Exhibit No.:
Witness: Michael Gorman
Type of Exhibit: Rebuttal Testimony
Issues: Rate of Return
Sponsoring Party: Missouri Industrial Energy Consumers
Case No.: ER-2008-0318

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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

Rebuttal Testimony and Schedules of

Michael Gorman

On behalf of

Missouri Industrial Energy Consumers

BRUBAKER & ASSOCIATES, INC.
CHESTERFIELD, MO 63017

Project 8983
October 14, 2008

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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

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

Affidavit of Michael Gorman

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

1. My name is Michael Gorman. I am a consultant with Brubaker & Associates, Inc., having its principal place of business at 16690 Swingley Ridge Road, Suite 140, Chesterfield, MO 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 is my rebuttal testimony and schedules which were prepared in written form for introduction into evidence in Missouri Public Service Commission Case No. ER-2008-0318.

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

Michael Gorman

Subscribed and sworn to before me this 13th day of October, 2008.

Notary Public

MARIA E. DECKER
Notary Public, State of Missouri
St. Louis City
Commission # 05706793
My Commission Expires May 05, 2009

BEFORE THE PUBLIC SERVICE COMMISSION
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Rebuttal Testimony of Michael Gorman

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

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

A Yes.

Q WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS PROCEEDING?

A I will respond to AmerenUE witness Dr. Roger Morin's proposed return on equity.

Response to AmerenUE Witness Dr. Roger Morin

Q WHAT RATE OF RETURN ON COMMON EQUITY IS AMERENUE REQUESTING IN THIS PROCEEDING?

A AmerenUE is requesting a return on common equity of 10.9%, if AmerenUE's fuel adjustment clause (FAC) proposed in this proceeding is approved. However, Dr. Morin proposes an 11.15% return on equity if the FAC is not approved.

Q PLEASE DESCRIBE HOW DR. MORIN DEVELOPED HIS RETURN ON EQUITY RANGE FOR AMERENUE.

A Dr. Morin used a capital asset pricing model, an empirical capital asset pricing model, two risk premium studies, and several discounted cash flow studies to support his return on equity estimate for AmerenUE. Dr. Morin employed these models to two proxy groups including: (1) Standard & Poor's Integrated Electric Utility Index; and (2) the Moody's Electric Utility Index.

Dr. Morin's estimated return on equity for AmerenUE is shown below in Table 1 under column 1. Under column 2, I show adjustments to Dr. Morin's estimated return for AmerenUE. These adjustments are described in more detail below.

TABLE 1

Summary of Dr. Morin's ROE Estimates

Description	Result (1)	Adjusted Result (2)
Traditional CAPM	11.2%	10.29%
ECAPM	11.5%	Reject
Average CAPM	**11.4%**	**10.29%**
Historical Risk Premium Electric	10.5%	10.2%
Allowed Risk Premium	10.1%	10.1%
Average Risk Premium	**10.3%**	**10.2%**
DCF Vertically Integrated Utilities (*Value Line* Growth)	10.4%	9.5%
DCF Vertically Integrated Utilities (Zacks Growth)	11.6%	9.7%
DCF Moody's Electric Utilities (*Value Line* Growth)	11.1%	9.4%
DCF Moody's Electric Utilities (Zacks Growth)	11.0%	9.5%
Average DCF	**11.0%**	**9.5%**
Average ROE	**10.9%**	**10.0%**

Source: Morin Direct Testimony at 65.

As described in detail below, Dr. Morin's ROE estimates should be adjusted as shown in column 2 of the table above. Based on these adjustments, Dr. Morin's return on equity estimates support a return on equity for AmerenUE in the range of 9.5% to 10.3%, with a midpoint of 9.9%. Therefore, Dr. Morin's analyses, with reasonable adjustments, support my recommended return on equity of 10.2%.

Q PLEASE DESCRIBE DR. MORIN'S TRADITIONAL CAPM ANALYSIS.

A Dr. Morin used a risk-free rate of 4.5%, a market risk premium of 7.4%, and a beta of 0.87. With this data, Dr. Morin derived a CAPM estimate of 10.9%. He then added a 30 basis point return premium for flotation costs. This flotation adjustment increased his CAPM return estimate to 11.2%. (Morin Direct Testimony at 40).

Q WHAT ISSUES DO YOU TAKE WITH DR. MORIN'S CAPM ANALYSIS?

