

**Capital Asset Pricing Model:**

Exhibit No. 219  
Case No(s). GR-2004-0209  
Date 6-23-04 Rptr CAS

$$E(R_i) = R_f + [E(R_m) - R_f] \times \beta$$

E(R<sub>i</sub>): Expected Return  
R<sub>f</sub>: Risk-Free Rate of Interest  
E(R<sub>m</sub>) - R<sub>f</sub>: Market Risk Premium  
β: Beta

**FILED<sup>2</sup>**

JUL 13 2004

Missouri Public  
Service Commission

**Risk-Free Rate:**

10 Year Treasury Yield 4.70%

Projected Market Risk Premium 5.25%\*

**Broad Market Equity Expectation**

| <u>Risk Free Rate</u> | <u>Beta</u> | <u>Market Risk Premium</u> | <u>Cost of Equity Estimate</u> |
|-----------------------|-------------|----------------------------|--------------------------------|
| 4.700%                | 1.00        | 5.25%                      | 9.95%                          |

**Travis Allen Proxy Group**

| <u>Risk Free Rate</u> | <u>Beta</u> | <u>Market Risk Premium</u> | <u>Cost of Equity Estimate</u> |
|-----------------------|-------------|----------------------------|--------------------------------|
| 4.700%                | 0.74        | 5.25%                      | 8.59%                          |

**David Murray Proxy Group**

| <u>Risk Free Rate</u> | <u>Beta</u> | <u>Market Risk Premium</u> | <u>Cost of Equity Estimate</u> |
|-----------------------|-------------|----------------------------|--------------------------------|
| 4.700%                | 0.68        | 5.25%                      | 8.27%                          |

**Southern Union**

| <u>Risk Free Rate</u> | <u>Beta</u> | <u>Market Risk Premium</u> | <u>Cost of Equity Estimate</u> |
|-----------------------|-------------|----------------------------|--------------------------------|
| 4.700%                | 0.90        | 5.25%                      | 9.43%                          |

\* The Equity Premium Consensus Forecast Revised

by: Ivo Welch Sept. 2001

Market Risk Premium Range: 5.00% - 5.50% (Average: 5.25%)