Exhibit No.:
Witness: Michael Gorman
Type of Exhibit: Surrebuttal Testimony
Issues: Cost of Service
Sponsoring Party: Missouri Industrial Energy Consumers
Case No.: ER-2008-0318

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Union Electric Company d/b/a AmerenUE for Authority to File Tariffs Increasing Rates for Electric Service Provided to Customers in the Company's Missouri Service Area.	))))))	**Case No. ER-2008-0318**

Surrebuttal Testimony and Schedules of

Michael Gorman

on Cost of Service

On Behalf of

Missouri Industrial Energy Consumers

MIEC Exhibit No. 615
Case No(s): ER-2008-0318
Date: 12/12/2008 Rptr: KF

BRUBAKER & ASSOCIATES, INC.
CHESTERFIELD, MO 63017

Project 8983
November 5, 2008

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Union Electric Company d/b/a AmerenUE for Authority to File Tariffs Increasing Rates for Electric Service Provided to Customers in the Company's Missouri Service Area.	)	**Case No. ER-2008-0318**

STATE OF MISSOURI)
) **SS**
COUNTY OF ST. LOUIS)

Affidavit of Michael Gorman

Michael Gorman, being first duly sworn, on his oath states:

1. My name is Michael Gorman. I am a consultant and managing principal with Brubaker & Associates, Inc., having its principal place of business at 16690 Swingley Ridge Road, Suite 140, Chesterfield, Missouri 63017. We have been retained by the Missouri Industrial Energy Consumers in this proceeding on their behalf.

2. Attached hereto and made a part hereof for all purposes are my surrebuttal testimony and schedules which were prepared in written form for introduction into evidence in Missouri Public Service Commission Case No. ER-2008-0318.

3. I hereby swear and affirm that the testimony and schedules are true and correct and that they show the matters and things that they purport to show.

Michael Gorman

Subscribed and sworn to before me this 4th day of November, 2008.

TAMMY S. KLOSSNER
Notary Public - Notary Seal
STATE OF MISSOURI
St. Charles County
My Commission Expires: Mar. 14, 2011
Commission # 07024862

Notary Public

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Surrebuttal Testimony of Michael Gorman

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A Michael Gorman. My business address is 16690 Swingley Ridge Road, Suite 140, Chesterfield, Missouri 63017.

Q ARE YOU THE SAME MICHAEL GORMAN WHO HAS PREVIOUSLY FILED TESTIMONY IN THIS PROCEEDING?

A Yes. I have previously filed direct and rebuttal testimony.

Q ARE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE OUTLINED IN YOUR DIRECT TESTIMONY?

A Yes. This information is included in Appendix A.

Q ON WHOSE BEHALF ARE YOU PRESENTING THIS SURREBUTTAL TESTIMONY?

A This testimony is presented on behalf of the Missouri Industrial Energy Consumers ("MIEC").

Q WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A I will respond to the rebuttal testimony of AmerenUE witness Dr. Roger A. Morin and his continued support for his 10.9% return on equity for AmerenUE.

Q PLEASE DESCRIBE YOUR SURREBUTTAL TESTIMONY TO DR. MORIN IN THIS PROCEEDING.

A I will respond to Dr. Morin regarding:

1. my decision not to rely on the results of my constant growth DCF analysis;
2. His criticisms related to my non-constant growth DCF studies;
3. His argument that I should have reflected an inverse relationship between interest rates and equity risk premiums in my risk premium study;
4. His assertions that my CAPM estimate is understated; and
5. His argument that I should have included a 30 basis point flotation cost adjustment adder to my return on common equity estimate for AmerenUE.

Q PLEASE SUMMARIZE YOUR FINDINGS AND CONCLUSIONS IN YOUR SURREBUTTAL TESTIMONY TO AMERENUE WITNESS DR. ROGER MORIN.

A As set forth below in detail, my conclusions and recommendations in my surrebuttal testimony are as follows:

1. Dr. Morin's assertions that it was inappropriate and self-serving for me to disregard the results of my constant growth DCF study are without merit. Dr. Morin himself in past testimonies has rejected the results of DCF studies when he found the parameters and inputs to this DCF model to be unreliable. Further, Dr. Morin in past testimonies has rejected constant growth DCF studies as outliers, based on factors he found to support that decision. My recommendation in this case is to exclude the constant growth DCF analysis because the 3-5 year analysts' growth rate estimates are not reasonable estimates of long-term sustainable growth. Dr. Morin has provided no material rebuttal to that conclusion and, therefore, has not contested the legitimacy and accuracy of my arguments and supporting data leading to my conclusion to disregard my constant growth DCF results in this proceeding.

2. Dr. Morin's argument, that my analyses in support of my decision to disregard my DCF study in this case is inconsistent with testimony I have filed in prior cases, is erroneous and should be disregarded. I routinely test the results of my constant growth DCF analysis to determine whether the results are rational and reasonable. While I normally find the growth rate estimates made by analysts to be reasonable estimates of long-term sustainable growth, I do not find that to be an appropriate conclusion in all cases. Indeed, as set forth below, I have rejected my constant growth DCF analysis when I found the growth rates to be unreasonably low and unreasonably high. Rejecting the constant growth DCF model has symmetrically increased and decreased my recommended return on equity range. As such, I have consistently tested the results of my constant growth DCF studies, and rejected those results when I found factors to be unreasonable and unreliable. Importantly, I have not rejected the constant growth DCF analysis only when I found the results to be too high, as Dr. Morin falsely claims. I have consistently employed a balanced methodology to estimate a fair return on equity.

3. Dr. Morin's arguments, in support of an appropriate growth rate for use in DCF studies, are often contradictory and inconsistent. In my application, I consistently rely on consensus analysts' growth rate projections for my constant growth and two-stage growth DCF methodologies. In contrast, Dr. Morin's methodology appears to favor the highest growth rate, regardless of whether it is based on consensus analysts' projections, or is based on a single analyst's projection. Dr. Morin's arguments are unconvincing, inconsistent, and his arguments should be disregarded.

4. Dr. Morin's argument, that my risk premium study was understated because I did not reflect an inverse relationship between interest rates and equity risk premiums, is without merit and should be disregarded. An equity risk premium will not change simply due to a change in interest rates. Indeed, interest rates have declined over the last two decades largely because of declining inflation expectations. A reduction in inflation expectations would reduce both bond yields and common equity required returns in a similar manner. As such, a simple decline in nominal interest rates will not necessarily cause an increase in the equity risk premium. Rather, again, the equity risk premium should be based on changes in perceived risk not simply changes in interest rates.

5. Dr. Morin's assertion that I understated my CAPM return estimate because I inappropriately estimated the market risk premium is without merit. However, setting aside my disagreements with Morningstar's proposed methodology of estimating the market risk premiums, Morningstar's complete analysis of the market risk premium produces a risk premium estimate that is very similar to the one I proposed. Substituting the midpoint of Morningstar's market risk premium estimates into my CAPM return estimates produces a result that is very similar to the result that I offered in my direct testimony. Dr. Morin's conclusion that my CAPM return estimate is understated is without merit and should be disregarded.

As set forth below, and as summarized above, I continue to recommend a return on equity of 10.2% for AmerenUE in this proceeding. This analysis fully reflects the market data that is available to influence expectations of investors and allows for a consistent and credible estimate of the current market cost of equity for AmerenUE's common stock capital.

Constant Growth DCF Study

Q PLEASE DESCRIBE DR. MORIN'S ARGUMENTS RELATED TO YOUR DECISION NOT TO RELY ON THE RESULTS OF YOUR CONSTANT GROWTH DCF STUDY IN THIS PROCEEDING.

A Dr. Morin argues that I was inconsistent in my application of the constant growth DCF model in this case relative to testimony I have filed in the past, and that my decision not to rely on the constant growth DCF model in this case was "results-oriented, self-serving, and inconsistent" with my prior testimonies, and had the effect of substantially reducing my recommended ROE. (Morin Rebuttal at 39).

Q IS YOUR TESTIMONY CONCERNING THE DEVELOPMENT AND RELIANCE ON THE CONSTANT GROWTH DCF ANALYSIS IN THIS CASE INCONSISTENT WITH YOUR PRIOR TESTIMONY?

A No. To the contrary, I consistently and routinely review my constant growth DCF model results to determine whether the parameters of this DCF study produced reasonable and reliable rate of return results.

However, due to differences in market data, utility fundamentals, and 3-5 year growth outlooks, my conclusions changed in this case, and more recent cases, relative to prior cases. While I agree that I do not frequently conclude that consensus

analysts' growth rate forecasts are not reasonable estimates of long-term sustainable growth, I do routinely check the analysts' growth projections to confirm they are or are not reasonable long-term sustainable growth rate estimates.

Q DID DR. MORIN ARGUE THAT THE ANALYSTS' GROWTH RATES USED IN A CONSTANT GROWTH DCF ANALYSIS SHOULD BE SUSTAINABLE IN THE LONG TERM?

A No. Dr. Morin has not contested my testimony that the growth rate used in the constant growth model should reflect a reasonable estimate of long-term sustainable growth. A long-term sustainable growth rate is required by the constant growth DCF model. Hence, if there is reason to believe that the 3-5 year consensus analysts' growth rate projections are not reasonable estimates of long-term sustainable growth, then use of those growth rate estimates in a constant growth model will produce an unreliable return on equity estimate. Again, this conclusion has not been refuted.

Because the growth rate estimates are such a critical element in constructing a reliable and accurate constant growth DCF return estimate, I consistently test the reliability of the DCF parameters in determining whether or how much support to give to my constant growth DCF return estimates.

Q PLEASE DESCRIBE YOUR PROCEDURE FOR TESTING THE REASONABLENESS AND RELIABILITY OF YOUR CONSTANT GROWTH DCF ANALYSIS PRESENTED IN THIS CASE AND PRIOR CASES.

