energy prices, which consumers felt in sharply rising gasoline prices and home heating oil costs, prompted President Clinton to order a release of oil from the government's Strategic Petroleum Reserve. While steep price increases have been contained in the energy sector, economists worried about a spillover effect that could send overall inflation higher, thus setting off alarms at the Federal Reserve.

After raising the federal funds rate six times in 1999 and 2000 to hold down inflation in a rapidly growing economy, Federal Reserve policy-makers began expressing concern about a slowdown in December 2000. On January 3, 2001, the Federal Open Market Committee lowered the federal funds rate by 50 basis points to 6.00 percent. In a related action, the Board of Governors approved a decrease in the discount rate to 5.75 percent. These actions were taken in light of further weakening of sales and production, and in the context of lower consumer confidence, tight conditions in some segments of financial markets, slowing of real GDP and high energy prices weakening household and business purchasing power. On January 31, 2001, the Federal Reserve again lowered the federal funds rate by 50 basis points to 5.50 percent in an attempt to provide lower rates for many business and consumer loans. At the same time, the discount rate was also lowered by 50 basis points to 5.00 percent (see Schedule 2-1). In cutting its benchmark rate by a full point in the first month of 2001, the Federal Reserve has taken its most aggressive action to boost the economy since December 1991. The Federal Reserve justified its actions by citing eroding consumer and business confidence and rising energy costs. Further weakening in the economy prompted the Federal Reserve to reduce interest rates more. On December 11, 2001, the discount rate was lowered to 1.25 percent.

The Federal Reserve claims it does not make interest rate decisions based on stock market activity. However, it is important to reflect on the results of the major indexes in the past year. Based on *The Value Line Investment Survey, Selection and Opinion*, January 1, 2002, the 12-month percentage change in market stock price averages shows the S&P 500 suffered a 17.00 percent decline and the NASDAQ suffered a 32.10 percent decline, as of January 24, 2002. Therefore, as mentioned earlier, the stock market has faired well since 1996, although, it has suffered some set backs when compared to more recent levels.

These economic changes have resulted in cost of capital changes for utilities and are closely reflected in the yields on public utility bonds and yields of Thirty-Year U.S. Treasury Bonds (see Schedules 5-1 and 5-2). Schedule 5-3 shows how closely the Mergent "Public Utility Bond Yields" have followed the yields of Thirty-Year U.S. Treasury Bonds during the period from 1986 to the present. The average spread for this time period between these two composite indices has been 136 basis points, with the spread ranging from a low of 80 basis points and a high of 249 basis points (see Schedule 5-4). These spread parameters can be utilized with numerous published forecasts of Thirty-Year U.S. Treasury Bond yields to estimate future long-term debt costs for utility companies.

Economic Projections

Q. What are the inflationary expectations for the remainder of 2002 and beyond?

A. The latest inflation rate, as measured by the *Consumer Price Index-All Urban Consumers* (CPI), was 2.80 percent for the 12 months ended December 2001. *The*

Value Line Investment Survey: Selection & Opinion, November 30, 2001, predicts inflation to be 2.10 percent for 2002, 2.40 percent for 2003 and 2.60 percent for 2004. One of the major fears of the Federal Reserve is the United States will experience weakness in key areas of the economy that could lead to a recession.

Q. What are the interest rate forecasts for 2002, 2003 and 2004?

A. Short-term interest rates, those measured by Three-Month U.S. Treasury Bills, are expected to be 2.30 percent in 2002, 4.00 percent in 2003 and 4.30 percent in 2004 according to Value Line's predictions. Value Line expects long-term interest rates, those measured by the Thirty-Year U.S. Treasury Bond, to average 5.20 percent in 2002, 6.10 percent in 2003 and 6.10 percent in 2004. The rates for the period ending December, 2001 are 1.72 percent for 3-month T-Bills and 5.48 percent for 30-year T-Bonds, as noted on the Federal Reserve website (www.stls.frb.org).

Q. What are the growth expectations for real GDP in the future?

A. Value Line expects real GDP to increase by .50 percent in 2002, 3.50 percent in 2003, and by 3.60 percent in 2004. The Budget and Economic Outlook, Fiscal Years 2001-2011 published by the Congressional Budget Office in August 2001 stated that real GDP is expected to increase by 2.60 percent in 2002, 3.30 percent in 2003 and 3.20 percent in 2004. (See Schedule 6.)

Q. Please summarize your projections of the economic conditions that will affect AmerenUE for the next few years.

A. Considering the previously mentioned sources, inflation is expected to be in the range of 2.10 to 2.70 percent, increase in real GDP in the range of .50 to 3.60 percent and long-term interest rates are expected to range from 5.20 to 6.20 percent.

The Value Line Investment Survey: Selection & Opinion, January 11, 2002, article, The 2001 Stock Market in Review, states that:

> **Wall Street just closed the books on what will go down as one of the poorer years in recent memory. What's more, if we count the losses in human terms, owing to the tragedy of September 11th, it also will go down as one of the sadder, if not the saddest, years ever.** In the meantime, just in terms of the stock market, the year that closed its books on December 31, 2001 was forgettable, as most of the major equity averages fell for a second year in succession, with the losses being comparatively close to what they had been in the prior 12 months.

S&P states the following in the January 16, 2002, issue of *The Outlook*:

> Expectations should be modest. The bull market of October 1990 to March 2000 was the longest and strongest in modern history. Nothing like it will be seen any time soon. Indeed, the excesses of the last decade will probably have to be paid for in the form of restrained stock gains for some time ahead...

Business Operations of Ameren

Q. Please describe Ameren's business operations.

A. After their merger, Union Electric (UE) and Central Illinois Public Service (CIPS) became subsidiaries of St. Louis, MO-based Ameren, a registered public utility holding company created on December 31, 1997. UE (doing business as AmerenUE) remains headquartered in St. Louis and CIPS (doing business as AmerenCIPS) in Springfield, IL. Ameren's unregulated operations include the recently formed unregulated generation subsidiary, AmerenEnergy Generating Company (AEGC) and other unregulated businesses, such as energy marketing and trading.

AmerenUE, originally incorporated in Missouri in 1922, supplies electric service in Missouri and Illinois. AmerenUE accounts for 70 percent of Ameren's revenues, 74 percent of cash flow. AmerenUE mainly engages in selling electricity

(95 percent of AmerenUE's operating revenues) in Missouri and in a small area of Illinois. The Missouri service territory covers 24,500 square miles, including the metropolitan St. Louis area, and has an estimated customer base of 2.6 million. Retail natural gas (5 percent of operating revenues) is distributed in 90 Missouri communities and in Alton, Illinois and its surrounding area. Business risk is tempered by a diverse and healthy economy [Source: S&P's *Ratings Direct*, dated November 1, 2001.]

Q. Please describe the credit ratings of AmerenUE.

A. Currently, Standard & Poor's Corporation gives AmerenUE a corporate credit rating of A+ and a senior secured debt rating of A+. These ratings are considered to be of "investment grade" ("investment grade" is defined as a "BBB" rating or higher). The Corporate Credit Rating issued by Standard & Poor's reflects a negative outlook for AmerenUE.

Q. Please provide Standard & Poor's Corporation's most recent outlook concerning the credit rating assigned to AmerenUE.

A. Standard & Poor's Corporation's *Ratings Direct*, dated November 1, 2001, provides a summary explaining the outlook for Ameren. Specifically, the report states:

> The negative outlook reflects expectations for continued deterioration in key consolidated financial measures, which management will be challenged to stem, as well as weakness in the financial profile of CIPS, whose ratings are based more on a stand-alone basis.
>
> Because there are no regulatory mechanisms or other structural barriers in Missouri that sufficiently restrict access by the parent to the cash flow of UE, Standard & Poor's views the default risk of UE as being the same as that of Ameren.

Q. What historical financial information have you relied upon for AmerenUE?

A. Schedules 7 and 8 present historical capital structures and selected financial ratios from 1996 to 2000 for AmerenUE. AmerenUE's common equity ratio has ranged from a high of 57.30 percent to a low of 53.85 percent over the time period of 1996 through 2000. *The Value Line Investment Survey: Ratings & Reports* dated January 4, 2002, reported that the average common equity ratio (figured excluding short-term debt) for the electric utility (central) industry for 2000 was 40.50 percent, estimated to be 42.50 percent and 44.50 percent for 2001 and 2002, respectively, and 48.5 percent for the period 2004 to 2006. According to Standard & Poor's Corporation: *Ratings Direct,* dated November 10, 2001, "Management's financial strategy, which until last year was viewed as conservative, is now moderate. This is evident in the rising level of debt in the company's capital structure and recent expansion of its riskier unregulated generation business".

AmerenUE's reported return on year-end common equity (ROE) has fluctuated during this time period ranging from a low of 12.38 percent in 1996 to a high of 14.60 percent in 2000 (see Schedule 8). AmerenUE's ROE of 14.60 percent for 2000 is above the average of 7.4 percent for the electric utility (central) industry according to *The Value Line Investment Survey: Ratings & Reports*, January 4, 2002. *The Value Line Investment Survey: Ratings & Reports,* January 4, 2002 estimates that Ameren's return on equity for 2001 will be 14.00 percent. AmerenUE's market-to-book ratio has varied from a low of 1.46 in 1999 to a high of 1.99 in year 2000 (see Schedule 8).

Determination of the Cost of Capital

Q. Please describe your approach for determining a utility company's cost of capital.

A. The total dollars of capital for a utility company are determined for a specific point in time. This total dollar amount is proportioned into each specific capital component. A weighted cost for each capital component is determined by multiplying each capital component ratio by the appropriate embedded cost or the estimated cost of common equity. The individual weighted costs are summed to arrive at a total weighted cost of capital. This total weighted cost of capital is synonymous with the fair rate of return for the utility company.

Q. Why is a total weighted cost of capital synonymous with a fair rate of return?

A. From a financial viewpoint, a company employs different forms of capital to support or fund the assets of the company. Each different form of capital has a cost and these costs are weighted proportionately to fund each dollar invested in the assets.

Assuming that the various forms of capital are within a reasonable balance and are costed correctly, the resulting total weighted cost of capital, when applied to rate base, will provide the funds necessary to service the various forms of capital. Thus, the total weighted cost of capital corresponds to a fair rate of return for the utility company.

Capital Structure and Embedded Costs

Q. Can an investor directly invest in AmerenUE?

A. No. An investor can only indirectly invest in AmerenUE through a direct investment in Ameren, AmerenUE's parent company. As a result, potential investors can only look at the earnings potential of the entire consolidated corporate entity of Ameren when evaluating decisions such as whether or not to invest in AmerenUE's common stock. Ultimately, that investor is purchasing the earnings power of the entire consolidated corporation, consisting of its operating divisions and its subsidiaries. Therefore, in order to analyze AmerenUE's divisional cost of capital, an investor must derive AmerenUE's divisional cost of capital from Ameren's overall cost of capital.

Q. What capital structure have you employed in developing a weighted cost of capital for AmerenUE?

A. I employed AmerenUE's capital structure as of September 30, 2001, which is the end of the ordered update period. Schedule 9 presents AmerenUE's capital structure and associated capital ratios. The resulting capital structure consists of 59.08 percent common stock equity, 3.52 percent preferred stock and 37.40 percent long-term debt for September 30, 2001.

It is the Staff's opinion that only the short-term debt that exceeds the amount of construction work in progress (CWIP) should be included in the capital structure. An assumption is made that CWIP, which is not yet included in rate base, is financed with short-term debt. In this case, AmerenUE's CWIP at September 30, 2001 exceeded the amount of short-term debt; therefore, no short-term debt is being included in the capital structure.

Q. What was the embedded cost of long-term debt for AmerenUE on September 30, 2001?

A. I determined the embedded cost of long-term debt for AmerenUE to be 6.82 percent on September 30, 2001. I arrived at these figures by adopting AmerenUE's response to Staff Data Request No. 3802.

Q. What was the embedded cost of preferred stock for AmerenUE on September 30, 2001?

A. I determined the embedded cost of preferred stock for AmerenUE to be 5.72 percent on September 30, 2001. I arrived at these figures by adopting AmerenUE's response to Staff Data Request No. 3802.

Cost of Equity

Q. How do you propose to analyze those factors by which the cost of equity for AmerenUE may be determined?

A. I have selected the discounted cash flow model (DCF) model as the primary tool to determine the cost of equity for AmerenUE.

The DCF Model

Q. Please describe the DCF model.

A. The DCF model is a market-oriented approach for deriving the cost of equity. The return on equity calculated from the DCF model is inherently capable of attracting capital. This results from the theory that security prices adjust continually over time, so that an equilibrium price exists and the stock is neither under-valued nor over-valued. It can also be stated that stock prices continually fluctuate to reflect the required and expected return for the investor.

The continuous growth form of the DCF model was used in estimating the cost of equity for AmerenUE. This model relies upon the fact that a company's common stock price is dependent on the expected cash dividends and on cash flows received through capital gains or losses that result from stock price changes. The rate that discounts the sum of the future expected cash flows to the current market price of the common stock is the calculated cost of equity. This can be expressed algebraically as:

$$\text{Present Price} = \frac{\text{Expected Dividends}}{\text{Discounted by k}} + \frac{\text{Expected Price in 1 year}}{\text{Discounted by k}} \quad (1)$$

Since the expected price of a stock in one year is equal to the present price multiplied by one plus the growth rate, equation (1) can be restated as:

$$\text{Present Price} = \frac{\text{Expected Dividends}}{(1+k)} + \frac{\text{Present Price }(1+g)}{(1+k)} \quad (2)$$

where g equals the growth rate, and k equals the cost of equity. Letting the present price equal P_0 and expected dividends equal D_1, the equation appears as:

$$P_0 = \frac{D_1}{(1+k)} + \frac{P_0(1+g)}{(1+k)} \quad (3)$$

The cost of equity equation may also be algebraically represented as:

$$k = \frac{D_1}{P_0} + g \quad (4)$$

Thus, the cost of common stock equity (k), is equal to the expected dividend yield (D_1/P_0) plus the expected growth in dividends (g) continuously summed into the future. The growth in dividends and implied growth in earnings will be reflected in the current price. Therefore, this model also recognizes the potential of capital gains or losses associated with owning a share of common stock.

The DCF method is a continuous stock valuation model. The DCF theory is based on the following assumptions:

1. Market equilibrium,
2. Perpetual life of the company,
3. Constant payout ratio,
4. Payout of less than 100% earnings,

5. Constant price/earnings ratio,

6. Constant growth in cash dividends,

7. Stability in interest rates over time,

8. Stability in required rates of return over time; and

9. Stability in earned returns over time.

The DCF method also assumes that an investor's growth horizon is unlimited and that earnings, book values and market prices grow hand-in-hand. Even though the entire list of above assumptions is rarely met, the DCF model is a reasonable working model describing an actual investor's expectations and resulting behaviors.

Q. Can you directly analyze the cost of equity for AmerenUE?

A. No. In order to arrive at a company-specific DCF result, the company must have common stock that is publicly-traded and must pay dividends. AmerenUE's stock is not publicly traded. However, Ameren Corporation, AmerenUE's parent company, is publicly traded on the New York Stock Exchange under the ticker symbol of "AEE." Therefore, I used Ameren as a surrogate for AmerenUE in the DCF model.

Q. Please explain how you determined for Ameren a value range for the growth term of the DCF formula.

A. I reviewed Ameren's actual dividends per share (DPS), earnings per share (EPS) and book values per share (BVPS), as well as projected growth rates for Ameren. Schedule 10 lists annual compound growth rates calculated for DPS, EPS and BVPS for the periods of 1991 through 2001 and 1996 through 2001. Schedule 11 presents the historical DPS, EPS and BVPS growth rates and projected growth rates for Ameren. The projected growth rates were obtained from two outside sources. I/B/E/S Inc.'s

Institutional Brokers Estimate System, August 16, 2001, projects a five-year growth in EPS of 5.00 percent for Ameren. Standard & Poor's Corporation's *Earnings Guide*, September 2001, projects a five-year EPS growth rate of 5.00 percent for Ameren. The average of the two outside sources produces a projected EPS growth rate of 5.00 percent. Combining the average of the historical DPS, EPS and BVPS of 1.50 percent with the projected EPS growth rates produces a reasonable growth rate range of 2.75 to 3.75 percent. This range of growth (g) is the range that I used in the DCF model to calculate a cost of common equity for Ameren. (see Schedule 13)

Q. Please explain how you determined for Ameren the yield term of the DCF formula.

A. The expected yield term (D_1/P_0) of the DCF model is calculated by dividing the amount of common dividends per share expected to be paid over the next 12 months (D_1) by the current market price per share of the firm's common stock (P_0). Even though the model requires the use of a current or spot market price, I have chosen to use a monthly high/low average market price of Ameren's common stock for the period of April 1, 2001, through September 30, 2001 to represent the update period.

Schedule 12 presents the monthly high/low average stock market prices from April 1, 2001, through September 30, 2001. Ameren's common stock price has ranged from a low of $36.530 per share to a high of $45.480 per share for this time period. This has produced a range for the monthly average high/low market price of $41.275 per share and reflects recent market conditions for the price term (P_0) in the DCF model.

The Value Line Investment Survey: Ratings & Reports, January 4, 2002, states that Ameren's common dividend declared per share is \$2.54 for 2001 and estimates \$2.54 for 2002. This compares with the actual dividend Ameren paid in 2000 of \$2.54. Therefore, I have chosen to use the value of \$2.54 for the amount of common dividends per share (D_1) expected to be paid by Ameren for my analysis.

Combining the expected dividend of \$2.54 per share and an average market price range of \$41.275 per share produces an expected dividend yield of 6.16 percent for September 30, 2001.

Q. Please summarize the results of your expected dividend yield and growth rate analysis for the DCF return on common equity for Ameren.

A. The summarized DCF cost of equity estimate for the period April 1, 2001 through September 30, 2001 for Ameren is presented as follows:

Yield (D_1/P_0)	+	Growth Rate (g)	=	Cost of Equity(k)
6.16%	+	2.75%	=	8.91%
6.16%	+	3.75%	=	9.91%

As mentioned previously, the expected yield term (D_1/P_0) of the DCF model is calculated by dividing the amount of common dividends per share expected to be paid over the next 12 months (D_1) by the current market price per share of the firm's common stock (P_0). Even though the model requires the use of a current or spot market price, I have used an averaging technique in an attempt to minimize the effects on the dividend yield, which can occur due to daily volatility in the stock market. Using the spot price of \$42.29, as assumed by the model, for February 13, 2002, produces a

dividend yield of 6.00 percent, which is lower than the dividend yield used in my DCF estimates and would decrease the recommended return on common equity.

Reasonableness of DCF Returns for AmerenUE

Q. What analysis was performed to determine the reasonableness of your DCF model derived return on common equity for Ameren?

A. I performed a risk premium cost of equity analysis for Ameren. The risk premium concept implies that the required return on common equity is found by adding an explicit premium for risk to a current interest rate. Schedule 14 shows the average risk premium above the yield of 30-Year Treasury Bonds for Ameren's expected return on common equity. This analysis shows, on average, Ameren's expected return on equity as reported by *The Value Line Investment Survey: Ratings & Reports* is 649 basis points higher than the yield on 30-Year Treasury Bonds for the period of January 1992 to December 2001 (see Schedule 14).

The average yield for 30-Year Treasury Bonds on January 6, 2002 was 5.38 percent. Adding 649 basis points to this yield produces an estimated cost of equity of 11.87 percent. (See Schedule 15.)

Q. Did you perform any other checks on reasonableness of your DCF model derived return on common equity for Ameren?

A. Yes. I performed a Capital Asset Pricing Model (CAPM) cost of equity analysis for Ameren. The CAPM describes the relationship between a security's investment risk and its market rate of return. This relationship identifies the rate of return that investors expect a security to earn so that its market return is comparable with the

market returns earned by other securities that have similar risk. The mathematical expression of the CAPM is the following:

$$k = R_f + \beta\,(R_m - R_f)$$

where:

k = the expected return on equity for a specific security,

R_f = the risk free rate,

β = beta; and

$R_m - R_f$ = the market risk premium.

The first term of the CAPM is the risk free rate (R_f). The risk free rate reflects the level of return which can be achieved without accepting any risk. In reality, there is no such riskless asset, but it is generally represented by U.S. Treasury securities, because of the government's unlimited ability to tax and create money. For purposes of this analysis, the risk free rate was represented by the yield on 30-Year U.S. Treasury Bonds. The appropriate rate was determined to be 5.38 percent for the period January 6, 2002, as published on www.marketwatch.com.

The second term of the CAPM is beta (β). Beta is an indicator of a security's investment risk. It represents the relative movement and relative risk between a particular security and the market as a whole (where beta for the market equals 1.00). Securities with betas greater than 1.00 exhibit greater volatility than do securities with betas less than 1.00. Thus, a higher beta security is considered riskier and requires a higher return in order to attract investor capital away from a lower beta security. For purposes of this analysis, the appropriate beta was determined to be 0.55 as published in *The Value Line Investment Survey: Ratings & Reports*, January 4, 2002.

The final term of the CAPM is the market risk premium (R_m - R_f). The market risk premium represents the expected return from holding the entire market portfolio less the expected return from holding a risk-free investment. For purposes of this analysis, the appropriate market risk premium was determined to be 7.30 percent for the period 1926-2000 and 7.20 percent for the period 1991-2000, as calculated in Ibbotson Associates, Inc.'s *Stocks, Bonds, Bills, and Inflation: 2000 Yearbook.*

Schedule 16 presents my CAPM analysis for Ameren. My CAPM analysis produces an estimated cost of equity range of 9.34 to 9.40 percent for Ameren.

Q. Did you perform any cost of equity analysis on other utility companies?

A. Yes. I have selected a group of comparable electric utility companies to analyze for determining the reasonableness of the company-specific DCF results for Ameren. I searched the Value Line database for electric utility companies. Schedule 17-1 presents a list of 76 market-traded electric utility companies. This list was reviewed for the following criteria:

1. Information printed in Value Line: This criterion eliminated no companies;

2. Standard & Poor's Utility Credit Rating of AA- to BBB+: This criterion eliminated thirty-three (33) companies;

3. Total capital greater than or equal to $4 billion and less than or equal to $8 billion: This criterion eliminated thirty-three (33) additional companies;

4. Positive Dividends Per Share Annual Compound Growth Rate for the period of 1991 through 2001: This criterion eliminated six additional companies; and

5. No Missouri Operations: This criterion eliminated Ameren.

On average, this final group of three publicly traded electric utility companies (comparable electric utility companies) is comparable to Ameren because of similar business operations and financial conditions. The three comparable electric utility companies are listed on Schedule 18.

Q. Please explain how you approached the determination of the cost of equity for the comparable electric utility companies.

A. I have calculated a DCF cost of equity for each of the three comparable electric utility companies. The first step was to calculate a growth rate. Basically, I used the same approach of obtaining a growth rate estimate for the three comparable electric companies as I used in calculating a growth rate for Ameren (see Schedules 19 through 22). The comparable electric utility companies' average historical growth rates ranged from 0.99 to 4.25 percent with an overall average of 2.35 percent for the group (Column 1 of Schedule 20). The projected growth rates ranged from 4.16 to 9.44 percent with an average of 6.32 percent (Schedule 20). Taking into account the projected and historical growth rates, a proposed growth of 4.33 percent (Column 6 of Schedule 20) was used in the DCF calculation for the comparable companies.

The next step was to calculate an expected dividend yield for each of the three comparable electric utility companies. Schedule 21 presents the average high/low stock price for the period of June 1, 2001, through September 30, 2001, for each electric utility company. Column 3 of Schedule 22 shows that the projected dividend yields ranged from 3.91 to 6.76 percent for the three comparable electric utility companies with the average at 5.42 percent. My proposed dividend yield of 6.16 percent for Ameren falls within the average for the three comparable electric utility companies.

The projected growth rates and projected dividend yields were then added together to reach an estimated DCF cost of equity for each of the three comparable electric utility companies. These estimates produced a DCF cost of equity average of 9.76 percent (see Column 5 of Schedule 22).

Q. What analysis was performed to determine the reasonableness of your DCF model derived return on common equity for the comparable company group?

A. I performed a CAPM cost of equity analysis for the comparable company group. The betas for the three comparable electric utility companies averaged 0.57, very close to Ameren's beta of 0.55. This suggests that Ameren is comparable in risk as measured by beta and relative to the market and the comparable companies on average. The CAPM analysis implies that, on average, the required return on equity for the three comparable electric utility companies falls within the range of 9.46 to 9.52 percent (see Schedule 23). This provides support for my DCF cost of equity analysis for the comparable company group and the proposed required return on common equity range of 8.91 percent to 9.91 percent for AmerenUE.

Q. Did you perform an analysis on AmerenUE's resulting pre-tax interest coverage ratios?

A. Yes. A pro forma pre-tax interest coverage calculation was completed for AmerenUE (see Schedule 24) utilizing the proposed range and midpoint ROE for Ameren. It reveals that the return on common equity range of 8.91 to 9.91 percent would yield a pre-tax interest coverage ratio in the range of 4.48 to 4.86. This interest coverage range is compared with Standard & Poor's range for an "AA to BBB" rated electric utility company, which is 4.17 to 2.33. AmerenUE's midpoint of 4.67 makes it consistent with an "AA" rating.

