BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Union Electric Company, d/b/a Ameren Missouri's Tariff to Increase Its Annual Revenues for Electric Service))))))	**Case No. ER-2011-0028** Tariff No. YE-2011-0116

Rebuttal Testimony and Schedules of

Michael Gorman

On behalf of

Missouri Industrial Energy Consumers

March 25, 2011

BRUBAKER & ASSOCIATES, INC.
CHESTERFIELD, MO 63017

Project 9371

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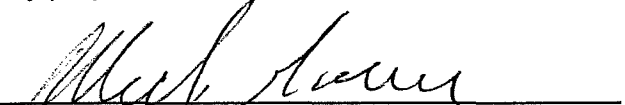Case No. ER-2011-0028
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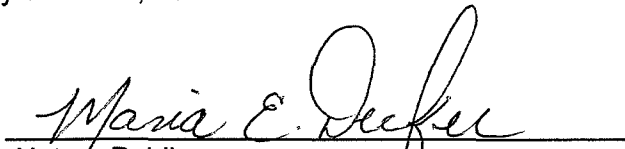|		
STATE OF MISSOURI	)))	SS
COUNTY OF ST. LOUIS		

<u>Affidavit of Michael Gorman</u>

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

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

2.   Attached hereto and made a part hereof for all purposes are my rebuttal testimony and schedules which were prepared in written form for introduction into evidence in Missouri Public Service Commission Case No. ER-2011-0028.

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

_____
Michael Gorman

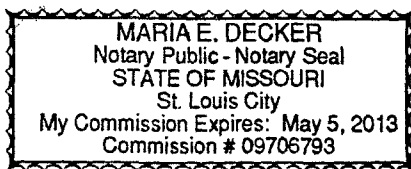Subscribed and sworn to before me this 24th day of March, 2011.

_____
Notary Public

MARIA E. DECKER
Notary Public - Notary Seal
STATE OF MISSOURI
St. Louis City
My Commission Expires: May 5, 2013
Commission # 09706793

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Michael Gorman
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Rebuttal Testimony of Michael Gorman

1 **I. Introduction**

2 **Q   PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A   Michael Gorman. My business address is 16690 Swingley Ridge Road, Suite 140,

4   Chesterfield, MO 63017.

5 **Q   ARE YOU THE SAME MICHAEL GORMAN WHO PREVIOUSLY FILED**

6   **TESTIMONY IN THIS PROCEEDING?**

7 A   Yes.

8 **Q   PLEASE   SUMMARIZE   YOUR   EDUCATIONAL   BACKGROUND   AND**

9   **EXPERIENCE.**

10 A   This information was provided in Appendix A of my direct testimony.

11 **Q   ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

12 A   This testimony is presented on behalf of the Missouri Industrial Energy Consumers

13   ("MIEC"). These companies purchase substantial quantities of electricity from

1   Ameren Missouri ("Company"), principally at the primary and transmission voltage

2   levels.

3   Their cost of electricity would increase approximately 11% if Ameren Missouri

4   were granted the full amount of the increase which it has requested. This proceeding

5   will have a substantial impact on these companies' cost of doing business, and thus

6   they are vitally interested in the outcome.

7 **II. Summary**

8 **Q**   **WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

9 A   I will respond to the recommended returns on equity by Ameren Missouri witness

10   Mr. Robert Hevert and Missouri Energy Group ("MEG") witness Ms. Billie Sue

11   LaConte in this proceeding.

12 **Q**   **PLEASE SUMMARIZE YOUR FINDINGS AND RECOMMENDATIONS.**

13 A   My findings are summarized as follows:

14
15   1. Ameren Missouri witness Mr. Hevert's proposed return on equity of 10.90% and return on equity range of 10.50% to 11.25% are overstated and unreasonable.

16
17   2. His Discounted Cash Flow ("DCF"), Capital Asset Pricing Model ("CAPM") and Bond Yield Plus Risk Premium approaches do not produce reasonable results.

18
19   3. Mr. Hevert's DCF analysis is based on growth rate estimates which are inflated, unreasonable and inflated his DCF return estimates.

20
21
22
23   4. Mr. Hevert's CAPM return estimates are based on unrealistic and inflated market risk premiums, and flawed short-term beta estimates. These parameters do not reflect long-term investment risk characteristics of regulated utility operations and do not produce reliable CAPM return estimates.

24
25   5. Mr. Hevert's Bond Yield Plus Risk Premium model is based on an inflated equity risk premium and produces an unreasonable return estimate.

1   6. Proper adjustments to Mr. Hevert's return studies result in a more reasonable and
2   balanced return on equity estimate and show that a fair return on equity for
3   Ameren Missouri in this case is less than 10.0%.

4   7. MEG witness Ms. LaConte's return on equity recommendation of 10.2% is
5   unreasonably high and should be disregarded.

6   8. Ms. LaConte relied on Mr. Hevert's excessive GDP growth rate which inflated her
7   DCF estimates. Ms. LaConte also did not properly review all the DCF returns in
8   her proxy group to estimate an appropriate return for Ameren Missouri.

9   9. Ms. LaConte also proposes an Empirical CAPM ("ECAPM") study which is
10   fundamentally flawed and without theoretical basis to use it in the manner she has
11   in this proceeding. For all these reasons, Ms. LaConte's proposed return on
12   equity of 10.2% is excessive and should be disregarded.

III. Response to Ameren Missouri Witness Mr. Robert Hevert

14 **Q**   **WHAT RETURN ON COMMON EQUITY IS AMEREN MISSOURI PROPOSING FOR**

15   **THIS PROCEEDING?**

16 **A**   Ameren Missouri is proposing to set rates based on a return on equity of 10.90%.

17   Ameren Missouri witness Mr. Hevert is sponsoring the return on equity

18   recommendation. Mr. Hevert relied on DCF analyses, CAPM studies, and a Bond

19   Yield Plus Risk Premium approach to support his recommended return for Ameren

20   Missouri.

21   Based on his studies, Mr. Hevert concludes that his proxy group's current

22   market required return on equity falls within the range of 10.50% to 11.25%.

23 **Q**   **ARE MR. HEVERT'S RETURN ON EQUITY ESTIMATES REASONABLE?**

24 **A**   No. Mr. Hevert's estimated cost range of 10.50% to 11.25% is overstated and should

25   be disregarded. Mr. Hevert's analyses produce excessive results for various

26   reasons: (1) his DCF is based on excessive growth rates, (2) his CAPM is based on

27   inflated market risk premiums and beta estimates, and (3) his Bond Yield Plus Risk

1 Premium is based on inflated utility equity risk premiums. With reasonable

2 adjustments, Mr. Hevert's own analyses support a return on equity in the range of

3 9.00% to 10.80%.

4 **Q PLEASE SUMMARIZE AMEREN MISSOURI WITNESS MR. HEVERT'S RETURN**

5 **ON EQUITY ESTIMATES.**

6 A Mr. Hevert's return on equity estimates are summarized below in Table 1 in

7 Column 1. In Column 2, I show the results with reasonable adjustments to

8 Mr. Hevert's common equity return estimates. With reasonable adjustments to his

9 proxy group DCF, CAPM and Risk Premium return estimates, Mr. Hevert's own

10 studies show my range of 9.5% to 10.00% (as described in my direct testimony)

11 results in a reasonable return on equity for Ameren Missouri.

TABLE 1

Hevert's Return on Equity Estimates

Description	Hevert Mean[1] (1)	Adjusted (2)
DCF		
Constant Growth DCF		
30-Day Average Stock Price	10.72%	10.72%
90-Day Average Stock Price	10.86%	10.86%
180-Day Average Stock Price	10.90%	10.90%
Average	10.83%	10.83%
Multi-Stage Growth DCF (Mean)		
30-Day Average Stock Price	10.49%	9.97%
90-Day Average Stock Price	10.70%	10.18%
180-Day Average Stock Price	10.75%	10.23%
Average	10.64%	10.13%
CAPM Results (Current Beta)		
Current Treasury Yield (Ex-Antz)	12.93%	Reject
Current Treasury Yield (Derived MRP)	12.26%	Reject
Proj Treasury Yield (Ex-Antz)	13.41%	Reject
Proj Treasury Yield (Sharpe)	12.74%	Reject
Average	12.80%	
CAPM Results (Avg. Hist Beta)		
Current 30-Year Treasury Yield (Derived MRP)	11.15%	8.76%
Current 30-Year Treasury Yield (Sharpe)	10.61%	8.76%
Projected 30-Year Treasury Yield (Derived MRP)	11.63%	9.24%
Projected 30-Year Treasury Yield (Sharpe)	11.09%	9.24%
Average	11.11%	9.00%
Risk Premium	10.82%-10.88%	9.77%
Range	**10.50%-11.25%**	**9.00%-10.80%**
Recommended ROE	**10.90%**	

_____

Source:
[1]Hevert Direct Testimony at 54.

1 **Q** **PLEASE DESCRIBE MR. HEVERT'S DCF RETURN ESTIMATES.**

2 A His DCF returns are developed in his Schedule RBH-E1, pages 1-3. Mr. Hevert's

3 constant growth DCF model suffers from the same deficiencies discussed in regards

4 to my DCF analysis. His returns are overstated because they are based on

5 unsustainably high short-term (five-year) growth rate estimates.

6 The short-term growth rates Mr. Hevert relied on overstate reasonable

7 estimates of long-term sustainable growth rates for regulated utility operations. By

8 relying on growth rates that overstate sustainable long-term growth rate outlooks,

9 Mr. Hevert's constant growth DCF estimates are inflated and unreasonable.

10 **Q** **DID MR. HEVERT SHOW THE GROWTH RATES USED TO PRODUCE HIS LOW,**

11 **MEAN AND HIGH DCF RETURN ESTIMATES?**

12 A He did, however they were comingled within his data included on his schedule. To

13 make his DCF calculations more transparent, I have separated his growth rate

14 estimates, dividend yields and corresponding DCF return estimates on my Schedule

15 MPG-R-1.

16 As shown on that schedule, his low DCF return estimates are based on a

17 range of growth rate estimates from a low of 4.58%, to a mean growth rate estimate

18 of 5.69% (which he did show on his schedule), and a high DCF growth rate of 6.71%.