A In my rate of return testimony, I consistently develop a constant growth DCF analysis using consensus analysts' growth rate forecasts, current dividend yields annualized,

and stock prices over a 13-week period. As Dr. Morin notes, he did not take issue with these inputs. (Morin Rebuttal at 37-38).

However, in my testimony, I also reviewed the reasonableness of my constant growth DCF parameters. I did this by comparing the consensus analysts' growth rate projections relative to projections of GDP growth, and reviewing the proxy group sustainable growth parameters, e.g., dividend payout ratio or dividend to book ratio, to gauge the group's ability to grow. These considerations permit an informed decision on whether the 3-5 year analyst growth rate projections are reasonable estimates of long-term sustainable growth as required by the DCF model.

Q DO YOU OFTEN CONCLUDE THAT ANALYSTS' 3-5 YEAR GROWTH IS NOT A REASONABLE ESTIMATE OF LONG-TERM SUSTAINABLE GROWTH?

A No. In the majority of cases in which I have filed testimony, I concluded that security analysts' growth rate projections are reasonable estimates of long-term sustainable growth because they seldom exceed the projected nominal growth of the U.S. GDP. However, in some cases, like this one, I concluded that the 3-5 year growth rate was too high to be a reasonable estimate of sustainable long-term growth.

Q BASED ON YOUR TEST OF GROWTH RATES IN YOUR CONSTANT GROWTH DCF STUDY, HAVE YOU EVER CONCLUDED THAT THE GROWTH RATES WERE TOO LOW TO BE REASONABLE ESTIMATES OF LONG-TERM SUSTAINABLE GROWTH?

A Yes. In the early and mid-1990s, growth rates for utility companies were, in my judgment, abnormally low due to certain fundamentals of the utility companies at that time. Specifically, I found that utility payout ratios were abnormally high, and the high

payout ratios depressed the expected 3-5 year analysts' growth rates of those companies. I showed in my testimony at that time, that while dividend growth would likely be less than earnings growth over a short period of time, dividend payout ratios would eventually decline to a more long-term sustainable level, and growth rates thereafter would increase to a long-term sustainable level.

In those testimonies, I placed primary reliance on the multi-stage growth DCF model, and minimal to no weight on the constant growth DCF model, in forming my recommended return on equity. This decision resulted in an increase to my rate of return on equity recommendations for several utilities.

Attached as Schedule MPG-S-1, I have identified the utility, state proceeding, docket number and results of my rate of return findings including constant growth DCF, non-constant growth DCF, risk premium, and CAPM studies. I also show the return on equity range and point estimate I recommended in each case. Importantly, in these cases, my recommended range did not rely on the constant growth DCF study because I found growth rates in the constant growth study to be abnormally low which understated the constant growth DCF estimate. In those cases, like this case, I placed primary reliance on my non-constant growth DCF estimate.

Q HAS DR. MORIN EVER REJECTED THE RESULTS OF A CONSTANT GROWTH DCF STUDY BECAUSE HE QUESTIONED THE RELIABILITY OF THE GROWTH RATES OR OTHER PARAMETERS OF THIS DCF MODEL?

A Yes. In 1995, Dr. Morin filed testimony on behalf of PSI Energy, in Cause No. 40003 before the Indiana Utility Regulatory Commission. In that testimony, Dr. Morin recommended a return on equity in the range of 12.0% to 12.5% and recommended the high end of his range be used to set rates. At arriving at his proposed range,

Dr. Morin disregarded the results of his constant growth DCF analysis which produced return on equity estimates of 10.80% and 10.91%, respectively. (Morin Rebuttal at 46). Dr. Morin's general philosophy for exercising caution in adopting a DCF return estimate was described as follows:

> In summary, caution and judgment are required in interpreting the results of the DCF model for PSI because of: (1) declining earnings and dividends effect on financial inputs to the DCF model, (2) the questionable applicability of the DCF model to utility stocks in general in the current capital market environment, and (3) the conceptual and practical difficulties associated with the growth component of the DCF model.[1]

Dr. Morin stated concern with identifying a growth rate for the constant growth DCF model that could accurately capture investors' long-term growth expectations:

> My third concern deals with the realism of the constant growth rate assumption and with difficulty of finding an adequate proxy for that growth rate. The standard DCF model assumes that a single growth rate of dividends is applicable in perpetuity. Not only is the constant growth rate assumption somewhat unrealistic, but it is difficult to proxy. Analysts' growth forecasts are usually made for not more than two to five years in time, or if they are made for more than a few years, they are dominated by the near-term earnings and dividends picture. In short, the perpetual growth term of the DCF model does not square well with the shorter-term focus of institutional investors.[2]

Dr. Morin's testimony in this proceeding contradicts similar conclusions he reached before the Indiana Utility Regulatory Commission in a 1995 case in which he also found that analysts' growth rates were not reasonable for use in a constant growth DCF analysis. Dr. Morin's criticisms of me in this proceeding contradict positions he has taken in other proceedings.

[1] PSI Energy, Inc., Indiana Utility Regulatory Commission Cause No. 40003, Direct Testimony of Roger A. Morin, at 38.

[2] *Id.*, at 37-38, emphasis added.

Q ARE THERE OTHER INCONSISTENCIES IN DR. MORIN'S ARGUMENTS ON THE DCF MODEL IN THIS CASE?

A Yes. Dr. Morin is inconsistent on his preference for a duration of a forecast that should be used as a reasonable estimate of long-term sustainable growth. First, Dr. Morin asserts that consensus analysts' 3-5 year growth rate projections should be relied on in a constant growth DCF study, as a long-term sustainable growth rate, because they: (1) are reflected in stock prices, (2) possess a high explanatory power of equity values, and (3) are used by investors. (Morin Rebuttal at 48). However, in arguing about an appropriate long-term sustainable growth rate for use in a multi-growth stage DCF study, Dr. Morin asserts that a 5-10 year GDP growth rate estimate is not long enough, and prefers to rely on a 20-year GDP forecast. (Morin Rebuttal at 40).

Q ARE THERE OTHER CONTRADICTIONS IN DR. MORIN'S DCF GROWTH RATE RECOMMENDATIONS?

A Yes. In response to MEG witness Laconte, he takes issue with her proposal to use a growth rate from *Value Line*, because it is a single analyst's growth projection which may not be representative of investors' consensus expectations. Instead, he argues that Ms. Laconte should have relied on consensus analysts' growth rate projections published by First Call, Reuters or Zacks (Morin Rebuttal at 48), because they are more likely reflective of investor expectations.

However, he contradicts this assertion in his proposed source of a long-term GDP growth rate projection. With respect to this long-term GDP growth rate, he prefers to rely on a single GDP growth rate forecast made by Morningstar, instead of my recommended GDP forecast which is based on the consensus of economists'

projections of long-term sustainable growth as published by the *Blue Chip Economic Forecasts* (Morin Rebuttal at 39 and 40).

Q HAS DR. MORIN, IN PREVIOUS TESTIMONIES FILED IN OTHER JURISDICTIONS, CONSISTENTLY RELIED ON A DCF RETURN ESTIMATE BASED ON CONSENSUS ANALYSTS' GROWTH RATE PROJECTIONS?

A No. In a piece of testimony filed in 2003, on behalf of the Michigan Consolidated Gas Company, before the Michigan Public Service Commission, in MPSC Case No. U-13898, Dr. Morin used several proxy groups to estimate his recommended return on equity of 10.2% to 12.1% with a midpoint of 11.2%.

However, in arriving at that range, he made two DCF return estimates of a vertically integrated electric proxy group. One DCF return estimate for this proxy group was based on Zacks consensus analysts' growth rates, and the other DCF return was based on *Value Line* growth rate projections. In arriving at his recommended rate of return in this Michigan proceeding, Dr. Morin rejected his DCF return based on consensus analysts' growth rate estimates for the vertically integrated electric proxy group, and relied on his DCF analysis based on *Value Line* growth rates for the same proxy group.

Dr. Morin's position before the Michigan Public Service Commission contradicts his criticisms of MEG witness Laconte's use of *Value Line* forecasts, rather than consensus analysts' forecasts, in her DCF return analysis in this proceeding. (Morin Rebuttal at 48).

Q DR. MORIN REFERENCED A 2006 PUGET SOUND ENERGY CASE IN WHICH YOU ACCEPTED THE RESULTS OF YOUR CONSTANT GROWTH DCF STUDIES. HE ASSERTS THAT YOU ARE INCONSISTENT IN THIS CASE RELATIVE TO THAT CASE. PLEASE RESPOND.

A Dr. Morin's assertions are without merit. In the Puget Sound Energy ("PSE") case, just as in this case, I constructed a constant growth DCF study in the same way as I did in this case. Also, after I developed the DCF study I tested the reliability of the growth rate estimate used in that DCF study in the same way I did in this case. The growth rate test in the 2006 PSE case, however, showed that the growth rates were a reasonable estimate of long-term sustainable growth, because the proxy group analysts' growth projection was lower than the projection of GDP growth (Morin Rebuttal at 13). In this case, I found the 3-5 year growth rate projection is not a reasonable estimate of long-term sustainable growth.

Two-Stage Growth DCF Study

Q WHAT IS THE PRIMARY ISSUE DR. MORIN TAKES WITH YOUR TWO-STAGE GROWTH DCF STUDY?

A Dr. Morin primarily argues that my long-term sustainable growth rate of 4.8% to 5.0% is too low. He asserts that a long-term growth rate of 6.0% is more reasonable. He contends that this alternative long-term growth rate is recommended by Morningstar in its Stocks, Bonds, Bills and Inflation 2008 Yearbook Valuation Edition. (Morin Rebuttal at 40).

Q PLEASE SUMMARIZE YOUR RESPONSE TO DR. MORIN CONCERNING THE APPROPRIATENESS OF A LONG-TERM SUSTAINABLE GROWTH RATE ESTIMATE.