Rate of Return for AmerenUE

Q. Please explain how the returns developed for each capital component are used in the ratemaking approach you have adopted to be applied to AmerenUE's electric utility operations.

A. The cost of service ratemaking method was adopted in this case. This approach develops the public utility's revenue requirement. The cost of service (revenue requirement) is based on the following components: revenues, prudent operation costs, rate base and a return allowed on the rate base (see Schedule 25).

It is my responsibility to calculate and recommend a rate of return that should be authorized on the rate base of AmerenUE. Under the cost of service ratemaking approach, a weighted cost of capital in the range of 8.01 to 8.61 percent was developed for AmerenUE's electric utility operations (see Schedule 26). This rate was calculated by applying an average embedded cost of long-term debt of 6.82 percent, an embedded cost of preferred stock of 5.72 percent and a return on common equity range of 8.91 to 9.91 percent to a capital structure consisting of 37.40 percent long-term debt, 3.52 percent preferred stock and 59.08 percent common equity. Therefore, as I suggested earlier, I am recommending that AmerenUE's electric utility operations be allowed to earn a return on its original cost rate base in the range of 8.01 to 8.61 percent.

Through this analysis, I believe I have developed a fair and reasonable rate of return. My rate of return is based on a return on common equity range of 8.91 to 9.91 percent. My return range is based on the historical and projected economic conditions. This range is sufficient to assure confidence in the financial soundness of the utility and will be adequate, under efficient and economical management, to maintain and support its financial standing, as well as allow AmerenUE the opportunity to earn the revenue requirement developed in this rate case.

Q. Does this conclude your prepared direct testimony?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

The Staff of the Missouri Public Service Commission,	)	Case No. EC-2002-1
	)	
Complainant,	)	
vs.	)	
	)	
Union Electric Company, d/b/a AmerenUE,	)	
	)	
Respondent.	)	

AFFIDAVIT OF RONALD L. BIBLE

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Ronald L. Bible, is, of lawful age, and on his oath states: that he has participated in the preparation of the foregoing Direct Testimony in question and answer form, consisting of 30 pages to be presented in the above case; that the answers in the foregoing Direct Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

Ronald L. Bible

Ronald L. Bible

Subscribed and sworn to before me this 27th day of February, 2001.

ROSEMARIE RIEDL
Notary Public - Notary Seal
STATE OF MISSOURI
COLE COUNTY
MY COMMISSION EXP. JUNE 1,2005

Rosemarie Riedl

Notary Public

AN ANALYSIS OF THE COST OF CAPITAL

FOR

UNION ELECTRIC COMPANY
dba AmerenUE

CASE NO. EC-2002-1

BY

RONALD L. BIBLE

UTILITY SERVICES DIVISION

MISSOURI PUBLIC SERVICE COMMISSION

March 2002

UNION ELECTRIC COMPANY
d/b/a AmerenUE
CASE NO. EC-2002-1

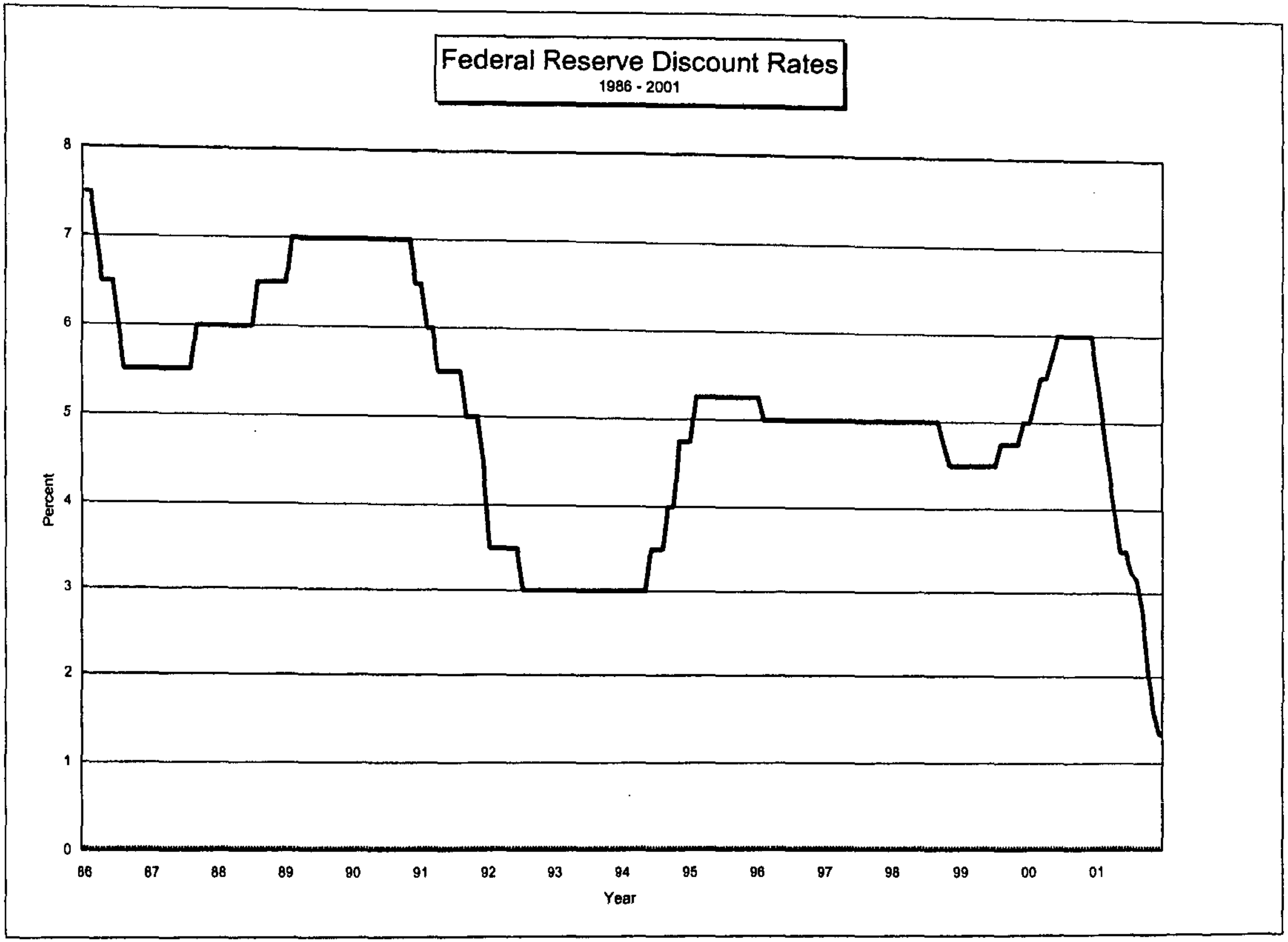
List of Schedules

List of Schedules (continued)

Federal Reserve Discount Rate Changes

Date	Discount Rate
05/20/85	7.50%
03/07/86	7.00%
04/21/86	6.50%
07/11/86	6.00%
08/21/86	5.50%
09/04/87	6.00%
08/09/88	6.50%
02/24/89	7.00%
12/19/90	6.50%
02/01/91	6.00%
04/30/91	5.50%
09/13/91	5.00%
11/06/91	4.50%
12/20/91	3.50%
07/02/92	3.00%
01/01/93	3.00%
12/31/93	3.00%
05/17/94	3.50%
08/16/94	4.00%
11/15/94	4.75%
02/01/95	5.25%
01/31/96	5.00%
12/12/97	5.00%
01/09/98	5.00%
03/06/98	5.00%
10/15/98	4.75%
11/17/98	4.50%
06/30/99	4.50%
08/24/99	4.75%
11/16/99	5.00%
02/02/00	5.25%
03/21/00	5.50%
05/16/00	5.50%
05/19/00	6.00%
01/03/01	5.75%
01/04/01	5.50%
01/05/01	5.50%
01/31/01	5.00%
03/20/01	4.50%
04/18/01	4.00%
05/15/01	3.50%
06/27/01	3.25%
08/21/01	3.00%
09/17/01	2.50%
10/02/01	2.00%
11/06/01	1.50%
12/11/01	1.25%

Sources: Federal Reserve Bulletin & The Wall Street Journal.


Federal Reserve Discount Rates
1986 - 2001
Percent
0
1
2
3
4
5
6
7
8
86
87
88
89
90
91
92
93
94
95
96
97
98
99
00
01
Year

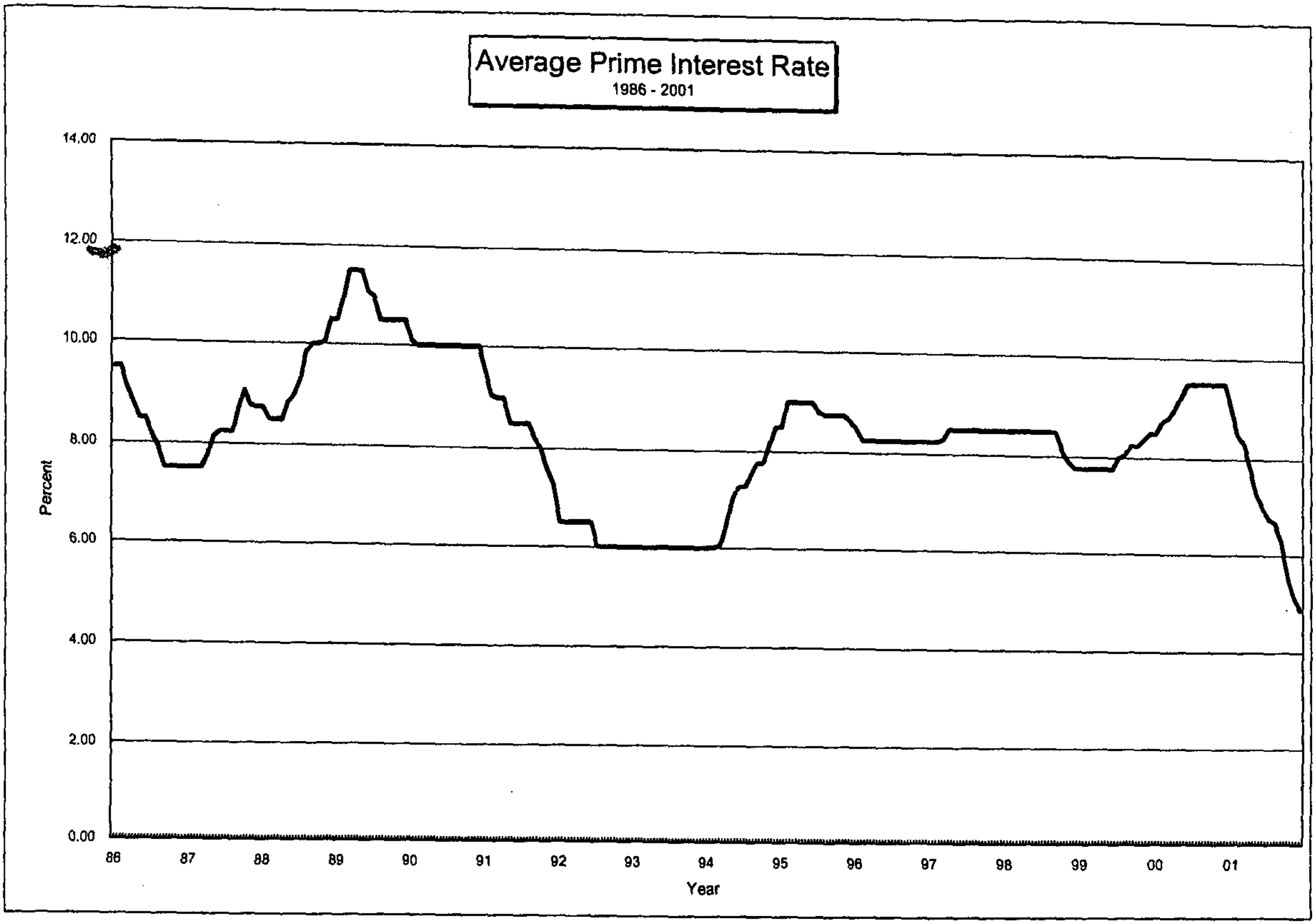
Schedule 2-2

UNION ELECTRIC COMPANY
EC-2002-1

Average Prime Interest Rates

Mo/Year	Rate (%)	Mo/Year	Rate (%)	Mo/Year	Rate (%)	Mo/Year	Rate (%)
Jan 1986	9.50	Jan 1990	10.11	Jan 1994	6.00	Jan 1998	8.50
Feb	9.50	Feb	10.00	Feb	6.00	Feb	8.50
Mar	9.10	Mar	10.00	Mar	6.06	Mar	8.50
Apr	8.83	Apr	10.00	Apr	6.45	Apr	8.50
May	8.50	May	10.00	May	6.99	May	8.50
Jun	8.50	Jun	10.00	Jun	7.25	Jun	8.50
Jul	8.16	Jul	10.00	Jul	7.25	Jul	8.50
Aug	7.90	Aug	10.00	Aug	7.51	Aug	8.50
Sep	7.50	Sep	10.00	Sep	7.75	Sep	8.49
Oct	7.50	Oct	10.00	Oct	7.75	Oct	8.12
Nov	7.50	Nov	10.00	Nov	8.15	Nov	7.89
Dec	7.50	Dec	10.00	Dec	8.50	Dec	7.75
Jan 1987	7.50	Jan 1991	9.52	Jan 1995	8.50	Jan 1999	7.75
Feb	7.50	Feb	9.05	Feb	9.00	Feb	7.75
Mar	7.50	Mar	9.00	Mar	9.00	Mar	7.75
Apr	7.75	Apr	9.00	Apr	9.00	Apr	7.75
May	8.14	May	8.50	May	9.00	May	7.75
Jun	8.25	Jun	8.50	Jun	9.00	Jun	7.75
Jul	8.25	Jul	8.50	Jul	8.80	Jul	8.00
Aug	8.25	Aug	8.50	Aug	8.75	Aug	8.06
Sep	8.70	Sep	8.20	Sep	8.75	Sep	8.25
Oct	9.07	Oct	8.00	Oct	8.75	Oct	8.25
Nov	8.78	Nov	7.58	Nov	8.75	Nov	8.37
Dec	8.75	Dec	7.21	Dec	8.65	Dec	8.50
Jan 1988	8.75	Jan 1992	6.50	Jan 1996	8.50	Jan 2000	8.50
Feb	8.51	Feb	6.50	Feb	8.25	Feb	8.73
Mar	8.50	Mar	6.50	Mar	8.25	Mar	8.83
Apr	8.50	Apr	6.50	Apr	8.25	Apr	9.00
May	8.84	May	6.50	May	8.25	May	9.24
Jun	9.00	Jun	6.50	Jun	8.25	Jun	9.50
Jul	9.29	Jul	6.02	Jul	8.25	Jul	9.50
Aug	9.84	Aug	6.00	Aug	8.25	Aug	9.50
Sep	10.00	Sep	6.00	Sep	8.25	Sep	9.50
Oct	10.00	Oct	6.00	Oct	8.25	Oct	9.50
Nov	10.05	Nov	6.00	Nov	8.25	Nov	9.50
Dec	10.50	Dec	6.00	Dec	8.25	Dec	9.50
Jan 1989	10.50	Jan 1993	6.00	Jan 1997	8.26	Jan 2001	9.05
Feb	10.93	Feb	6.00	Feb	8.25	Feb	8.50
Mar	11.50	Mar	6.00	Mar	8.30	Mar	8.32
Apr	11.50	Apr	6.00	Apr	8.50	Apr	7.80
May	11.50	May	6.00	May	8.50	May	7.24
Jun	11.07	Jun	6.00	Jun	8.50	Jun	6.98
Jul	10.98	Jul	6.00	Jul	8.50	Jul	6.75
Aug	10.50	Aug	6.00	Aug	8.50	Aug	6.67
Sep	10.50	Sep	6.00	Sep	8.50	Sep	6.28
Oct	10.50	Oct	6.00	Oct	8.50	Oct	5.53
Nov	10.50	Nov	6.00	Nov	8.50	Nov	5.10
Dec	10.50	Dec	6.00	Dec	8.50	Dec	4.84

Sources: Federal Reserve Bulletin & The Wall Street Journal.



Average Prime Interest Rate
1986 - 2001
14.00
12.00
10.00
8.00
6.00
4.00
2.00
0.00
Percent
86
87
88
89
90
91
92
93
94
95
96
97
98
99
00
01
Year

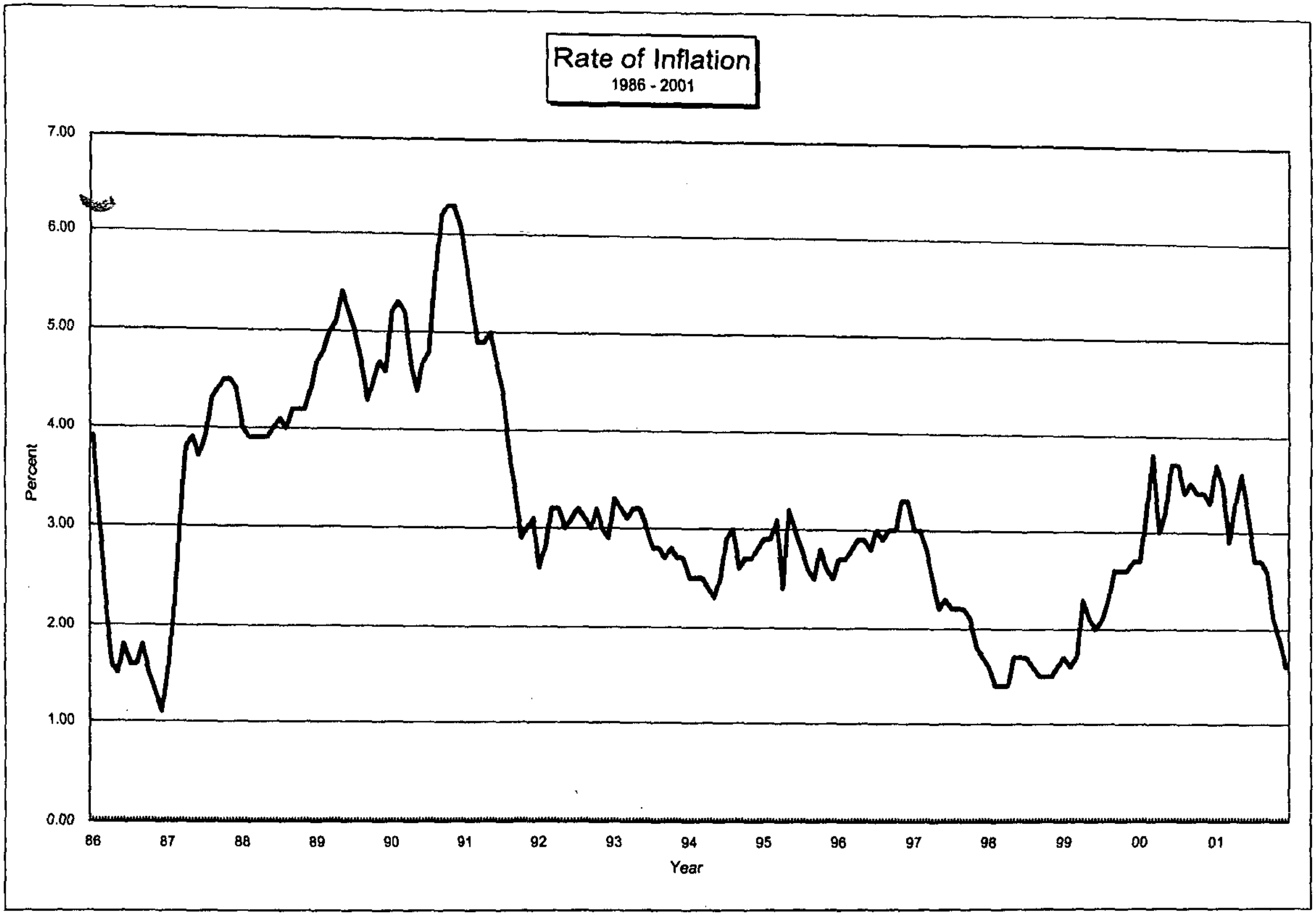
Schedule 3-2

UNION ELECTRIC COMPANY
EC-2002-1

Rate of Inflation

Mo/Year	Rate (%)	Mo/Year	Rate (%)	Mo/Year	Rate (%)	Mo/Year	Rate (%)
Jan 1986	3.90	Jan 1990	5.20	Jan 1994	2.50	Jan 1998	1.60
Feb	3.10	Feb	5.30	Feb	2.50	Feb	1.40
Mar	2.30	Mar	5.20	Mar	2.50	Mar	1.40
Apr	1.60	Apr	4.70	Apr	2.40	Apr	1.40
May	1.50	May	4.40	May	2.30	May	1.70
Jun	1.80	Jun	4.70	Jun	2.50	Jun	1.70
Jul	1.60	Jul	4.80	Jul	2.90	Jul	1.70
Aug	1.60	Aug	5.60	Aug	3.00	Aug	1.60
Sep	1.80	Sep	6.20	Sep	2.60	Sep	1.50
Oct	1.50	Oct	6.30	Oct	2.70	Oct	1.50
Nov	1.30	Nov	6.30	Nov	2.70	Nov	1.50
Dec	1.10	Dec	6.10	Dec	2.80	Dec	1.60
Jan 1987	1.50	Jan 1991	5.70	Jan 1995	2.90	Jan 1999	1.70
Feb	2.10	Feb	5.30	Feb	2.90	Feb	1.60
Mar	3.00	Mar	4.90	Mar	3.10	Mar	1.70
Apr	3.80	Apr	4.90	Apr	2.40	Apr	2.30
May	3.90	May	5.00	May	3.20	May	2.10
Jun	3.70	Jun	4.70	Jun	3.00	Jun	2.00
Jul	3.90	Jul	4.40	Jul	2.80	Jul	2.10
Aug	4.30	Aug	3.80	Aug	2.60	Aug	2.30
Sep	4.40	Sep	3.40	Sep	2.50	Sep	2.60
Oct	4.50	Oct	2.90	Oct	2.80	Oct	2.60
Nov	4.50	Nov	3.00	Nov	2.60	Nov	2.60
Dec	4.40	Dec	3.10	Dec	2.50	Dec	2.70
Jan 1988	4.00	Jan 1992	2.60	Jan 1996	2.70	Jan 2000	2.70
Feb	3.90	Feb	2.80	Feb	2.70	Feb	3.20
Mar	3.90	Mar	3.20	Mar	2.80	Mar	3.70
Apr	3.90	Apr	3.20	Apr	2.90	Apr	3.00
May	3.90	May	3.00	May	2.90	May	3.20
Jun	4.00	Jun	3.10	Jun	2.80	Jun	3.70
Jul	4.10	Jul	3.20	Jul	3.00	Jul	3.70
Aug	4.00	Aug	3.10	Aug	2.90	Aug	3.40
Sep	4.20	Sep	3.00	Sep	3.00	Sep	3.50
Oct	4.20	Oct	3.20	Oct	3.00	Oct	3.40
Nov	4.20	Nov	3.00	Nov	3.30	Nov	3.40
Dec	4.40	Dec	2.90	Dec	3.30	Dec	3.30
Jan 1989	4.70	Jan 1993	3.30	Jan 1997	3.00	Jan 2001	3.70
Feb	4.80	Feb	3.20	Feb	3.00	Feb	3.50
Mar	5.00	Mar	3.10	Mar	2.80	Mar	2.90
Apr	5.10	Apr	3.20	Apr	2.50	Apr	3.30
May	5.40	May	3.20	May	2.20	May	3.60
Jun	5.20	Jun	3.00	Jun	2.30	Jun	3.20
Jul	5.00	Jul	2.80	Jul	2.20	Jul	2.70
Aug	4.70	Aug	2.80	Aug	2.20	Aug	2.70
Sep	4.30	Sep	2.70	Sep	2.20	Sep	2.60
Oct	4.50	Oct	2.80	Oct	2.10	Oct	2.10
Nov	4.70	Nov	2.70	Nov	1.80	Nov	1.90
Dec	4.60	Dec	2.70	Dec	1.70	Dec	1.60

Source: U.S. Department of Labor, Bureau of Labor Statistics, Consumer Price Index - All Urban Consumers, Change for 12-Month Period, Bureau of Labor Statistics Website and Wall Street Journal.