19 These growth rate estimates were used in all of his constant growth DCF study 30, 90

20 and 180-day average stock prices.

1 **Q DO YOU HAVE ANY GENERAL OBSERVATIONS ABOUT THE RELIABILITY OF**

2 **THESE DCF ESTIMATES?**

3 A Yes. With the exception of his low DCF return estimates, Mr. Hevert's average and

4 high DCF return estimates are based on growth rate estimates that are far too high to

5 be sustainable long-term growth rate estimates. Therefore, his average and high

6 DCF return estimates should be set aside or given little consideration for estimating a

7 fair return for Ameren Missouri in this case. His DCF return estimates based on his

8 low DCF return estimates reflect a growth rate of 4.58%. This growth rate is the only

9 growth rate that represents a reasonable estimate of a long-term sustainable growth.

10 Therefore, if the Commission gives any consideration to a constant growth

11 DCF study performed by Mr. Hevert, it should give primary consideration to his

12 low-end DCF return estimates because they encapsulate a growth rate that could be

13 sustained indefinitely. His low-end growth rate DCF estimates range from 9.59% to

14 9.76%.

15 However, like my DCF return estimates, growth rates over the next three to

16 five years are simply far too high to be sustainable indefinitely, and therefore the use

17 of a constant growth DCF study in this case is problematic.

18 **Q WHY DO YOU BELIEVE THAT MR. HEVERT'S MEDIAN AND HIGH-END**

19 **GROWTH RATE ESTIMATES OF 5.69% AND 6.71%, RESPECTIVELY, ARE FAR**

20 **TOO HIGH TO BE REASONABLE ESTIMATES OF LONG-TERM SUSTAINABLE**

21 **GROWTH?**

22 A These growth rates cannot be sustained indefinitely for various reasons. First,

23 consensus economists expect the GDP growth of the U.S. general economy, which is

24 a proxy for the growth rate of the economies in which these utilities operate, will grow

1   between 4.7% and 5.1% indefinitely.[1] Hence, the growth rates of 5.69% and 6.71%

2   are substantially higher than the growth outlooks of the economies in which these

3   utilities operate. It is simply not rational to expect that these companies can grow

4   faster than the economies in which they provide service, because utilities provide

5   service to meet the demand of the economies they serve.

6   Second, growth rates of 5.69% and 6.71% could not be sustained by the

7   current earnings retention rate of utility companies. Indeed, Mr. Hevert projects that a

8   long-term steady-state payout ratio for the utility industry will be about 67.5%

9   (Schedule RBH-E2). In order to sustain growth rates of 5.69% and 6.71%, utilities

10   would have to achieve returns on book equity of 17.5% and 20.6%, respectively,

11   indefinitely.[2] Hence, it is simply not a rational outlook to expect that utilities will be

12   able to produce earnings that could sustain this level of growth indefinitely.

13   **Q   CAN YOU DESCRIBE AGAIN WHY A THREE- TO FIVE-YEAR GROWTH RATE**

14   **CAN EXCEED A LONG-TERM SUSTAINABLE GROWTH RATE?**

15   A   Yes. A three- to five-year growth rate can exceed a long-term sustainable growth

16   rate for several reasons including: (1) the utility's capital program and rate base are

17   growing at an abnormally high level; (2) a Company's growth in earnings is above a

18   depressed level of earnings; and/or (3) altering dividend payout ratio targets can

19   create temporary acceleration or decline to short-term growth.

20   As discussed above, while short-term accelerated earnings growth rates may

21   be a reasonable expectation for relatively short periods of time, it is not reasonable to

22   expect that accelerated short-term growth can be sustained indefinitely. That is the

23   flaw of Mr. Hevert's DCF studies.   He is deriving DCF estimates based on

---

[1]*Blue Chip Economic Indicators*, March 10, 2011, page 15.
[2]5.69% ÷ (1 − 67.5%) = 17.5% and 6.71% ÷ (1 − 67.5%) = 20.6%.

1   accelerated short-term growth rates that he assumes can be sustained over an

2   indefinite period of time. This is simply not a rational outlook, and produces an

3   excessive DCF return estimate.

4 **Q   CAN MR. HEVERT'S DCF ANALYSES BE REVISED TO REFLECT A**

5 **REASONABLE LONG-TERM SUSTAINABLE GROWTH RATE?**

6 A   Yes. Mr. Hevert's DCF studies can be revised to reflect the short-term growth rate

7   estimates will be realized over the period they were designed to reflect, five years,

8   and the growth rate after that would eventually converge down to a lower sustainable

9   long-term rate of growth. This can be accomplished by creation of a multi-stage

10   growth DCF analysis. Multi-stage growth can reflect abnormally high short-term

11   growth, followed by a decline to a lower growth rate that can be sustained over a

12   long-term period.

13 **Q   BUT DIDN'T MR. HEVERT PERFORM A MULTI-STAGE GROWTH DCF**

14 **ANALYSIS?**

15 A   Yes, he did, however, he relied on a GDP growth rate of 5.75% as a long-term

16   sustainable growth. Mr. Hevert's GDP growth rate is based on a flawed calculation of

17   nominal GDP growth, and is not reliable. Mr. Hevert's multi-stage growth DCF

18   analysis should be disregarded.

1 **Q IS MR. HEVERT'S MULTI-STAGE GROWTH DCF ANALYSIS HIGHLY**

2 **DEPENDENT UPON HIS LONG-TERM STEADY-STATE GROWTH RATE**

3 **ESTIMATE?**

4 A Yes. Mr. Hevert's multi-stage growth DCF analysis predicts growth in earnings and

5 dividends in a short-term stage, intermediate stage, and a long-term steady-state

6 stage. In his steady-state stage, he uses growth in earnings and dividends to

7 develop a terminal stock price value. The terminal stock price value in one version of

8 this model is tied to an assumed steady-state payout ratio, and earnings projections

9 which are used to estimate a terminal stock price. In a second analysis, Mr. Hevert

10 establishes a terminal stock price value based on a price-to-earnings ratio, where

11 earnings are projected using the sustainable long-term growth rate. In both

12 instances, the terminal price component of the multi-stage growth DCF analysis is

13 driven by the accuracy of the long-term steady-state growth rate estimate.

14 **Q HOW DID MR. HEVERT CALCULATE A NOMINAL GDP GROWTH RATE?**

15 A As discussed at pages 29 and 30 of his direct testimony, Mr. Hevert relied on the

16 long-term historical real GDP return of 3.28%, as measured over the period 1929

17 through 2009 by Morningstar. He then adjusted this to a nominal GDP growth by

18 adjusting it for an inflation rate of 2.4%. Mr. Hevert used the Consumer Price Index

19 ("CPI") inflation factor growth outlook. Mr. Hevert maintains that *The Blue Chip*

20 *Financial Forecasts* projects a CPI inflation factor in the range of 2.3% to 2.5%.

21 Using an inflation factor of 2.4% and a real GDP growth of 3.28%, Mr. Hevert

22 produced a nominal GDP growth rate outlook of 5.75%.

1   Mr. Hevert also insists that his GDP growth rate of 5.75% is consistent with

2   what the Missouri Commission found reasonable in the decision for Union Electric

3   Company in Case No. ER-2010-0036.

4 **Q** **IS MR. HEVERT'S CLAIM ACCURATE THAT HIS METHOD OF DEVELOPING A**

5   **GDP GROWTH RATE WAS ACCEPTED BY THE COMMISSION IN CASE NO.**

6   **ER-2010-0036?**

7 A It is not clear exactly what Mr. Hevert meant by this assertion. However, while the

8   Commission did develop a growth rate in a manner similar to what Mr. Hevert is

9   describing, the Commission did not use nor "accept" that growth rate estimate to

10   develop a DCF return estimate that supported the Commission's return on equity

11   award for Ameren Missouri in the last proceeding. As such, at an absolute minimum,

12   Mr. Hevert's assertion is disingenuous because the Commission did not accept a

13   growth rate nearly as high as what he is recommending in this case to estimate a fair

14   return on equity for Ameren Missouri. Therefore, his assertion is misleading at best.

15 **Q** **WHY WAS MR. HEVERT'S ESTIMATE OF A NOMINAL GDP GROWTH RATE**

16   **BASED ON AN ERRONEOUS CALCULATION?**

17 A Mr. Hevert applied a real GDP growth rate outlook with a CPI inflation outlook. This

18   CPI inflation is not based on GDP but rather is based on a subgroup of the U.S.

19   economy that reflects a consumer basket of goods. The CPI, unlike the GDP price

20   deflator is far more heavily weighted with personal consumption items rather than a

21   measure of the U.S. economy. For example, the CPI is heavily weighted with medical

22   costs. The GDP price deflator includes medical costs but not to the same extent as

23   the CPI. The CPI inflation factor is not designed to reflect the entire U.S. economy.

1   In order to accurately measure the GDP nominal growth, one must combine the GDP

2   real return with a projection of the GDP price inflation. The U.S. Department of

3   Commerce uses the GDP price deflator as the inflation measure for the entire U.S.

4   economy. Mr. Hevert did not use the GDP price deflator and, therefore, he did not

5   accurately measure nominal GDP growth.