A I disagree with Dr. Morin's assessment for several reasons. First, my long-term GDP growth forecast is a published forecast based on a consensus of economists' forecasts. Therefore, as Dr. Morin's testimony states, a consensus analysts' forecast is the growth rate that most likely reflects investors' expectations. (Morin Rebuttal at 48). In contrast, Dr. Morin's proposal to rely on a single growth rate projection made by Morningstar is not as likely to reflect consensus economists' and investor expectations.

Further, Dr. Morin's assertion that Morningstar is projecting a 6.0% long-term sustainable growth rate is erroneous. Rather, Morningstar prescribes a favored methodology, which at the time of the 2008 Valuation publication indicated a long-term sustainable growth rate of 5.9%. However, as set forth below, constructing that methodology using current information would produce a long-term GDP growth rate of 5.48%.

Relying on Morningstar's methodology which is tied to a current Treasury bond valuation, produces a long-term GDP growth forecast of around 5.48%, which would increase the average of my two-stage DCF model and multi-stage DCF model from 9.81% to 10.28%, as shown on my Schedule MPG-2.

Q HOW DID YOU DERIVE YOUR LONG-TERM SUSTAINABLE GROWTH RATE?

A My long-term growth rate is based on the consensus economists' projected GDP growth over the next 5 and 10-year periods as published in the *Blue Chip Economic Indicators*, October 2008.

Q WHAT LONG-TERM SUSTAINABLE GROWTH RATE DID DR. MORIN PROPOSE TO USE?

A Dr. Morin asserts that the Morningstar publication relies on a long-term sustainable U.S. GDP growth rate of 6.0%. (Morin Rebuttal at 40). Importantly, however, while Dr. Morin noted this growth rate estimate came from the 2008 Morningstar Valuation Edition, he failed to identify any page number from that document.

Q DID YOU VERIFY DR. MORIN'S ASSERTION THAT MORNINGSTAR HAS PROJECTED A LONG-TERM GDP GROWTH RATE OF 6.0%?

A No. The only long-term U.S. GDP growth rate I found in the 2008 Morningstar Valuation publication prescribes a methodology, and not a specific point estimate, of future U.S. GDP growth. The data at the time of the publication indicated a long-term sustainable growth rate of 5.9%, not the 6.0% growth rate asserted by Dr. Morin. But more importantly, the Morningstar publication in the section of its study where it talks about DCF estimates in estimating growth rates, states as follows:

> In the *Ibbotson Cost of Capital Yearbook* the three-stage growth model is used. In the first stage (the first five years), analysts' consensus estimates of earnings growth are used. These should reflect any extraordinary near-term growth potential. Over years 6 through 10, an average of the analysts' consensus estimates of growth for the entire industry is used. (We assume that over a middle horizon, growth of any particular company will lie more in line with the industry as a whole.) Finally, in years 11 and beyond, a growth rate estimate for the entire economy is used, reflecting the belief that even in a rapidly growing industry there will come a time when growth slows to be more in line with the overall economy.[3]
>
> To estimate long-term inflation, we can start with the current yield on a government bond with approximately 20 years to maturity of 4.5 percent and subtract the current yield on an inflation-indexed bond with approximately 20 years to maturity of 2.0 percent, for an inflation estimate of 2.5 percent.

[3] 2008 Ibbotson SBBI Valuation Yearbook, at 68, emphasis added.

Once the long-term expected inflation rate is estimated, the real growth rate must be determined. The growth rate in real Gross Domestic Product (GDP) for the period 1929 to 2007 was approximately 3.4 percent. Growth in real GDP (with only a few exceptions) has been reasonably stable over time; therefore, its historical performance is a good estimate of expected long-term (future) performance.

By combining the inflation estimate with the real growth rate estimate, a long-term estimate of nominal growth is formed:

2.5 percent + 3.4 percent = 5.9 percent.[4]

Q IS YOUR NON-CONSTANT GROWTH DCF ANALYSIS SIMILAR TO THE DCF MODEL RECOMMENDED BY MORNINGSTAR?

A My multi-stage growth rate analysis is very similar to the DCF study proposed by Morningstar.

Q BASED ON MORNINGSTAR'S PROPOSED METHODOLOGY OF USING 20-YEAR TREASURY SECURITIES TO DERIVE A LONG-TERM GROWTH RATE PROJECTION, WOULD THE CURRENT MARKET INFORMATION SUPPORT DR. MORIN'S ASSERTION THAT THE GROWTH RATE WOULD BE AROUND 6.0%?

A No. As shown on my Schedule MPG-S-3, an inflation expectation derived from a 13-week average 20-year Treasury bond yield of 4.44%, and a 20-year Treasury inflation-protected security yield of 2.36%, would be 2.08%. A 2.08% inflation projection and Morningstar's real GDP growth estimate of 3.4%, would then produce a long-term GDP growth rate of 5.48%.

[4] *Id.*, at 70.

Q HOW WOULD YOUR TWO-STAGE GROWTH DCF MODEL AND MULTI-STAGE GROWTH DCF MODEL CHANGE IF YOU USED A LONG-TERM SUSTAINABLE GROWTH RATE OF 5.48% AS DERIVED ABOVE INSTEAD OF THE 4.8% TO 5.0% CONSENSUS ANALYSTS' GDP GROWTH FORECAST?

A As shown on my attached Schedule MPG-S-2, relying on a long-term sustainable growth rate of 5.48% would result in a two-stage and multi-stage growth DCF return estimate in the range of 10.15% to 10.42% with a midpoint of 10.28%. This revised multi-stage DCF return estimate largely supports my recommended return on equity for AmerenUE in this proceeding of 10.2%, but would show that a return on equity of no higher than 10.4% would be appropriate. Again, this is largely consistent with my recommended point estimate and range recommended in my direct testimony.

Q DID DR. MORIN ACCURATELY ESTIMATE THE CHANGE TO YOUR TWO-STAGE GROWTH AND MULTI-STAGE GROWTH DCF MODEL IF HIS LONG-TERM GROWTH RATE OF 6.0% IS USED?

A No. Dr. Morin asserted at page 40 of his testimony, that using a long-term growth of 6.0%, rather than the growth rate I used, would change my multi-growth stage models' results to 10.73% to 10.93%. This is not accurate. Changing the long-term growth rate to 6.0% would change these models' results to 10.65% to 10.74%, as shown on my Schedule MPG-S-4.

Q DID DR. MORIN DEVELOP THIS LONG-TERM GROWTH RATE OF 6.0% IN A MANNER THAT IS COMPARABLE TO MORNINGSTAR'S METHODOLOGY?

A Not in his rebuttal. He simply asserted, incorrectly, that Morningstar concluded that the long-term GDP growth rate is 6.0% (Morin Rebuttal at 40).

CAPM Return Estimate

Q WHAT CRITICISMS DOES DR. MORIN MAKE OF YOUR TRADITIONAL CAPM RETURN ESTIMATE?

A Dr. Morin argues that the traditional CAPM return estimate understates the return on equity for companies that have betas less than 1.0, and he argues that my market risk premium of 6.5% is too low and inconsistent with the market risk premiums estimated by Morningstar.

Q PLEASE RESPOND TO DR. MORIN'S TESTIMONY.

A Dr. Morin's assertion concerning my development of a traditional CAPM return estimate is without merit. In my CAPM estimate, I relied on *Value* Line "adjusted" betas in my CAPM. Adjusted betas will increase the CAPM return estimates for companies with unadjusted betas less than 1.0, and decreasing CAPM return estimates for companies with unadjusted betas greater than 1.0. Using an adjusted beta, as opposed to an unadjusted beta, helps correct for the return on equity underestimation effect caused by using a traditional CAPM return estimate for a utility.

Q DR. MORIN ARGUES THAT YOUR MARKET RISK PREMIUM WAS MEASURED INCONSISTENTLY WITH HOW MORNINGSTAR RECOMMENDS A MARKET RISK PREMIUM SHOULD BE ESTIMATED. PLEASE RESPOND.

A Morningstar proposes to estimate a market risk premium using the income return on Treasury bonds rather than the total achieved return on Treasury bonds. I disagree with Morningstar's methodology, because it is not possible to invest in Treasury bonds without experiencing an annual capital gain or loss on the value of the bond.

Hence, Morningstar's proposed methodology is inconsistent with actual historical investment performance.

Nevertheless, my estimated market risk premium of 6.5% is very close to the range of market risk premiums estimated by Morningstar. Morningstar's market risk premium estimate based on its proposal to use only income return on Treasury bonds, ranges from 6.2% to 7.1%. Hence, the midpoint of the Morningstar risk premium studies would indicate a risk premium of 6.65%. This is very similar to my estimated return of 6.5%. In contrast, Dr. Morin's proposed use of Morningstar's highest market risk premium estimate of 7.1% is not justified.

Q HOW WOULD YOUR CAPM RETURN ESTIMATE CHANGE IF YOU USED MORNINGSTAR'S MIDPOINT MARKET RISK PREMIUM ESTIMATE OF 6.65%?

A Using Morningstar's midpoint market risk premium estimate of 6.65%, would change my risk premium from 10.63% to 10.70%, as shown on my Schedule MPG-S-5.

Risk Premium Study

Q WHAT ARGUMENTS DOES DR. MORIN MAKE CONCERNING YOUR RISK PREMIUM STUDY?

A Dr. Morin recommends increasing my estimated equity risk premium to reflect an inverse relationship between equity risk premiums and interest rates. He asserts that had I made this adjustment, the equity risk premiums I relied on would have increased from 5.08% to 5.6% over Treasury bonds. That equity risk premium of 5.6%, rather than 5.08%, combined with a Treasury bond yield of 5.1%, would produce a return on equity estimate of 10.7%, instead of my estimated return on equity of 10.2%.

Q IS DR. MORIN'S PROPOSAL TO REFLECT A SIMPLISTIC INVERSE RELATIONSHIP BETWEEN EQUITY RISK PREMIUMS AND INTEREST RATES CONSISTENT WITH THE ACADEMIC LITERATURE ON THIS RELATIONSHIP?