Rate of Inflation
1986 - 2001
7.00
6.00
5.00
4.00
3.00
2.00
1.00
0.00
Percent
86
87
88
89
90
91
92
93
94
95
96
97
98
99
00
01
Year

Schedule 4-2

UNION ELECTRIC COMPANY
EC-2002-1

Average Yields on Mergent's Public Utility Bonds

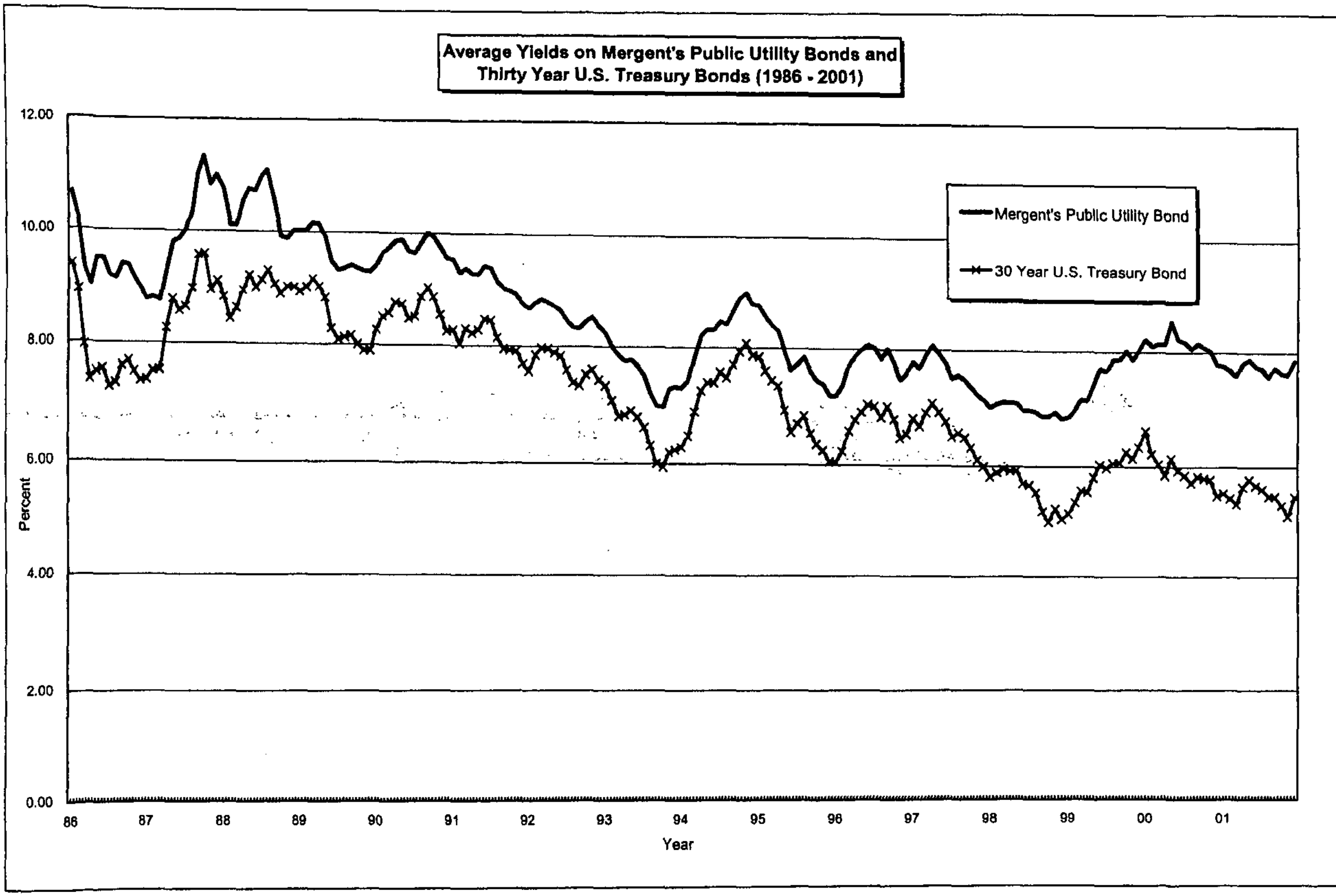
Mo/Year	Rate (%)	Mo/Year	Rate (%)	Mo/Year	Rate (%)	Mo/Year	Rate (%)
Jan 1986	10.66	Jan 1990	9.44	Jan 1994	7.31	Jan 1998	7.03
Feb	10.16	Feb	9.66	Feb	7.44	Feb	7.09
Mar	9.33	Mar	9.75	Mar	7.83	Mar	7.13
Apr	9.02	Apr	9.87	Apr	8.20	Apr	7.12
May	9.52	May	9.89	May	8.32	May	7.11
Jun	9.51	Jun	9.69	Jun	8.31	Jun	6.99
Jul	9.19	Jul	9.66	Jul	8.47	Jul	6.99
Aug	9.15	Aug	9.84	Aug	8.41	Aug	6.96
Sep	9.42	Sep	10.01	Sep	8.65	Sep	6.88
Oct	9.39	Oct	9.94	Oct	8.88	Oct	6.88
Nov	9.15	Nov	9.76	Nov	9.00	Nov	6.96
Dec	8.96	Dec	9.57	Dec	8.79	Dec	6.84
Jan 1987	8.77	Jan 1991	9.56	Jan 1995	8.77	Jan 1999	6.87
Feb	8.81	Feb	9.31	Feb	8.56	Feb	7.00
Mar	8.75	Mar	9.39	Mar	8.41	Mar	7.18
Apr	9.30	Apr	9.30	Apr	8.30	Apr	7.16
May	9.82	May	9.29	May	7.93	May	7.42
Jun	9.87	Jun	9.44	Jun	7.62	Jun	7.70
Jul	10.01	Jul	9.40	Jul	7.73	Jul	7.66
Aug	10.33	Aug	9.16	Aug	7.86	Aug	7.86
Sep	11.00	Sep	9.03	Sep	7.62	Sep	7.87
Oct	11.32	Oct	8.99	Oct	7.46	Oct	8.02
Nov	10.82	Nov	8.93	Nov	7.40	Nov	7.86
Dec	10.99	Dec	8.76	Dec	7.21	Dec	8.04
Jan 1988	10.75	Jan 1992	8.67	Jan 1996	7.20	Jan 2000	8.22
Feb	10.11	Feb	8.77	Feb	7.37	Feb	8.10
Mar	10.11	Mar	8.84	Mar	7.72	Mar	8.14
Apr	10.53	Apr	8.79	Apr	7.88	Apr	8.14
May	10.75	May	8.72	May	7.99	May	8.56
Jun	10.71	Jun	8.64	Jun	8.07	Jun	8.22
Jul	10.96	Jul	8.46	Jul	8.02	Jul	8.17
Aug	11.09	Aug	8.34	Aug	7.84	Aug	8.06
Sep	10.56	Sep	8.32	Sep	8.01	Sep	8.15
Oct	9.92	Oct	8.44	Oct	7.76	Oct	8.08
Nov	9.89	Nov	8.53	Nov	7.48	Nov	8.03
Dec	10.02	Dec	8.36	Dec	7.58	Dec	7.79
Jan 1989	10.02	Jan 1993	8.23	Jan 1997	7.79	Jan 2001	7.76
Feb	10.02	Feb	8.00	Feb	7.68	Feb	7.69
Mar	10.16	Mar	7.85	Mar	7.92	Mar	7.59
Apr	10.14	Apr	7.76	Apr	8.08	Apr	7.81
May	9.92	May	7.78	May	7.94	May	7.88
Jun	9.49	Jun	7.68	Jun	7.77	Jun	7.75
Jul	9.34	Jul	7.53	Jul	7.52	Jul	7.71
Aug	9.37	Aug	7.21	Aug	7.57	Aug	7.57
Sep	9.43	Sep	7.01	Sep	7.50	Sep	7.73
Oct	9.37	Oct	6.99	Oct	7.37	Oct	7.64
Nov	9.33	Nov	7.30	Nov	7.24	Nov	7.61
Dec	9.31	Dec	7.33	Dec	7.16	Dec	7.86

Source: Mergent Bond Record.

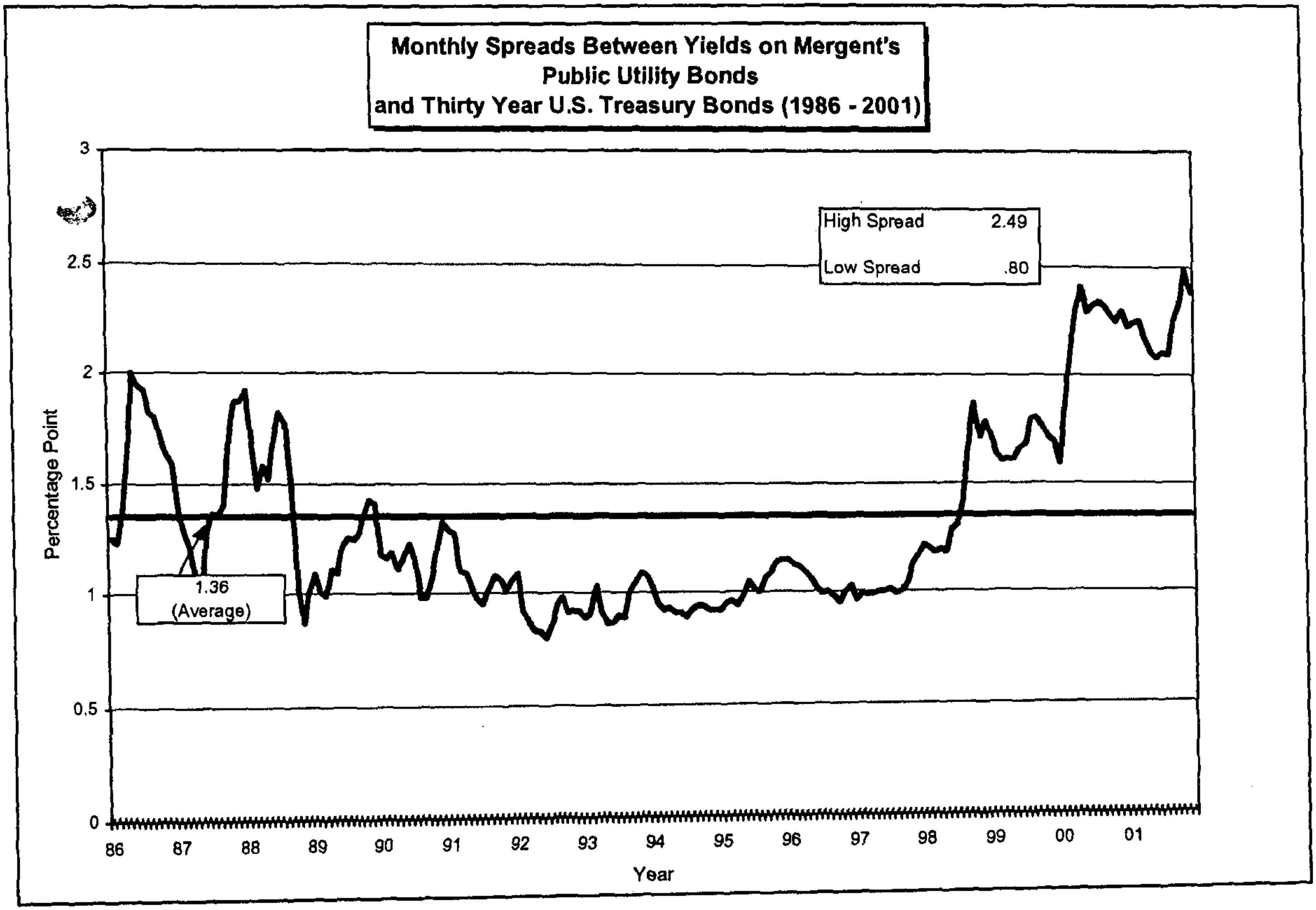
UNION ELECTRIC COMPANY
EC-2002-1

Average Yields on Thirty Year U.S. Treasury Bonds

Mo/Year	Rate (%)	Mo/Year	Rate (%)	Mo/Year	Rate (%)	Mo/Year	Rate (%)
Jan 1986	9.40	Jan 1990	8.26	Jan 1994	6.29	Jan 1998	5.81
Feb	8.93	Feb	8.50	Feb	6.49	Feb	5.89
Mar	7.96	Mar	8.56	Mar	6.91	Mar	5.95
Apr	7.39	Apr	8.76	Apr	7.27	Apr	5.92
May	7.52	May	8.73	May	7.41	May	5.93
Jun	7.57	Jun	8.46	Jun	7.40	Jun	5.70
Jul	7.27	Jul	8.50	Jul	7.58	Jul	5.68
Aug	7.33	Aug	8.86	Aug	7.49	Aug	5.54
Sep	7.62	Sep	9.03	Sep	7.71	Sep	5.20
Oct	7.70	Oct	8.86	Oct	7.94	Oct	5.01
Nov	7.52	Nov	8.54	Nov	8.08	Nov	5.25
Dec	7.37	Dec	8.24	Dec	7.87	Dec	5.06
Jan 1987	7.39	Jan 1991	8.27	Jan 1995	7.85	Jan 1999	5.16
Feb	7.54	Feb	8.03	Feb	7.61	Feb	5.37
Mar	7.55	Mar	8.29	Mar	7.45	Mar	5.58
Apr	8.25	Apr	8.21	Apr	7.36	Apr	5.55
May	8.78	May	8.27	May	6.95	May	5.81
Jun	8.57	Jun	8.47	Jun	6.57	Jun	6.04
Jul	8.64	Jul	8.45	Jul	6.72	Jul	5.98
Aug	8.97	Aug	8.14	Aug	6.86	Aug	6.07
Sep	9.59	Sep	7.95	Sep	6.55	Sep	6.07
Oct	9.61	Oct	7.93	Oct	6.37	Oct	6.26
Nov	8.95	Nov	7.92	Nov	6.26	Nov	6.15
Dec	9.12	Dec	7.70	Dec	6.06	Dec	6.35
Jan 1988	8.83	Jan 1992	7.58	Jan 1996	6.05	Jan 2000	6.63
Feb	8.43	Feb	7.85	Feb	6.24	Feb	6.23
Mar	8.63	Mar	7.97	Mar	6.60	Mar	6.05
Apr	8.95	Apr	7.96	Apr	6.79	Apr	5.85
May	9.23	May	7.89	May	6.93	May	6.15
Jun	9.00	Jun	7.84	Jun	7.06	Jun	5.93
Jul	9.14	Jul	7.60	Jul	7.03	Jul	5.85
Aug	9.32	Aug	7.39	Aug	6.84	Aug	5.72
Sep	9.06	Sep	7.34	Sep	7.03	Sep	5.83
Oct	8.89	Oct	7.53	Oct	6.81	Oct	5.80
Nov	9.02	Nov	7.61	Nov	6.48	Nov	5.78
Dec	9.01	Dec	7.44	Dec	6.55	Dec	5.49
Jan 1989	8.93	Jan 1993	7.34	Jan 1997	6.83	Jan 2001	5.54
Feb	9.01	Feb	7.09	Feb	6.69	Feb	5.45
Mar	9.17	Mar	6.82	Mar	6.93	Mar	5.34
Apr	9.03	Apr	6.85	Apr	7.09	Apr	5.65
May	8.83	May	6.92	May	6.94	May	5.78
Jun	8.27	Jun	6.81	Jun	6.77	Jun	5.67
Jul	8.08	Jul	6.63	Jul	6.51	Jul	5.61
Aug	8.12	Aug	6.32	Aug	6.58	Aug	5.48
Sep	8.15	Sep	6.00	Sep	6.50	Sep	5.48
Oct	8.00	Oct	5.94	Oct	6.33	Oct	5.32
Nov	7.90	Nov	6.21	Nov	6.11	Nov	5.12
Dec	7.90	Dec	6.25	Dec	5.99	Dec	5.48


Average Yields on Mergent's Public Utility Bonds and Thirty Year U.S. Treasury Bonds (1986 - 2001)
Mergent's Public Utility Bond
30 Year U.S. Treasury Bond
Percent
12.00
10.00
8.00
6.00
4.00
2.00
0.00
86
87
88
89
90
91
92
93
94
95
96
97
98
99
00
01
Year

Schedule 5-3


Monthly Spreads Between Yields on Mergent's
Public Utility Bonds
and Thirty Year U.S. Treasury Bonds (1986 - 2001)
High Spread 2.49
Low Spread .80
1.36
(Average)
Percentage Point
3
2.5
2
1.5
1
0.5
0
86
87
88
89
90
91
92
93
94
95
96
97
98
99
00
01
Year

Schedule 5-4

UNION ELECTRIC COMPANY
d/b/a AmerenUE
CASE NO. EC-2002-1

Economic Estimates and Projections, 2002-2004

	Inflation Rate			Real GDP			Unemployment			3-Mo. T-Bill Rate			30-Yr. T-Bond Rate		
Source	2002	2003	2004	2002	2003	2004	2002	2003	2004	2002	2003	2004	2002	2003	2004
The Budget & Economic Outlook: FY2001-2011 (8/01)	2.60%	2.70%	2.50%	2.60%	3.30%	3.20%	5.20%	5.20%	5.20%	3.80%	4.80%	4.90%	N.A	N.A	N.A
Value Line's "Investment Survey" (11/30/01)	2.10%	2.40%	2.60%	0.50%	3.50%	3.60%	6.30%	5.50%	5.30%	2.30%	4.00%	4.30%	5.20%	6.10%	6.20%
Current rate	2.80% *			1.70% *			5.60% **			1.72%			5.48%		

Notes: N.A. = Not Available.
* Reflects annual increase from 2000 to 2001 (CBO forecast for Real GDP)
** Rate reported by Bureau of Labor Statistics for the period ending January 2002

Sources of Current Rates:
Federal Reserve website, www.stls.frb.org, December 2001.
U.S. Department of Commerce, Bureau of Economic Analysis, for the 12-month period ending December 31, 2001
The Bureau of Labor Statistics, Consumer Price Index - All Urban Consumers, February 4, 2002
www.bls.gov

Other Sources:
The Congressional Budget Office, Economic Forecasts and Projections for 2001 through 2011, August 2001
www.cbo.gov.

Schedule 6

UNION ELECTRIC COMPANY
d/b/a AmerenUE
CASE NO. EC-2002-1

Historical Consolidated Capital Structures for Union Electric Company

(Thousands of Dollars)

Capital Components	1996	1997	1998	1999	2000
Common Equity	$2,354,801.0	$2,387,500.0	$2,424,125.0	$2,433,682.0	$2,570,652.0
Preferred Stock	219,100.0	221,200.0	155,197.0	155,197.0	155,197.0
Long-Term Debt	1,798,671.0	1,780,500.0	1,674,311.0	1,882,601.0	1,760,439.0
Short-Term Debt	0.0	0.0	0.0	0.0	0.0
Total	$4,372,572.0	$4,389,200.0	$4,253,633.0	$4,471,480.0	$4,486,288.0

Capital Structure	1996	1997	1998	1999	2000
Common Equity	53.85%	54.39%	56.99%	54.43%	57.30%
Preferred Stock	5.01%	5.04%	3.65%	3.47%	3.46%
Long-Term Debt	41.14%	40.57%	39.36%	42.10%	39.24%
Short-Term Debt	0.00%	0.00%	0.00%	0.00%	0.00%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

Note: The amount of Long-Term Debt includes Current Maturities.
Short-term Debt has not been noted on this schedule since CWIP usually exceeds outstanding short-term debt balances.

Source: Union Electric Company's Shareholder Annual Reports and Union Electric Company's response to Staff's Data Information Request No. 3801

Union Electric Company
d/b/a AmerenUE
CASE NO. EC-2002-1

Selected Financial Ratios for Union Electric Company
(Consolidated Basis)

Financial Ratios	1996	1997	1998	1999	2000
Return on Year-End Common Equity	12.38%	13.98%	12.84%	13.99%	14.60%
Earnings Per Common Share	$2.86	$2.44	$2.82	$2.81	$3.33
Common Dividend Payout Ratio	87.80%	88.58%	83.40%	96.55%	76.00%
Year-End Market Price Per Common Share	$38.500	$43.250	$42.687	$32.812	$46.310
Year-End Book Value Per Common Share	$23.06	$22.00	$22.27	$22.52	$23.30
Year-End Market to Book Ratio	1.67 x	1.97 x	1.92 x	1.46 x	1.99 x
Pre-Tax Interest Coverage Ratio	4.55 x	4.73 x	5.13 x	5.83 x	5.22 x

Notes:

Return on Year-End Common Equity = Net Income Available for Common Stock / Year-End Common Shareholders' Equity.

Common Dividend Payout Ratio = Common Dividends Paid / Net Income Available for Common Stock.

Year-End Market to Book Ratio = Year-End Market Price Per Common Share / Year-End Book Value Per Common Share.

Pre-Tax Interest Coverage Ratio = (Net Income + Income Taxes + Total Interest Expense) / Total Interest Expense.

Sources: Union Electric Company's Shareholder Annual Reports, Ameren Corporation Shareholder Annual Reports, Union Electric Company's response to Staff's Data Information Request No. 3801, Standard and Poor's Stock guide and Standard & Poor's Corporation's Utility Rating Service.

UNION ELECTRIC COMPANY
d/b/a AmerenUE
CASE NO. EC-2002-1

Capital Structure as of September 30, 2001
for Union Electric Company d/b/a AmerenUE
(thousands of dollars)

Capital Component	Amount in Dollars	Percentage of Capital
Common Stock Equity	$2,603,364.0	59.08%
Preferred Stock	155,197.0	3.52%
Long-Term Debt	1,648,373.0	37.40%
Short-Term Debt	0	0.00%
Total Capitalization	**$4,406,934.0**	**100.00%**

Financial Ratio Benchmarks
Total Debt / Total Capital - Including Preferred Stock

Standard & Poor's Corporation's Utility Rating Service 7/7/2000	AA	A	BBB
Electric Companies (Average)	49.00%	58.50%	62.43%

Source: Union Electric Company's response to Staff's Data Information Request Nos. 3801 and 3802.

UNION ELECTRIC COMPANY
d/b/a AmerenUE
CASE NO. EC-2002-1

Dividends Per Share, Earnings Per Share & Book Value Per Share Growth Rates for Ameren Corporation

Year	Dividends Per Share	Earnings Per Share	Book Value Per Share
1991	$2.18	$3.01	$20.62
1992	$2.26	$2.65	$21.19
1993	$2.34	$2.77	$21.60
1994	$2.40	$3.01	$22.22
1995	$2.46	$2.95	$22.71
1996	$2.51	$2.86	$23.06
1997	$2.54	$2.44	$22.00
1998	$2.54	$2.82	$22.27
1999	$2.54	$2.81	$22.52
2000	$2.54	$3.33	$23.30
2001	$2.54	$3.41	$24.05

Annual Compound Growth Rates

	DPS	EPS	BVPS
1991 - 2001	1.54%	1.26%	1.55%
1996 - 2001	0.24%	3.58%	0.84%

2001 DPS and BVPS are Value Line estimates. 2001 EPS from Ameren news release, February 5, 2002

Source: Value Line Investment Survey, January 4, 2002

UNION ELECTRIC COMPANY
d/b/a AmerenUE
CASE NO. EC-2002-1

Historical and Projected Growth Rates
for Ameren Corporation

Historical Growth Rates

DPS Annual Compound Growth (1996 - 2001)	0.24%
DPS Annual Compound Growth (1991 - 2001)	1.54%
BVPS Annual Compound Growth (1996 - 2001)	0.84%
BVPS Annual Compound Growth (1991 - 2001)	1.55%
EPS Annual Compound Growth (1996 - 2001)	3.58%
EPS Annual Compound Growth (1991 - 2001)	1.26%
Average of Historical Growth Rates	1.50%

Projected Growth Rates from Outside Sources

5 Year Growth Forecast (Median) I/B/E/S Inc.'s Institutional Brokers Estimate System August 16, 2001	5.00%
5-Year Projected EPS Growth Rate Standard & Poor's Corporation's Earnings Guide September 2001	5.00%

Average of Projected Growth Rates	5.00%
Average of historical and projected growth	3.25%

Proposed Range of Growth for Union Electric Company:	**2.75% - 3.75%**

Source: See Schedule 10 for Historical Growth Rate Information

UNION ELECTRIC COMPANY
d/b/a AmerenUE
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Monthly High / Low Average Dividend Yields
for Ameren Corporation

	(1)	(2)	(3)	(4)	(5)
Month / Year	High Stock Price	Low Stock Price	Average High / Low Price	Expected Dividend	Projected Dividend Yield
April 2001	43.150	40.200	$41.675	$2.54	6.09%
May 2001	45.480	40.500	$42.990	$2.54	5.91%
June 2001	44.500	41.250	$42.875	$2.54	5.92%
July 2001	43.450	37.370	$40.410	$2.54	6.29%
August 2001	42.200	38.900	$40.550	$2.54	6.26%
September 2001	41.770	36.530	$39.150	$2.54	6.49%
Average			**$41.275**		**6.16%**

Proposed Dividend Yield for Ameren Corporation: **6.16%**

Notes: Column 3 = [(Column 1 + Column 2) / 2].

Column 4 = Estimated Dividends Declared per share represents the average projected dividends for 2001 and 2002.

Column 5 = (Column 4 / Column 3).