6 **Q   DO THE SOURCES CITED BY MR. HEVERT IN HIS GDP GROWTH PROJECTION,**

7 **ALSO PROVIDE A NOMINAL GDP GROWTH FORECAST?**

8 A   Yes. *The Blue Chip Economic Indicators*, which was a source Mr. Hevert relied on for

9   his CPI inflation rate forecast, also projects nominal GDP, and its two components,

10   Real GDP and the GDP price deflator. *The Blue Chip Economic Indicators'* most

11   recent projections of 5- and 10-year outlooks for GDP growth are 5.1% and 4.7%,

12   respectively.[3]

13 **Q   HOW WOULD MR. HEVERT'S MULTI-STAGE GROWTH DCF MODEL CHANGE IF**

14 ***THE BLUE CHIP ECONOMIC INDICATORS'* GDP GROWTH FORECAST IS USED**

15 **IN LIEU OF MR. HEVERT'S FLAWED 5.75% GDP GROWTH FORECAST?**

16 A   As shown on my Schedule MPG-R-2, using *The Blue Chip Economic Indicators'* GDP

17   growth forecast of 4.9% (average of 5.1% and 4.7%), Mr. Hevert's multi-stage growth

18   DCF analysis would decrease from the numbers shown in Column 1 to the numbers

19   shown in Column 2 in Table 2 below. All other aspects of Mr. Hevert's multi-stage

20   DCF analysis were left unchanged – only the GDP growth forecast was changed.

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[3] *The Blue Chip Economic Indicators*, March 10, 2011 at 15.

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+---------------------------------------------------------------+
|                           TABLE 2                             |
|                                                               |
|                 Hevert Multi-Stage DCF Analysis               |
|                                                               |
|                                                               |
|        Description           Hevert Mean¹    Revised Estimate |
|      _____         (1)              (2)         |
|                                                               |
|      30-Day Average Stock Price    10.49%          9.97%      |
|      90-Day Average Stock Price    10.70%         10.18%      |
|      180-Day Average Stock Price   10.75%         10.23%      |
|      _____                                      |
|                                                               |
|      Source and Note:                                         |
|      ¹Hevert Direct Testimony at 54.                          |
|      Mean is the average of Hevert's two multi-stage DCF      |
|      models.                                                  |
+---------------------------------------------------------------+
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1 **Q   PLEASE DESCRIBE THE ISSUES YOU TAKE WITH MR. HEVERT'S CAPM**

2 **ANALYSES.**

3 A   My concerns with Mr. Hevert's CAPM analyses include the following: (1) one of his

4 two beta estimates is unreasonable, and (2) his market risk premium estimates are

5 inflated.

6 **Q   PLEASE DESCRIBE THE BETA FACTORS USED BY MR. HEVERT IN HIS CAPM.**

7 A   Mr. Hevert uses a proxy group current beta of 0.886 and an historical beta of 0.709.

8 Mr. Hevert's 0.886 current beta is based on the covariance of the weekly returns on

9 his proxy group companies compared to the variance of the S&P 500 over a

10 six-month period ending August 13, 2010. He then adjusts the six-month covariance

11 raw beta estimates for a long-term tendency of raw betas to converge on the mean

12 beta of 1.0, using an adjustment factor of 0.67 times the raw beta estimate, plus 0.33

13 (Hevert Direct Testimony at 38).

1   Mr. Hevert's second beta estimate of 0.71[4] is based on the average of the

2   published beta estimates by *Value Line* (a five-year regression beta study), and

3   Bloomberg (a two-year regression estimate of the proxy group company betas) for the

4   companies in his proxy group (Schedule RBH-E3). Both *Value Line* and Bloomberg

5   adjust their betas for the long-term tendency of raw betas to converge on the market

6   mean beta.

7   **Q   ARE MR. HEVERT'S BETA ESTIMATES USED IN HIS CAPM REASONABLE?**

8   A   I do not take issue with his beta estimate of 0.71 for his proxy group companies

9   based on published betas by *Value Line* and Bloomberg. However, Mr. Hevert's

10   six-month derived beta estimate of 0.886 is not reasonable and does not reflect

11   long-term investment outlooks for his proxy group. Therefore, this beta estimate

12   should be disregarded because it does not produce a reliable return on equity

13   estimate for Ameren Missouri.

14 **Q   PLEASE DESCRIBE WHY MR. HEVERT'S CURRENT BETA ESTIMATE IS NOT**

15   **RELIABLE.**

16 A   Mr. Hevert's current beta estimate is not appropriate for estimating a return on

17   common equity for Ameren Missouri in this proceeding for several reasons. First,

18   Mr. Hevert's current beta estimate is based on only six months of data. This is

19   significant because the covariance or the relative stability of the proxy group stocks'

20   movements in relationship to the market, is dependent on the integrity of the

21   statistical study. By reducing the period under study relative to that provided by

22   *Value Line* and Bloomberg, the number of observations of stock price movement of

---

[4]0.709 rounded to 0.71.

1   the proxy group in relationship to the market price movement is substantially reduced.

2   By substantially reducing the number of observations, the statistical beta estimate is

3   much less reliable. As a result, Mr. Hevert's current beta estimate is not based on

4   reliable long-term valuation and price stability of the proxy companies and the market.

5   Rather, Mr. Hevert's current beta simply reflects a short-term market that will likely be

6   smoothed out over longer periods of time. As such, Mr. Hevert's current beta

7   estimate is a poor statistical parameter to use to assess the risk of the proxy group

8   and Ameren Missouri.

9   Second, a beta developed from little data does not produce an estimate of

10   long-term market cost of capital necessary to estimate a fair return for Ameren

11   Missouri in this proceeding. Reflecting a short-term return outlook is not useful in

12   estimating return requirements of investors who will provide capital to Ameren

13   Missouri to fund investments in long-term plant and equipment. That is, investors can

14   be generally divided into two types. First, long-term investors will assess the intrinsic

15   value of a company's long-term investment outlooks and provide capital to that

16   company to support investments in plant and equipment. A second type of investor

17   takes short-term positions to capture temporary misvaluations in security market

18   prices, with the expectation the price will revert to its intrinsic value in time. These

19   investors buy and sell securities or derivative contracts (futures, options) based on

20   expected short-term price movements. This second investor type is more of a

21   speculator than an investor.

22   Mr. Hevert's current beta estimate is based on information speculative market

23   participants would use to assess short-term profit opportunities. Long-term investors

24   make capital available for utility plant and equipment funding. These long-term

25   investors look at more normalized data in order to draw assessments of security

1   intrinsic value which will be realized over the life of the security, not a relatively short

2   two- to six-month time period used by Mr. Hevert in his CAPM studies.

3   Mr. Hevert's current beta estimate should be disregarded because it is not

4   useful in estimating a fair return for investors in Ameren Missouri's common equity

5   securities.

6 **Q** **AT PAGE 35 OF MR. HEVERT'S DIRECT TESTIMONY, HE STATES THAT THE**

7   **CURRENT PUBLISHED BETA ESTIMATES OF *VALUE LINE* AND BLOOMBERG**

8   **UNDERSTATE THE BETA ESTIMATES THAT THESE PUBLICATIONS HAD FOR**

9   **THE PROXY GROUP IN JULY 2008. HE SUGGESTS THAT THIS IS GOOD**

10   **REASON TO DEVELOP A BETA BASED ON MORE CURRENT VOLATILITY**

11   **DATA, RATHER THAN RELYING ON THE PUBLISHED BETA ESTIMATES FROM**

12   **THESE SOURCES. PLEASE COMMENT.**

13 A Mr. Hevert is correct that utility beta estimates were higher in 2008 than they are

14   currently. However, and importantly, Mr. Hevert is targeting his CAPM return

15   estimate to reflect beta estimates that were abnormally high. On my Schedule

16   MPG-R-3, I show the beta estimates published by *Value Line* at the end of the year

17   for each year over the last 11 years. As shown on this schedule, normally a utility

18   beta estimate falls in the range of approximately 0.70 to 0.75.

19   However, around 2005-2008, beta estimates were abnormally high for the

20   proxy group, and support the high level of beta noted by Mr. Hevert. Unfortunately,

21   the important fact Mr. Hevert is missing is that the 2005-2008 betas were abnormally

22   high and do not reflect normal valuation or betas of regulated utility operations.

23   Hence, his effort to produce a higher beta estimate with this faulty short-term beta

1   analysis accomplishes nothing more than produces an inflated CAPM return

2   estimate.

3 **Q**   **PLEASE DESCRIBE MR. HEVERT'S MARKET RISK PREMIUMS.**

4 A   Mr. Hevert developed two market risk premium estimates. The first one is a

5   DCF-derived market risk premium of 9.32%, which is based on a market DCF return

6   of 13.32% less the current 30-year Treasury bond yield of 4.00%. (Hevert Schedule

7   RBH-E5, page 2). The second market risk premium, referred as the Sharpe market

8   risk premium of 10.08%, is based on one historical market risk premium estimate of

9   6.70%, adjusted for the difference in long-term historical and current market volatility.

10   (*Id.*, page 1).

11 **Q**   **WHAT ISSUES DO YOU HAVE WITH MR. HEVERT'S MARKET RISK PREMIUM**

12   **ESTIMATES?**

13 A   Mr. Hevert's DCF-derived market risk premium is based on a market return of

14   13.32%, which consists of a growth rate component of 11.17% and a dividend yield of

15   2.03%. As discussed above, the DCF model requires a long-term sustainable growth

16   rate. Mr. Hevert's market sustainable growth rate of 11.17% is far too high to be a

17   rational outlook for sustainable long-term market growth. This growth rate is more

18   than two times the growth rate of the U.S. GDP long-term growth outlook of 4.9%.

19   Indeed, it is even about twice Mr. Hevert's flawed and overstated GDP growth

20   projection.