A No, his position is not consistent with the academic research on this issue.

Q PLEASE DESCRIBE THE ACADEMIC RESEARCH ON THE RELATIONSHIP BETWEEN EQUITY RISK PREMIUMS AND INTEREST RATES.

A The academic literature on the inverse relationship between interest rates and equity risk premiums has observed that there has been a transient inverse relationship that was not tied to changes in nominal interest rates. It was caused by changes to perceived risk differentials between debt and equity investments. Further, the relationship between interest rates and equity risk premiums is not constant, but rather can change materially over time.

Most of the academic literature addressing this issue that I am familiar with is based on market data from the 1980s and very early 1990s. During the 1980s and very early 1990s, an inverse relationship did exist. However, that relationship did not exist prior to 1980, and it has not been shown to be the case since the early 1990s. For example, the abstract for a paper written by Eugene Brigham, Dilip K. Shome and Steve R. Vinson, entitled "The Risk Premium Approach to Measuring a Utility's Cost of Equity," published by the Public Utility Research Center, August 1984, states:

> (4) Before 1980, equity risk premiums for utilities increased as interest rates rose, but after that date an increase in interest rates was associated with lower risk premiums. As a result, in recent years a 100 basis point increase in long-term interest rates has led to an increase of about 37 basis points in the cost of equity. (5) Risk premiums are not stable; they change substantially over relatively short periods of time, and this volatility has implications for anyone who seeks to measure equity capital costs on the basis of a debt yield

> plus a risk premium, including advocates of the CAPM approach. (Emphasis added).

These authors found that there was a positive relationship between interest rates and equity risk premiums before 1980, and an inverse relationship from 1980-1984. This study does not establish a consistent relationship between interest rates and equity risk premiums over the entire period.

In a more recent study by Robert S. Harris and Felicia C. Marston published in the *Journal of Applied Finance* – 2001, "The Market Risk Premium: Expectational Estimates Using Analysts Forecasts," the authors expanded an earlier study of risk premiums to cover the period of 1982-1998. In this study, the authors did note a historical inverse relationship between equity risk premiums and interest rates. However, the authors went into detail to explain why that historical relationship was likely affected more by relative investment risk changes, and not simply changes to nominal interest rates. The authors state as follows:

> . . .The market risk premium changes over time and appears inversely related to government interest rates but is positively related to the bond yield spread, which proxies for the incremental risk of investing in equities as opposed to government bonds.

Importantly, the authors in that same study concluded as follows:

> . . . As a result, our evidence does not resolve the equity premium puzzle; rather, the results suggest investors still expect to receive large spreads to invest in equity versus debt instruments.
>
> There is strong evidence, however, that the market risk premium changes over time. Moreover, these changes appear linked to the level of interest rates as well as ex ante proxies for risk drawn from interest rate spreads in the bond market . . .

Clearly, the academic literature does not support a simplistic inverse relationship between interest rates and equity risk premiums. Rather, the authors of these studies recognize that equity risk premiums change over time from the

perceived changes in investment risk. Dr. Morin's simplistic analysis takes no account of changes to perceived investment risk, and inappropriately increases equity risk premiums for no other reason than a reduction in nominal interest rates.

Q ARE REDUCTIONS IN NOMINAL INTEREST RATES AN ADEQUATE REASON FOR INCREASES TO EQUITY RISK PREMIUMS?

A No, they are not. Reductions to nominal interest rates over the last ten years are simply not an adequate reason for increases to equity risk premiums. Indeed, decreases to interest rates over the last ten years have been likely caused by reduced inflation expectations, which would decrease both bond interest rates and common equity required returns. Reduced inflation expectations alone should not change relative debt to equity investment risk, and thus would not cause equity risk premiums to increase. Consequently, Dr. Morin's proposal to reflect an inverse relationship between equity risk premiums and bond interest rates should be rejected.

Flotation Costs

Q DID DR. MORIN CRITICIZE YOU FOR NOT INCLUDING A FLOTATION COST ADJUSTMENT IN YOUR RETURN ON EQUITY ESTIMATE FOR AMERENUE?

A Yes. Dr. Morin argues that the return on equity estimate should be increased by 30 basis points to account for flotation costs for common equity.

Q DO YOU OPPOSE INCLUDING A RETURN ON EQUITY ADJUSTMENT FOR FLOTATION COSTS?

A Not if the utility can demonstrate what the previous regulatory treatment has been for common stock flotation costs, and can show that its adjustment to the return on

equity is just and reasonable. Unfortunately, Dr. Morin has not provided any evidence of what AmerenUE's actual flotation costs have been, or an appropriate amount of common stock flotation costs that would be allocated to AmerenUE from its parent company Ameren Corp. In fact, Dr. Morin's presentation is completely devoid of any evidence at all of what AmerenUE's actual prudent and reasonable flotation costs on common equity have been, and should be considered in estimating an appropriate return on equity or cost of service for AmerenUE in this proceeding. Therefore, the Commission should reject his proposal to adjust the return on equity in this proceeding by a common stock flotation cost adjustment, because it is not based on a known and measurable cost.

Q WHY IS IT NECESSARY FOR THE COMPANY TO SHOW WHAT ITS ACTUAL REASONABLE AND PRUDENT COMMON STOCK FLOTATION COSTS HAVE BEEN, AND PREVIOUS REGULATORY TREATMENT OF THESE EXPENSES, BEFORE FLOTATION COSTS SHOULD BE INCLUDED IN A RETURN ON EQUITY ESTIMATE?

A All utilities do not issue stock at the same time or in the same manner. As such, flotation costs will not be uniform across all utility companies. Therefore, it is not appropriate to estimate AmerenUE's flotation costs based on assessment of other companies as Dr. Morin has done in this case.

Ameren Corp. may be making equity infusions to AmerenUE by the issuance of debt capital. As such, the public flotation cost of that capital would not be equivalent to the cost of issuing additional common equity at other public companies. Therefore, Dr. Morin's proxy flotation cost methodology is unreliable. Further, Dr. Morin has not accurately estimated how much of AmerenUE's equity capital has been

produced through retained earnings, which would have no public flotation costs. Again, Dr. Morin's flotation cost methodology is flawed and unreliable.

Moreover, the regulatory treatment of flotation costs is important in determining whether an adjustment is necessary in this case. For example, in the past, if the Missouri Commission's prescribed regulatory treatment for flotation costs was to permit amortization of this expense to AmerenUE's cost of service, then the past flotation costs would be fully recovered and should no longer be included in AmerenUE's cost of service in this case. Dr. Morin has not provided any evidence of past regulatory treatment for AmerenUE's actual common stock flotation costs.

For all these reasons, Dr. Morin's flotation cost proposal is nothing but a speculative unsupported adjustment, is not based on a known and measurable cost and is, therefore, not just and reasonable. Therefore, Dr. Morin's proposal to increase AmerenUE's return on equity by 30 basis points should be rejected.

Q DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A Yes, it does.

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AMERENUE

Gorman ROE Recommendation History
Excluding Constant Growth DCF from Range

Utility	State	Year	Docket	Description	Average
Public Service Company of Oklahoma	OK	1997	PUD960000214	Constant Growth DCF	9.6%
				Non-Constant Growth DCF	9.7%
				Risk Premium Analysis	10.9%
				Recommended Range	9.7% - 11.4%
				Recommended	10.6%
Gulf States Utilities Company	TX	1994	12852	Constant Growth DCF	11.02%
				Non-Constant Growth DCF	11.87%
				Risk Premium Analysis	12.10%
				Recommended Range	11.4% - 12.1%
				Recommended	11.75%
West Texas Utilities Company	TX	1995	13369	Constant Growth DCF	10.0%
				Non-Constant Growth DCF	10.4%
				Risk Premium Analysis	11.5%
				Recommended Range	10.5% - 11.50%
				Recommended	11.0%
Houston Lighting & Power Company	TX	1994	12065	Constant Growth DCF	10.6%
				Non-Constant Growth DCF	11.0%
				Risk Premium Analysis	11.8%
				Recommended Range	11.0% - 11.8%
				Recommended	11.4%
Pacific Power and Light Company	WY	1996	20000-ER-95-99	Constant Growth DCF	9.8%
				Non-Constant Growth DCF	11.0%
				Risk Premium Analysis	10.9%
				Recommended Range	10.3% - 11.1%
				Recommended	10.7%
Central Power and Light Company	TX	1996	14965	Constant Growth DCF	9.55%
				Non-Constant Growth DCF	10.25%
				Risk Premium Analysis	10.90%
				Recommended Range	10.25% - 10.9%
				Recommended	10.6%

Schedule MPG-S-1

AmerenUE

DCF Results with GDP Growth Rate of 5.48%

Line	Description	Two-Stage DCF	Multi-Stage DCF
1	Comparable Risk Proxy group	10.19%	10.27%
2	S&P Integrated Electric Utility Proxy Group	10.31%	10.42%
3	Moody's Electric Utility Proxy Group	10.15%	10.32%
4	**Average**	**10.22%**	**10.34%**
5	**DCF Result**	**10.28%**	

AmerenUE

DCF Results with GDP Growth Rate of 5.48%

Comparable Risk Proxy Group

Two-Stage Growth DCF Model

Line	Company	13-Week AVG Stock Price[1]	Annual Dividend[2]	First Stage Growth	Second Stage Growth[3]	Two-Stage Growth DCF
		(1)	(2)	(3)	(4)	(5)
1	Ameren Corp.	$42.42	$2.54	4.50%	5.48%	11.54%
2	Avista Corp.	$21.47	$0.66	4.75%	5.48%	8.61%
3	Cleco Corp.	$24.60	$0.90	13.00%	5.48%	10.77%
4	DTE Energy	$42.78	$2.12	6.17%	5.48%	10.86%
5	Empire Dist. Elec.	$19.99	$1.28	6.00%	5.48%	12.38%
6	Exelon Corp.	$85.17	$2.00	10.25%	5.48%	8.52%
7	FirstEnergy Corp.	$77.37	$2.20	7.75%	5.48%	8.79%
8	IDACORP, Inc.	$30.20	$1.20	6.00%	5.48%	9.77%
9	NiSource Inc.	$17.45	$0.92	3.00%	5.48%	10.47%
10	Northeast Utilities	$25.88	$0.85	9.50%	5.48%	9.61%
11	OGE Energy	$32.48	$1.39	4.00%	5.48%	9.71%
12	Otter Tail Corp.	$40.23	$1.19	8.00%	5.48%	8.97%
13	Pepco Holdings	$25.62	$1.08	7.80%	5.48%	10.39%
14	PG&E Corp.	$38.98	$1.56	7.53%	5.48%	10.09%
15	Pinnacle West Capit	$32.68	$2.10	4.84%	5.48%	12.08%
16	Xcel Energy Inc.	$20.46	$0.95	5.70%	5.48%	10.43%
17	**Average**	**$36.11**	**$1.43**	**6.80%**	**5.48%**	**10.19%**

Sources:

[1] http://moneycentral.msn.com, downloaded on August 21, 2008.