Sources: Standard and Poor's Stock Guide
Value Line investment Survey, January 4, 2002
Wall Street City website

UNION ELECTRIC COMPANY
d/b/a AmerenUE
CASE NO. EC-2002-1

Discounted Cash Flow (DCF) Costs of Common Equity Estimates for Ameren Corporation

UE's Cost of Common Equity	=	Dividend Yield	+	Expected Growth
8.91%	=	**6.16%**	+	**2.75%**
9.91%	=	**6.16%**	+	**3.75%**

Discounted Cash Flow (DCF) Model Derivation

$$\text{Present Price} = \frac{\text{Expected Dividends}}{\text{Discounted by } k} + \frac{\text{Present Price } (1+g)}{\text{Discounted by } k}$$

where: g = estimated growth rate and k = cost of common equity.

Letting: P_0 = present price and D1 = expected dividends, then

$$P_0 = \frac{D1}{(1+k)} + \frac{P_0(1+g)}{(1+k)} \quad \text{or}$$

$$k = \frac{D1}{P_0} + g$$

Thus:

Cost of Common Equity = Dividend Yield + Expected Growth

Notes: See Schedule 12 for calculation of proposed dividend yield for Ameren Corporation

See Schedule 11 for calculation of proposed range of growth for Ameren Corporation

UNION ELECTRIC COMPANY
d/b/a AmerenUE
CASE NO. EC-2002-1

Average Risk Premium above the Yields of 30 Year Treasury Bonds for Ameren Corporation's Expected Return on Common Equity

Mo/Year	AEE's Expected ROE	30-Year U.S. Treasury Bond Yields	AEE's Risk Premium	Mo/Year	AEE's Expected ROE	30-Year U.S. Treasury Bond Yields	AEE's Risk Premium
Jan 1992	13.50%	7.58%	5.92%	Jan 1997	13.00%	6.83%	6.17%
Feb	13.50%	7.85%	5.65%	Feb	13.00%	6.69%	6.31%
Mar	13.50%	7.97%	5.53%	Mar	13.00%	6.93%	6.07%
Apr	13.00%	7.96%	5.04%	Apr	12.50%	7.09%	5.41%
May	13.00%	7.89%	5.11%	May	12.50%	6.94%	5.56%
Jun	13.00%	7.84%	5.16%	Jun	12.50%	6.77%	5.73%
Jul	13.00%	7.60%	5.40%	Jul	13.00%	6.51%	6.49%
Aug	13.00%	7.39%	5.61%	Aug	13.00%	6.58%	6.42%
Sep	13.00%	7.34%	5.66%	Sep	13.00%	6.50%	6.50%
Oct	12.50%	7.53%	4.97%	Oct	13.00%	6.33%	6.67%
Nov	12.50%	7.61%	4.89%	Nov	13.00%	6.11%	6.89%
Dec	12.50%	7.44%	5.06%	Dec	13.00%	5.99%	7.01%
Jan 1993	13.00%	7.34%	5.66%	Jan 1998	12.50%	5.81%	6.69%
Feb	13.00%	7.09%	5.91%	Feb	12.50%	5.89%	6.61%
Mar	13.00%	6.82%	6.18%	Mar	12.50%	5.95%	6.55%
Apr	12.50%	6.85%	5.65%	Apr	12.00%	5.92%	6.08%
May	12.50%	6.92%	5.58%	May	12.00%	5.93%	6.07%
Jun	12.50%	6.81%	5.69%	Jun	12.00%	5.70%	6.30%
Jul	12.50%	6.63%	5.87%	Jul	11.50%	5.68%	5.82%
Aug	12.50%	6.32%	6.18%	Aug	11.50%	5.54%	5.96%
Sep	12.50%	6.00%	6.50%	Sep	11.50%	5.20%	6.30%
Oct	13.50%	5.94%	7.56%	Oct	12.00%	5.01%	6.99%
Nov	13.50%	6.21%	7.29%	Nov	12.00%	5.25%	6.75%
Dec	13.50%	6.25%	7.25%	Dec	12.00%	5.06%	6.94%
Jan 1994	13.50%	6.29%	7.21%	Jan 1999	13.00%	5.16%	7.84%
Feb	13.50%	6.49%	7.01%	Feb	13.00%	5.37%	7.63%
Mar	13.50%	6.91%	6.59%	Mar	13.00%	5.58%	7.42%
Apr	13.50%	7.27%	6.23%	Apr	13.00%	5.55%	7.45%
May	13.50%	7.41%	6.09%	May	13.00%	5.81%	7.19%
Jun	13.50%	7.40%	6.10%	Jun	13.00%	6.04%	6.96%
Jul	13.00%	7.58%	5.42%	Jul	13.00%	5.98%	7.02%
Aug	13.00%	7.49%	5.51%	Aug	13.00%	6.07%	6.93%
Sep	13.00%	7.71%	5.29%	Sep	13.00%	6.07%	6.93%
Oct	13.50%	7.94%	5.56%	Oct	13.00%	6.26%	6.74%
Nov	13.50%	8.08%	5.42%	Nov	13.00%	6.15%	6.85%
Dec	13.50%	7.87%	5.63%	Dec	13.00%	6.35%	6.65%
Jan 1995	12.50%	7.85%	4.65%	Jan 2000	13.50%	6.63%	6.87%
Feb	12.50%	7.61%	4.89%	Feb	13.50%	6.23%	7.27%
Mar	12.50%	7.45%	5.05%	Mar	13.50%	6.05%	7.45%
Apr	12.50%	7.36%	5.14%	Apr	13.50%	5.85%	7.65%
May	12.50%	6.95%	5.55%	May	13.50%	6.15%	7.35%
Jun	12.50%	6.57%	5.93%	Jun	13.50%	5.93%	7.57%
Jul	12.00%	6.72%	5.28%	Jul	13.50%	5.85%	7.65%
Aug	12.00%	6.86%	5.14%	Aug	13.50%	5.72%	7.78%
Sep	12.00%	6.55%	5.45%	Sep	13.50%	5.83%	7.67%
Oct	12.00%	6.37%	5.63%	Oct	14.00%	5.80%	8.20%
Nov	12.00%	6.26%	5.74%	Nov	14.00%	5.78%	8.22%
Dec	12.00%	6.06%	5.94%	Dec	14.00%	5.49%	8.51%
Jan 1996	11.50%	6.05%	5.45%	Jan 2001	14.00%	5.54%	8.46%
Feb	11.50%	6.24%	5.26%	Feb	14.00%	5.45%	8.55%
Mar	11.50%	6.60%	4.90%	Mar	14.00%	5.34%	8.66%
Apr	13.00%	6.79%	6.21%	Apr	14.00%	5.65%	8.35%
May	13.00%	6.93%	6.07%	May	14.00%	5.78%	8.22%
Jun	13.00%	7.06%	5.94%	Jun	14.00%	5.67%	8.33%
Jul	13.00%	7.03%	5.97%	Jul	14.00%	5.61%	8.39%
Aug	13.00%	6.84%	6.16%	Aug	14.00%	5.48%	8.52%
Sep	13.00%	7.03%	5.97%	Sep	14.00%	5.48%	8.52%
Oct	13.00%	6.81%	6.19%	Oct	14.00%	5.32%	8.68%
Nov	13.00%	6.48%	6.52%	Nov	14.00%	5.12%	8.88%
Dec	13.00%	6.55%	6.45%	Dec	14.00%	5.48%	8.52%

Summary Information	(Jan 1992 - Dec 2001)
Average Risk Premium:	6.49%
High Risk Premium:	8.88%
Low Risk Premium:	4.65%

Sources: The Value Line Investment Survey: Ratings & Reports
St. Louis Federal Reserve Website: http://www.stls.frb.org/fred/data/irates/gs30

Schedule 14

UNION ELECTRIC COMPANY
d/b/a AmerenUE
CASE NO. EC-2002-1

Risk Premium Costs of Equity Estimates
for Ameren Corporation

AEE's Cost of Common Equity		30-Year U.S. Treasury Bond (January 6, 2002)		Equity Risk Premium (1/92 - 12/01)
11.87%	=	5.38%	+	6.49%

Risk Premium Approach

The risk premium approach is based upon the proposition that common stocks are more risky than debt and, as a result, investors require a higher expected return on stocks than bonds. In this approach, the cost of common equity is computed by the following formula:

Common Equity	=	Current Cost of Debt	+	Equity Risk Premium

where:

The Current Cost of Debt is represented by the yield on 30-Year U.S. Treasury Bonds,
The appropriate rate was determined by using the yield on U.S. Treasury Bonds on January 6, 2002

The Equity Risk Premium represents the difference between AEE's expected return on common equity (ROE) as projected in the Value Line Investment Survey and the yield on U.S. Treasury Bonds on January 6, 2002. The appropriate Equity Risk Premium was determined to be the average risk premium for the period January 1992 through December 2001. See Schedule 14 for the calculation of the Equity Risk Premium of 6.49%.

UNION ELECTRIC COMPANY
d/b/a AmerenUE
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Capital Asset Pricing Model (CAPM) Costs of Equity Estimates
Ameren Corporation

AEE's Cost of Common Equity	=	Risk Free Rate	+	(AEE's Beta	*	Market) Risk Premium)	
9.40%	=	5.38%	+	(0.55	*	7.30%	)
9.34%	=	5.38%	+	(0.55	*	7.20%	)

Capital Asset Pricing Model

The capital asset pricing model (CAPM) describes the relationship between a security's investment risk and its market rate of return. This relationship identifies the rate of return which investors expect a security to earn so that its market return is comparable with the market returns earned by other securities that have similar risk. The general form of the CAPM is as follows:

Cost of Common Equity = Risk Free Rate + [Beta * Market Risk Premium]

where:

The Risk Free Rate reflects the level of return which can be achieved without accepting any risk. The Risk Free Rate is represented by the yield on 30-Year U.S. Treasury Bonds. The approriate rate was determined to be 5.38% on January 6, 2002 as published on WWW.MARKETWATCH.COM.

The Beta represents the relative movement and relative risk between a particular stock and the market. The approriate Beta for AEE was determined to be 0.55 as published in The Value Line Investment Survey: Ratings & Reports, January 4, 2002.

The Market Risk Premium represents the expected return from holding the entire market portfolio less the expected return from holding a risk free investment. The approriate Market Risk Premium was determined to be 7.30% as calculated in Ibbotson Associates, Inc.'s Stocks, Bonds, Bills, and Inflation: 2001 Yearbook for the period 1926 - 2000 and 7.20% for the period 1991-2000.

UNION ELECTRIC COMPANY
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Criteria for Selecting Comparable Electric Utility Companies

Electric Utility Company	(1) Electric Utility Publicly Traded	(2) Information Printed In Value Line	(3) S&P Utility Credit Rating "AA- to BBB+"	(4) Total Capital >=$4.0 B <=$8.0 B	(5) Positive DPS Annual Compound Growth Rate (1991 - 2001)	(6) No Missouri Operations	(7) Met All Criteria
ALLETE	Yes	Yes	Yes	No			
Allegheny Energy	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Alliant Energy	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Amer. Elec. Power	Yes	Yes	Yes	No			
Ameren Corp.	Yes	Yes	Yes	Yes	Yes	No	
Avista Corp.	Yes	Yes	No				
Bangor Hydro Elec.	Yes	Yes	No				
BayCorp Holdings LTD	Yes	Yes	No				
Black Hills	Yes	Yes	No				
CH Energy Group	Yes	Yes	No				
CMS Energy	Yes	Yes	No				
Cen. Vermont Pub. Serv.	Yes	Yes	No				
Cinergy Corp.	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Cleco	Yes	Yes	Yes	No			
Conectiv	Yes	Yes	Yes	No			
Consolidated Edison	Yes	Yes	Yes	No			
Constellation Energy	Yes	Yes	Yes	Yes	No		
DPL Inc.	Yes	Yes	Yes	No			
DQE	Yes	Yes	Yes	No			
DTE Energy	Yes	Yes	Yes	No			
Dominion Resources	Yes	Yes	Yes	No			
Duke Energy	Yes	Yes	Yes	No			
Edison Intl.	Yes	Yes	No				
El Paso Electric	Yes	Yes	No				

Criteria for Selecting Comparable Electric Utility Companies

Electric Utility Company	(1) Electric Utility Publicly Traded	(2) Information Printed In Value Line	(3) S&P Utility Credit Rating "AA- to BBB+"	(4) Total Capital >=$4.0 B <=$8.0 B	(5) Positive DPS Annual Compound Growth Rate (1991 - 2001)	(6) No Missouri Operations	(7) Met All Criteria
Empire Dist. Elec.	Yes	Yes	Yes	No			
Energy East Corp.	Yes	Yes	Yes	Yes	No		
Entergy Corp.	Yes	Yes	No				
Evergreen Solar	Yes	Yes	No				
Exelon Corp.	Yes	Yes	Yes	No			
FPL Group	Yes	Yes	Yes	No			
FirstEnergy Corp.	Yes	Yes	No				
Florida Public Utilities	Yes	Yes	No				
Fortis Inc.	Yes	Yes	No				
G't Plains Energy	Yes	Yes	No				
GPU Inc.	Yes	Yes	No				
Green Mountain Power	Yes	Yes	No				
Hawaiian elec.	Yes	Yes	Yes	No			
IDACORP Inc.	Yes	Yes	Yes	No			
KFx Inc.	Yes	Yes	No				
MDU Resources	Yes	Yes	Yes	No			
Madison Gas & Elec.	Yes	Yes	Yes	No			
Maine Public Service	Yes	Yes	No				
Montana Power	Yes	Yes	Yes	No			
NSTAR	Yes	Yes	Yes	No			
NiSource Inc.	Yes	Yes	No				
Niagra Mohawk	Yes	Yes	No				
NorthWestern Corp.	Yes	Yes	Yes	No			
Northeast Utilities	Yes	Yes	Yes	Yes	No		
OGE Energy	Yes	Yes	Yes	No			
Otter Tail Corp.	Yes	Yes	Yes	No			
PG&E Corp.	Yes	Yes	No				
PPL Corp.	Yes	Yes	Yes	Yes	No		
Pinnacle West Capital	Yes	Yes	Yes	No			
Potomac Electric Power	Yes	Yes	Yes	No			
Progress Energy	Yes	Yes	Yes	No			

Criteria for Selecting Comparable Electric Utility Companies

Electric Utility Company	(1) Electric Utility Publicly Traded	(2) Information Printed In Value Line	(3) S&P Utility Credit Rating "AA- to BBB+"	(4) Total Capital >=$4.0 B <=$8.0 B	(5) Positive DPS Annual Compound Growth Rate (1991 - 2001)	(6) No Missouri Operations	(7) Met All Criteria
Public Serv. (N. Mex.)	Yes	Yes	No				
Public Service Enterprise	Yes	Yes	No				
Puget Energy Inc.	Yes	Yes	No				
RGS Energy Group	Yes	Yes	Yes	No			
Reliant Energy	Yes	Yes	Yes	No			
SCANA Corp.	Yes	Yes	Yes	Yes	No		
Sempra Energy	Yes	Yes	Yes	Yes	No		
Sierra Pacific Res.	Yes	Yes	No				
Southern Co..	Yes	Yes	Yes	No			
TECO Energy	Yes	Yes	Yes	No			
TXU Corp.	Yes	Yes	Yes	No			
U. S. Energy Sys. Inc.	Yes	Yes	No				
UIL Holdings	Yes	Yes	No				
UNITIL Corp.	Yes	Yes	No				
UniCorp Inc.	Yes	Yes	No				
UniSource Energy	Yes	Yes	No				
Utilicorp United	Yes	Yes	No				
Vectren Corp.	Yes	Yes	Yes	No			
WPS Resources	Yes	Yes	Yes	No			
Western Resources	Yes	Yes	No				
Wisconsin Energy	Yes	Yes	Yes	Yes	No		
Xcel Energy Inc.	Yes	Yes	Yes	No			

Sources: Columns 1, 2, 4 & 5 = The Value Line Investment Survey: Ratings and Reports, December 7, 2001, January 4, 2002.

Column 3 = Standard and Poor's *Utilities and Perspectives*, January 21, 2002.

UNION ELECTRIC COMPANY
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The Three Comparable Electric Utility Companies

Number	Ticker Symbol	Company Name
1	AYE	Allegheny Energy
2	CEG	Alliant Energy
3	CIN	Cinergy Corp.

UNION ELECTRIC COMPANY
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Dividends Per Share, Earnings Per Share & Book Value Per Share Growth Rates for the Three Comparable Electric Utility Companies

	Dividends Per Share		Earnings Per Share		Book Value Per Share	
Company Name	1991	2001	1991	2001	1991	2001
Allegheny Energy	$1.59	$1.72	$1.81	$4.05	$15.54	$22.10
Alliant Energy	$1.80	$2.00	$2.43	$2.40	$17.09	$26.40
Cinergy	$1.65	$1.80	$2.21	$2.75	$18.70	$18.50

Annual Compound Growth Rates

Company Name	DPS 1991 - 2001	EPS 1991 - 2001	BVPS 1991 - 2001	Average of 10 Year Annual Compound Growth Rates
Allegheny Energy	0.79%	8.39%	3.58%	4.25%
Alliant Energy	1.06%	-0.12%	4.44%	1.79%
Cinergy	0.87%	2.21%	-0.11%	0.99%
Average	**0.91%**	**3.49%**	**2.64%**	**2.35%**
Standard Deviation	0.11%	3.59%	1.97%	1.39%

Source: The Value Line Investment Survey: Ratings & Reports, December 7, 2001 and January 4, 2002. EPS, DPS and BVPS for Allegheny, EPS and BVPS for Alliant and EPS and BVPS for Cinergy for 2001 are estimates. Remaining EPS, DPS and BVPS are actual.

UNION ELECTRIC COMPANY
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Historical and Projected Growth Rates
for the Three Comparable Electric Utility Companies

Company Name	(1) Average 10 Year Annual Compound	(2) Projected 5 Year Growth IBES (Median)	(3) Projected 5 Year EPS Growth (S&P)	(4) Projected 3-5 Year EPS Growth Value Line	(5) Average Projected Growth	(6) Average of Historical & Projected Growth
Allegheny Energy	4.25%	10.00%	9.00%	9.33%	9.44%	6.85%
Alliant Energy	1.79%	5.25%	4.00%	3.17%	4.14%	2.97%
Cinergy	0.99%	6.00%	6.00%	4.12%	5.37%	3.18%
Average	**2.35%**	**7.08%**	**6.33%**	**5.54%**	**6.32%**	**4.33%**

Notes: Column 5 = [(Column 2 + Column 3 + Column 4) / 3].

Column 6 = [(Column 1 + Column 5) / 2].

Sources: Column 1 = Average of 10 Year Annual Compound Growth Rates from Schedule 19.

Column 2 = I/B/E/S Inc.'s Institutional Brokers Estimate System, January 17, 2002.

Column 3 = Standard & Poor's Corporation's Earnings Guide, January 2002.

Column 4 = Value Line Investment Survey, Ratings & Reports, December 7, 2001 and January 4, 2002.

UNION ELECTRIC COMPANY
d/b/a AmerenUE
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Average High / Low Stock Price for June 2001 through September 2001
for the Three Comparable Electric Utility Companies

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	June 2001		July 2001		August 2001		September 2001		Average High/Low Stock Price (Jun 01-Sep 01)
Company Name	High Stock Price	Low Stock Price	High Stock Price	Low Stock Price	High Stock Price	Low Stock Price	High Stock Price	Low Stock Price	
Allegheny Energy	$54.200	$45.500	$49.250	$40.150	$45.150	$42.390	$44.450	$35.200	$44.536
Alliant Energy	30.600	28.200	30.000	27.900	30.820	28.290	31.490	29.500	29.600
Cinergy	35.300	32.200	35.000	29.700	33.200	30.780	32.870	28.000	32.131

Notes:

Column 9 = [(Column 1 + Column 2 + Column 3 + Column 4 + Column 5 + Column 6 + Column 7 + Column 8) / 8].

Sources: Wall Street City website

Schedule 21

UNION ELECTRIC COMPANY
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DCF Estimated Costs of Common Equity
for the Three Comparable Electric Utility Companies

Company Name	(1) Expected Annual Dividend (Avg 2001-2002)	(2) Average High/Low Stock Price	(3) Projected Dividend Yield	(4) Average of Historical & Projected Growth Rate	(5) Estimated Cost of Common Equity
Allegheny Energy	$1.740	$44.536	3.91%	6.85%	10.76%
Alliant Energy	$2.000	$29.600	6.76%	2.97%	9.72%
Cinergy	$1.800	$32.131	5.60%	3.18%	8.78%
Average			**5.42%**	**4.33%**	**9.75%**

Notes: Column 1 = Estimated Dividends Declared per share represents the average actual and projected dividends for 2001 and 2002.

Column 3 = (Column 1 / Column 2).

Column 5 = (Column 3 + Column 4).

Sources: Column 1 = The Value Line Investment Survey: Ratings & Reports, December 7, 2001 and January 4, 2002.

Column 2 = Schedule 21.

Column 4 = Schedule 20.

UNION ELECTRIC COMPANY
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Capital Asset Pricing Model (CAPM) Costs of Common Equity Estimates for the Three Comparable Electric Utility Companies

	(1)	(2)	(3)	(4)	(5)	(6)
Company Name	Risk Free Rate	Company's Value Line Beta	Market Risk Premium	Market Risk Premium	CAPM Cost of Common Equity (Low)	CAPM Cost of Common Equity (High)
Allegheny Energy	5.38%	0.60	7.20%	7.30%	9.70%	9.76%
Alliant Energy	5.38%	0.55	7.20%	7.30%	9.34%	9.40%
Cinergy	5.38%	0.55	7.20%	7.30%	9.34%	9.40%
Average		0.57			9.46%	9.52%

Notes: Column 5 = [Column 1 + (Column 2 * Column 3)] .

Column 6 = [Column 1 + (Column 2 * Column 4)] .

Sources: Column 1 = The Risk Free Rate reflects the level of return which can be achieved without accepting any risk. The Risk Free Rate is represented by the yield on 30-Year U.S. Treasury Bonds. The approriate rate was determined to be 5.38% for the period ending January 4, 2002 as published on the Marketwatch website (www.marketwatch.com).

Column 2 = The Beta represents the relative movement and relative risk between a particular stock and the market. The approriate Betas were taken from The Value Line Investment Survey, Ratings and Reports, December 7, 2001 and January 4, 2002.

Column 3 = The Market Risk Premium represents the expected return from holding the entire market portfolio less the expected return from holding a risk free investment. The approriate Market Risk Premium was determined to be 7.20% as calculated in Ibbotson Associates, Inc.'s Stocks, Bonds, Bills, and Inflation: 2001 Yearbook for the period 1991 - 2000.

Column 4 = The Market Risk Premium represents the expected return from holding the entire market portfolio less the expected return from holding a risk free investment. The approriate Market Risk Premium was determined to be 7.30% as calculated in Ibbotson Associates, Inc.'s Stocks, Bonds, Bills, and Inflation: 2001 Yearbook for the period 1926 - 2000.

Union Electric Company
d/b/a AmerenUE
CASE NO. EC-2002-1

Pro Forma Pre-Tax Interest Coverage Ratios
for Union Electric Company

	8.91%	9.41%	9.91%
1. Common Equity *(see Schedule 9)*	$2,603,364	$2,603,364	$2,603,364
2. Earnings Allowed (ROE * [1])	$231,979	$244,996	$258,013
3. Preferred Dividends *(DR 3801 response)*	$8,817	$8,817	$8,817
4. Net Income Available ([2] + [3])	$240,796	$253,813	$266,830
5. Tax Multiplier (1 / { 1 - Tax Rate })	1.6231	1.6231	1.6231
6. Pre-Tax Earnings ([4] * [5])	$390,830	$411,958	$433,085
7. Annual Interest Costs (DR 3801 response)	$112,318	$112,318	$112,318
8. Avail. for Coverage ([6] + [7])	$503,148	$524,276	$545,403
9. **Pro Forma Pre-Tax Interest Coverage** ([8] / [7])	**4.48 x**	**4.67 x**	**4.86 x**

Electric Utility Financial Ratio Benchmarks - Pretax Interest Coverage (x)

Standard & Poor's Corporation's Utility Rating Service 7/7/2000	"AA"	"A"	"BBB"
	4.17x	3.40x	2.33

UNION ELECTRIC COMPANY
d/b/a AmerenUE
CASE NO. EC-2002-1

Public Utility Revenue Requirement

or

Cost of Service

The formula for the revenue requirement of a public utility may be stated as follows :

Equation 1 : **Revenue Requirement = Cost of Service**

or

Equation 2 : $\mathbf{RR = O + (V - D)R}$

The symbols in the second equation are represented by the following factors :

R R	=	Revenue Requirement
O	=	Prudent Operating Costs, including Depreciation and Taxes
V	=	Gross Valuation of the Property Serving the Public
D	=	Accumulated Depreciation
(V - D)	=	Rate Base (Net Valuation)
(V - D) R	=	Return Amount ($$) or Earnings Allowed on Rate Base
R	=	$iL + dP + kE$ or Overall Rate of Return (%)
i	=	Embedded Cost of Debt
L	=	Proportion of Debt in the Capital Structure
d	=	Embedded Cost of Preferred Stock
P	=	Proportion of Preferred Stock in the Capital Structure
k	=	Required Return on Common Equity (ROE)
E	=	Proportion of Common Equity in the Capital Structure

UNION ELECTRIC COMPANY
d/b/a AmerenUE
CASE NO. EC-2002-1

Weighted Cost of Capital as of September 30, 2001
for Union Electric Company d/b/a AmerenUE

			Weighted Cost of Capital Using Common Equity Return of:		
Capital Component	Percentage of Capital	Embedded Cost	**8.91%**	**9.41%**	**9.91%**
Common Stock Equity	59.08%	-----	5.26%	5.56%	5.86%
Preferred Stock	3.52%	5.72%	0.20%	0.20%	0.20%
Long-Term Debt	37.40%	6.82%	2.55%	2.55%	2.55%
Short-Term Debt	0.00%	0.00%	0.00%	0.00%	0.00%
Total	**100.00%**		**8.01%**	**8.31%**	**8.61%**

Exhibit No.:	
Issues:	*Rate of Return*
Witness:	*Ronald L. Bible*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Direct Testimony*
Case Nos.:	*EC-2002-1*
Date Testimony Prepared:	*March 1, 2002*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

RONALD L. BIBLE

UNION ELECTRIC COMPANY
d/b/a AMERENUE

CASE NO. EC-2002-1

4
EXHIBIT
4/16/02 KRM

Jefferson City, Missouri
March 2002

Redlined Pages *03/29/02*

A. Schedules 7 and 8 present historical capital structures and selected financial ratios from 1996 to 2000 for AmerenUE. AmerenUE's common equity ratio has ranged from a high of 57.30 percent to a low of 53.85 percent over the time period of 1996 through 2000. *The Value Line Investment Survey: Ratings & Reports* dated January 4, 2002, reported that the average common equity ratio (figured excluding short-term debt) for the electric utility (central) industry for 2000 was 40.50 percent, estimated to be 42.50 percent and 44.50 percent for 2001 and 2002, respectively, and 48.5 percent for the period 2004 to 2006. According to Standard & Poor's Corporation: *Ratings Direct*, dated November 10, 2001, "Management's financial strategy, which until last year was viewed as conservative, is now moderate. This is evident in the rising level of debt in the company's capital structure and recent expansion of its riskier unregulated generation business".