21   As a result of this unreasonable long-term market growth rate estimate,

22   Mr. Hevert's market DCF return is inflated and not reliable. Consequently,

23   Mr. Hevert's 9.32% market risk premium is inflated and not reliable.

| 1 | **Q** | **IS THERE INFORMATION ON HISTORICAL ACTUAL ACHIEVED CAPITAL** |

1   **Q**   **IS THERE INFORMATION ON HISTORICAL ACTUAL ACHIEVED CAPITAL**

2   **APPRECIATION FOR THE MARKET INDEX USED BY MR. HEVERT?**

3   A   Yes. Morningstar estimates the actual capital appreciation for the S&P 500 over the

4   period 1926 through 2009 to be 7.4%.[5] Using this gauge of actual capital

5   appreciation in the market in the past as an estimate of future expected growth of the

6   market index going forward, along with a 2% yield on the S&P 500 estimated by

7   Mr. Hevert, would imply a total expected return on the market going forward of

8   approximately 9.4%. This 9.4% less the risk-free estimates used by Mr. Hevert of 4%

9   would imply a going-forward expected market risk premium of 5.4%.

10   This expected return on the market is very consistent with Morningstar's data

11   which estimates market risk premiums in the range of 5.2% to 6.7% based on its

12   historical market and Treasury bond investment data that I discussed at page 34 of

13   my direct testimony.

14   **Q**   **PLEASE DESCRIBE MR. HEVERT'S SHARPE MARKET RISK PREMIUM.**

15   A   Mr. Hevert's Sharpe market risk premium is 10.08%. Mr. Hevert maintains that his

16   Sharpe market risk premium adjusts the historical market risk premium to reflect the

17   difference between historic and expected market volatility. He adjusts the historical

18   market risk premium of 6.7% by the expected market volatility of 30.69%, relative to

19   historical market volatility of 20.40%.[6] He measures expected market volatility using

20   the Chicago Board Options Exchange's ("CBOE") three-month volatility index of

21   settlement prices of futures on the CBOE's one-month volatility index (December

22   2010 through February 2011).

---

[5] 2010 Ibbotson SBBI Valuation Yearbook at 23.
[6] Schedule RBH-E5, page 1.

1   As shown on his Schedule RBH-E5, page 1, using this relative comparison of

2   market volatility, he adjusts the historical market risk premium of 6.7% up to 10.08%,

3   by the ratio of expected market volatility of 30.69%, to historical market volatility of

4   20.40% (6.70% x (30.69% ÷ 20.40%)).

5 **Q**   **DO YOU BELIEVE THAT MR. HEVERT'S SHARPE RATIO EXPECTED MARKET**

6   **RISK PREMIUM PRODUCES RELIABLE RESULTS?**

7 A   No. The period rates determined in this proceeding will be several years into the

8   future. In significant contrast, Mr. Hevert is measuring expected market volatility for a

9   relatively short two-month time period in the summer of 2010. This relatively short

10   period of time does not prove that market volatility in the long term will be different

11   than volatility in the past. Mr. Hevert's short-term based analysis is not useful in

12   estimating a fair return for Ameren Missouri in this case. It simply is not designed to

13   estimate long-term investors' cost of capital requirements.

14 **Q**   **WHY IS MR. HEVERT'S PROPOSAL TO MEASURE MARKET RISK PREMIUM**

15   **BASED ON A 60-DAY MARKET VOLATILITY NOT USEFUL IN ESTIMATING A**

16   **FAIR RETURN ON EQUITY FOR AMEREN MISSOURI IN THIS PROCEEDING?**

17 A   Mr. Hevert's Sharpe ratio market risk premium again suffers the same deficiency as

18   his six-month current beta estimate. That is, it does not capture the return

19   expectations of long-term utility investors. Rather, it reflects the short-term

20   investment outlooks of short-term trading investors or speculators looking to react to

21   misvaluations in the marketplace. Indeed, the entire analysis is based on derivative

22   future valuation data rather than directly on stock price data. As such, the Sharpe

23   market risk premium does not measure long-term stock investment outlooks and

| 1 | | requirements, and does not produce a fair return on equity estimate for Ameren |
| 2 | | Missouri. |

3 **Q CAN MR. HEVERT'S CAPM ANALYSIS BE REVISED TO REFLECT A MORE**

4 **REASONABLE MARKET RISK PREMIUM?**

5 A Yes. Using Mr. Hevert's risk-free rates of 4.00% and 4.48%, published beta estimate

6 of 0.71 and applying Morningstar's average market risk premium estimate of 6.70%,

7 Mr. Hevert's CAPM would be reduced to 8.76% to 9.24%, with a midpoint of 9.00%.

8 **Q PLEASE DESCRIBE MR. HEVERT'S BOND YIELD PLUS RISK PREMIUM.**

9 A As shown on Mr. Hevert's Schedule RBH-E6, Mr. Hevert constructs a risk premium

10 return on equity estimate based on the premise that equity risk premiums are

11 inversely related to the interest rates. He estimates an average risk premium

12 Treasury bond yield of 5.50% over the period 1992 to the third quarter of 2010. Then

13 he applies a regression analysis to the current and projected Treasury bond yields of

14 4.00% and 4.48%, respectively, to produce a risk premium in the range of 6.82% to

15 6.40% (Schedule RBH-E6) and return on equity estimate of 10.82% to 10.88%.

16 **Q IS MR. HEVERT'S BOND YIELD PLUS RISK PREMIUM METHODOLOGY**

17 **REASONABLE?**

18 A No. Mr. Hevert's contention that there is a simplistic inverse relationship between

19 equity risk premiums and interest rates is not supported by academic research. While

20 academic studies have shown that, in the past, there has been an inverse

21 relationship with these variables, researchers have found that the relationship

1   changes over time and is influenced by changes in perception of the risk of bond

2   investments relative to equity investments, and not simply changes to interest rates.[7]

3   In the 1980s, equity risk premiums were inversely related to interest rates, but

4   that was likely attributable to the interest rate volatility that existed at that time. As

5   such, when interest rates were more volatile, the relative perception of bond

6   investment risk increased relative to the investment risk of equities. This changing

7   investment risk perception caused changes in equity risk premiums.

8   In today's marketplace, interest rate volatility is not as extreme as it was

9   during the 1980s.[8] Nevertheless, changes in the perceived risk of bond investments

10   relative to equity investments still drive changes in equity premiums. However, a

11   relative investment risk differential cannot be measured simply by observing nominal

12   interest rates. Changes in nominal interest rates are highly influenced by changes to

13   inflation outlooks, which also change equity return expectations. As such, the

14   relevant factor needed to explain changes in equity risk premiums is the relative

15   changes to the risk of equity versus debt securities investments, not simply changes

16   in interest rates.

17   Importantly, Mr. Hevert's analysis simply ignores investment risk differentials.

18   He bases his adjustment to the equity risk premium exclusively on changes in

19   nominal interest rates. This is a flawed methodology and does not produce accurate

20   or reliable risk premium estimates. His argument should be rejected by the

21   Commission.

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[7]"The Market Risk Premium: Expectational Estimates Using Analysts' Forecasts," Robert S. Harris and Felicia C. Marston, *Journal of Applied Finance*, Volume 11, No. 1, 2001 and "The Risk Premium Approach to Measuring a Utility's Cost of Equity," Eugene F. Brigham, Dilip K. Shome, and Steve R. Vinson, *Financial Management*, Spring 1985.
[8]Morningstar SBBI, 2009 Classic Yearbook at 95-96.

1   **Q**   **CAN MR. HEVERT'S BOND YIELD PLUS RISK PREMIUM STUDY BE USED TO**

2   **PRODUCE A MORE REASONABLE RETURN ON EQUITY ESTIMATE FOR**

3   **AMEREN MISSOURI?**

4   **A**   Yes. Mr. Hevert's equity risk premium range of 5.50% to 5.55% applied to the current

5   and projected long-term Treasury bond yields of 4.00% and 4.48%, respectively, will

6   produce a risk premium return estimate in the range of 9.50% to 10.03%, with a

7   midpoint of 9.77%.

8   **Business Risk**

9   **Q**   **PLEASE IDENTIFY THE BUSINESS RISKS OUTLINED AT PAGES 46-52 OF**

10   **MR. HEVERT'S DIRECT TESTIMONY.**

11   **A**   Mr. Hevert identifies two reasons that Ameren Missouri's cost of equity should be

12   adjusted for specific business risk. Those risk considerations relative to the proxy

13   group include the following:

14   1. Regulatory risk; and

15   2. Coal-fired generation.

16   **Q**   **DO YOU BELIEVE EITHER OF THE REASONS OUTLINED BY MR. HEVERT**

17   **JUSTIFY ANY SORT OF RETURN ON EQUITY ADDER FOR AMEREN MISSOURI**

18   **IN THIS CASE?**

19   **A**   No. Indeed, the Ameren Missouri risks identified by Mr. Hevert are already

20   considered by market participants in assessing Ameren Missouri's current investment

21   risk and bond rating. For example, Ameren Missouri's regulatory risk is widely

22   considered by credit rating analysts assigning its bond rating. As noted above,

23   Ameren Missouri's bond rating is reasonably comparable to that of the proxy group.

1   Therefore, a return on equity adjustment to reflect any differentials and regulatory risk

2   is not necessary, because regulatory risk is a factor clearly considered by credit

3   analysts in assigning a bond rating. Return on equity should reflect differences in

4   total investment risk, not individual elements that are considered in assessing that

5   total investment risk.