[2] *The Value Line Investment Survey;* May 30, June 27, and August 8, 2008.

[3] *Blue Chip Economic Indicators* , March 10, 2008.

AmerenUE

DCF Results with GDP Growth Rate of 5.48%

S&P Integrated Electric Utility Proxy Group

Two-Stage Growth DCF Model

Line	Company	13-Week AVG Stock Price[1] (1)	Annual Dividend[2] (2)	First Stage Growth (3)	Second Stage Growth[3] (4)	Two-Stage Growth DCF (5)
1	ALLETE	$42.75	$1.72	5.50%	5.48%	9.73%
2	Alliant Energy	$34.95	$1.40	5.55%	5.48%	9.72%
3	Amer. Elec. Power	$40.87	$1.64	6.13%	5.48%	9.83%
4	Ameren Corp.	$42.42	$2.54	4.50%	5.48%	11.54%
5	Cleco Corp.	$24.60	$0.90	13.00%	5.48%	10.77%
6	CMS Energy Corp.	$14.57	$0.36	8.85%	5.48%	8.49%
7	DPL Inc.	$26.78	$1.10	11.09%	5.48%	10.97%
8	DTE Energy	$42.78	$2.12	6.17%	5.48%	10.86%
9	Edison Int'l	$50.32	$1.22	7.88%	5.48%	8.31%
10	Empire Dist. Elec.	$19.99	$1.28	6.00%	5.48%	12.38%
11	Energy East Corp.	$25.05	$1.24	N/A	5.48%	N/A
12	Entergy Corp.	$115.23	$3.00	11.75%	5.48%	9.08%
13	FPL Group	$64.67	$1.78	10.13%	5.48%	9.03%
14	Hawaiian Elec.	$25.40	$1.24	5.59%	5.48%	10.65%
15	IDACORP Inc.	$30.20	$1.20	6.00%	5.48%	9.77%
16	MGE Energy	$34.29	$1.42	N/A	5.48%	N/A
17	Northeast Utilities	$25.88	$0.85	9.50%	5.48%	9.61%
18	PG&E Corp.	$38.98	$1.56	7.53%	5.48%	10.09%
19	Pinnacle West Capit	$32.68	$2.10	4.84%	5.48%	12.08%
20	PNM Resources	$12.77	$0.92	7.65%	5.48%	13.78%
21	Portland General	$23.54	$0.98	6.95%	5.48%	10.16%
22	Progress Energy	$42.23	$2.46	5.36%	5.48%	11.59%
23	Puget Energy Inc.	$26.72	$1.00	6.00%	5.48%	9.52%
24	Southern Co.	$35.61	$1.68	5.19%	5.48%	10.39%
25	TECO Energy	$19.94	$0.80	7.58%	5.48%	10.11%
26	UniSource Energy	$32.03	$0.96	N/A	5.48%	N/A
27	Westar Energy	$22.53	$1.16	4.43%	5.48%	10.67%
28	Wisconsin Energy	$46.13	$1.08	9.75%	5.48%	8.45%
29	Xcel Energy Inc.	$20.46	$0.95	5.70%	5.48%	10.43%
30	**Average**	**$34.98**	**$1.40**	**7.25%**	**5.48%**	**10.31%**

Sources:

[1] http://moneycentral.msn.com, downloaded on August 20, 2008.

[2] *The Value Line Investment Survey;* May 30, June 27, and August 8, 2008.

[3] *Blue Chip Economic Indicators*, March 10, 2008.

AmerenUE

DCF Results with GDP Growth Rate of 5.48%

Moody's Electric Utility Proxy Group

Two-Stage Growth DCF Model

Line	Company	13-Week AVG Stock Price[1] (1)	Annual Dividend[2] (2)	First Stage Growth (3)	Second Stage Growth[3] (4)	Two-Stage Growth DCF (5)
1	Amer. Elec. Power	$40.87	$1.64	6.13%	5.48%	9.83%
2	CH Energy Group	$36.97	$2.16	N/A	5.48%	N/A
3	Consol. Edison	$39.77	$2.34	3.10%	5.48%	11.08%
4	Constellation Energy	$81.50	$1.91	18.40%	5.48%	9.73%
5	Dominion Resources	$45.51	$1.58	9.42%	5.48%	9.82%
6	DPL Inc.	$26.78	$1.10	11.09%	5.48%	10.97%
7	DTE Energy	$42.78	$2.12	6.17%	5.48%	10.86%
8	Duke Energy	$17.72	$0.88	5.42%	5.48%	10.70%
9	Energy East Corp.	$25.05	$1.24	N/A	5.48%	N/A
10	Exelon Corp.	$85.17	$2.00	10.25%	5.48%	8.52%
11	FirstEnergy Corp.	$77.37	$2.20	7.75%	5.48%	8.79%
12	IDACORP Inc.	$30.20	$1.20	6.00%	5.48%	9.77%
13	NiSource Inc.	$17.45	$0.92	3.00%	5.48%	10.47%
14	OGE Energy	$32.48	$1.39	4.00%	5.48%	9.71%
15	PPL Corp.	$49.31	$1.34	17.13%	5.48%	10.14%
16	Progress Energy	$42.23	$2.46	5.36%	5.48%	11.59%
17	Public Serv. Enterprise	$43.59	$1.29	12.92%	5.48%	9.77%
18	Southern Co.	$35.61	$1.68	5.19%	5.48%	10.39%
19	TECO Energy	$19.94	$0.80	7.58%	5.48%	10.11%
20	Xcel Energy Inc.	$20.46	$0.95	5.70%	5.48%	10.43%
21	**Average**	**$40.54**	**$1.56**	**8.03%**	**5.48%**	**10.15%**

Sources:

[1] http://moneycentral.msn.com, downloaded on August 20, 2008.

[2] *The Value Line Investment Survey;* May 30, June 27, and August 8, 2008.

[3] *Blue Chip Economic Indicators* , March 10, 2008.

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DCF Results with GDP Growth Rate of 5.48%

Comparable Risk Proxy Group

Multi-Stage Growth DCF Model

Line	Company	13-Week AVG Stock Price[1]	Annual Dividend[2]	First Stage Growth	Second Stage Growth				Third Stage Growth[3]	Multi-Stage Growth DCF
					Year 6	Year 7	Year 8	Year 9		
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1	Ameren Corp.	$42.42	$2.54	4.50%	4.70%	4.89%	5.09%	5.28%	5.48%	11.46%
2	Avista Corp.	$21.47	$0.66	4.75%	4.90%	5.04%	5.19%	5.33%	5.48%	8.57%
3	Cleco Corp.	$24.60	$0.90	13.00%	11.50%	9.99%	8.49%	6.98%	5.48%	11.35%
4	DTE Energy	$42.78	$2.12	6.17%	6.03%	5.89%	5.75%	5.62%	5.48%	10.91%
5	Empire Dist. Elec.	$19.99	$1.28	6.00%	5.90%	5.79%	5.69%	5.58%	5.48%	12.43%
6	Exelon Corp.	$85.17	$2.00	10.25%	9.30%	8.34%	7.39%	6.43%	5.48%	8.77%
7	FirstEnergy Corp.	$77.37	$2.20	7.75%	7.30%	6.84%	6.39%	5.93%	5.48%	8.91%
8	IDACORP, Inc.	$30.20	$1.20	6.00%	5.90%	5.79%	5.69%	5.58%	5.48%	9.80%
9	NiSource Inc.	$17.45	$0.92	3.00%	3.50%	3.99%	4.49%	4.98%	5.48%	10.29%
10	Northeast Utilities	$25.88	$0.85	9.50%	8.70%	7.89%	7.09%	6.28%	5.48%	9.87%
11	OGE Energy	$32.48	$1.39	4.00%	4.30%	4.59%	4.89%	5.18%	5.48%	9.62%
12	Otter Tail Corp.	$40.23	$1.19	8.00%	7.50%	6.99%	6.49%	5.98%	5.48%	9.11%
13	Pepco Holdings	$25.62	$1.08	7.80%	7.34%	6.87%	6.41%	5.94%	5.48%	10.56%
14	PG&E Corp.	$38.98	$1.56	7.53%	7.12%	6.71%	6.30%	5.89%	5.48%	10.23%
15	Pinnacle West Capit	$32.68	$2.10	4.84%	4.96%	5.09%	5.22%	5.35%	5.48%	12.02%
16	Xcel Energy Inc.	$20.46	$0.95	5.70%	5.66%	5.61%	5.57%	5.52%	5.48%	10.45%
17	**Average**	**$36.11**	**$1.43**	**6.80%**	**6.53%**	**6.27%**	**6.01%**	**5.74%**	**5.48%**	**10.27%**

Sources:

[1] http://moneycentral.msn.com, downloaded on August 21, 2008.