AmerenUE's reported return on year-end common equity (ROE) has fluctuated during this time period ranging from a low of 12.38 percent in 1996 to a high of 14.60 percent in 2000 (see Schedule 8). AmerenUE's ROE of 14.~~6~~30 percent for 2000 is above the average of 7.4 percent for the electric utility (central) industry according to *The Value Line Investment Survey: Ratings & Reports*, January 4, 2002. *The Value Line Investment Survey: Ratings & Reports,* January 4, 2002 estimates that Ameren's return on equity for 2001 will be 14.00 percent. AmerenUE's market-to-book ratio has varied from a low of 1.46 in 1999 to a high of 1.99 in year 2000 (see Schedule 8).

Determination of the Cost of Capital

Q. Please describe your approach for determining a utility company's cost of capital.

dividend yield of 6.00 percent, which is lower than the dividend yield used in my DCF estimates and would decrease the recommended return on common equity.

<u>Reasonableness of DCF Returns for AmerenUE</u>

Q. What analysis was performed to determine the reasonableness of your DCF model derived return on common equity for Ameren?

A. I performed a risk premium cost of equity analysis for Ameren. The risk premium concept implies that the required return on common equity is found by adding an explicit premium for risk to a current interest rate. Schedule 14 shows the average risk premium above the yield of 30-Year Treasury Bonds for Ameren's expected return on common equity. This analysis shows, on average, Ameren's expected return on equity as reported by *The Value Line Investment Survey: Ratings & Reports* is 649 basis points higher than the yield on 30-Year Treasury Bonds for the period of January 1992 to December 2001 (see Schedule 14).

The average yield for 30-Year Treasury Bonds on January ~~6~~<u>14</u>, 2002 was 5.38 percent. Adding 649 basis points to this yield produces an estimated cost of equity of 11.87 percent. (See Schedule 15.)

Q. Did you perform any other checks on reasonableness of your DCF model derived return on common equity for Ameren?

A. Yes. I performed a Capital Asset Pricing Model (CAPM) cost of equity analysis for Ameren. The CAPM describes the relationship between a security's investment risk and its market rate of return. This relationship identifies the rate of return that investors expect a security to earn so that its market return is comparable with the

market returns earned by other securities that have similar risk. The mathematical expression of the CAPM is the following:

$$k = R_f + \beta\,(R_m - R_f)$$

where:

k	=	the expected return on equity for a specific security,
R_f	=	the risk free rate,
β	=	beta; and
$R_m - R_f$	=	the market risk premium.

The first term of the CAPM is the risk free rate (R_f). The risk free rate reflects the level of return which can be achieved without accepting any risk. In reality, there is no such riskless asset, but it is generally represented by U.S. Treasury securities, because of the government's unlimited ability to tax and create money. For purposes of this analysis, the risk free rate was represented by the yield on 30-Year U.S. Treasury Bonds. The appropriate rate was determined to be 5.38 percent for the period January ~~6~~14, 2002, as published on www.marketwatch.com.

The second term of the CAPM is beta (β). Beta is an indicator of a security's investment risk. It represents the relative movement and relative risk between a particular security and the market as a whole (where beta for the market equals 1.00). Securities with betas greater than 1.00 exhibit greater volatility than do securities with betas less than 1.00. Thus, a higher beta security is considered riskier and requires a higher return in order to attract investor capital away from a lower beta security. For purposes of this analysis, the appropriate beta was determined to be 0.55 as published in *The Value Line Investment Survey: Ratings & Reports*, January 4, 2002.

Union Electric Company
d/b/a AmerenUE
CASE NO. EC-2002-1

Selected Financial Ratios for Union Electric Company
(Consolidated Basis)

Financial Ratios	1996	1997	1998	1999	2000
Return on Year-End Common Equity	12.38%	13.98%	12.84%	13.99%	~~14.60%~~ 14.30%
Earnings Per Common Share	$2.86	$2.44	$2.82	$2.81	$3.33
Common Dividend Payout Ratio	87.80%	88.58%	83.40%	96.55%	76.00%
Year-End Market Price Per Common Share	$38.500	$43.250	$42.687	$32.812	$46.310
Year-End Book Value Per Common Share	$23.06	$22.00	$22.27	$22.52	$23.30
Year-End Market to Book Ratio	1.67 x	1.97 x	1.92 x	1.46 x	1.99 x
Pre-Tax Interest Coverage Ratio	4.55 x	4.73 x	5.13 x	5.83 x	5.22 x

Notes:

Return on Year-End Common Equity = Net Income Available for Common Stock / Year-End Common Shareholders' Eq

Common Dividend Payout Ratio = Common Dividends Paid / Net Income Available for Common Stock.

Year-End Market to Book Ratio = Year-End Market Price Per Common Share / Year-End Book Value Per Common Sha

Pre-Tax Interest Coverage Ratio = (Net Income + Income Taxes + Total Interest Expense) / Total Interest Expense.

Sources: Union Electric Company's Shareholder Annual Reports, Ameren Corporation Shareholder Annual Reports, Union Electric Company's response to Staff's Data Information Request No. 3801, Standard and Poor's Stoc and Standard & Poor's Corporation's Utility Rating Service.

Schedule 8

UNION ELECTRIC COMPANY
d/b/a AmerenUE
CASE NO. EC-2002-1

Risk Premium Costs of Equity Estimates
for Ameren Corporation

AEE's Cost of Common Equity		30-Year U.S. Treasury Bond (January 614, 2002)		Equity Risk Premium (1/92 - 12/01)
11.87%	=	5.38%	+	6.49%

Risk Premium Approach

The risk premium approach is based upon the proposition that common stocks are more risky than debt and, as a result, investors require a higher expected return on stocks than bonds. In this approach, the cost of common equity is computed by the following formula:

Common Equity = **Current Cost of Debt** + **Equity Risk Premium**

where:

The Current Cost of Debt is represented by the yield on 30-Year U.S. Treasury Bonds,
The appropriate rate was determined by using the yield on U.S. Treasury Bonds on Januar614, 2002

The Equity Risk Premium represents the difference between AEE's expected return on common equity (ROE) as projected in the Value Line Investment Survey and the yield on U.S. Treasury Bonds on January 614, 2002. The appropriate Equity Risk Premium was determined to be the average risk premium for the period January 1992 through December 2001. See Schedule 14 for the calculation of the Equity Risk Premium of 6.49%.

UNION ELECTRIC COMPANY
d/b/a AmerenUE
CASE NO. EC-2002-1

Capital Asset Pricing Model (CAPM) Costs of Equity Estimates
Ameren Corporation

AEE's Cost of Common Equit	=	Risk Free Rate	+	(AEE's (Beta	*	Market) Risk Premium)	
9.40%	=	5.38%	+ (	0.55	*	7.30%	)
9.34%	=	5.38%	+ (	0.55	*	7.20%	)

Capital Asset Pricing Model

The capital asset pricing model (CAPM) describes the relationship between a security's investment risk and its market rate of return. This relationship identifies the rate of return which investors expect a security to earn so that its market return is comparable with the market returns earned by other securities that have similar risk. The general form of the CAPM is as follows:

Cost of Common Equity = Risk Free Rate + [Beta * Market Risk Premium]

where:

The Risk Free Rate reflects the level of return which can be achieved without accepting any risk. The Risk Free Rate is represented by the yield on 30-Year U.S. Treasury Bonds. The approriate rate was determined to be 5.38% on January 614, 2002 as published on WWW.MARKETWATCH.COM.

The Beta represents the relative movement and relative risk between a particular stock and the market. The approriate Beta for AEE was determined to be 0.55 as published in The Value Line Investment Survey: Ratings & Reports, January 4, 2002.

The Market Risk Premium represents the expected return from holding the entire market portfolio less the expected return from holding a risk free investment. The approriate Market Risk Premium was determined to be 7.30% as calculated in Ibbotson Associates, Inc.'s Stocks, Bonds, Bills, and Inflation: 2001 Yearbook for the period 1926 - 2000 and 7.20% for the period 1991-2000.

UNION ELECTRIC COMPANY
d/b/a AmerenUE
CASE NO. EC-2002-1

Capital Asset Pricing Model (CAPM) Costs of Common Equity Estimates
for the Three Comparable Electric Utility Companies

Company Name	(1) Risk Free Rate	(2) Company's Value Line Beta	(3) Market Risk Premium	(4) Market Risk Premium	(5) CAPM Cost of Common Equity (Low)	(6) CAPM Cost of Common Equity (High)
Allegheny Energy	5.38%	0.60	7.20%	7.30%	9.70%	9.76%
Alliant Energy	5.38%	0.55	7.20%	7.30%	9.34%	9.40%
Cinergy	5.38%	0.55	7.20%	7.30%	9.34%	9.40%
Average		0.57			9.46%	9.52%

Notes: Column 5 = [Column 1 + (Column 2 * Column 3)] .

Column 6 = [Column 1 + (Column 2 * Column 4)] .

Sources: Column 1 = The Risk Free Rate reflects the level of return which can be achieved without accepting any risk. The Risk Free Rate is represented by the yield on 30-Year U.S. Treasury Bonds. The approriate rate was determined to be 5.38% for the period ending January414, 2002 as published on the Marketwatch website (www.marketwatch.com).

Column 2 = The Beta represents the relative movement and relative risk between a particular stock and the market. The approriate Betas were taken from The Value Line Investment Survey, Ratings and Reports, December 7, 2001 and January 4, 2002.

Column 3 = The Market Risk Premium represents the expected return from holding the entire market portfolio less the expected return from holding a risk free investment. The approriate Market Risk Premium was determined to be 7.20% as calculated in Ibbotson Associates, Inc.'s Stocks, Bonds, Bills, and Inflation: 2001 Yearbook for the period 1991 - 2000.

Column 4 = The Market Risk Premium represents the expected return from holding the entire market portfolio less the expected return from holding a risk free investment. The approriate Market Risk Premium was determined to be 7.30% as calculated in Ibbotson Associates, Inc.'s Stocks, Bonds, Bills, and Inflation: 2001 Yearbook for the period 1926 - 2000.

Exhibit No.:	
Issues:	*Rate of Return*
Witness:	*Ronald L. Bible*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Direct Testimony*
Case Nos.:	*EC-2002-1*
Date Testimony Prepared:	*March 1, 2002*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

RONALD L. BIBLE

UNION ELECTRIC COMPANY
d/b/a AMERENUE

CASE NO. EC-2002-1

5
EXHIBIT
4/16/02 KRM

Jefferson City, Missouri
March 2002

Corrected Pages *03/29/02*

A. Schedules 7 and 8 present historical capital structures and selected financial ratios from 1996 to 2000 for AmerenUE. AmerenUE's common equity ratio has ranged from a high of 57.30 percent to a low of 53.85 percent over the time period of 1996 through 2000. *The Value Line Investment Survey: Ratings & Reports* dated January 4, 2002, reported that the average common equity ratio (figured excluding short-term debt) for the electric utility (central) industry for 2000 was 40.50 percent, estimated to be 42.50 percent and 44.50 percent for 2001 and 2002, respectively, and 48.5 percent for the period 2004 to 2006. According to Standard & Poor's Corporation: *Ratings Direct*, dated November 10, 2001, "Management's financial strategy, which until last year was viewed as conservative, is now moderate. This is evident in the rising level of debt in the company's capital structure and recent expansion of its riskier unregulated generation business".

AmerenUE's reported return on year-end common equity (ROE) has fluctuated during this time period ranging from a low of 12.38 percent in 1996 to a high of 14.60 percent in 2000 (see Schedule 8). AmerenUE's ROE of 14.30 percent for 2000 is above the average of 7.4 percent for the electric utility (central) industry according to *The Value Line Investment Survey: Ratings & Reports*, January 4, 2002. *The Value Line Investment Survey: Ratings & Reports,* January 4, 2002 estimates that Ameren's return on equity for 2001 will be 14.00 percent. AmerenUE's market-to-book ratio has varied from a low of 1.46 in 1999 to a high of 1.99 in year 2000 (see Schedule 8).

<u>Determination of the Cost of Capital</u>

Q. Please describe your approach for determining a utility company's cost of capital.

dividend yield of 6.00 percent, which is lower than the dividend yield used in my DCF estimates and would decrease the recommended return on common equity.

Reasonableness of DCF Returns for AmerenUE

Q. What analysis was performed to determine the reasonableness of your DCF model derived return on common equity for Ameren?

A. I performed a risk premium cost of equity analysis for Ameren. The risk premium concept implies that the required return on common equity is found by adding an explicit premium for risk to a current interest rate. Schedule 14 shows the average risk premium above the yield of 30-Year Treasury Bonds for Ameren's expected return on common equity. This analysis shows, on average, Ameren's expected return on equity as reported by *The Value Line Investment Survey: Ratings & Reports* is 649 basis points higher than the yield on 30-Year Treasury Bonds for the period of January 1992 to December 2001 (see Schedule 14).

The average yield for 30-Year Treasury Bonds on January 14, 2002 was 5.38 percent. Adding 649 basis points to this yield produces an estimated cost of equity of 11.87 percent. (See Schedule 15.)

Q. Did you perform any other checks on reasonableness of your DCF model derived return on common equity for Ameren?

A. Yes. I performed a Capital Asset Pricing Model (CAPM) cost of equity analysis for Ameren. The CAPM describes the relationship between a security's investment risk and its market rate of return. This relationship identifies the rate of return that investors expect a security to earn so that its market return is comparable with the

market returns earned by other securities that have similar risk. The mathematical expression of the CAPM is the following:

$$k = R_f + \beta (R_m - R_f)$$

where:

k	=	the expected return on equity for a specific security,
R_f	=	the risk free rate,
β	=	beta; and
$R_m - R_f$	=	the market risk premium.

The first term of the CAPM is the risk free rate (R_f). The risk free rate reflects the level of return which can be achieved without accepting any risk. In reality, there is no such riskless asset, but it is generally represented by U.S. Treasury securities, because of the government's unlimited ability to tax and create money. For purposes of this analysis, the risk free rate was represented by the yield on 30-Year U.S. Treasury Bonds. The appropriate rate was determined to be 5.38 percent for the period January 14, 2002, as published on www.marketwatch.com.

The second term of the CAPM is beta (β). Beta is an indicator of a security's investment risk. It represents the relative movement and relative risk between a particular security and the market as a whole (where beta for the market equals 1.00). Securities with betas greater than 1.00 exhibit greater volatility than do securities with betas less than 1.00. Thus, a higher beta security is considered riskier and requires a higher return in order to attract investor capital away from a lower beta security. For purposes of this analysis, the appropriate beta was determined to be 0.55 as published in *The Value Line Investment Survey: Ratings & Reports*, January 4, 2002.

Union Electric Company
d/b/a AmerenUE
CASE NO. EC-2002-1

Selected Financial Ratios for Union Electric Company
(Consolidated Basis)

Financial Ratios	1996	1997	1998	1999	2000
Return on Year-End Common Equity	12.38%	13.98%	12.84%	13.99%	14.30%
Earnings Per Common Share	$2.86	$2.44	$2.82	$2.81	$3.33
Common Dividend Payout Ratio	87.80%	88.58%	83.40%	96.55%	76.00%
Year-End Market Price Per Common Share	$38.500	$43.250	$42.687	$32.812	$46.310
Year-End Book Value Per Common Share	$23.06	$22.00	$22.27	$22.52	$23.30
Year-End Market to Book Ratio	1.67 x	1.97 x	1.92 x	1.46 x	1.99 x
Pre-Tax Interest Coverage Ratio	4.55 x	4.73 x	5.13 x	5.83 x	5.22 x

Notes:

Return on Year-End Common Equity = Net Income Available for Common Stock / Year-End Common Shareholders' Equity.

Common Dividend Payout Ratio = Common Dividends Paid / Net Income Available for Common Stock.

Year-End Market to Book Ratio = Year-End Market Price Per Common Share / Year-End Book Value Per Common Share.

Pre-Tax Interest Coverage Ratio = (Net Income + Income Taxes + Total Interest Expense) / Total Interest Expense.

Sources: Union Electric Company's Shareholder Annual Reports, Ameren Corporation Shareholder Annual Reports, Union Electric Company's response to Staff's Data Information Request No. 3801, Standard and Poor's Stock guide and Standard & Poor's Corporation's Utility Rating Service.

Schedule 8
03-29-02

UNION ELECTRIC COMPANY
d/b/a AmerenUE
CASE NO. EC-2002-1

Risk Premium Costs of Equity Estimates
for Ameren Corporation

AEE's Cost of Common Equity		30-Year U.S. Treasury Bond (January 6, 2002)		Equity Risk Premium (1/92 - 12/01)
11.87%	=	5.38%	+	6.49%

Risk Premium Approach

The risk premium approach is based upon the proposition that common stocks are more risky than debt and, as a result, investors require a higher expected return on stocks than bonds. In this approach, the cost of common equity is computed by the following formula:

***Common* Equity**	=	***Current* Cost of Debt**	+	**Equity Risk Premium**

where:

The Current Cost of Debt is represented by the yield on 30-Year U.S. Treasury Bonds,
The appropriate rate was determined by using the yield on U.S. Treasury Bonds on January 14, 2002

The Equity Risk Premium represents the difference between AEE's expected return on common equity (ROE) as projected in the Value Line Investment Survey and the yield on U.S. Treasury Bonds on January 14, 2002. The appropriate Equity Risk Premium was determined to be the average risk premium for the period January 1992 through December 2001. See Schedule 14 for the calculation of the Equity Risk Premium of 6.49%.

UNION ELECTRIC COMPANY
d/b/a AmerenUE
CASE NO. EC-2002-1

Capital Asset Pricing Model (CAPM) Costs of Equity Estimates
Ameren Corporation

AEE's Cost of Common Equity	=	Risk Free Rate	+	(AEE's (Beta	*	Market) Risk Premium)	
9.40%	=	5.38%	+ (	0.55	*	7.30%	)
9.34%	=	5.38%	+ (	0.55	*	7.20%	)

Capital Asset Pricing Model

The capital asset pricing model (CAPM) describes the relationship between a security's investment risk and its market rate of return. This relationship identifies the rate of return which investors expect a security to earn so that its market return is comparable with the market returns earned by other securities that have similar risk. The general form of the CAPM is as follows:

Cost of Common Equity = Risk Free Rate + [Beta * Market Risk Premium]

where:

The Risk Free Rate reflects the level of return which can be achieved without accepting any risk. The Risk Free Rate is represented by the yield on 30-Year U.S. Treasury Bonds. The approriate rate was determined to be 5.38% on January 14, 2002 as published on WWW.MARKETWATCH.COM.

The Beta represents the relative movement and relative risk between a particular stock and the market. The approriate Beta for AEE was determined to be 0.55 as published in The Value Line Investment Survey: Ratings & Reports, January 4, 2002.

The Market Risk Premium represents the expected return from holding the entire market portfolio less the expected return from holding a risk free investment. The approriate Market Risk Premium was determined to be 7.30% as calculated in Ibbotson Associates, Inc.'s Stocks, Bonds, Bills, and Inflation: 2001 Yearbook for the period 1926 - 2000 and 7.20% for the period 1991-2000.

UNION ELECTRIC COMPANY
d/b/a AmerenUE
CASE NO. EC-2002-1

Capital Asset Pricing Model (CAPM) Costs of Common Equity Estimates
for the Three Comparable Electric Utility Companies

	(1)	(2)	(3)	(4)	(5)	(6)
Company Name	Risk Free Rate	Company's Value Line Beta	Market Risk Premium	Market Risk Premium	CAPM Cost of Common Equity (Low)	CAPM Cost of Common Equity (High)
Allegheny Energy	5.38%	0.60	7.20%	7.30%	9.70%	9.76%
Alliant Energy	5.38%	0.55	7.20%	7.30%	9.34%	9.40%
Cinergy	5.38%	0.55	7.20%	7.30%	9.34%	9.40%
Average		0.57			9.46%	9.52%

Notes: Column 5 = [Column 1 + (Column 2 * Column 3)].

Column 6 = [Column 1 + (Column 2 * Column 4)].

Sources: Column 1 = The Risk Free Rate reflects the level of return which can be achieved without accepting any risk. The Risk Free Rate is represented by the yield on 30-Year U.S. Treasury Bonds. The approriate rate was determined to be 5.38% for the period ending January 14, 2002 as published on the Marketwatch website (www.marketwatch.com).

Column 2 = The Beta represents the relative movement and relative risk between a particular stock and the market. The approriate Betas were taken from The Value Line Investment Survey, Ratings and Reports, December 7, 2001 and January 4, 2002.

Column 3 = The Market Risk Premium represents the expected return from holding the entire market portfolio less the expected return from holding a risk free investment. The approriate Market Risk Premium was determined to be 7.20% as calculated in Ibbotson Associates, Inc.'s Stocks, Bonds, Bills, and Inflation: 2001 Yearbook for the period 1991 - 2000.

Column 4 = The Market Risk Premium represents the expected return from holding the entire market portfolio less the expected return from holding a risk free investment. The approriate Market Risk Premium was determined to be 7.30% as calculated in Ibbotson Associates, Inc.'s Stocks, Bonds, Bills, and Inflation: 2001 Yearbook for the period 1926 - 2000.

ALLIANT ENERGY NYSE-LNT

RECENT PRICE **30.42** | P/E RATIO **12.2** (Trailing: 13.5; Median: 14.0) | RELATIVE P/E RATIO **0.63** | DIV'D YLD **6.6%** | **VALUE LINE**

TIMELINESS **3** Raised 8/3/01
SAFETY **2** New 7/10/98
TECHNICAL **4** Lowered 12/21/01
BETA .55 (1.00 = Market)

High:	25.3	32.8	36.4	36.8	32.9	31.6	32.9	34.4	34.9	32.4	37.8	33.2
Low:	20.0	22.6	29.6	31.3	26.4	27.3	27.5	26.8	28.0	25.2	25.8	27.5

Target Price Range 2004 | 2005 | 2006

2004-06 PROJECTIONS

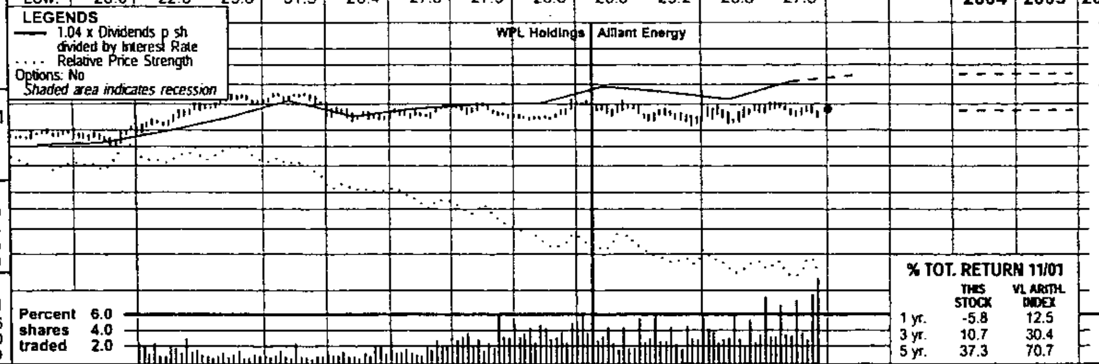
	Price	Gain	Ann'l Total Return
High	45	(+50%)	15%
Low	30	(Nil)	6%

Insider Decisions

	F	M	A	M	J	J	A	S	O
to Buy	0	0	0	0	0	1	0	0	0
Options	17	0	0	0	0	0	0	0	0
to Sell	1	0	0	0	0	0	1	0	0

Institutional Decisions

	1Q2001	2Q2001	3Q2001
to Buy	72	81	66
to Sell	77	67	70
Hld's(000)	20130	21688	19500



% TOT. RETURN 11/01

	THIS STOCK	VL ARITH. INDEX
1 yr.	-5.8	12.5
3 yr.	10.7	30.4
5 yr.	37.3	70.7

Alliant Energy, formerly called Interstate Energy Corporation, was formed on April 21, 1998 through the merger of WPL Holdings, IES Industries, and Interstate Power. WPL stockholders received one share of Interstate Energy stock for each WPL share, IES stockholders received 1.14 Interstate Energy shares for each IES share, and Interstate Power stockholders received 1.11 Interstate Energy shares for each Interstate Power share. Data prior to 1998 are for WPL Holdings only and are not comparable with Alliant Energy data.