6   Similarly, it is widely recognized that Ameren Missouri has a large coal-fired

7   generation portfolio. Further, it is also recognized that Ameren Missouri has recently

8   been awarded a fuel adjustment clause. Finally, it is recognized that Ameren

9   Missouri's cost-based rates largely will mitigate any cost recovery of any compliance

10   for the environmental regulations related to coal-fired generation. While there are

11   some risks of this generation portfolio type, they are fully considered by the market

12   and again are captured by the markets and credit analysts in assessment of Ameren

13   Missouri's bond ratings. There is no need to single out this one element of

14   investment risk from other important risk factors which underlie Ameren Missouri's

15   total investment risk. Ameren Missouri's total investment risk is reasonably

16   comparable to that of the proxy group. Therefore, a return on equity measured from

17   the proxy group produces a reasonable return for Ameren Missouri.

IV. Response to MEG Witness Ms. Billie Sue LaConte

1

2 **Q** **WHAT RETURN ON EQUITY IS MEG WITNESS MS. LACONTE**

3 **RECOMMENDING?**

4 A MEG witness Ms. LaConte recommends a return on equity, if certain regulatory

5 mechanisms are not approved in this case, of 10.2%. If, however, regulatory

6 mechanisms she outlines in her testimony are approved, then she believes the return

7 on equity should be reduced down to approximately 9.7% to 9.9%.

8 **Q** **DO YOU BELIEVE MS. LACONTE'S PROPOSED RETURN ON EQUITY OF 10.2%,**

9 **GIVEN CURRENT REGULATORY MECHANISMS, IS REASONABLE?**

10 A No. Ms. LaConte's return on equity recommendation is based predominantly on her

11 DCF studies. Her DCF studies contain material flaws or incorrect data items.

12 Correction to her DCF return estimates will show that a return of equity of well under

13 10% is appropriate for Ameren Missouri in this case.

14 **Q** **PLEASE OUTLINE THE METHODOLOGIES MS. LACONTE RELIED ON TO**

15 **SUPPORT HER RETURN ON EQUITY RECOMMENDATION.**

16 A Ms. LaConte's methodologies supporting her 10.2% return on equity recommendation

17 are shown below in Table 3 under column 1. Under column 2, I show adjustments to

18 each of her DCF return estimates. As shown under that column, a simple recognition

19 of the entire analysis and a more accurate GDP growth forecast, will show that a

20 return on equity of well under 10% is justified in this proceeding.

```
                          TABLE 3

              LaConte Rate of Return Estimates


        Description              LaConte[1]        Adjusted
                                    (1)               (2)

  DCF Constant Growth (Analysts)    10.5%            10.1%
  DCF Constant Growth (GDP)         10.6%            9.8%[2]
  DCF 2-Stage Growth (Analysts)     10.1%            9.6%[2]
  DCF 2-Stage Growth (GDP)          10.4%            9.6%[2]

  Risk Premium (Current Yield)      10.0%            10.0%
  Risk Premium (Forecast Yield)      9.7%             9.7%

  CAPM                               9.0%             9.0%
  ECAPM                              9.5%            Reject

  Recommended ROE                   10.2%

  _____

  Sources:
  [1]LaConte Direct Testimony at 2.
  [2]Schedule MPG-R-4.
```

1   I will describe below each of the adjusted DCF estimates under column 2 in Table 3

2   above.

3 **Q   PLEASE DESCRIBE YOUR ADJUSTMENT TO MS. LACONTE'S CONSTANT**

4 **GROWTH DCF USING ANALYSTS' GROWTH RATE ESTIMATES.**

5 A   Ms. LaConte concluded that her DCF using analysts' growth rates estimates supports

6   a return on equity of 10.5%. Her analysis supporting this is shown on her Schedule

7   BSL-1. As shown on Schedule BSL-1, reflecting all the DCF return estimates on her

8   schedule, the proxy group estimated return on equity produced average and median

9   returns of 9.4% and 10.1%, respectively. Ms. LaConte, however, noted that certain of

10   the growth rates included in her study were negative. She found that a negative

1   growth rate was not plausible. She then removed all the DCF return estimates for

2   proxy group companies with negative growth rate estimates and calculated group

3   average and median DCF return estimates of 10.9% and 10.5%, respectively.

4 **Q   WHY DO YOU BELIEVE THAT MS. LACONTE HAS INACCURATELY MEASURED**

5   **A DCF RETURN FOR THIS ANALYSIS?**

6 A   Ms. LaConte manipulated her data set to remove growth rate estimates which she

7   found to be not plausible. This is inappropriate. While I would agree with her that

8   negative growth rate outlooks do not make sense, I do not believe it is appropriate to

9   arbitrarily remove certain companies from the proxy group. If the proxy group

10   includes outlier results then the proxy group median estimate will be far more reliable

11   than the group average estimate.

12   Ms. LaConte's proxy group median estimate, without arbitrarily excluding

13   companies from the proxy group, indicates a return on equity of 10.1%. That 10.1%

14   return estimate is based on a growth rate of 5.0%, which is a very optimistic growth

15   outlook. A better and more accurate interpretation of Ms. LaConte's analysis is that

16   this constant growth DCF study using analysts' growth rates supports a return on

17   equity of 10.1%.

18 **Q   WHAT IS THE ISSUE YOU HAVE WITH MS. LACONTE'S OTHER DCF RETURN**

19   **ESTIMATES?**

20 A   Ms. LaConte used the GDP growth forecast made by Ameren witness Mr. Hevert

21   (LaConte Direct Testimony at 8). As I pointed out above in response to Mr. Hevert,

22   his GDP growth forecast was unreasonable because it was calculated incorrectly,

23   and second, it does not reflect the consensus economists' and therefore investors'

1   consensus outlook for longer-term future GDP growth. A more appropriate GDP

2   growth forecast is to rely on published analysts' forecasts of GDP growth, which

3   currently ranges from 4.7% to 5.1%.

4 **Q**   **HOW WOULD MS. LACONTE'S DCF ANALYSES USING A GDP GROWTH**

5   **FORECAST BE IMPACTED, IF A GDP FORECAST IN THE RANGE OF 4.7% TO**

6   **5.1% IS USED?**

7 A   In Table 3 above, under the Adjusted column, I used a GDP growth forecast at the

8   midpoint of *The Blue Chip Economic Indicators* range of 5.1% to 4.7%, or an average

9   of 4.9%. Adjusting these DCF studies to reflect a 4.9% GDP growth, rather than Ms.

10   LaConte's excessive and erroneous 5.75% GDP growth rate forecast, will reduce her

11   DCF return estimates. These adjusted results are shown in Table 3 above.

12 **Q**   **DO YOU HAVE ANY COMMENTS REGARDING MS. LACONTE'S PROPOSED**

13   **USE OF AN ECAPM ESTIMATE?**

14 A   Yes. I recommend that this methodology be rejected. The ECAPM methodology as

15   proposed by Ms. LaConte will provide two adjustments to a raw beta estimate of each

16   company in the proxy group. The first adjustment to the raw beta estimate is done by

17   *Value Line* and the adjustment included with the published beta. *Value Line* adjusts

18   the raw beta estimate by a factor of .35 times a market beta and .67 times the raw

19   beta estimate. *Value Line* does this to reflect the tendency of beta estimates to revert

20   toward the mean market beta of 1.0 over time.

21   Ms. LaConte in her ECAPM inappropriately adjusts the *Value Line* adjusted

22   beta a second time using a factor of .75 times the adjusted beta estimate and .25

1   times a market beta estimate of 1.0. This results in a beta estimate that is adjusted

2   twice and is therefore highly skewed and unreliable.

3   I recommend Ms. LaConte's ECAPM methodology be rejected and given no

4   weight in this proceeding.

5 **Q**   **WITH THESE ADJUSTMENTS TO MS. LACONTE'S DCF STUDIES, AND**

6   **REJECTION OF HER ECAPM STUDY, WHAT RETURN ON EQUITY**

7   **RECOMMENDATION DO YOU BELIEVE MS. LACONTE'S STUDY WOULD**

8   **SUPPORT?**

9 A   As shown above in Table 3, I believe Ms. LaConte's methodologies support a return

10   on equity in the range of 9.0% to 10.1%, with a midpoint of 9.6%.   These

11   methodologies generally support my return of equity recommendation for Ameren

12   Missouri in this case of 9.75%.

13 **Q**   **DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

14 A   Yes, it does.

Ameren Missouri

Hevert Constant Growth DCF Analysis
(30-Day Stock Price)

Line	Company	Low EPS Growth Rate (1)	Expected Dividend (2)	Expected Dividend Yield (3)	Low DCF ROE (4)	Average EPS Growth Rate (5)	Expected Dividend (6)	Expected Dividend Yield (7)	Average DCF ROE (8)	High EPS Growth Rate (9)	Expected Dividend (10)	Expected Dividend Yield (11)	High DCF ROE (12)
1	American Electric Power	3.00%	$1.71	4.81%	7.81%	3.89%	$1.71	4.83%	8.73%	4.38%	$1.72	4.84%	9.22%
2	Cleco Corp.	3.00%	$1.02	3.58%	6.58%	6.00%	$1.03	3.63%	9.63%	8.00%	$1.04	3.67%	11.67%
3	DPL, Inc.	5.90%	$1.25	4.88%	10.78%	6.20%	$1.25	4.89%	11.09%	6.50%	$1.25	4.89%	11.39%
4	Empire District Electric	6.00%	$1.32	6.70%	12.70%	6.50%	$1.32	6.71%	13.21%	7.00%	$1.32	6.73%	13.73%
5	IDACORP, Inc.	4.00%	$1.22	3.46%	7.46%	4.50%	$1.23	3.47%	7.97%	5.50%	$1.23	3.49%	8.99%
6	Northeast Utilities	4.00%	$1.05	3.75%	7.75%	6.30%	$1.06	3.80%	10.10%	7.60%	$1.06	3.82%	11.42%
7	Pinnacle West Capital	6.00%	$2.16	5.59%	11.59%	6.43%	$2.17	5.60%	12.04%	6.80%	$2.17	5.61%	12.41%
8	Portland General	3.00%	$1.06	5.50%	8.50%	5.95%	$1.07	5.58%	11.53%	9.60%	$1.09	5.68%	15.28%
9	Progress Energy	3.50%	$2.52	6.05%	9.55%	3.71%	$2.53	6.06%	9.77%	4.00%	$2.53	6.07%	10.07%
10	Southern Co.	4.50%	$1.86	5.25%	9.75%	4.89%	$1.86	5.26%	10.15%	5.10%	$1.87	5.27%	10.37%
11	Westar Energy	7.50%	$1.29	5.47%	12.97%	8.26%	$1.29	5.49%	13.75%	9.28%	$1.30	5.52%	14.80%
12	**Average**	**4.58%**	**$1.49**	**5.01%**	**9.59%**	**5.69%**	**$1.50**	**5.03%**	**10.72%**	**6.71%**	**$1.51**	**5.01%**	**11.76%**