[2] *The Value Line Investment Survey;* May 30, June 27, and August 8, 2008.

[3] *Blue Chip Economic Indicators*, March 10, 2008.

AmerenUE

DCF Results with GDP Growth Rate of 5.48%

S&P Integrated Electric Utility Proxy Group

Multi-Stage Growth DCF Model

Line	Company	13-Week AVG Stock Price[1]	Annual Dividend[2]	First Stage Growth	Second Stage Growth				Third Stage Growth[3]	Multi-Stage Growth DCF
					Year 6	Year 7	Year 8	Year 9		
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1	ALLETE	$42.75	$1.72	5.50%	5.50%	5.49%	5.49%	5.48%	5.48%	9.73%
2	Alliant Energy	$34.95	$1.40	5.55%	5.54%	5.52%	5.51%	5.49%	5.48%	9.72%
3	Amer. Elec. Power	$40.87	$1.64	6.13%	6.00%	5.87%	5.74%	5.61%	5.48%	9.87%
4	Ameren Corp.	$42.42	$2.54	4.50%	4.70%	4.89%	5.09%	5.28%	5.48%	11.46%
5	Cleco Corp.	$24.60	$0.90	13.00%	11.50%	9.99%	8.49%	6.98%	5.48%	11.35%
6	CMS Energy Corp.	$14.57	$0.36	8.85%	8.18%	7.50%	6.83%	6.15%	5.48%	8.66%
7	DPL Inc.	$26.78	$1.10	11.09%	9.96%	8.84%	7.72%	6.60%	5.48%	11.40%
8	DTE Energy	$42.78	$2.12	6.17%	6.03%	5.89%	5.75%	5.62%	5.48%	10.91%
9	Edison Int'l	$50.32	$1.22	7.88%	7.40%	6.92%	6.44%	5.96%	5.48%	8.42%
10	Empire Dist. Elec.	$19.99	$1.28	6.00%	5.90%	5.79%	5.69%	5.58%	5.48%	12.43%
11	Energy East Corp.	$25.05	$1.24	N/A	N/A	N/A	N/A	N/A	5.48%	N/A
12	Entergy Corp.	$115.23	$3.00	11.75%	10.50%	9.24%	7.99%	6.73%	5.48%	9.44%
13	FPL Group	$64.67	$1.78	10.13%	9.20%	8.27%	7.34%	6.41%	5.48%	9.29%
14	Hawaiian Elec.	$25.40	$1.24	5.59%	5.56%	5.54%	5.52%	5.50%	5.48%	10.66%
15	IDACORP Inc.	$30.20	$1.20	6.00%	5.90%	5.79%	5.69%	5.58%	5.48%	9.80%
16	MGE Energy	$34.29	$1.42	N/A	N/A	N/A	N/A	N/A	5.48%	N/A
17	Northeast Utilities	$25.88	$0.85	9.50%	8.70%	7.89%	7.09%	6.28%	5.48%	9.87%
18	PG&E Corp.	$38.98	$1.56	7.53%	7.12%	6.71%	6.30%	5.89%	5.48%	10.23%
19	Pinnacle West Capit	$32.68	$2.10	4.84%	4.96%	5.09%	5.22%	5.35%	5.48%	12.02%
20	PNM Resources	$12.77	$0.92	7.65%	7.22%	6.78%	6.35%	5.91%	5.48%	14.00%
21	Portland General	$23.54	$0.98	6.95%	6.66%	6.36%	6.07%	5.77%	5.48%	10.26%
22	Progress Energy	$42.23	$2.46	5.36%	5.38%	5.41%	5.43%	5.46%	5.48%	11.58%
23	Puget Energy Inc.	$26.72	$1.00	6.00%	5.90%	5.79%	5.69%	5.58%	5.48%	9.55%
24	Southern Co.	$35.61	$1.68	5.19%	5.24%	5.30%	5.36%	5.42%	5.48%	10.37%
25	TECO Energy	$19.94	$0.80	7.58%	7.16%	6.74%	6.32%	5.90%	5.48%	10.26%
26	UniSource Energy	$32.03	$0.96	N/A	N/A	N/A	N/A	N/A	5.48%	N/A
27	Westar Energy	$22.53	$1.16	4.43%	4.64%	4.85%	5.06%	5.27%	5.48%	10.59%
28	Wisconsin Energy	$46.13	$1.08	9.75%	8.90%	8.04%	7.19%	6.33%	5.48%	8.66%
29	Xcel Energy Inc.	$20.46	$0.95	5.70%	5.66%	5.61%	5.57%	5.52%	5.48%	10.45%
30	**Average**	**$34.98**	**$1.40**	**7.25%**	**6.90%**	**6.54%**	**6.19%**	**5.83%**	**5.48%**	**10.42%**

Sources:

[1] http://moneycentral.msn.com, downloaded on August 20, 2008.

[2] *The Value Line Investment Survey;* May 30, June 27, and August 8, 2008.

[3] *Blue Chip Economic Indicators*, March 10, 2008.

AmerenUE

DCF Results with GDP Growth Rate of 5.48%

Moody's Electric Utility Proxy Group

Multi-Stage Growth DCF Model

Line	Company	13-Week AVG Stock Price[1]	Annual Dividend[2]	First Stage Growth	Second Stage Growth				Third Stage Growth[3]	Multi-Stage Growth DCF
					Year 6	Year 7	Year 8	Year 9		
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1	Amer. Elec. Power	$40.87	$1.64	6.13%	6.00%	5.87%	5.74%	5.61%	5.48%	9.87%
2	CH Energy Group	$36.97	$2.16	N/A	N/A	N/A	N/A	N/A	5.48%	N/A
3	Consol. Edison	$39.77	$2.34	3.10%	3.58%	4.05%	4.53%	5.00%	5.48%	10.89%
4	Constellation Energy	$81.50	$1.91	18.40%	15.82%	13.23%	10.65%	8.06%	5.48%	10.58%
5	Dominion Resources	$45.51	$1.58	9.42%	8.63%	7.84%	7.05%	6.27%	5.48%	10.08%
6	DPL Inc.	$26.78	$1.10	11.09%	9.96%	8.84%	7.72%	6.60%	5.48%	11.40%
7	DTE Energy	$42.78	$2.12	6.17%	6.03%	5.89%	5.75%	5.62%	5.48%	10.91%
8	Duke Energy	$17.72	$0.88	5.42%	5.43%	5.44%	5.45%	5.47%	5.48%	10.70%
9	Energy East Corp.	$25.05	$1.24	N/A	N/A	N/A	N/A	N/A	5.48%	N/A
10	Exelon Corp.	$85.17	$2.00	10.25%	9.30%	8.34%	7.39%	6.43%	5.48%	8.77%
11	FirstEnergy Corp.	$77.37	$2.20	7.75%	7.30%	6.84%	6.39%	5.93%	5.48%	8.91%
12	IDACORP Inc.	$30.20	$1.20	6.00%	5.90%	5.79%	5.69%	5.58%	5.48%	9.80%
13	NiSource Inc.	$17.45	$0.92	3.00%	3.50%	3.99%	4.49%	4.98%	5.48%	10.29%
14	OGE Energy	$32.48	$1.39	4.00%	4.30%	4.59%	4.89%	5.18%	5.48%	9.62%
15	PPL Corp.	$49.31	$1.34	17.13%	14.80%	12.47%	10.14%	7.81%	5.48%	10.96%
16	Progress Energy	$42.23	$2.46	5.36%	5.38%	5.41%	5.43%	5.46%	5.48%	11.58%
17	Public Serv. Enterpr	$43.59	$1.29	12.92%	11.43%	9.94%	8.45%	6.97%	5.48%	10.26%
18	Southern Co.	$35.61	$1.68	5.19%	5.24%	5.30%	5.36%	5.42%	5.48%	10.37%
19	TECO Energy	$19.94	$0.80	7.58%	7.16%	6.74%	6.32%	5.90%	5.48%	10.26%
20	Xcel Energy Inc.	$20.46	$0.95	5.70%	5.66%	5.61%	5.57%	5.52%	5.48%	10.45%
21	**Average**	**$40.54**	**$1.56**	**8.03%**	**7.52%**	**7.01%**	**6.50%**	**5.99%**	**5.48%**	**10.32%**

Sources:

[1] http://moneycentral.msn.com, downloaded on August 20, 2008.

[2] *The Value Line Investment Survey;* May 30, June 27, and August 8, 2008.

[3] *Blue Chip Economic Indicators* , March 10, 2008.

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Long-Term GDP Growth

Line	Date	20-Year Treasury T-Bond[1] (1)	20-Year Treasury TIPS[1/2] (2)	Implied Inflation Outlook (3)
1	10/24/08	4.46%	2.82%	1.64%
2	10/17/08	4.60%	2.94%	1.66%
3	10/10/08	4.28%	2.75%	1.53%
4	10/03/08	4.30%	2.50%	1.80%
5	09/26/08	4.48%	2.40%	2.08%
6	09/19/08	4.20%	2.20%	2.00%
7	09/12/08	4.28%	2.12%	2.16%
8	09/05/08	4.34%	2.19%	2.15%
9	08/29/08	4.43%	2.10%	2.33%
10	08/22/08	4.48%	2.12%	2.36%
11	08/15/08	4.58%	2.19%	2.39%
12	08/08/08	4.63%	2.17%	2.46%
13	08/01/08	4.66%	2.18%	2.48%
14	**Average**	**4.44%**	**2.36%**	**2.08%**
15	Real GDP[2]			3.40%
16	Nominal GDP			**5.48%**

Source:

[1] http://www.federalreserve.gov.

[2] Treasury Inflation-Protected Securities.

[3] Morningstar Valuation Edition at 70.