1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	© VALUE LINE PUB., INC.	04-06
24.22	23.86	25.40	26.52	26.23	30.31	29.86	27.45	27.83	30.44	32.40	31.30	Revenues per sh	35.30
4.71	4.56	4.32	4.93	5.13	5.11	5.60	4.85	5.71	6.57	6.10	6.80	"Cash Flow" per sh	7.95
2.43	2.11	2.11	2.24	2.33	2.27	1.90	1.26	2.19	2.47	2.40	2.60	Earnings per sh A	2.90
1.80	1.86	1.90	1.92	1.94	1.97	2.00	2.00	2.00	2.00	2.00	2.00	Div'd Decl'd per sh B ■	2.00
3.40	4.52	4.91	4.01	3.05	4.81	4.10	4.79	6.06	13.50	9.60	6.75	Cap'l Spending per sh	6.75
17.09	17.61	19.15	19.43	19.42	19.74	19.73	20.69	27.29	25.79	26.40	27.00	Book Value per sh C	29.45
26.78	27.31	30.44	30.77	30.77	30.77	30.79	77.63	78.98	79.01	88.80	88.80	Common Shs Outst'g D	89.00
11.2	15.8	16.4	12.8	12.5	13.3	15.0	25.1	13.0	11.8	12.5		Avg Ann'l P/E Ratio	13.0
.72	.96	.97	.84	.84	.83	.86	1.31	.74	.77	.66		Relative P/E Ratio	.85
6.6%	5.6%	5.5%	6.7%	6.6%	6.5%	7.0%	6.3%	7.0%	6.9%	6.6%		Avg Ann'l Div'd Yield	5.4%
648.8	651.7	773.1	816.2	807.3	932.8	919.3	2130.9	2198.0	2405.0	2850	2780	Revenues ($mill)	3140
68.8	60.8	66.5	73.5	74.9	69.8	64.6	103.4	178.2	203.1	200	240	Net Profit ($mill)	265
31.6%	27.1%	27.4%	32.5%	32.5%	38.2%	30.8%	36.0%	40.3%	54.0%	40.0%	40.0%	Income Tax Rate	40.0%
1.3%	2.2%	1.6%	1.4%	.9%	1.3%	4.3%	6.6%	4.1%	4.3%	5.0%	4.0%	AFUDC % to Net Profit	4.0%
41.5%	43.6%	39.8%	40.5%	39.6%	35.2%	40.7%	47.3%	39.6%	47.0%	50.5%	51.0%	Long-Term Debt Ratio	48.5%
51.7%	50.2%	54.6%	54.1%	54.9%	59.0%	54.0%	49.2%	57.4%	50.2%	47.5%	47.0%	Common Equity Ratio	49.0%
885.2	958.8	1068.0	1105.9	1087.8	1029.9	1125.1	3262.9	3756.0	4061.4	4955	5110	Total Capital ($mill)	5335
1071.8	1132.9	1220.7	1266.3	1299.9	1294.9	1244.8	3101.7	3486.0	3719.3	4220	4445	Net Plant ($mill)	4970
9.5%	8.1%	8.0%	8.3%	8.3%	8.0%	7.4%	4.9%	6.1%	6.6%	5.5%	6.5%	Return on Total Cap'l	6.5%
13.3%	11.2%	10.3%	11.2%	11.4%	10.5%	9.7%	6.0%	7.9%	9.4%	8.0%	9.5%	Return on Shr. Equity	9.5%
14.2%	11.9%	10.7%	11.7%	12.0%	10.9%	10.1%	6.0%	8.0%	9.6%	8.0%	9.5%	Return on Com Equity E	10.0%
3.7%	5.1%	3.8%	3.5%	2.0%	1.0%	NMF	NMF	.7%	1.9%	1.5%	2.0%	Retained to Com Eq	3.0%
75%	60%	67%	72%	84%	92%	100%	NMF	92%	81%	84%	78%	All Div'ds to Net Prof	70%

CAPITAL STRUCTURE as of 9/30/01
Total Debt $2732.2 mill. **Due in 5 Yrs** $1022.9 mill.
LT Debt $2206.8 mill. **LT Interest** $147.9 mill.
(LT interest earned: 2.8x)
Pension Liability none
Pfd Stock $113.9 mill. **Pfd Div'd** $6.7 mill.
449,765 shs. $100 par; 599,460 shs. $25 par; 1,127,787 shs. $50 par.

Common Stock 79,522,785 shs. as of 10/31/01

MARKET CAP: $2.4 billion (Mid Cap)

ELECTRIC OPERATING STATISTICS

	1998	1999	2000
% Change Retail Sales (KWH)	+2.0	-2.5	+1.2
Avg. Indust. Use (MWH)	4858	4775	4721
Avg. Indust. Revs. per KWH (¢)	3.75	3.67	3.83
Capacity at Peak (Mw)	5281	5277	5188
Peak Load, Summer (Mw)	5228	5394	5397
Annual Load Factor (%)	69.8	71.1	67.3
% Change Customers (yr-end)	+1.2	+1.2	+1.1
Fixed Charge Cov. (%)	199	259	312

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '98-'00 to '04-'06
Revenues	2.5%	2.0%	3.5%
"Cash Flow"	2.5%	3.5%	5.5%
Earnings	-.5%	-2.5%	6.5%
Dividends	2.0%	1.0%	Nil
Book Value	4.5%	5.0%	3.0%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
1998	556.3	491.0	555.3	528.3	2130.9
1999	546.9	486.1	598.3	566.7	2198.0
2000	574.1	523.9	603.2	703.8	2405.0
2001	852.7	611.8	666.3	719.2	2850
2002	700	640	730	710	2780

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
1998	.38	d.12	.67	.33	1.26
1999	.54	.22	.86	.57	2.19
2000	.56	.23	.91	.77	2.47
2001	.42	.29	.78	.91	2.40
2002	.50	.30	.95	.85	2.60

Cal-endar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
1998	.50	.50	.50	.50	2.00
1999	.50	.50	.50	.50	2.00
2000	.50	.50	.50	.50	2.00
2001	.50	.50	.50	.50	2.00
2002					

BUSINESS: Alliant Energy, formerly named Interstate Energy, is a holding company formed through the merger of WPL Holdings, IES Industries, and Interstate Power. Supplies elect. (69% of revs.), gas (17%), and other services (14%) in Wisconsin, Iowa, Minnesota, & Illinois. Revs. by state: WI, 55%; IA, 40%; MN, 3%; IL, 2%. Elect. rev. breakdown: resid., 34%; comm'l, 21%; ind'l, 30%; wholesale, 10%; other, 5%. Fuel sources, '00: coal & gas, 59%; nuclear, 14%; other, 2%; purch., 25%. Fuel costs: 42% of revs. '00 deprec. rate: 3.5%. Est'd plant age: 9 yrs. Has 7,882 empls., 60,883 com. stkhdrs. Chrmn., Pres. & CEO: Erroll B. Davis Jr. Inc.: WI. Address: 222 West Washington Ave., P.O. Box 192, Madison, WI 53701-0192. Tel.: 608-252-3311. Internet: www.alliant-energy.com.

Alliant is adding new capacity to cover rising energy usage. Since electricity demand in LNT's service area is growing at a 2%-3% annual rate and the company has to buy power during peak periods to meet its obligations, it is obvious that it will need new generation shortly. Accordingly, management plans to add 1,200 megawatts (mw) of plant in Iowa and 800 mw in Wisconsin. It expects to buy some units and build some itself. It has contracted to purchase the entire output for at least eight years of two 450 mw gas-fired peaking units being built by Calpine. The first facility was completed last fall. The second is scheduled to go on-line in 2003. The company also has an agreement with Panda Energy to develop an 1,100 mw unregulated plant in Michigan. To finance the expansion program, LNT has issued new common shares and long-term debt in amounts that will not unduly leverage the capital structure.

The company has filed for higher rates in Wisconsin. The April, 1998 merger that formed Alliant Energy required the three owners to maintain level rates for four years. With the expiration of the freeze, the Wisconsin P&L subsidiary applied for $105.0 million in higher electric rates, $26.1 million for gas operations, and $1.1 million for the water system. The increases are required to recover structural improvements, projected higher coal costs, and rising general business expenses. Management expects any increases granted will be effective next April.

We look for higher earnings in 2002. The gains will come largely from the nonutility sector. International operations should increase their contribution because of the addition of new plants in China and a likely increase of 6% to 8% in electricity usage in Brazil. On the domestic front, energy trading continues strong. Thus, despite higher interest expense and more common shares outstanding, we estimate 2002 earnings of $2.60 a share, up 8% from our 2001 estimate of $2.40 a share.

The yield is two full percentage points above the industry norm. But don't look for a dividend hike for a while because of the need to preserve funds for heavy capital outlays. On balance, we are neutral on these shares.

Arthur H. Medalie *January 4, 2002*

(A) Diluted EPS. Excl. nonrecur. gains (losses): '94, (11¢); '95, (43¢); '96, (4¢) and 11¢; '99, 32¢; '00, $2.56. Next egs. rpt. due late Jan.
(B) Next div'd mtg. mid-Jan. Goes ex late Jan. Div'd pmnt dates: Feb. 14, May 15, Aug. 15, Nov. 14. ■ Div'd reinvest. plan avail. (C) Incl. deferred chgs. In '00: $294.0 mill., $3.72/sh. (D) In mill. (E) Rate base: Orig. cost. Rate allowed on com. eq.: in '95, WI, 11.7%; in '96, IA, 11.4%; earned on avg. com. eq., '00: 9.3%. Regul. Clim.: WI, Above Avg.; IA, Below Avg.

Company's Financial Strength	B++
Stock's Price Stability	100
Price Growth Persistence	NMF
Earnings Predictability	55

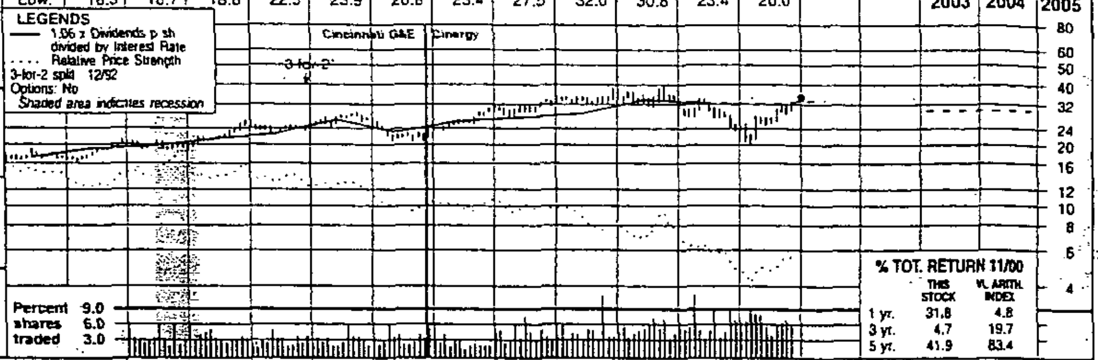
CINERGY NYSE-CIN

RECENT PRICE	35	P/E RATIO	13.3 (Trailing: 13.9; Median: 13.0)	RELATIVE P/E RATIO	0.86	DIV'D YLD	5.3%	VALUE LINE	706

[illegible]NESS 3 Raised 6/9/00
[illegible] 2 New 1/13/95
TECHNICAL 3 Lowered 1/5/01
BETA .60 (1.00 = Market)

	High:	Low:
1990	21.6	16.3
1991	21.2	18.7
1992	26.8	18.6
1993	26.6	22.3
1994	29.6	23.9
1995	27.6	20.8
1996	31.1	23.4
1997	34.3	27.5
1998	39.1	32.0
1999	39.9	30.8
2000	34.9	23.4
2001	35.3	20.0

Target Price Range 2003 | 2004 | 2005



2003-05 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	40	(+15%)	8%
Low	30	(-15%)	2%

Insider Decisions

	F	M	A	M	J	J	A	S	O
to Buy	26	0	0	0	0	0	0	0	0
Options	0	0	0	0	0	0	0	2	0
to Sell	0	0	0	0	0	0	1	2	0

Institutional Decisions

	1Q2000	2Q2000	3Q2000
to Buy	109	107	121
to Sell	114	119	119
Hld's(000)	102257	97435	95964

% TOT. RETURN 11/00

	THIS STOCK	VL ARITH. INDEX
1 yr.	31.8	4.8
3 yr.	4.7	19.7
5 yr.	41.9	83.4

Cinergy was formed on October 24, 1994 through the merger of Cincinnati Gas & Electric and PSI Resources. Each common share of Cincinnati Gas & Electric was exchanged for 1.00 share of Cinergy, while each common share of PSI Resources was exchanged for 1.023 Cinergy shares. Pre-merger data are figures for Cincinnati Gas & Electric only and are not comparable to Cinergy data.

1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	© VALUE LINE PUB., INC.	03-05
18.41	17.92	17.98	19.89	18.84	19.23	20.57	27.59	37.04	37.36	47.50	52.70	Revenues per sh	61.90
3.92	3.70	3.66	3.87	3.13	3.98	3.99	4.75	4.02	4.34	4.90	5.20	"Cash Flow" per sh	5.75
2.75	2.21	2.04	2.16	1.30	2.22	2.19	2.30	1.97	2.10	2.55	2.75	Earnings per sh A	2.90
1.60	1.65	1.65	1.68	1.72	1.72	1.74	1.80	1.80	1.80	1.80	1.84	Div'd Decl'd per sh B•	1.96
4.78	4.04	2.54	2.26	3.09	2.06	2.05	2.08	2.32	2.43	2.75	3.00	Cap'l Spending per sh	2.20
17.91	18.70	19.16	17.25	15.56	16.17	16.39	16.10	16.02	16.70	17.45	18.40	Book Value per sh. C	21.15
78.12	84.69	86.39	88.06	155.20	157.67	157.68	157.74	158.66	158.92	159.20	159.40	Common Shs Outst'g F	160.00
7.3	10.0	11.9	12.5	17.8	11.9	14.1	14.9	17.6	14.2	10.7		Avg Ann'l P/E Ratio	12.0
.54	.64	.72	.74	1.17	.80	.88	.86	.92	.81	.70		Relative P/E Ratio	.80
8.0%	7.4%	6.8%	6.2%	7.4%	6.5%	5.6%	5.3%	5.2%	6.1%	6.6%		Avg Ann'l Div'd Yield	5.6%
1438.5	1518.1	1553.4	1751.7	2924.2	3031.4	3242.7	4352.8	5876.3	5937.9	7560	8400	Revenues ($mill)	9900
234.7	207.0	202.3	214.0	226.7	378.0	369.0	472.0	318.1	340.8	410	440	Net Profit ($mill)	470
22.6%	30.3%	32.2%	31.7%	40.2%	36.7%	37.2%	34.5%	26.9%	38.0%	38.0%	38.0%	Income Tax Rate	38.0%
57.8%	32.9%	8.7%	3.1%	8.2%	2.7%	2.0%	1.2%	.5%	1.2%	1.0%	1.0%	AFUDC % to Net Profit	1.0%
49.4%	47.5%	47.7%	49.7%	48.4%	46.3%	47.7%	44.2%	49.7%	52.1%	54.0%	52.5%	Long-Term Debt Ratio	49.0%
41.9%	43.4%	43.6%	41.3%	43.1%	46.6%	48.6%	52.2%	48.5%	46.3%	45.0%	46.5%	Common Equity Ratio	50.0%
3339.3	3647.4	3795.0	3678.3	5607.5	5467.5	5313.7	4868.1	5238.3	5735.6	6180	6330	Total Capital ($mill)	6790
3578.5	3861.2	3945.4	3785.6	6198.9	6251.1	6289.6	6297.1	6344.5	6417.5	6480	6565	Net Plant ($mill)	6515
9.0%	7.7%	7.4%	7.9%	6.0%	8.9%	8.7%	11.6%	7.7%	7.7%	8.5%	8.5%	Return on Total Cap'l	8.5%
13.9%	10.8%	10.2%	11.6%	7.8%	12.9%	13.3%	17.4%	12.1%	12.4%	14.5%	15.0%	Return on Shr. Equity	13.5%
15.2%	11.5%	10.6%	12.4%	7.9%	13.6%	13.4%	18.1%	12.3%	12.6%	14.5%	15.0%	Return on Com Equity D	13.5%
6.4%	3.0%	2.0%	2.8%	NMF	3.1%	2.8%	6.9%	1.1%	1.9%	4.5%	5.0%	Retained to Com Eq	4.5%
62%	77%	83%	80%	113%	79%	81%	63%	91%	86%	71%	67%	All Div'ds to Net Prof	68%

CAPITAL STRUCTURE as of 9/30/00
Total Debt $3873.4 mill. Due in 5 Yrs $1226.8 mill.
LT Debt $3033.1 mill. LT Interest $183.2 mill.
(LT interest earned: 4.4x)
Pension Liability $55.8 mill. in '99 vs. $186.8 in '98
Pfd Stock $62.8 mill. Pfd Div'd $5.1 mill.
846,485 shs. 3.5% to 6.875% ($100 par); callable [illegible] $100 to $108 a sh.;
[illegible] shs. 4.16% to 4.32% $25 par, call. at $25.

Common Stock 158,967,661 shs. as of 10/31/00
MARKET CAP: $5.6 billion (Large Cap)

ELECTRIC OPERATING STATISTICS

	1997	1998	1999
% Change Retail Sales (KWH)	+5.2	+3.8	+6.7
Avg. Indust. Use (MWH)	2672	2795	2899
Avg. Indust. Revs. per KWH (¢)	3.87	3.88	3.86
Capacity at Peak (Mw)	10936	10936	11014
Peak Load, Summer (Mw)	9951	10433	10678
Annual Load Factor (%)	58.4	59.0	57.3
% Change Customers (yr-end)	+1.5	+1.7	+1.8
Fixed Charge Cov. (%)	331	240	293

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '97-'99 to '03-'05
Revenues	6.0%	12.5%	10.5%
"Cash Flow"	1.0%	4.0%	5.0%
Earnings	-3.0%	3.0%	5.5%
Dividends	2.0%	1.5%	1.5%
Book Value	.5%	-1.0%	4.5%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
1997	1030	865.8	1355	1102	4352.8
1998	1348	1168	1976	1384	5876.3
1999	1402	1276	1782	1478	5937.9
2000	1583	1770	2300	1907	7560
2001	2000	1900	2450	2050	8400

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
1997	.72	.35	.53	.70	2.30
1998	.67	.16	.69	.45	1.97
1999	.80	.37	.33	.60	2.10
2000	.87	.47	.58	.63	2.55
2001	.92	.50	.65	.68	2.75

Cal-endar	QUARTERLY DIVIDENDS PAID B• Mar.31	Jun.30	Sep.30	Dec.31	Full Year
1997	.45	.45	.45	.45	1.80
[illegible]	.45	.45	.45	.45	1.80
[illegible]	.45	.45	.45	.45	1.80
[illegible]	.45	.45	.45	.45	1.80
2001					

BUSINESS: Cinergy Corp. is a holding company formed through the merger of Cincinnati Gas & Electric and PSI Resources. Supplies elect. (89% of revs.) to 1,400,000 customers and natural gas (11%) to 478,000 customers in Ohio, Kentucky, and Indiana. Elect. (Gas) revs.: resid. 41% (66%); commer., 28% (26%); indust., 27% (4%); other 4% (4%). The primary metal and chemical industries are the largest customers. Fuel costs: 35% of revenues. '99 deprec. rate: 2.9%. Est'd plant age: 12 years. Prime fuels: coal, 91%; purchased power, 6%; other, 3%. Has 8,950 employees, 64,825 common stockholders. Chrmn. Pres. & CEO: James E. Rogers. Inc.: Delaware. Address: 139 East 4th St., Cincinnati, OH 45202. Tel.: 513-381-2000. Internet: www.cinergy.com.

Cinergy faces retail electric competition in Ohio. Effective January 1st, the company's retail customers were allowed to select their energy supplier. At the same time, residential ratepayers received a 5% reduction in the generating portion of their bill, and their rates were frozen through 2005. On the plus side, CIN was authorized to recover transition costs of more than $1 billion over 10 years. The cost of purchased power from the summer of 2000 for up to five years will be included as transition costs. Moreover, the commission approved the transfer of generating assets to a wholly owned unregulated subsidiary. After the transfer, the company will be able to sell the plants' output without commission oversight. It might be noted that CIN's retail electric operations in Indiana are not subject to competition. The state is still studying the likely effect of deregulation there.

The company has reached a tentative settlement over violations of pollution control standards. The U.S. Environmental Protection Agency (EPA) had charged Cinergy with breaches of The Clean Air Act. The suit called for civil penalties of up to $27,500 per day for each of several violations since March 1, 2000. In response to the EPA's request for information regarding CIN's planned expenditures for pollution control, the company stated its intention to invest $700 million in new equipment. The agreement will have no immediate impact on electric rates paid in Ohio, since the state's residential rates are frozen for the next five years under the deregulation law.

We think earnings moved higher in 2000. Power marketing operations, which produced heavy losses in 1999, probably broke even last year. Too, a 3% increase in kilowatt-hour sales added about $0.10 a share to net. And savings continued to accrue from the 1994 merger of Cincinnati G&E and PSI Resources. Thus, despite higher interest expense, we estimate 2000 earnings rose 21% to $2.55 a share. A further gain is likely this year.

The high yield might interest income-oriented investors. Moreover, dividend growth prospects to 2003-2005 are near the industry norm. But at the stock's recent price, total returns are unexciting.

Arthur H. Medalie *January 5, 2001*

(A) EPS diluted. Excl. extraord. gain (losses): '93, ($2.55); '96, (12¢); '97, (69¢); '98, (32¢); '99, 43c. Next egs. rpt. due late Jan. (B) Next div'd mtg. about Jan. 19. Goes ex about Jan. 26. Div'd pymt dates: about 15th of Feb., May, Aug., Nov. • Div'd reinvest. plan avail. (C) Incl. def. chgs. In '99, $6.63/sh. (D) Rate base: net original cost. Allowed on com. eq.: Ohio in '93: 11.37%-12.68%; Indiana in '96: 11.0%. Earned avg. com. eq. '99: 12.9%. Regul. Clim.: Above Avg. (E) Pro Forma. (F) In mill., adjust. for split.