Notes:
Col. (1) is the lowest estimated EPS Growth Rate from Zacks, *Value Line,* & First Call.
Col. (5) is the average of the estimated EPS Growth Rates from Zacks, *Value Line,* & First Call.
Col. (9) is the highest estimated EPS Growth Rate from Zacks, *Value Line,* & First Call.
The Expected Dividend is the Annualized Dividend multiplied by 1 plus half the growth rate.
The Expected Dividend Yield is the Expected Dividend divided by the Stock Price.
The ROE is the growth rate plus the Expected Dividend Yield.
All data comes from Schedule RBH-E1, pages 1-3.

Ameren Missouri

Hevert Constant Growth DCF Analysis
(90-Day Stock Price)

Line	Company	Low EPS Growth Rate (1)	Expected Dividend (2)	Expected Dividend Yield (3)	Low DCF ROE (4)	Average EPS Growth Rate (5)	Expected Dividend (6)	Expected Dividend Yield (7)	Average DCF ROE (8)	High EPS Growth Rate (9)	Expected Dividend (10)	Expected Dividend Yield (11)	High DCF ROE (12)
1	American Electric Power	3.00%	$1.71	5.05%	8.05%	3.89%	$1.71	5.07%	8.97%	4.38%	$1.72	5.08%	9.46%
2	Cleco Corp.	3.00%	$1.02	3.73%	6.73%	6.00%	$1.03	3.78%	9.78%	8.00%	$1.04	3.82%	11.82%
3	DPL, Inc.	5.90%	$1.25	4.82%	10.72%	6.20%	$1.25	4.83%	11.03%	6.50%	$1.25	4.83%	11.33%
4	Empire District Electric	6.00%	$1.32	6.92%	12.92%	6.50%	$1.32	6.94%	13.44%	7.00%	$1.32	6.95%	13.95%
5	IDACORP, Inc.	4.00%	$1.22	3.54%	7.54%	4.50%	$1.23	3.55%	8.05%	5.50%	$1.23	3.57%	9.07%
6	Northeast Utilities	4.00%	$1.05	3.87%	7.87%	6.30%	$1.06	3.92%	10.22%	7.60%	$1.06	3.94%	11.54%
7	Pinnacle West Capital	6.00%	$2.16	5.80%	11.80%	6.43%	$2.17	5.82%	12.25%	6.80%	$2.17	5.83%	12.63%
8	Portland General	3.00%	$1.06	5.50%	8.50%	5.95%	$1.07	5.58%	11.53%	9.60%	$1.09	5.67%	15.27%
9	Progress Energy	3.50%	$2.52	6.30%	9.80%	3.71%	$2.53	6.31%	10.02%	4.00%	$2.53	6.32%	10.32%
10	Southern Co.	4.50%	$1.86	5.42%	9.92%	4.89%	$1.86	5.43%	10.32%	5.10%	$1.87	5.44%	10.54%
11	Westar Energy	7.50%	$1.29	5.63%	13.13%	8.26%	$1.29	5.65%	13.91%	9.28%	$1.30	5.68%	14.96%
12	**Average**	**4.58%**	**$1.49**	**5.14%**	**9.73%**	**5.69%**	**$1.50**	**5.17%**	**10.86%**	**6.71%**	**$1.51**	**5.16%**	**11.90%**

Notes:
Col. (1) is the lowest estimated EPS Growth Rate from Zacks, *Value Line,* & First Call.
Col. (5) is the average of the estimated EPS Growth Rates from Zacks, *Value Line,* & First Call.
Col. (9) is the highest estimated EPS Growth Rate from Zacks, *Value Line,* & First Call.
The Expected Dividend is the Annualized Dividend multiplied by 1 plus half the growth rate.
The Expected Dividend Yield is the Expected Dividend divided by the Stock Price.
The ROE is the growth rate plus the Expected Dividend Yield.
All data comes from Schedule RBH-E1, pages 1-3.

Ameren Missouri

Hevert Constant Growth DCF Analysis
(180-Day Stock Price)

Line	Company	Low EPS Growth Rate (1)	Expected Dividend (2)	Expected Dividend Yield (3)	Low DCF ROE (4)	Average EPS Growth Rate (5)	Expected Dividend (6)	Expected Dividend Yield (7)	Average DCF ROE (8)	High EPS Growth Rate (9)	Expected Dividend (10)	Expected Dividend Yield (11)	High DCF ROE (12)
1	American Electric Power	3.00%	$1.71	5.00%	8.00%	3.89%	$1.71	5.02%	8.91%	4.38%	$1.72	5.03%	9.41%
2	Cleco Corp.	3.00%	$1.02	3.79%	6.79%	6.00%	$1.03	3.84%	9.84%	8.00%	$1.04	3.88%	11.88%
3	DPL, Inc.	5.90%	$1.25	4.67%	10.57%	6.20%	$1.25	4.68%	10.88%	6.50%	$1.25	4.68%	11.18%
4	Empire District Electric	6.00%	$1.32	7.03%	13.03%	6.50%	$1.32	7.04%	13.54%	7.00%	$1.32	7.06%	14.06%
5	IDACORP, Inc.	4.00%	$1.22	3.64%	7.64%	4.50%	$1.23	3.65%	8.15%	5.50%	$1.23	3.67%	9.17%
6	Northeast Utilities	4.00%	$1.05	3.94%	7.94%	6.30%	$1.06	3.99%	10.29%	7.60%	$1.06	4.01%	11.61%
7	Pinnacle West Capital	6.00%	$2.16	5.83%	11.83%	6.43%	$2.17	5.84%	12.27%	6.80%	$2.17	5.85%	12.65%
8	Portland General	3.00%	$1.06	5.42%	8.42%	5.95%	$1.07	5.50%	11.45%	9.60%	$1.09	5.60%	15.20%
9	Progress Energy	3.50%	$2.52	6.34%	9.84%	3.71%	$2.53	6.35%	10.06%	4.00%	$2.53	6.36%	10.36%
10	Southern Co.	4.50%	$1.86	5.55%	10.05%	4.89%	$1.86	5.56%	10.45%	5.10%	$1.87	5.56%	10.66%
11	Westar Energy	7.50%	$1.29	5.76%	13.26%	8.26%	$1.29	5.78%	14.04%	9.28%	$1.30	5.81%	15.09%
12	**Average**	**4.58%**	**$1.49**	**5.18%**	**9.76%**	**5.69%**	**$1.50**	**5.20%**	**10.90%**	**6.71%**	**$1.51**	**5.20%**	**11.93%**

Notes:
Col. (1) is the lowest estimated EPS Growth Rate from Zacks, *Value Line,* & First Call.
Col. (5) is the average of the estimated EPS Growth Rates from Zacks, *Value Line,* & First Call.
Col. (9) is the highest estimated EPS Growth Rate from Zacks, *Value Line,* & First Call.
The Expected Dividend is the Annualized Dividend multiplied by 1 plus half the growth rate.
The Expected Dividend Yield is the Expected Dividend divided by the Stock Price.
The ROE is the growth rate plus the Expected Dividend Yield.
All data comes from Schedule RBH-E1, pages 1-3.

Ameren Missouri

Revised Hevert Multi-Stage Growth DCF Model
(Summary)

Line	Description	Hevert[1] (1)	Adjusted[2] (2)
	Gordon Model		
1	30-Day Stock Price	10.69%	10.05%
2	90-Day Stock Price	10.83%	10.19%
3	180-Day Stock Price	<u>10.86%</u>	<u>10.22%</u>
4	**Average**	**10.79%**	**10.15%**
	Long-Term Projected P/E Ratio		
5	30-Day Stock Price	10.28%	9.89%
6	90-Day Stock Price	10.56%	10.17%
7	180-Day Stock Price	<u>10.63%</u>	<u>10.24%</u>
8	**Average**	**10.49%**	**10.10%**
	Mean		
9	30-Day Stock Price	10.49%	9.97%
10	90-Day Stock Price	10.70%	10.18%
11	180-Day Stock Price	<u>10.75%</u>	<u>10.23%</u>
12	**Average**	**10.64%**	**10.13%**

Sources:

[1] Hevert Direct at 54.

[2] Pages 2 to 7.

