energy Otter Tail Power PPL Corp. PS Enterprise Reliant Resources Sempra Energy	AEP AES CenterPoint Consolidated Edison Dominion Resources Edison International Exelon FirstEnergy FPL Group NiSource PG&E PS Enterprise Group Southern Company Williams Co.	Is an unweighted average of each component from each of these groupings plus, El Paso Energy, Kinder Morgan Energy Partners, Oneok Partners, Spectra Energy, TC Pipelines, TransAlta and Williams. We may re-introduce a natural gas pipeline index later this year.