Company's Financial Strength	A
Stock's Price Stability	95
Price Growth Persistence	15
Earnings Predictability	55

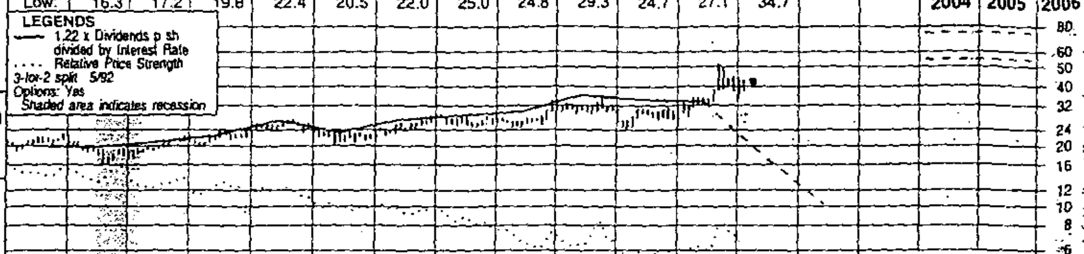
CONSTELL'N EGY GP. NYSE-CEG

RECENT PRICE	P/E RATIO	(Trailing / Median)	RELATIVE P/E RATIO	DIV'D YLD	VALUE LINE
42.70	14.1	Trailing: 18.6; Median: 14.0	0.89	1.1%	162

TIME. 3 Raised 7/23/99
SAFETY 2 Lowered 3/20/92
CHNICAL 3 Raised 2/23/01
A .50 (1.00 = Market)

High:	23.1	22.8	24.4	27.5	25.5	29.0	29.5	34.3	35.3	31.5	52.1	44.5
Low:	16.3	17.2	19.8	22.4	20.5	22.0	25.0	24.8	29.3	24.7	27.1	34.7

Target Price Range 2004 | 2005 | 2006



2004-06 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	75	(+75%)	16%
Low	55	(+30%)	8%

Insider Decisions

	A	M	J	J	A	S	O	N	D
to Buy	0	0	0	0	0	0	1	1	0
Options	0	0	0	0	0	0	0	0	0
to Sell	0	0	0	0	0	0	1	0	0

Institutional Decisions

	1Q2000	2Q2000	3Q2000
to Buy	104	128	149
to Sell	134	110	131
Hld's(000)	67346	67501	73837

% TOT. RETURN 1/01

	THIS STOCK	VL ARITH. INDEX
1 yr.	37.0	22.4
3 yr.	—	39.2
5 yr.	—	108.8

1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	© VALUE LINE PUB., INC.	04-06
14.88	15.55	15.28	15.67	16.63	17.81	19.41	17.33	18.27	18.86	19.89	21.35	22.40	22.50	25.32	25.77	28.20	30.80	Revenues per sh	40.50
3.40	3.75	3.84	3.98	3.45	2.91	3.08	3.10	3.45	3.93	4.59	4.45	4.66	4.93	5.57	5.78	7.15	7.80	"Cash Flow" per sh	9.85
1.87	2.10	2.31	2.31	2.03	1.40	1.52	1.63	1.85	1.93	2.02	1.85	1.97	2.06	2.18	2.30	3.05	3.35	Earnings per sh A	4.50
1.12	1.19	1.25	1.32	1.39	1.40	1.40	1.43	1.47	1.51	1.55	1.59	1.63	1.67	1.68	1.68	.78	.48	Div'd Decl'd per sh B■	.54
2.19	2.92	2.74	3.06	4.05	4.42	3.60	2.71	3.27	3.27	2.48	2.44	2.53	2.27	2.92	7.15	10.20	8.95	Cap'l Spending per sh	8.40
12.91	13.82	14.83	15.85	16.60	17.10	17.00	17.63	17.94	18.42	19.07	19.35	19.44	19.98	20.01	20.95	23.10	25.15	Book Value per sh C	33.55
117.93	117.96	118.37	118.95	120.52	121.21	126.69	143.78	146.03	147.53	147.53	147.67	147.67	149.25	149.56	150.50	151.50	152.50	Common Shs Outst'g E	154.50
7.7	10.0	9.1	9.1	10.4	13.7	13.2	13.6	13.8	11.8	12.4	14.7	14.0	15.3	13.2	15.8	Bold figures are		Avg Ann'l P/E Ratio	14.0
.63	.68	.61	.76	.79	1.02	.84	.82	.82	.77	.83	.92	.81	.80	.75	1.05	Value Line		Relative P/E Ratio	.95
7.7%	5.7%	6.0%	6.3%	6.6%	7.3%	7.0%	6.5%	5.8%	6.6%	6.2%	5.9%	5.9%	5.3%	5.8%	4.6%	estimates		Avg Ann'l Div'd Yield	.9%
						2459.5	2491.3	2668.7	2783.0	2934.8	3153.2	3307.6	3358.1	3786.2	3878.5	4275	4700	Revenues ($mill)	6255
						233.7	264.3	309.9	323.6	338.0	310.8	320.3	327.7	339.9	358.5	475	525	Net Profit ($mill)	710
						27.2%	28.1%	30.8%	32.2%	33.4%	34.9%	35.8%	35.2%	35.4%	39.1%	40.0%	40.0%	Income Tax Rate	40.0%
						16.0%	8.3%	7.3%	10.4%	6.5%	8.3%	5.2%	4.1%	2.9%	1.8%	1.5%	1.0%	AFUDC % to Net Profit	1.0%
						46.8%	43.4%	47.1%	44.6%	43.9%	46.3%	48.5%	49.7%	44.7%	48.6%	48.5%	48.5%	Long-Term Debt Ratio	47.5%
						42.1%	46.3%	43.7%	46.9%	47.5%	47.9%	46.6%	47.3%	52.0%	48.5%	49.0%	49.0%	Common Equity Ratio	50.5%
						5111.1	5476.3	5995.3	5791.5	5922.1	5960.4	6159.3	6299.6	5758.4	6502.3	7145	7835	Total Capital ($mill)	10235
						4773.9	4966.3	5196.9	5416.8	5497.6	5582.4	5651.5	5656.7	5523.1	6644.0	7630	8500	Net Plant ($mill)	11000
						6.5%	6.6%	6.9%	7.2%	7.3%	6.7%	6.8%	6.9%	7.5%	6.9%	8.0%	8.0%	Return on Total Cap'l	8.5%
						8.6%	8.5%	9.8%	10.1%	10.2%	9.7%	10.1%	10.3%	10.7%	10.7%	13.0%	13.0%	Return on Shr. Equity	13.0%
						8.9%	8.8%	10.2%	10.4%	10.6%	9.6%	10.1%	10.3%	10.9%	11.0%	13.0%	13.5%	Return on Com Equity D	13.5%
						.7%	1.3%	2.1%	2.3%	2.5%	1.4%	1.8%	2.0%	2.5%	3.0%	10.0%	11.5%	Retained to Com Eq	12.0%
						94%	88%	82%	80%	79%	87%	84%	81%	78%	74%	28%	16%	All Div'ds to Net Prof	14%

CAPITAL STRUCTURE as of 12/31/00
Total Debt $4066 mill. Due in 5 Yrs $2365 mill.
LT Debt $3159 mill. LT Interest $205.0 mill.
(LT interest earned: 3.9x)
Pension Liability None
Pfd Stock $190.0 mill. Pfd Div'd $13.2 mill.
Incl. 400,000 shs. 7.125% preference, callable 7/1/0?; 500,000 shs. 6.97% pref., call. 10/1/03; 4(shs. 6.70% pref., call. 1/1/04; 600,000 sh. % pref., call. 10/1/05; all $100 par, not subj. to mand. redemption.

nmon Stock 150,500,000 shs.
KET CAP: $6.4 billion (Large Cap)

ELECTRIC OPERATING STATISTICS

	1997	1998	1999
% Change Retail Sales (KWH)	-1.2	+2.4	+1.7
Avg. Indust. Use (MWH)	1017	996	926
Avg. Indust. Revs. per KWH (¢)	4.63	4.61	4.70
Capacity at Peak (Mw)	6741	6422	6522
Peak Load, Summer (Mw)	5980	6045	6383
Annual Load Factor (%)	56.9	57.4	55.7
% Change Customers (yr-end)	+.7	+.8	+1.2
Fixed Charge Cov. (%)	241	256	283

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '98-'00 to '04-'06
Revenues	4.0%	5.0%	8.5%
"Cash Flow"	3.0%	7.5%	10.5%
Earnings	-.5%	3.0%	13.0%
Dividends	2.5%	2.5%	-17.5%
Book Value	2.5%	2.0%	8.5%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
1998	866.1	767.6	934.0	790.4	3358.1
1999	932.3	820.0	970.4	1063.5	3786.2
2000	992.2	868.4	981.6	1036.3	3878.5
2001	1075	950	1100	1150	4275
2002	1175	1045	1220	1260	4700

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
1998	.50	.39	1.08	.09	2.06
1999	.55	.45	.91	.27	2.18
2000	.48	.26	.98	.58	2.30
2001	.63	.52	1.30	.60	3.05
2002	.70	.60	1.37	.68	3.35

Cal-endar	QUARTERLY DIVIDENDS PAID B■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
	.40	.40	.41	.41	1.62
	.41	.41	.42	.42	1.66
1999	.42	.42	.42	.42	1.68
2000	.42	.42	.42	.42	1.68
	.42	.12			

BUSINESS: Constellation Energy Group, a holding company, sells electricity (55% of revenues) and gas (16%) service, through its Baltimore Gas and Electric subsidiary, in central Maryland to a population of 2.5 million. The remaining 29% of revenues are derived from the nonregulated business, Constellation Ents. 2000 elec. rev. sources: resid'l, 43.2%; com'l, 43.4%; ind'l, 9.5%; other, 3.9%. '00 gas rev. sources: resid'l, 57.5%; com'l, 20.2%; ind'l, 4.4%; other, 17.9%. Prime fuels: nuclear, 42.3%; coal, 53.5%; other, 4.2%. Fuel & pur. pwr. costs about 20% of elec. revs. Has 9,000 employees, 65,225 com. stkhldrs. '00 deprec. rate: 5.0%. Chmn., Pres. & CEO: C. H. Poindexter. Inc.: MD. Addr.: P.O. Box 1475, Baltimore, MD 21203. Tel.: 410-783-5920. Web: www.constellationenergy.com.

Constellation Energy Group may well execute its plan to split into two publicly traded companies later this year. Prompted by industry deregulation, management has decided to divide operations along the lines of wholesale generation and marketing, which will trade under a new Constellation Energy Group stock, and retail energy distribution and services, which will trade as BGE Corp. CEG stockholders would receive one common share in each of the new companies for each of their shares. Management is seeking tax-free status for the transaction from the Internal Revenue Service. Various other federal (DOJ, FTC, FERC, NRC, SEC) approvals are also required. There do not appear to be any major obstacles to the breakup.

The wholesale business is building up its plant base. We look for controlled capacity to exceed 30,000 megawatts by 2005, giving the new CEG the scale to compete in a deregulated environment. The current base totals 9,000 MWs, most of which is coal and nuclear generation. By this summer, the company hopes to add 1,050 MWs of gas-fired peaking capacity and take majority control (1,550 MWs) of the 1,757 MW Nine Mile Point nuclear facility in New York. Additional nuclear purchases and development of coal plants may be in the cards, since the cost of oil and gas generation has risen significantly in recent time. Goldman, Sachs & Co. has agreed to lend marketing support and invest $250 million (for a 17.5% stake) in the merchant business. The potential for strong revenue growth and wide operating margins suggests 20%-25% annual earnings growth and above-average, 3- to 5-year, stock-price appreciation.

Income investors may be attracted to the distribution business. BGE Corp. would continue to serve over one million electricity and about 600,000 gas customers within the economically stable area of central Maryland. We believe that management can effectively meet the challenges of increasing competition and fuel costs, which are pressuring margins. Dividend growth likely will be 3%-5% a year, and the yield should be close to or above the industry average. The initial annual payout is set at $0.48 a share.

David M. Reimer *March 9, 2001*

(A) sic earnings. Excl. extra. items: '97, 25¢; 044¢. Incl. writedowns from real estate investe., fin'l invests., and ventures: '97, 31¢; '98, 7¢; '99, 27¢. Next egs. rpt due late Apr. (B) Next div'd meet. May 18; ex date June 8. Div'd pmt. dates early Jan., Apr., July, Oct. ■ Div'd reinvest. plan avail. (C) Incl. def'd chgs. '00: $4.20/sh. (D) Rate base determ.: fair val. Rate allowed on com. eq.: 11.75%-elec. ('93); 11.05%-gas ('99). Earned on '99 avg. com. eq.: 8.6%. Regulatory Climate: Average. (E) In mill., adj'd for split. Excludes ESOP shares.

Company's Financial Strength	A
Stock's Price Stability	95
Price Growth Persistence	25
Earnings Predictability	60

POTOMAC ELEC. PWR. NYSE-POM

RECENT PRICE 22.40 | P/E RATIO 11.4 (Trailing: 16.0 Median: 14.0) | RELATIVE P/E RATIO 0.72 | DIV'D YLD 5.2% | VALUE LINE 175

TIMELINESS 4 Raised 6/9/00

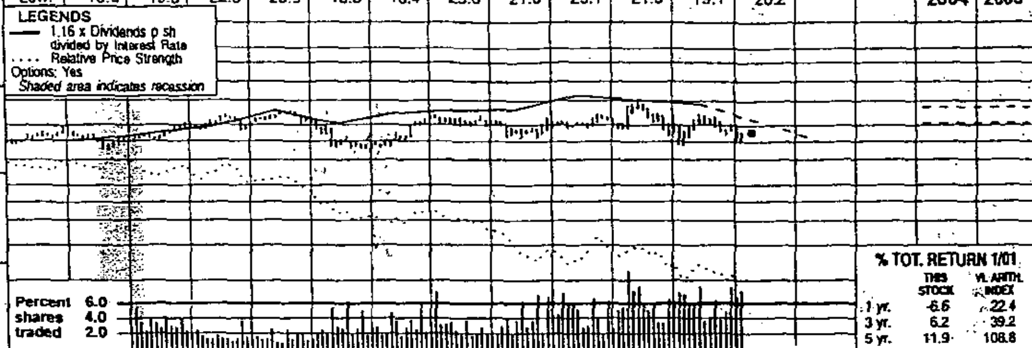
SAFETY 2 Lowered 12/15/95

TECHNICAL 4 Lowered 2/9/01

BETA .50 (1.00 = Market)

High:	24.0	25.1	27.5	28.9	26.6	26.3	27.4	26.8	27.8	31.8	27.9	24.9
Low:	18.0	19.6	22.6	23.9	18.3	18.4	23.6	21.0	23.1	21.3	19.1	20.2

Target Price Range 2004 | 2005 | 2006



2004-06 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	30	(+35%)	12%
Low	25	(+10%)	8%

Insider Decisions

	A	M	J	J	A	S	O	N	D
to Buy	0	0	0	0	0	0	0	0	0
Options	0	0	0	0	0	0	0	0	0
to Sell	0	0	0	0	0	0	0	0	0

Institutional Decisions

	1Q2000	2Q2000	3Q2000
to Buy	82	98	68
to Sell	100	78	91
Hld's(000)	46123	43575	40318

% TOT. RETURN 1/01

	THIS STOCK	VL ARITH. INDEX
1 yr.	-6.6	22.4
3 yr.	6.2	39.2
5 yr.	11.9	108.8

1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	© VALUE LINE PUB., INC.	04-06
13.98	14.51	14.10	14.29	14.25	14.16	13.97	14.01	14.65	15.42	15.83	16.96	15.73	17.41	20.89	23.65	26.05	29.50	Revenues per sh	31.35
2.93	3.23	3.34	3.42	3.32	2.84	2.99	2.94	3.30	3.30	3.43	3.74	3.63	3.84	4.20	3.95	3.75	4.35	"Cash Flow" per sh	4.80
1.80	2.06	2.11	2.14	2.16	1.62	1.87	1.66	1.95	1.79	1.69	1.86	1.66	1.79	1.87	1.62	2.00	2.35	Earnings per sh A	2.80
1.08	1.18	1.30	1.38	1.46	1.52	1.56	1.60	1.64	1.66	1.66	1.66	1.66	1.66	1.66	1.66	1.17	1.00	Div'd Decl'd per sh B ■	1.00
2.04	2.32	2.55	2.89	3.52	4.21	3.89	3.13	2.74	2.68	1.95	1.52	1.83	1.74	1.69	2.05	1.30	1.40	Cap'l Spending per sh	1.40
10.71	11.84	12.61	13.22	14.23	14.39	15.45	15.95	16.60	16.54	15.79	15.94	15.72	15.84	16.12	16.80	17.20	18.05	Book Value per sh C	22.75
94.10	94.43	94.45	94.45	97.91	99.71	111.11	114.30	117.80	118.25	118.49	118.50	118.50	118.53	118.53	110.90	101.15	91.50	Common Shs Outst'g D	92.50
8.3	11.0	11.1	10.1	9.8	12.8	11.7	15.0	13.7	11.7	12.7	13.8	14.2	14.0	14.1	14.6	Bold figures are		Avg Ann'l P/E Ratio	10.0
.67	.75	.74	.84	.74	.95	.75	.91	.81	.77	.85	.86	.82	.73	.80	.97	Value Line		Relative P/E Ratio	.65
7.2%	5.2%	5.6%	6.4%	6.9%	7.3%	7.1%	6.4%	6.1%	7.9%	7.7%	6.5%	7.0%	6.6%	6.3%	7.0%	estimates		Avg Ann'l Div'd Yield	3.6%

CAPITAL STRUCTURE as of 9/30/00 F

Total Debt $3368 mill. Due in 5 Yrs $1215 mill.
LT Debt $2807 mill. LT Interest $180.0 mill.
(LT interest earned: 2.6x)

Pfd Stock $215.3 mill. Pfd Div'd $14.4 mill.
Incl. about 925,675 shs. $2.28 to $2.46 pfd. cum., $50 par, call. at $51 a sh.; about 984,000 shs. $3.40 pref., $50 par; $125 million, 7.375%, trust originated pfd. secs.

Common Stock 111,364,736 shs.
MARKET CAP: $2.5 billion (Mid Cap)

1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002		04-06
1552.1	1601.6	1725.2	1823.1	1876.1	2010.3	1863.5	2063.9	2476.0	2623.9	2635	2700	Revenues ($mill)	2900
210.2	200.8	241.6	227.2	217.4	237.0	214.4	232.0	241.6	206.0	225	240	Net Profit ($mill)	275
28.2%	27.3%	31.3%	34.5%	44.7%	25.1%	39.1%	36.0%	32.0%	61.2%	36.0%	36.0%	Income Tax Rate	38.0%
15.7%	14.8%	9.5%	8.3%	4.2%	6.0%	6.8%	2.4%	2.1%	.5%	.5%	.5%	AFUDC % to Net Profit	.5%
44.6%	43.0%	41.6%	45.5%	48.1%	47.2%	49.2%	48.4%	57.3%	47.2%	48.5%	50.0%	Long-Term Debt Ratio	45.5%
49.0%	49.6%	51.2%	47.9%	45.4%	46.2%	44.5%	45.0%	38.2%	47.3%	45.5%	44.5%	Common Equity Ratio	48.5%
3504.3	3676.0	3817.3	4084.4	4122.4	4087.5	4191.2	4169.0	5002.3	3937.4	3815	3725	Total Capital ($mill)	4330
3706.9	3931.3	4131.1	4298.3	4400.3	4423.2	4486.3	4521.2	4524.4	2722.0	2810	2895	Net Plant ($mill)	3155
7.8%	7.2%	7.8%	7.2%	6.8%	7.4%	6.7%	7.1%	6.2%	7.5%	7.5%	8.0%	Return on Total Cap'l	8.0%
10.8%	9.6%	10.8%	10.2%	10.2%	11.0%	10.1%	10.8%	11.3%	9.9%	11.5%	13.0%	Return on Shr. Equity	12.0%
11.5%	10.2%	11.5%	10.8%	10.7%	11.7%	10.6%	11.4%	11.8%	10.3%	12.0%	13.5%	Return on Com Equity E	12.5%
1.8%	.4%	1.8%	.8%	.2%	1.3%	.1%	1.0%	1.5%	.4%	5.5%	8.0%	Retained to Com Eq	8.0%
85%	97%	85%	93%	98%	90%	99%	92%	88%	96%	59%	44%	All Div'ds to Net Prof	39%

ELECTRIC OPERATING STATISTICS

	1997	1998	1999
% Change Retail Sales (KWH)	-.8	+2.0	+2.6
Avg. Resid'l Use (KWH) G	10650	10875	11091
Avg. Resid'l Revs. per KWH(¢) G	8.00	8.39	8.38
Capacity at Peak (Mw)	6806	6806	6806
Peak Load, Summer (Mw)	5689	5807	5927
Annual Load Factor (%)	54.2	54.6	55.0
% Change Customers (yr-end)	+.8	+.7	+1.2
Fixed Charge Cov. (%)	246	269	269

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '97-'99 to '04-'06
Revenues	2.5%	4.0%	8.0%
"Cash Flow"	1.5%	4.0%	3.0%
Earnings	-2.0%	-.5%	7.0%
Dividends	2.0%	.5%	-7.0%
Book Value	2.0%	-.5%	5.5%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
1998	380.4	528.5	750.8	404.2	2063.9
1999	511.0	604.7	858.3	502.0	2476.0
2000	529.2	653.1	835.7	605.9	2623.9
2001	530	650	850	605	2635
2002	545	665	870	620	2700

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
1998	.03	.46	1.23	.04	H1.79
1999	.08	.61	1.25	d.07	1.87
2000	.07	.47	1.04	.05	H1.62
2001	.13	.52	1.27	.08	2.00
2002	.22	.61	1.36	.16	2.35

Cal-endar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
1997	.415	.415	.415	.415	1.66
1998	.415	.415	.415	.415	1.66
1999	.415	.415	.415	.415	1.66
2000	.415	.415	.415	.415	1.66
2001	.415	.25			

BUSINESS: Potomac Electric Power Co. supplies electricity to 700,611 customers in Washington, D.C. (41% of sales) and in adjoining areas of Maryland (59%). 1999 rev. breakdown: residential, *30.5%; commercial, 46.7%; government, 16.0%; other, 6.8%.* There are no major industries that operate in the company's service area. Prime fuels (1999): coal, 82%; oil, 13%; gas, 5%. Fuel & purchased power costs: 46.2% of revenues. '99 deprec. rate: 4.0%. Pepco Holdings, Inc. (PHI) is the company's nonregulated subsidiary. Has 3,605 employees, 65,255 common stockholders. Chrmn *and CEO: John M. Derrick, Jr.; Pres. and COO: D. Wraase. Inc.:* Dist. of Columbia & Virginia. Addr.: 1900 Pennsylvania Ave, N.W., Wash., D.C. 20068. Tel.: 202-872-2000. Web: www.pepco.com.

Potomac Electric Power Co. has set an aggressive target date to complete its purchase of Conectiv. *Management* believes that it can close the $5.4 billion transaction (including $3.2 billion in assumed debt and preferred stock) in 12 months, or by the end of the first quarter of 2002. Usually, utility mergers take 18 months or more to complete, Federal (FERC, SEC, and DOJ) and local regulators (MD, Wash., D.C., DE, NJ, and VA), as well as stockholders, must give their approvals. PEPCO investors would exchange their common shares for common shares in the new holding company one for *one. Conectiv stockholders may elect to re*ceive $25.00 in cash or stock in the combined company, subject to 50/50 proration and a $19.50-$24.50 PEPCO stock collar; this represents about a 30% premium. Also, those investors would see their annual dividend rise $0.12, to $1.00 a share.

Recent asset sales will help finance the deal. PEPCO has sold power plants with a total generating capacity of 5,200 megawatts (MWs) to Mirant Corp. (formerly Southern Energy Inc.) for $2.75 billion. The company has also sold a stake (166 MWs) in a 1,711 MW plant to an Allegheny Energy/PPL Corp. venture for *$156 million. After payments of roughly* $845 million in taxes, a $525 million long-term debt paydown, $170 million in rate credits, and a $150 million investment in Starpower, a cable partnership with RCN, the remaining proceeds will go to finance part of the equity value of the acquisition, pay down $200 million in debt and buy back up to $450 million in common stock. The combined company's capital structure should be solid, with a 60/40 total debt-to-equity ratio.

Stock in the enlarged company likely would produce worthwhile 3- to 5-year total returns for income investors. PEPCO has cut its annual dividend, but the new company should achieve a better long-term income growth rate, thanks to greater cost leverage. Going forward, we expect improved share-price performance and modest dividend gains. There appear to be no major hurdles to the deal. Still, before committing, investors should note that PEPCO stock is not especially attractive on a stand-alone basis.

David M. Reimer *March 9, 2001*

(A) Based on diluted shs. Excludes nonrecur. gains (losses): '97, (28¢); '98, (6¢); '99, 11¢; '00, net $1.34. Next egs. rpt. due late Apr. (B) Next dividend meeting Apr. 27. Goes ex June 8. Div'd payment dates: 30th of Mar., June, Sep., Dec. ■ Div'd reinvest. plan avail. (C) Includes deferred charges. In '99: $3.47/sh. (D) In mill. (E) Rate allowed on com. eq. in MD: NA; DC: 11.1% ('95); earned on '99 average com. eq., 13.5%. Reg. climate: Avg. (F) Excl. PHI. (G) No ind'l sales. (H) Does not add due to change in dilutive secs outstanding.