Ameren Missouri

Revised Hevert Multi-Stage Growth DCF Model
(Gordon Model - 30-Day Stock Prices)

Line	Company	Stock Price (1)	Analyst Growth (2)	Long-Term Growth* (3)	Payout Ratio 2010 (4)	Payout Ratio 2014 (5)	Payout Ratio 2024 (6)	Multi-Stage Growth DCF (7)
1	American Electric Power	$35.44	3.89%	4.90%	62.00%	54.00%	67.50%	10.49%
2	Cleco Corp.	$28.34	6.00%	4.90%	42.00%	56.00%	67.50%	9.51%
3	DPL, Inc.	$25.53	6.20%	4.90%	51.00%	52.00%	67.50%	10.78%
4	Empire District Electric	$19.68	6.50%	4.90%	101.00%	75.00%	67.50%	10.16%
5	IDACORP, Inc.	$35.35	4.50%	4.90%	44.00%	46.00%	67.50%	9.81%
6	Northeast Utilities	$27.86	6.30%	4.90%	55.00%	54.00%	67.50%	10.14%
7	Pinnacle West Capital	$38.68	6.43%	4.90%	72.00%	65.00%	67.50%	9.66%
8	Portland General	$19.20	5.95%	4.90%	77.00%	61.00%	67.50%	10.29%
9	Progress Energy	$41.68	3.71%	4.90%	83.00%	73.00%	67.50%	10.05%
10	Southern Co.	$35.41	4.89%	4.90%	74.00%	68.00%	67.50%	9.81%
11	Westar Energy	$23.50	8.26%	4.90%	70.00%	61.00%	67.50%	9.80%
12	**Average**	**$30.06**	**5.69%**	**4.90%**	**66.45%**	**60.45%**	**67.50%**	**10.05%**

Sources:
Schedule RBH-E2, page 1.
* *Blue Chip Economic Indicators,* March 10, 2011 at 15.

Ameren Missouri

Revised Hevert Multi-Stage Growth DCF Model
(Gordon Model - 90-Day Stock Prices)

Line	Company	Stock Price (1)	Analyst Growth (2)	Long-Term Growth* (3)	Payout Ratio 2010 (4)	Payout Ratio 2014 (5)	Payout Ratio 2024 (6)	Multi-Stage Growth DCF (7)
1	American Electric Power	$33.77	3.89%	4.90%	62.00%	54.00%	67.50%	10.76%
2	Cleco Corp.	$27.22	6.00%	4.90%	42.00%	56.00%	67.50%	9.69%
3	DPL, Inc.	$25.85	6.20%	4.90%	51.00%	52.00%	67.50%	10.71%
4	Empire District Electric	$19.06	6.50%	4.90%	101.00%	75.00%	67.50%	10.34%
5	IDACORP, Inc.	$34.58	4.50%	4.90%	44.00%	46.00%	67.50%	9.91%
6	Northeast Utilities	$26.99	6.30%	4.90%	55.00%	54.00%	67.50%	10.31%
7	Pinnacle West Capital	$37.26	6.43%	4.90%	72.00%	65.00%	67.50%	9.84%
8	Portland General	$19.21	5.95%	4.90%	77.00%	61.00%	67.50%	10.29%
9	Progress Energy	$40.03	3.71%	4.90%	83.00%	73.00%	67.50%	10.28%
10	Southern Co.	$34.31	4.89%	4.90%	74.00%	68.00%	67.50%	9.97%
11	Westar Energy	$22.85	8.26%	4.90%	70.00%	61.00%	67.50%	9.94%
12	**Average**	**$29.19**	**5.69%**	**4.90%**	**66.45%**	**60.45%**	**67.50%**	**10.19%**

Sources:
Schedule RBH-E2, page 3.
* *Blue Chip Economic Indicators,* March 10, 2011 at 15.

Ameren Missouri

Revised Hevert Multi-Stage Growth DCF Model
(Gordon Model - 180-Day Stock Prices)

Line	Company	Stock Price (1)	Analyst Growth (2)	Long-Term Growth* (3)	Payout Ratio			Multi-Stage Growth DCF (7)
					2010 (4)	2014 (5)	2024 (6)	
1	American Electric Power	$34.11	3.89%	4.90%	62.00%	54.00%	67.50%	10.70%
2	Cleco Corp.	$26.80	6.00%	4.90%	42.00%	56.00%	67.50%	9.76%
3	DPL, Inc.	$26.67	6.20%	4.90%	51.00%	52.00%	67.50%	10.54%
4	Empire District Electric	$18.77	6.50%	4.90%	101.00%	75.00%	67.50%	10.43%
5	IDACORP, Inc.	$33.61	4.50%	4.90%	44.00%	46.00%	67.50%	10.05%
6	Northeast Utilities	$26.52	6.30%	4.90%	55.00%	54.00%	67.50%	10.40%
7	Pinnacle West Capital	$37.11	6.43%	4.90%	72.00%	65.00%	67.50%	9.86%
8	Portland General	$19.46	5.95%	4.90%	77.00%	61.00%	67.50%	10.22%
9	Progress Energy	$39.80	3.71%	4.90%	83.00%	73.00%	67.50%	10.32%
10	Southern Co.	$33.55	4.89%	4.90%	74.00%	68.00%	67.50%	10.09%
11	Westar Energy	$22.32	8.26%	4.90%	70.00%	61.00%	67.50%	10.05%
12	**Average**	**$28.98**	**5.69%**	**4.90%**	**66.45%**	**60.45%**	**67.50%**	**10.22%**

Sources:
Schedule RBH-E2, page 5.
* *Blue Chip Economic Indicators,* March 10, 2011 at 15.

Ameren Missouri

Revised Hevert Multi-Stage Growth DCF Model
(Long-Term Projected P/E Ratio - 30-Day Stock Prices)

Line	Company	Stock Price (1)	Analyst Growth (2)	Long-Term Growth* (3)	Payout Ratio			Multi-Stage Growth DCF (7)
					2010 (4)	2014 (5)	2024 (6)	
1	American Electric Power	$35.44	3.89%	4.90%	62.00%	54.00%	67.50%	10.72%
2	Cleco Corp.	$28.34	6.00%	4.90%	42.00%	56.00%	67.50%	8.85%
3	DPL, Inc.	$25.53	6.20%	4.90%	51.00%	52.00%	67.50%	11.67%
4	Empire District Electric	$19.68	6.50%	4.90%	101.00%	75.00%	67.50%	11.24%
5	IDACORP, Inc.	$35.35	4.50%	4.90%	44.00%	46.00%	67.50%	9.26%
6	Northeast Utilities	$27.86	6.30%	4.90%	55.00%	54.00%	67.50%	10.41%
7	Pinnacle West Capital	$38.68	6.43%	4.90%	72.00%	65.00%	67.50%	9.22%
8	Portland General	$19.20	5.95%	4.90%	77.00%	61.00%	67.50%	10.05%
9	Progress Energy	$41.68	3.71%	4.90%	83.00%	73.00%	67.50%	9.66%
10	Southern Co.	$35.41	4.89%	4.90%	74.00%	68.00%	67.50%	8.13%
11	Westar Energy	$23.50	8.26%	4.90%	70.00%	61.00%	67.50%	9.56%
12	**Average**	**$30.06**	**5.69%**	**4.90%**	**66.45%**	**60.45%**	**67.50%**	**9.89%**

Sources:
Schedule RBH-E2, page 7.
* *Blue Chip Economic Indicators,* March 10, 2011 at 15.

Ameren Missouri

Revised Hevert Multi-Stage Growth DCF Model
(Long-Term Projected P/E Ratio - 90-Day Stock Prices)

Line	Company	Stock Price (1)	Analyst Growth (2)	Long-Term Growth* (3)	Payout Ratio 2010 (4)	Payout Ratio 2014 (5)	Payout Ratio 2024 (6)	Multi-Stage Growth DCF (7)
1	American Electric Power	$33.77	3.89%	4.90%	62.00%	54.00%	67.50%	11.23%
2	Cleco Corp.	$27.22	6.00%	4.90%	42.00%	56.00%	67.50%	9.24%
3	DPL, Inc.	$25.85	6.20%	4.90%	51.00%	52.00%	67.50%	11.54%
4	Empire District Electric	$19.06	6.50%	4.90%	101.00%	75.00%	67.50%	11.59%
5	IDACORP, Inc.	$34.58	4.50%	4.90%	44.00%	46.00%	67.50%	9.48%
6	Northeast Utilities	$26.99	6.30%	4.90%	55.00%	54.00%	67.50%	10.73%
7	Pinnacle West Capital	$37.26	6.43%	4.90%	72.00%	65.00%	67.50%	9.60%
8	Portland General	$19.21	5.95%	4.90%	77.00%	61.00%	67.50%	10.04%
9	Progress Energy	$40.03	3.71%	4.90%	83.00%	73.00%	67.50%	10.11%
10	Southern Co.	$34.31	4.89%	4.90%	74.00%	68.00%	67.50%	8.47%
11	Westar Energy	$22.85	8.26%	4.90%	70.00%	61.00%	67.50%	9.84%
12	**Average**	**$29.19**	**5.69%**	**4.90%**	**66.45%**	**60.45%**	**67.50%**	**10.17%**

Sources:
Schedule RBH-E2, page 9.
* *Blue Chip Economic Indicators,* March 10, 2011 at 15.

Ameren Missouri

Revised Hevert Multi-Stage Growth DCF Model
(Long-Term Projected P/E Ratio - 180-Day Stock Prices)

Line	Company	Stock Price (1)	Analyst Growth (2)	Long-Term Growth* (3)	Payout Ratio 2010 (4)	Payout Ratio 2014 (5)	Payout Ratio 2024 (6)	Multi-Stage Growth DCF (7)
1	American Electric Power	$34.11	3.89%	4.90%	62.00%	54.00%	67.50%	11.12%
2	Cleco Corp.	$26.80	6.00%	4.90%	42.00%	56.00%	67.50%	9.39%
3	DPL, Inc.	$26.67	6.20%	4.90%	51.00%	52.00%	67.50%	11.22%
4	Empire District Electric	$18.77	6.50%	4.90%	101.00%	75.00%	67.50%	11.76%
5	IDACORP, Inc.	$33.61	4.50%	4.90%	44.00%	46.00%	67.50%	9.76%
6	Northeast Utilities	$26.52	6.30%	4.90%	55.00%	54.00%	67.50%	10.91%
7	Pinnacle West Capital	$37.11	6.43%	4.90%	72.00%	65.00%	67.50%	9.64%
8	Portland General	$19.46	5.95%	4.90%	77.00%	61.00%	67.50%	9.90%
9	Progress Energy	$39.80	3.71%	4.90%	83.00%	73.00%	67.50%	10.17%
10	Southern Co.	$33.55	4.89%	4.90%	74.00%	68.00%	67.50%	8.71%
11	Westar Energy	$22.32	8.26%	4.90%	70.00%	61.00%	67.50%	10.08%
12	**Average**	**$28.98**	**5.69%**	**4.90%**	**66.45%**	**60.45%**	**67.50%**	**10.24%**

Sources:
Schedule RBH-E2, page 11.
* *Blue Chip Economic Indicators,* March 10, 2011 at 15.