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DCF Results with GDP Growth Rate of 6.00%

Line	Description	Two-Stage DCF	Multi-Stage DCF
1	Comparable Risk Proxy group	10.63%	10.67%
2	S&P Integrated Electric Utility Proxy Group	10.74%	10.82%
3	Moody's Electric Utility Proxy Group	10.59%	10.72%
4	**Average**	**10.65%**	**10.74%**
5	**DCF Result**	**10.69%**	

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DCF Results with GDP Growth Rate of 6.00%

Comparable Risk Proxy Group

Two-Stage Growth DCF Model

Line	Company	13-Week AVG Stock Price[1] (1)	Annual Dividend[2] (2)	First Stage Growth (3)	Second Stage Growth[3] (4)	Two-Stage Growth DCF (5)
1	Ameren Corp.	$42.42	$2.54	4.50%	6.00%	11.95%
2	Avista Corp.	$21.47	$0.66	4.75%	6.00%	9.07%
3	Cleco Corp.	$24.60	$0.90	13.00%	6.00%	11.20%
4	DTE Energy	$42.78	$2.12	6.17%	6.00%	11.29%
5	Empire Dist. Elec.	$19.99	$1.28	6.00%	6.00%	12.79%
6	Exelon Corp.	$85.17	$2.00	10.25%	6.00%	8.99%
7	FirstEnergy Corp.	$77.37	$2.20	7.75%	6.00%	9.25%
8	IDACORP, Inc.	$30.20	$1.20	6.00%	6.00%	10.21%
9	NiSource Inc.	$17.45	$0.92	3.00%	6.00%	10.90%
10	Northeast Utilities	$25.88	$0.85	9.50%	6.00%	10.06%
11	OGE Energy	$32.48	$1.39	4.00%	6.00%	10.16%
12	Otter Tail Corp.	$40.23	$1.19	8.00%	6.00%	9.42%
13	Pepco Holdings	$25.62	$1.08	7.80%	6.00%	10.83%
14	PG&E Corp.	$38.98	$1.56	7.53%	6.00%	10.53%
15	Pinnacle West Capit	$32.68	$2.10	4.84%	6.00%	12.48%
16	Xcel Energy Inc.	$20.46	$0.95	5.70%	6.00%	10.87%
17	**Average**	**$36.11**	**$1.43**	**6.80%**	**6.00%**	**10.63%**

Sources:

[1] http://moneycentral.msn.com, downloaded on August 21, 2008.

[2] *The Value Line Investment Survey;* May 30, June 27, and August 8, 2008.

[3] *Blue Chip Economic Indicators* , March 10, 2008.

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DCF Results with GDP Growth Rate of 6.00%

S&P Integrated Electric Utility Proxy Group

Two-Stage Growth DCF Model

Line	Company	13-Week AVG Stock Price[1] (1)	Annual Dividend[2] (2)	First Stage Growth (3)	Second Stage Growth[3] (4)	Two-Stage Growth DCF (5)
1	ALLETE	$42.75	$1.72	5.50%	6.00%	10.17%
2	Alliant Energy	$34.95	$1.40	5.55%	6.00%	10.16%
3	Amer. Elec. Power	$40.87	$1.64	6.13%	6.00%	10.28%
4	Ameren Corp.	$42.42	$2.54	4.50%	6.00%	11.95%
5	Cleco Corp.	$24.60	$0.90	13.00%	6.00%	11.20%
6	CMS Energy Corp.	$14.57	$0.36	8.85%	6.00%	8.96%
7	DPL Inc.	$26.78	$1.10	11.09%	6.00%	11.39%
8	DTE Energy	$42.78	$2.12	6.17%	6.00%	11.29%
9	Edison Int'l	$50.32	$1.22	7.88%	6.00%	8.78%
10	Empire Dist. Elec.	$19.99	$1.28	6.00%	6.00%	12.79%
11	Energy East Corp.	$25.05	$1.24	N/A	6.00%	N/A
12	Entergy Corp.	$115.23	$3.00	11.75%	6.00%	9.53%
13	FPL Group	$64.67	$1.78	10.13%	6.00%	9.49%
14	Hawaiian Elec.	$25.40	$1.24	5.59%	6.00%	11.08%
15	IDACORP Inc.	$30.20	$1.20	6.00%	6.00%	10.21%
16	MGE Energy	$34.29	$1.42	N/A	6.00%	N/A
17	Northeast Utilities	$25.88	$0.85	9.50%	6.00%	10.06%
18	PG&E Corp.	$38.98	$1.56	7.53%	6.00%	10.53%
19	Pinnacle West Capit	$32.68	$2.10	4.84%	6.00%	12.48%
20	PNM Resources	$12.77	$0.92	7.65%	6.00%	14.17%
21	Portland General	$23.54	$0.98	6.95%	6.00%	10.60%
22	Progress Energy	$42.23	$2.46	5.36%	6.00%	12.01%
23	Puget Energy Inc.	$26.72	$1.00	6.00%	6.00%	9.96%
24	Southern Co.	$35.61	$1.68	5.19%	6.00%	10.83%
25	TECO Energy	$19.94	$0.80	7.58%	6.00%	10.55%
26	UniSource Energy	$32.03	$0.96	N/A	6.00%	N/A
27	Westar Energy	$22.53	$1.16	4.43%	6.00%	11.10%
28	Wisconsin Energy	$46.13	$1.08	9.75%	6.00%	8.91%
29	Xcel Energy Inc.	$20.46	$0.95	5.70%	6.00%	10.87%
30	**Average**	**$34.98**	**$1.40**	**7.25%**	**6.00%**	**10.74%**

Sources:

[1] http://moneycentral.msn.com, downloaded on August 20, 2008.

[2] *The Value Line Investment Survey;* May 30, June 27, and August 8, 2008.

[3] *Blue Chip Economic Indicators*, March 10, 2008.

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DCF Results with GDP Growth Rate of 6.00%

Moody's Electric Utility Proxy Group

Two-Stage Growth DCF Model

Line	Company	13-Week AVG Stock Price[1] (1)	Annual Dividend[2] (2)	First Stage Growth (3)	Second Stage Growth[3] (4)	Two-Stage Growth DCF (5)
1	Amer. Elec. Power	$40.87	$1.64	6.13%	6.00%	10.28%
2	CH Energy Group	$36.97	$2.16	N/A	6.00%	N/A
3	Consol. Edison	$39.77	$2.34	3.10%	6.00%	11.50%
4	Constellation Energy	$81.50	$1.91	18.40%	6.00%	10.17%
5	Dominion Resources	$45.51	$1.58	9.42%	6.00%	10.26%
6	DPL Inc.	$26.78	$1.10	11.09%	6.00%	11.39%
7	DTE Energy	$42.78	$2.12	6.17%	6.00%	11.29%
8	Duke Energy	$17.72	$0.88	5.42%	6.00%	11.13%
9	Energy East Corp.	$25.05	$1.24	N/A	6.00%	N/A
10	Exelon Corp.	$85.17	$2.00	10.25%	6.00%	8.99%
11	FirstEnergy Corp.	$77.37	$2.20	7.75%	6.00%	9.25%
12	IDACORP Inc.	$30.20	$1.20	6.00%	6.00%	10.21%
13	NiSource Inc.	$17.45	$0.92	3.00%	6.00%	10.90%
14	OGE Energy	$32.48	$1.39	4.00%	6.00%	10.16%
15	PPL Corp.	$49.31	$1.34	17.13%	6.00%	10.58%
16	Progress Energy	$42.23	$2.46	5.36%	6.00%	12.01%
17	Public Serv. Enterprise	$43.59	$1.29	12.92%	6.00%	10.22%
18	Southern Co.	$35.61	$1.68	5.19%	6.00%	10.83%
19	TECO Energy	$19.94	$0.80	7.58%	6.00%	10.55%
20	Xcel Energy Inc.	$20.46	$0.95	5.70%	6.00%	10.87%
21	**Average**	**$40.54**	**$1.56**	**8.03%**	**6.00%**	**10.59%**

Sources:

[1] http://moneycentral.msn.com, downloaded on August 20, 2008.

[2] *The Value Line Investment Survey;* May 30, June 27, and August 8, 2008.

[3] *Blue Chip Economic Indicators* , March 10, 2008.

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DCF Results with GDP Growth Rate of 6.00%

Comparable Risk Proxy Group

Multi-Stage Growth DCF Model

Line	Company	13-Week AVG Stock Price[1]	Annual Dividend[2]	First Stage Growth	Second Stage Growth				Third Stage Growth[3]	Multi-Stage Growth DCF
					Year 6	Year 7	Year 8	Year 9		
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1	Ameren Corp.	$42.42	$2.54	4.50%	4.80%	5.10%	5.40%	5.70%	6.00%	11.83%
2	Avista Corp.	$21.47	$0.66	4.75%	5.00%	5.25%	5.50%	5.75%	6.00%	9.01%
3	Cleco Corp.	$24.60	$0.90	13.00%	11.60%	10.20%	8.80%	7.40%	6.00%	11.73%
4	DTE Energy	$42.78	$2.12	6.17%	6.13%	6.10%	6.07%	6.03%	6.00%	11.30%
5	Empire Dist. Elec.	$19.99	$1.28	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	12.79%
6	Exelon Corp.	$85.17	$2.00	10.25%	9.40%	8.55%	7.70%	6.85%	6.00%	9.20%
7	FirstEnergy Corp.	$77.37	$2.20	7.75%	7.40%	7.05%	6.70%	6.35%	6.00%	9.34%
8	IDACORP, Inc.	$30.20	$1.20	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	10.21%
9	NiSource Inc.	$17.45	$0.92	3.00%	3.60%	4.20%	4.80%	5.40%	6.00%	10.69%
10	Northeast Utilities	$25.88	$0.85	9.50%	8.80%	8.10%	7.40%	6.70%	6.00%	10.27%
11	OGE Energy	$32.48	$1.39	4.00%	4.40%	4.80%	5.20%	5.60%	6.00%	10.03%
12	Otter Tail Corp.	$40.23	$1.19	8.00%	7.60%	7.20%	6.80%	6.40%	6.00%	9.53%
13	Pepco Holdings	$25.62	$1.08	7.80%	7.44%	7.08%	6.72%	6.36%	6.00%	10.95%
14	PG&E Corp.	$38.98	$1.56	7.53%	7.22%	6.92%	6.61%	6.31%	6.00%	10.63%
15	Pinnacle West Capit	$32.68	$2.10	4.84%	5.07%	5.30%	5.53%	5.77%	6.00%	12.38%
16	Xcel Energy Inc.	$20.46	$0.95	5.70%	5.76%	5.82%	5.88%	5.94%	6.00%	10.85%
17	**Average**	**$36.11**	**$1.43**	**6.80%**	**6.64%**	**6.48%**	**6.32%**	**6.16%**	**6.00%**	**10.67%**

Sources:

[1] http://moneycentral.msn.com, downloaded on August 21, 2008.