Company's Financial Strength	B++
Stock's Price Stability	100
Price Growth Persistence	15
Earnings Predictability	75

ALLEGHENY ENERGY NYSE-AYE

RECENT PRICE	P/E RATIO	(Trailing: 8.8 / Median: 13.0)	RELATIVE P/E RATIO	DIV'D YLD	VALUE LINE
34.24	8.1	Trailing: 8.8; Median: 13.0	0.44	5.1%	

TIMELINESS **3** Raised 8/4/00
SAFETY **1** Raised 9/12/97
TECHNICAL **4** Lowered 12/7/01
BETA .60 (1.00 = Market)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
High:	21.1	23.3	24.3	28.4	26.5	29.3	31.1	32.6	34.9	35.2	48.8	55.1
Low:	17.0	17.4	20.8	23.4	19.8	21.5	26.0	25.5	26.6	26.2	23.6	33.3

Target Price Range
2004 | 2005 | 2006

2004-06 PROJECTIONS

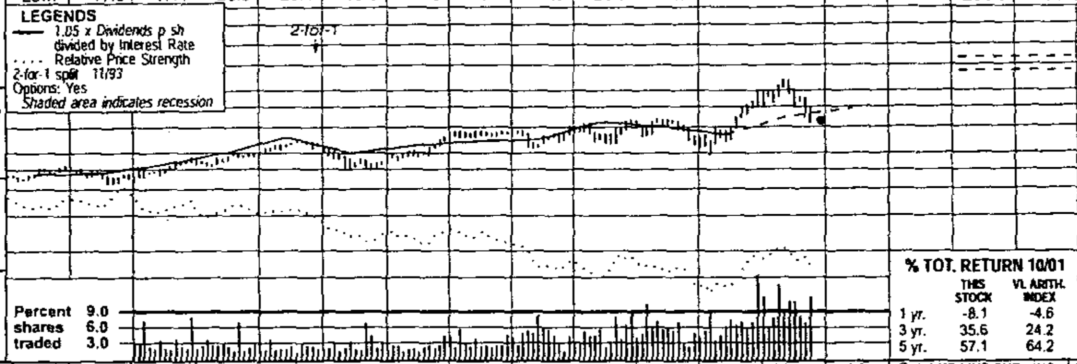
	Price	Gain	Ann'l Total Return
High	70	(+105%)	23%
Low	60	(+75%)	19%

Insider Decisions

	J	F	M	A	M	J	J	A	S
to Buy	0	0	2	0	1	0	0	0	0
Options	0	0	0	0	0	0	0	0	0
to Sell	0	1	0	0	0	0	0	0	0

Institutional Decisions

	4Q2000	1Q2001	2Q2001
to Buy	168	148	212
to Sell	103	129	93
Hld's(000)	51258	52075	66389



% TOT. RETURN 10/01

	THIS STOCK	VL ARITH. INDEX
1 yr.	-8.1	-4.6
3 yr.	35.6	24.2
5 yr.	57.1	64.2

1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	© VALUE LINE PUB., INC.	04-06
18.21	16.75	19.24	20.82	21.39	21.48	21.04	20.25	19.82	20.55	21.94	19.10	19.35	21.04	25.43	36.33	96.00	102.40	Revenues per sh	118.10
3.02	3.49	3.55	3.56	3.48	3.48	3.54	3.52	3.62	3.76	4.15	3.88	4.47	4.36	5.11	4.36	6.45	7.00	"Cash Flow" per sh	9.00
1.80	2.02	2.03	1.98	1.86	1.81	1.81	1.83	1.88	1.91	2.04	1.73	2.30	2.15	2.70	2.11	4.05	4.40	Earnings per sh A	5.85
1.35	1.43	1.48	1.51	1.55	1.58	1.59	1.61	1.63	1.64	1.65	1.69	1.72	1.72	1.72	1.72	1.72	1.76	Div'd Decl'd per sh B ■	1.88
5.18	1.94	2.13	1.91	2.87	3.01	3.11	4.28	4.88	4.26	2.64	2.38	2.29	1.86	2.39	3.52	4.40	4.40	Cap'l Spending per sh	4.70
12.87	13.47	14.10	14.62	14.99	15.26	15.54	16.05	16.62	17.26	17.65	17.80	18.43	18.61	15.35	15.76	22.10	25.05	Book Value per sh C	36.10
100.51	101.74	102.98	104.27	105.58	106.98	108.45	113.90	117.66	119.29	120.70	121.84	122.44	122.44	110.44	110.44	125.00	125.50	Common Shs Outst'g E	127.00
8.7	10.7	9.9	9.6	10.3	10.5	11.2	12.3	14.0	11.6	12.0	17.2	12.6	14.3	11.8	15.6	Bold figures are		Avg Ann'l P/E Ratio	11.0
.71	.73	.66	.80	.78	.78	.72	.75	.83	.76	.80	1.08	.73	.74	.67	1.04	Value Line		Relative P/E Ratio	.75
8.7%	6.7%	7.4%	7.9%	8.1%	8.3%	7.9%	7.1%	6.2%	7.4%	6.7%	5.7%	5.9%	5.6%	5.4%	5.2%	estimates		Avg Ann'l Div'd Yield	2.9%

CAPITAL STRUCTURE as of 9/30/01
Total Debt $4673 mill. Due in 5 Years $2210 mill.
LT Debt $2728 mill. LT Interest $205 mill.
(LT interest earned: 5.2x;
Total interest coverage: 3.5x)

Pension Liability None
Pfd Stock $74.0 mill. Pfd Div'd $5.0 mill.
Incl. 650,861 shs. 3.60% to 4.80%, call. at prices ranging from $102.21 to $110, cum. $100 par.

Common Stock 125,049,412 shs.
as of 11/14/01
MARKET CAP: $4.3 billion (Mid Cap)

1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	© VALUE LINE PUB., INC.	04-06
2282.2	2306.7	2331.5	2451.7	2647.8	2327.6	2369.5	2576.4	2608.4	4011.9	12000	12850	Revenues ($mill)	15000
212.6	221.8	232.9	245.2	259.4	219.3	290.6	272.3	314.5	238.4	510	550	Net Profit ($mill)	745
35.9%	34.2%	35.5%	34.6%	37.7%	36.9%	36.6%	38.2%	37.8%	NMF	37.0%	37.0%	Income Tax Rate	38.0%
3.7%	7.9%	9.2%	8.0%	3.2%	2.7%	2.9%	1.8%	2.2%	3.1%	1.5%	1.5%	AFUDC % to Net Profit	1.5%
47.3%	48.1%	47.4%	47.7%	49.7%	50.6%	47.5%	49.7%	56.0%	58.5%	53.0%	52.5%	Long-Term Debt Ratio	49.5%
45.6%	45.0%	46.1%	45.1%	46.6%	45.8%	48.8%	46.4%	42.1%	39.8%	47.0%	47.5%	Common Equity Ratio	50.5%
3697.6	4057.5	4240.4	4563.1	4573.2	4736.3	4620.1	4383.3	4023.8	4374.2	5890	6625	Total Capital ($mill)	9115
4162.0	4439.9	4788.1	5057.4	5112.6	5296.2	5296.2	5234.1	5207.2	5539.3	6820	7150	Net Plant ($mill)	8175
7.7%	7.3%	7.3%	7.1%	7.5%	6.4%	8.2%	8.0%	9.7%	7.4%	10.5%	10.0%	Return on Total Cap'l	9.5%
10.9%	10.5%	10.4%	10.3%	11.3%	9.4%	12.0%	12.4%	17.8%	13.1%	18.5%	17.5%	Return on Shr. Equity	16.0%
11.5%	11.1%	11.0%	10.9%	11.5%	9.7%	12.5%	12.9%	18.1%	13.4%	18.5%	17.5%	Return on Com Equity D	16.0%
1.4%	1.3%	1.4%	1.5%	2.2%	.2%	3.2%	2.6%	6.1%	2.6%	10.5%	10.5%	Retained to Com Eq	11.0%
89%	89%	88%	87%	82%	98%	76%	81%	67%	81%	43%	40%	All Div'ds to Net Prof	32%

ELECTRIC OPERATING STATISTICS

	1998	1999	2000
% Change Retail Sales (KWH)	+2.8	+2.8	+3.6
Avg. Indust. Use (MWH)	771.6	776.3	772.6
Avg. Indust. Revs. per KWH (¢)	3.83	3.63	3.80
Capacity at Peak (Mw)	8696	8892	9242
Peak Load, Winter (Mw)	7314	7788	7791
Annual Load Factor (%)	69.1	70.5	70.2
% Change Customers (yr-end)	+1.1	+1.2	+19.1
Fixed Charge Cov. (%)	306	340	301

ANNUAL RATES

of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '98-'00 to '04-'06
Revenues	2.5%	6.0%	23.5%
"Cash Flow"	3.0%	3.5%	10.0%
Earnings	2.0%	3.5%	14.0%
Dividends	1.0%	1.0%	1.5%
Book Value	.5%	-1.5%	12.5%

QUARTERLY REVENUES ($ mill.)

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
1998	645.5	627.7	726.6	576.6	2576.4
1999	690.0	643.4	741.4	733.6	2808.4
2000	866.8	865.3	1058.5	1221.3	4011.9
2001	F1693.4	F2940.4	3682.0	3684.2	12000
2002	2060	3275	3785	3730	12850

EARNINGS PER SHARE A

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
1998	.64	.44	.68	.39	2.15
1999	.80	.58	.63	.69	2.70
2000	.14	.62	.69	.66	2.11
2001	F.93	F.96	1.32	.84	4.05
2002	1.00	1.05	1.42	.93	4.40

QUARTERLY DIVIDENDS PAID B ■

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
1997	.43	.43	.43	.43	1.72
1998	.43	.43	.43	.43	1.72
1999	.43	.43	.43	.43	1.72
2000	.43	.43	.43	.43	1.72
2001	.43	.43	.43		

BUSINESS: Allegheny Energy (formerly Allegheny Power System), a holding company, distributes electricity through three subsidiaries in Pennsylvania, West Virginia, Maryland, Virginia, and Ohio. Regulated electricity and gas operations serve 1.7 mill. customers. 2000 elec. revs: resid'l, 38.7%; commer'l, 20.4%; ind'l, 29.3%; other, 11.6%. Mining and metal products companies are the largest industrial customers. Acq'd Global Energy Markets 3/01. 2000 fuel mix: coal, 85.9%; oil and gas, 3.9%; hydro, .7%; other, 9.5%. 2000 fuel & purch. pwr costs: 85.5% of revs. '00 deprec. rate: 2.6%. Has 4,815 employees and 40,590 com. stkhldrs. Chrmn., CEO & Pres.: Alan J. Noia. Inc.: MD. Addr. 10435 Downsville Pike, Hagerstown, MD 21740. Tel.: 301-790-3400. Web: www.alleghenyenergy.com.

Allegheny Energy is on track to meet its share-net goal for 2001. Despite weakened electricity demand and lower prices during the summer, the company reported strong September-quarter diluted share net of $1.32, nearly double the year-earlier result. Traditional regulated utility operations, which account for about three-quarters of net income, benefited from a stable central Maryland economy (versus the rest of the nation) and a successful fuel (coal and gas) hedging strategy. Too, giving a notable boost to overall revenue and earnings results was Allegheny Energy Global Markets. This subsidiary is made up of the energy trading business purchased from Merrill Lynch last March. Though the power demand/supply balance in the U.S. has tipped in favor of end-customers, AYE believes that it can maintain good growth by concentrating on areas where demand is strong (especially in the Northeast). We suspect that the *positive momentum of the three most* recent reporting periods carried into the current quarter. Share earnings should fall within AYE's target of $3.80-$4.10.

Management will delay an initial public offering of Allegheny Energy Supply. This year, many utilities have had difficulty forecasting national power requirements and fuel prices. As a result, profits have suffered and investors have *moved out of the merchant power sector.* AYE continues to pursue regulatory approval to offer up to an 18% interest in the supply business, but with stock valuations down, even if the go-ahead is given soon, action may not be taken, at least until mid-2002. In the meantime, the board of directors might approve a modest dividend hike. The planned IPO augurs well for in*vestors if the stock market fully recovers.*

The equity is ranked to match year-ahead market performance. It appears that Wall Street has discounted most utility stocks for the recent declines in electricity demand and increased trading risk. We've become more conservative toward AYE's 3- to 5-year prospects, but the company should come fairly close to attaining *management's goal of lifting share net* 10% a year. Top-quality AYE shares offer better total returns to 2004-2006 than the industry average.

David M. Reimer *December 7, 2001*

(A) Diluted egs. Excl. nonrecur. items: '94, 32¢; '95, d5¢; '98, d$2.44; '99, d48¢; '00, 3¢; 1Q, '01, d26¢. Incl. 52¢ co. restruct. chg. in '96; indust. restruct. chg. in '00, 70¢. Next egs rpt late Jan. (B) Next div'd meet. about Mar. 1. Goes ex Mar. 8. Div'd pmt. dates: 30th of Mar., June, Sep., Dec. ■ Div'd reinvest. plan avail. (C) Incl. def'd chgs in '00, $6.03/sh. (D) Rate base varies. Return allowed on com. eq.: 10.65%-12.36%; earned on sys. avg. com. eq. in '00: 13.82%. Reg. Clim.: Avg. (E) In mill., adj'd for split. (F) Restated for acct'g inaccuracies.

Company's Financial Strength	A
Stock's Price Stability	95
Price Growth Persistence	35
Earnings Predictability	65

CINERGY NYSE-CIN

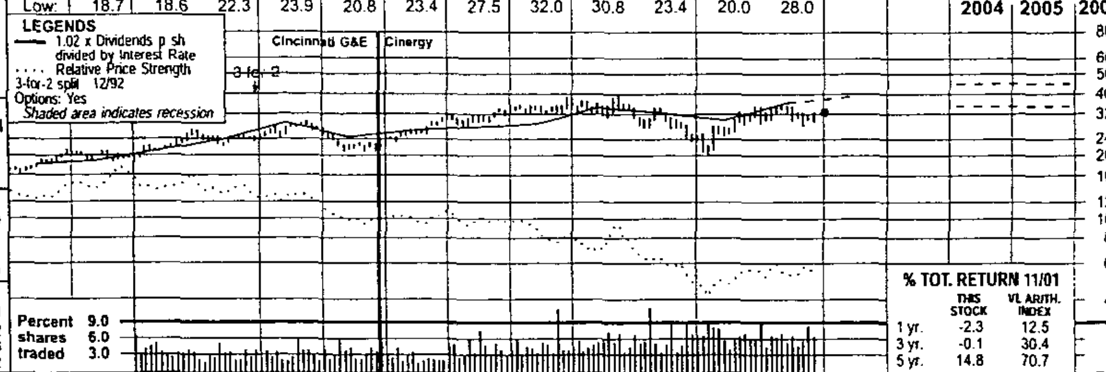
RECENT PRICE	32.84	P/E RATIO	11.8 (Trailing: 12.4) (Median: 13.0)	RELATIVE P/E RATIO	0.61	DIV'D YLD	5.5%	VALUE LINE

TIMELINESS 3 Raised 6/9/00
SAFETY 2 New 1/13/95
TECHNICAL 4 Lowered 12/28/01
BETA .55 (1.00 = Market)

High:	21.2	26.8	26.6	29.6	27.6	31.1	34.3	39.1	39.9	34.9	35.3	35.6
Low:	18.7	18.6	22.3	23.9	20.8	23.4	27.5	32.0	30.8	23.4	20.0	28.0

Target Price Range 2004 | 2005 | 2006

LEGENDS
— 1.02 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
3-for-2 split 12/92
Options: Yes
Shaded area indicates recession



2004-06 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	45	(+35%)	12%
Low	35	(+5%)	7%

Insider Decisions

	F	M	A	M	J	J	A	S	O
to Buy	0	0	0	0	0	0	0	0	0
Options	0	0	0	4	0	0	0	0	0
to Sell	0	0	0	3	0	0	0	0	0

Institutional Decisions

	1Q2001	2Q2001	3Q2001
to Buy	122	134	132
to Sell	124	99	118
Hld's(000)	98539	100524	95692

Percent shares traded 9.0 6.0 3.0

% TOT. RETURN 11/01

	THIS STOCK	VL ARITH. INDEX
1 yr.	-2.3	12.5
3 yr.	-0.1	30.4
5 yr.	14.8	70.7

Cinergy was formed on October 24, 1994 through the merger of Cincinnati Gas & Electric and PSI Resources. Each common share of Cincinnati Gas & Electric was exchanged for 1.00 share of Cinergy, while each common share of PSI Resources was exchanged for 1.023 Cinergy shares. Premerger data are figures for Cincinnati Gas & Electric only and are not comparable to Cinergy data.

1991	1992	1993	1994	E1995	1996	1997	1998	1999	2000	2001	2002	© VALUE LINE PUB., INC.	04-06
17.92	17.98	19.89	18.84	19.23	20.57	27.59	37.04	37.36	52.98	85.95	77.80	Revenues per sh	82.40
3.70	3.66	3.87	3.13	3.98	3.99	4.75	4.02	4.34	4.87	5.55	6.05	"Cash Flow" per sh	6.75
2.21	2.04	2.16	1.30	2.22	2.19	2.30	1.97	2.10	2.50	2.75	2.90	Earnings per sh A	3.10
1.65	1.65	1.68	1.72	1.72	1.74	1.80	1.80	1.80	1.80	1.80	1.80	Div'd Decl'd per sh B■	1.88
4.04	2.54	2.26	3.09	2.06	2.05	2.08	2.32	2.43	3.27	9.20	5.65	Cap'l Spending per sh	3.35
18.70	19.16	17.25	15.56	16.17	16.39	16.10	16.02	16.70	17.36	18.50	19.65	Book Value per sh C	23.40
84.69	86.39	88.06	155.20	157.67	157.68	157.74	158.66	158.92	158.97	159.20	159.40	Common Shs Outst'g F	165.00
10.0	11.9	12.5	17.8	11.9	14.1	14.9	17.6	14.2	11.0	11.5		Avg Ann'l P/E Ratio	13.0
.64	.72	.74	1.17	.80	.88	.86	.92	.81	.73	.60		Relative P/E Ratio	.85
7.4%	6.8%	6.2%	7.4%	6.5%	5.6%	5.3%	5.2%	6.1%	6.6%	5.6%		Avg Ann'l Div'd Yield	4.7%
1518.1	1553.4	1751.7	2924.2	3031.4	3242.7	4352.8	5876.3	5937.9	8422.0	13680	12400	Revenues ($mill)	13600
207.0	202.3	214.0	226.7	378.0	369.0	472.0	318.1	340.8	404.1	440	465	Net Profit ($mill)	505
30.3%	32.2%	31.7%	40.2%	36.7%	37.2%	34.5%	26.9%	38.0%	38.4%	38.0%	38.0%	Income Tax Rate	38.0%
32.9%	8.7%	3.1%	8.2%	2.7%	2.0%	1.2%	.5%	1.2%	2.0%	3.0%	3.0%	AFUDC % to Net Profit	3.0%
47.5%	47.7%	49.7%	48.4%	46.3%	47.7%	44.2%	49.7%	52.1%	50.2%	50.5%	50.0%	Long-Term Debt Ratio	47.0%
43.4%	43.6%	41.3%	43.1%	46.6%	48.6%	52.2%	48.5%	46.3%	48.2%	48.5%	49.0%	Common Equity Ratio	52.0%
3647.4	3795.0	3678.3	5607.5	5467.5	5313.7	4668.1	5238.3	5735.6	5728.2	6085	6370	Total Capital ($mill)	7400
3861.2	3945.4	3785.6	6198.9	6251.1	6289.6	6297.1	6344.5	6417.5	6630.4	7650	8045	Net Plant ($mill)	8080
7.7%	7.4%	7.9%	6.0%	8.9%	8.7%	11.6%	7.7%	7.7%	8.4%	9.0%	9.0%	Return on Total Cap'l	8.5%
10.8%	10.2%	11.6%	7.8%	12.9%	13.3%	17.4%	12.1%	12.4%	14.2%	14.5%	14.5%	Return on Shr. Equity	13.0%
11.5%	10.6%	12.4%	7.9%	13.6%	13.4%	18.1%	12.3%	12.6%	14.5%	15.0%	15.0%	Return on Com Equity D	13.0%
3.0%	2.0%	2.8%	NMF	3.1%	2.8%	6.9%	1.1%	1.9%	4.1%	5.0%	5.5%	Retained to Com Eq	5.0%
77%	83%	80%	113%	79%	81%	63%	91%	86%	72%	66%	62%	All Div'ds to Net Prof	61%

CAPITAL STRUCTURE as of 9/30/01
Total Debt $4974.6 mill. Due in 5 Yrs $1797.6 mill.
LT Debt $3683.0 mill. LT Interest $186.0 mill.
(LT interest earned: 4.6x)
Pension Liability $20.9 mill. in '00 vs. $55.8 mill. in '99
Pfd Stock $62.8 mill. Pfd Div'd $4.2 mill.
552,451 shs. 3.5% to 6.875% ($100 par); callable at $100 to $108 a sh.;
303,544 shs. 4.16% to 4.32% $25 par, call. at $25.

Common Stock 159,112,108 shs. as of 10/31/01
MARKET CAP: $5.2 billion (Large Cap)

ELECTRIC OPERATING STATISTICS

	1998	1999	2000
% Change Retail Sales (KWH)	+3.8	+6.7	+3.8
Avg. Indust. Use (MWH)	2795	2899	2880
Avg. Indust. Revs. per KWH (¢)	3.88	3.86	3.79
Capacity at Peak (Mw)	10936	11014	10996
Peak Load, Summer (Mw)	10433	10678	10141
Annual Load Factor (%)	59.0	57.3	63.8
% Change Customers (yr-end)	+1.7	+1.8	+2.0
Fixed Charge Cov. (%)	240	293	365

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '98-'00 to '04-'06
Revenues	8.5%	17.0%	11.5%
"Cash Flow"	1.0%	4.0%	7.5%
Earnings	-2.5%	3.0%	6.0%
Dividends	1.5%	1.0%	.5%
Book Value	--	.5%	6.0%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
1998	1348	1168	1976	1384	5876.3
1999	1402	1276	1782	1478	5937.9
2000	1583	1770	2300	2769	8422.0
2001	3707	3642	3324	3007	13680
2002	3100	2900	3300	3100	12400

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
1998	.67	.16	.69	.45	1.97
1999	.80	.37	.33	.60	2.10
2000	.87	.47	.58	.58	2.50
2001	.75	.51	.80	.69	2.75
2002	.80	.50	.85	.75	2.90

Cal-endar	QUARTERLY DIVIDENDS PAID B■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
1998	.45	.45	.45	.45	1.80
1999	.45	.45	.45	.45	1.80
2000	.45	.45	.45	.45	1.80
2001	.45	.45	.45	.45	1.80
2002					

BUSINESS: Cinergy Corp. is a holding company formed through the merger of Cincinnati Gas & Electric and PSI Resources. Supplies elect. (64% of revs.) to 1,480,000 customers, natural gas (35%) to 483,000 customers, other (1%), in Ohio, Kentucky, and Indiana. Elect. (Gas) revs.: resid. 40% (67%); commer., 29% (26%); indust., 27% (4%); other 4% (3%). The primary metal and chemical industries are the largest customers. Fuel costs: 35% of revenues. '00 deprec. rate: 2.9%-3.3%. Est'd plant age: 12 years. Fuels: coal, 90%; purchased power, 7%; other, 3%. Has 8,362 employees, 61,338 common stockholders. Chairman, President & CEO: James E. Rogers. Inc.: Delaware. Address: 139 East 4th St., Cincinnati, OH 45202. Tel.: 513-381-2000. Internet: www.cinergy.com.

Cinergy is expanding its energy merchant business. Last year, it bought 1,000 megawatts (mw) of gas-fired capacity from Enron. (Terms of the transaction were not disclosed.) It also built a 130-mw peaking unit at a cost of $70 million. And as a result of the dissolution of its joint venture with Duke Energy, it became the sole owner of a 640-mw gas-fired peaker. Too, CIN recently signed an agreement with BP Global Power for the construction of two natural gas cogeneration facilities. The plants' 800-mw output will be shared equally between the partners. Steam production of 3.5 million pounds per hour will be used by BP's refining and chemical sites. Finally, the company is building a 25-mw biomass unit in St. Paul. We expect CIN to seek additional plant locations as the opportunity arises.

The company has a tentative agreement with the U.S. Environmental Protection Agency covering air pollution issues. The pact calls for EPA to drop all challenges of past maintenance and repair activities at CIN's coal-fired plants. In exchange, the company would shut down or repower nine small coal-fired boilers and build four sulfur dioxide scrubbers starting in 2008. The cost of the work is estimated at $700 million. That's on top of CIN's previous commitment to install NOx controls for $800 million. Since cash flow from operations probably won't be sufficient to fund these expenditures, debt and common stock offerings will be needed to bridge the gap. We expect the company to file for higher rates to cover these costs.

Energy marketing and trading was a major contributor to 2001 earnings. We think it accounted for 45% of total profits last year and more than offset higher interest expense and a 5% reduction in residential rates in Ohio. What's more, though margins on this business will likely decline in 2002, marketing and trading should still help lift current-year earnings by 5% over our 2001 estimate of $2.75 a share.

The high yield might interest income-oriented investors. But dividend growth may be slow in coming because of the need to conserve cash for the capital spending program. All told, we rate CIN an average utility selection.

Arthur H. Medalie *January 4, 2002*

(A) EPS diluted. Excl. extraord. gain (losses): '93, ($2.55); '96, (12¢); '97, (69¢); '98, (32¢); '99, 43¢. Next egs. rpt. due late Jan. (B) Next div'd mtg. mid-Jan. Goes ex late Jan. Div'd pmnt dates: about 15th of Feb., May, Aug., Nov. ■ Div'd reinvest. plan avail. (C) Incl. def. chgs. In '00, $6.14/sh. (D) Rate base: net original cost. Allowed on com. eq.: Ohio in '93: 11.37%-12.68%; Indiana in '96: 11.0%. Earned avg. com. eq. '00: 14.7%. Regul. Clim.: Above Avg. (E) Pro Forma. (F) In mill., adjust. for split.

Company's Financial Strength	A
Stock's Price Stability	95
Price Growth Persistence	15
Earnings Predictability	70