Ameren Missouri

End of Year Historical Value Line Beta

Line	Company	11-Year Average (1)	2010 Beta (2)	2009 Beta (3)	2008 Beta (4)	2007 Beta (5)	2006 Beta (6)	2005 Beta (7)	2004 Beta (8)	2003 Beta (9)	2002 Beta (10)	2001 Beta (11)	2000 Beta (12)
1	American Electric Power	0.89	0.70	0.70	0.85	1.15	1.25	1.20	1.15	0.95	0.75	0.55	0.50
2	Cleco Corp.	0.88	0.65	0.65	0.90	1.35	1.25	1.15	1.05	0.90	0.65	0.55	0.55
3	DPL, Inc.	0.76	0.60	0.60	0.75	0.90	0.95	0.95	0.90	0.80	0.75	0.60	0.55
4	Empire District Electric	0.66	0.70	0.75	0.80	0.85	0.80	0.70	0.65	0.60	0.50	0.45	0.50
5	IDACORP, Inc.	0.76	0.70	0.70	0.85	1.00	1.00	0.95	0.85	0.75	0.60	0.50	0.50
6	Northeast Utilities	0.70	0.70	0.70	0.75	0.85	0.85	0.80	0.75	0.65	0.60	0.50	0.55
7	Pinnacle West Capital	0.74	0.70	0.75	0.75	1.00	1.00	0.90	0.85	0.70	0.55	0.45	0.45
8	Portland General	0.72	0.75	0.70	0.70	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
9	Progress Energy	0.77	0.60	0.65	0.75	0.95	0.85	0.85	0.85	0.85	N/A	N/A	0.55
10	Southern Co.	0.62	0.55	0.55	0.65	0.75	0.65	0.65	0.65	0.65	N/A	N/A	0.45
11	Westar Energy	0.68	0.75	0.75	0.85	0.90	0.90	0.85	0.75	0.60	0.50	0.35	0.30
12	**Average**	**0.74**	**0.67**	**0.68**	**0.78**	**0.97**	**0.95**	**0.90**	**0.85**	**0.75**	**0.61**	**0.49**	**0.49**
13	**Median**	**0.74**	**0.70**	**0.70**	**0.75**	**0.93**	**0.93**	**0.88**	**0.85**	**0.73**	**0.60**	**0.50**	**0.50**

Source:
The Value Line Investment Analyzer, Downloaded on March 8, 2011.

Ameren Missouri

Revised LaConte Single-Stage GDP Growth DCF Model

Line	Company	Close 11/2010-1/2011 Avg. Stock Price (1)	Avg. 10-11 Dividend (2)	Dividend Yield (3)	Long-Term GDP Growth* (4)	Estimated ROE (5)
1	American Electric Power Co.	$36.12	$1.78	4.9%	4.90%	9.8%
2	Ameren Corporation	$28.60	$1.54	5.4%	4.90%	10.3%
3	CMS Energy	$18.63	$0.78	4.2%	4.90%	9.1%
4	Consolidated Edison Inc.	$49.41	$2.39	4.8%	4.90%	9.7%
5	DTE Energy	$45.56	$2.24	4.9%	4.90%	9.8%
6	Dominion Resources, Inc.	$42.59	$1.90	4.5%	4.90%	9.4%
7	Entergy Corporation	$72.22	$3.31	4.6%	4.90%	9.5%
8	Exelon Corporation	$41.16	$2.10	5.1%	4.90%	10.0%
9	Integrys Energy Group, Inc.	$49.23	$2.72	5.5%	4.90%	10.4%
10	PPL Corporation	$25.88	$1.40	5.4%	4.90%	10.3%
11	Pepco Holdings, Inc.	$18.41	$1.08	5.9%	4.90%	10.8%
12	Pinnacle West Capital Corporation	$40.80	$2.10	5.1%	4.90%	10.0%
13	Southern Company	$38.10	$1.84	4.8%	4.90%	9.7%
14	TECO Energy, Inc.	$17.53	$0.83	4.7%	4.90%	9.6%
15	Wisconsin Energy Corporation	$59.36	$1.85	3.1%	4.90%	8.0%
16	Xcel Energy Inc.	$23.54	$1.02	4.3%	4.90%	9.2%
17	**Average**	**$37.95**	**$1.80**	**4.8%**	**4.90%**	**9.7%**
18	**Median**					**9.8%**

Sources:
Schedule BSL-3.
Blue Chip Economic Indicators, March 10, 2011 at 15.

Ameren Missouri

Revised LaConte Two-Stage Analyst Growth DCF Model

Line	Company	Close 11/2010-1/2011 Avg. Stock Price (1)	Avg. 10-11 Dividend (2)	2015 Dividend (3)	Annual Change to 2015 (4)	Year 6-150 Div Growth* (11)	IRR Years 0-150 RoE (12)
1	American Electric Power Co.	$36.12	$1.78	$2.00	$0.06	4.98%	9.6%
2	Ameren Corporation	$28.60	$1.54	$1.54	$0.00	4.98%	9.7%
3	CMS Energy	$18.63	$0.78	$1.00	$0.06	4.98%	9.3%
4	Consolidated Edison Inc.	$49.41	$2.39	$2.46	$0.02	4.98%	9.3%
5	DTE Energy	$45.56	$2.24	$2.60	$0.09	4.98%	9.7%
6	Dominion Resources, Inc.	$42.59	$1.90	$2.40	$0.13	4.98%	9.6%
7	Entergy Corporation	$72.22	$3.31	$3.60	$0.07	4.98%	9.2%
8	Exelon Corporation	$41.16	$2.10	$2.10	$0.00	4.98%	9.4%
9	Integrys Energy Group, Inc.	$49.23	$2.72	$2.72	$0.00	4.98%	9.8%
10	PPL Corporation	$25.88	$1.40	$1.60	$0.05	4.98%	10.2%
11	Pepco Holdings, Inc.	$18.41	$1.08	$1.12	$0.01	4.98%	10.2%
12	Pinnacle West Capital Corporation	$40.80	$2.10	$2.30	$0.05	4.98%	9.8%
13	Southern Company	$38.10	$1.84	$2.10	$0.07	4.98%	9.6%
14	TECO Energy, Inc.	$17.53	$0.83	$0.95	$0.03	4.98%	9.5%
15	Wisconsin Energy Corporation	$59.36	$1.85	$2.70	$0.21	4.98%	8.5%
16	Xcel Energy Inc.	$23.54	$1.02	$1.15	$0.03	4.98%	9.1%
17	**Average**	**$37.95**	**$1.80**	**$2.02**	**$0.05**	**4.98%**	**9.5%**
18	**Median**						**9.6%**

Sources:
Schedule BSL-3.
* Schedule BSL-1 (using median of all proxy group companies).

Ameren Missouri

Revised LaConte Two-Stage GDP Growth DCF Model

Line	Company	Close 11/2010-1/2011 Avg. Stock Price (1)	Avg. 10-11 Dividend (2)	2015 Dividend (3)	Annual Change to 2015 (4)	Year 6-150 Div Growth* (11)	IRR Years 0-150 RoE (12)
1	American Electric Power Co.	$36.12	$1.78	$2.00	$0.08	4.90%	9.7%
2	Ameren Corporation	$28.60	$1.54	$1.54	$0.00	4.90%	9.6%
3	CMS Energy	$18.63	$0.78	$1.00	$0.07	4.90%	9.5%
4	Consolidated Edison Inc.	$49.41	$2.39	$2.46	$0.02	4.90%	9.2%
5	DTE Energy	$45.56	$2.24	$2.60	$0.12	4.90%	9.8%
6	Dominion Resources, Inc.	$42.59	$1.90	$2.40	$0.17	4.90%	9.7%
7	Entergy Corporation	$72.22	$3.31	$3.60	$0.10	4.90%	9.2%
8	Exelon Corporation	$41.16	$2.10	$2.10	$0.00	4.90%	9.4%
9	Integrys Energy Group, Inc.	$49.23	$2.72	$2.72	$0.00	4.90%	9.7%
10	PPL Corporation	$25.88	$1.40	$1.60	$0.07	4.90%	10.3%
11	Pepco Holdings, Inc.	$18.41	$1.08	$1.12	$0.01	4.90%	10.2%
12	Pinnacle West Capital Corporation	$40.80	$2.10	$2.30	$0.07	4.90%	9.8%
13	Southern Company	$38.10	$1.84	$2.10	$0.09	4.90%	9.7%
14	TECO Energy, Inc.	$17.53	$0.83	$0.95	$0.04	4.90%	9.6%
15	Wisconsin Energy Corporation	$59.36	$1.85	$2.70	$0.28	4.90%	8.8%
16	Xcel Energy Inc.	$23.54	$1.02	$1.15	$0.04	4.90%	9.1%
17	**Average**	**$37.95**	**$1.80**	**$2.02**	**$0.07**	**4.90%**	**9.6%**
18	**Median**						**9.6%**

Sources:
Schedule BSL-4
Blue Chip Economic Indicators, March 10, 2011 at 15.