[2] *The Value Line Investment Survey;* May 30, June 27, and August 8, 2008.

[3] *Blue Chip Economic Indicators*, March 10, 2008.

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DCF Results with GDP Growth Rate of 6.00%

S&P Integrated Electric Utility Proxy Group

Multi-Stage Growth DCF Model

Line	Company	13-Week AVG Stock Price[1]	Annual Dividend[2]	First Stage Growth	Second Stage Growth				Third Stage Growth[3]	Multi-Stage Growth DCF
					Year 6	Year 7	Year 8	Year 9		
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1	ALLETE	$42.75	$1.72	5.50%	5.60%	5.70%	5.80%	5.90%	6.00%	10.14%
2	Alliant Energy	$34.95	$1.40	5.55%	5.64%	5.73%	5.82%	5.91%	6.00%	10.13%
3	Amer. Elec. Power	$40.87	$1.64	6.13%	6.10%	6.08%	6.05%	6.03%	6.00%	10.28%
4	Ameren Corp.	$42.42	$2.54	4.50%	4.80%	5.10%	5.40%	5.70%	6.00%	11.83%
5	Cleco Corp.	$24.60	$0.90	13.00%	11.60%	10.20%	8.80%	7.40%	6.00%	11.73%
6	CMS Energy Corp.	$14.57	$0.36	8.85%	8.28%	7.71%	7.14%	6.57%	6.00%	9.10%
7	DPL Inc.	$26.78	$1.10	11.09%	10.07%	9.05%	8.03%	7.02%	6.00%	11.78%
8	DTE Energy	$42.78	$2.12	6.17%	6.13%	6.10%	6.07%	6.03%	6.00%	11.30%
9	Edison Int'l	$50.32	$1.22	7.88%	7.50%	7.13%	6.75%	6.38%	6.00%	8.86%
10	Empire Dist. Elec.	$19.99	$1.28	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	12.79%
11	Energy East Corp.	$25.05	$1.24	N/A	N/A	N/A	N/A	N/A	6.00%	N/A
12	Entergy Corp.	$115.23	$3.00	11.75%	10.60%	9.45%	8.30%	7.15%	6.00%	9.86%
13	FPL Group	$64.67	$1.78	10.13%	9.30%	8.48%	7.65%	6.83%	6.00%	9.72%
14	Hawaiian Elec.	$25.40	$1.24	5.59%	5.67%	5.75%	5.83%	5.92%	6.00%	11.05%
15	IDACORP Inc.	$30.20	$1.20	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	10.21%
16	MGE Energy	$34.29	$1.42	N/A	N/A	N/A	N/A	N/A	6.00%	N/A
17	Northeast Utilities	$25.88	$0.85	9.50%	8.80%	8.10%	7.40%	6.70%	6.00%	10.27%
18	PG&E Corp.	$38.98	$1.56	7.53%	7.22%	6.92%	6.61%	6.31%	6.00%	10.63%
19	Pinnacle West Capit	$32.68	$2.10	4.84%	5.07%	5.30%	5.53%	5.77%	6.00%	12.38%
20	PNM Resources	$12.77	$0.92	7.65%	7.32%	6.99%	6.66%	6.33%	6.00%	14.33%
21	Portland General	$23.54	$0.98	6.95%	6.76%	6.57%	6.38%	6.19%	6.00%	10.66%
22	Progress Energy	$42.23	$2.46	5.36%	5.48%	5.61%	5.74%	5.87%	6.00%	11.95%
23	Puget Energy Inc.	$26.72	$1.00	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	9.96%
24	Southern Co.	$35.61	$1.68	5.19%	5.35%	5.51%	5.67%	5.84%	6.00%	10.77%
25	TECO Energy	$19.94	$0.80	7.58%	7.26%	6.95%	6.63%	6.32%	6.00%	10.66%
26	UniSource Energy	$32.03	$0.96	N/A	N/A	N/A	N/A	N/A	6.00%	N/A
27	Westar Energy	$22.53	$1.16	4.43%	4.74%	5.06%	5.37%	5.69%	6.00%	10.98%
28	Wisconsin Energy	$46.13	$1.08	9.75%	9.00%	8.25%	7.50%	6.75%	6.00%	9.10%
29	Xcel Energy Inc.	$20.46	$0.95	5.70%	5.76%	5.82%	5.88%	5.94%	6.00%	10.85%
30	**Average**	**$34.98**	**$1.40**	**7.25%**	**7.00%**	**6.75%**	**6.50%**	**6.25%**	**6.00%**	**10.82%**

Sources:

[1] http://moneycentral.msn.com, downloaded on August 20, 2008.

[2] *The Value Line Investment Survey;* May 30, June 27, and August 8, 2008.

[3] *Blue Chip Economic Indicators*, March 10, 2008.

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DCF Results with GDP Growth Rate of 6.00%

Moody's Electric Utility Proxy Group

Multi-Stage Growth DCF Model

Line	Company	13-Week AVG Stock Price[1]	Annual Dividend[2]	First Stage Growth	Second Stage Growth				Third Stage Growth[3]	Multi-Stage Growth DCF
					Year 6	Year 7	Year 8	Year 9		
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1	Amer. Elec. Power	$40.87	$1.64	6.13%	6.10%	6.08%	6.05%	6.03%	6.00%	10.28%
2	CH Energy Group	$36.97	$2.16	N/A	N/A	N/A	N/A	N/A	6.00%	N/A
3	Consol. Edison	$39.77	$2.34	3.10%	3.68%	4.26%	4.84%	5.42%	6.00%	11.28%
4	Constellation Energy	$81.50	$1.91	18.40%	15.92%	13.44%	10.96%	8.48%	6.00%	10.98%
5	Dominion Resources	$45.51	$1.58	9.42%	8.73%	8.05%	7.37%	6.68%	6.00%	10.48%
6	DPL Inc.	$26.78	$1.10	11.09%	10.07%	9.05%	8.03%	7.02%	6.00%	11.78%
7	DTE Energy	$42.78	$2.12	6.17%	6.13%	6.10%	6.07%	6.03%	6.00%	11.30%
8	Duke Energy	$17.72	$0.88	5.42%	5.53%	5.65%	5.77%	5.88%	6.00%	11.09%
9	Energy East Corp.	$25.05	$1.24	N/A	N/A	N/A	N/A	N/A	6.00%	N/A
10	Exelon Corp.	$85.17	$2.00	10.25%	9.40%	8.55%	7.70%	6.85%	6.00%	9.20%
11	FirstEnergy Corp.	$77.37	$2.20	7.75%	7.40%	7.05%	6.70%	6.35%	6.00%	9.34%
12	IDACORP Inc.	$30.20	$1.20	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	10.21%
13	NiSource Inc.	$17.45	$0.92	3.00%	3.60%	4.20%	4.80%	5.40%	6.00%	10.69%
14	OGE Energy	$32.48	$1.39	4.00%	4.40%	4.80%	5.20%	5.60%	6.00%	10.03%
15	PPL Corp.	$49.31	$1.34	17.13%	14.90%	12.68%	10.45%	8.23%	6.00%	11.35%
16	Progress Energy	$42.23	$2.46	5.36%	5.48%	5.61%	5.74%	5.87%	6.00%	11.95%
17	Public Serv. Enterpr	$43.59	$1.29	12.92%	11.53%	10.15%	8.77%	7.38%	6.00%	10.66%
18	Southern Co.	$35.61	$1.68	5.19%	5.35%	5.51%	5.67%	5.84%	6.00%	10.77%
19	TECO Energy	$19.94	$0.80	7.58%	7.26%	6.95%	6.63%	6.32%	6.00%	10.66%
20	Xcel Energy Inc.	$20.46	$0.95	5.70%	5.76%	5.82%	5.88%	5.94%	6.00%	10.85%
21	**Average**	**$40.54**	**$1.56**	**8.03%**	**7.62%**	**7.22%**	**6.81%**	**6.41%**	**6.00%**	**10.72%**

Sources:

[1] http://moneycentral.msn.com, downloaded on August 20, 2008.

[2] *The Value Line Investment Survey;* May 30, June 27, and August 8, 2008.

[3] *Blue Chip Economic Indicators* , March 10, 2008.

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Comparable Risk Proxy Group

CAPM

Line	Description	Historical Premium (1)
1	Risk-Free Rate[1]	5.10%
2	Risk Premium[2]	6.65%
3	Beta[3]	0.85
4	CAPM	10.75%

Line	Description	Prospective Premium (1)
5	Risk-Free Rate[1]	5.10%
6	Risk Premium[2]	6.52%
7	Beta[3]	0.85
8	CAPM	10.64%
9	**CAPM Average**	**10.70%**

Sources:

[1] *Blue Chip Financial Forecasts*; August 1, 2008 at 2.

[2] *SBBI*; 2008 at 31 and 120.

[3] *The Value Line Investment Survey;* May 30, June 27, and August 8, 2008.