A For the reasons set out later in this testimony, I reject Dr. Morin's flotation cost because it is not based on AmerenUE-specific costs. Dr. Morin's CAPM analysis return estimate of 10.9% (excluding flotation costs) is overstated and unreasonable, due to his use of an unreasonably high market risk premium of 7.4%. Further, it is worthy of note that utility betas have materially decreased since Dr. Morin filed his testimony. These updated betas would lower Dr. Morin's CAPM return estimate.

Q HOW DID DR. MORIN DERIVE HIS MARKET RISK PREMIUM OF 7.4%?

A Dr. Morin relied on two studies. First, he used the market risk premium of 7.1% derived from the data provided by Morningstar. Second, Dr. Morin developed a prospective market risk premium of 7.7% using the data provided by *Value Line*. The 7.4% market risk premium is the average of these two estimates.

Q WHAT ISSUES DO YOU HAVE WITH DR. MORIN'S MORNINGSTAR MARKET RISK PREMIUM ESTIMATE?

A Dr. Morin's market risk premium estimate is a high-end estimate and does not reflect a complete investigation of the market risk premium estimates made by Morningstar. A complete consideration of Morningstar's estimate indicates that a market risk premium falls in the range of 6.2% to 7.1%.

Morningstar does estimate a market risk premium of 7.1% based on the difference between the total market return on common stocks (S&P 500) less the income return on Treasury bond investments. However, Morningstar makes various estimates of the market risk premium with this same methodology. For example, Morningstar found that if the New York Stock Exchange (NYSE) was used as the

market index rather than the S&P 500, then the market risk premium would be 6.8% and not 7.1%. Further, if only the two deciles of the largest companies included in the NYSE were used as the market index (which would be comparable to the S&P 500), then the market risk premium would be 6.35%.[1]

Morningstar also found that the 7.1% market risk premium based on the S&P 500 was impacted by an abnormal expansion of price-to-earnings (P/E) ratios relative to earnings and dividend growth during the period 1980 through 2001. Morningstar believes this abnormal P/E expansion is not sustainable. Therefore, Morningstar proposed an adjustment to this market risk premium estimate to normalize the growth in the P/E ratio to be more in line with the growth in dividends and earnings. Based on this alternative methodology, Morningstar published a long-horizon supply-side market risk premium of 6.2%.[2]

Thus, based on all of Morningstar's estimates, the market risk premium falls in the range of 6.2% to 7.1%. The midpoint of Morningstar's market risk premium estimate is 6.65%.

Q DO YOU TAKE ISSUE WITH THE PROSPECTIVE MARKET RISK PREMIUM OF 7.7% ESTIMATED BY DR. MORIN?

A Yes. I conclude this market risk premium is flawed and unreliable. Therefore, it should be rejected. Dr. Morin's prospective market risk premium estimate is based on a market DCF return of 12.2% less the risk-free rate, 4.5%, which produces a market risk premium of 7.7%. This market risk premium is flawed and unreliable

[1] Morningstar observes that the S&P 500 and the NYSE Decile 1-2 are both large capitalization benchmarks. *Ibbotson SBBI 2008 Valuation Yearbook* (Morningstar, Inc.) at 72 and 74.
[2] *Id.* at 92-98.

because the growth rate used in his market DCF return estimate is an unreasonable estimate of long-term sustainable growth, as required by this DCF model.

Dr. Morin's market DCF return estimate is 12.2%. This DCF return is based on a growth rate of 9.3%, and a dividend yield of 2.4%. Using the annual version of the DCF model, these parameters produce a DCF return estimate of 11.92%.[3] To reflect quarterly compounding, this market DCF return would increase to 11.95%.[4] Hence, Dr. Morin's parameters support a DCF return of only 11.95%, not 12.2%. Hence, since he overstated the DCF return on the market using his own parameters, his market risk premium of 7.7% should be decreased to at least 7.45%. However, there are other reasons to reject this market risk premium estimate. Specifically, this DCF return is based on a growth rate of 9.3%. This growth rate of 9.3% is not sustainable in the long term, as required by his DCF model. Therefore, his market DCF return on the market is flawed and not reliable.

Just like utility stocks, companies operating in the general marketplace must compete for customers in the economies in which they provide their goods and services. It is simply not rational nor reasonable to expect that the growth rates of these companies can significantly exceed the growth in the economy in which they operate over an indefinite period of time.

The constant growth version of the DCF model applied to the market is the same as that applied to utility stocks. The growth rate must be a reasonable estimate of long-term sustainable growth; otherwise, it will overstate a fair DCF return estimate.

[3] (2.4% * 1.093) + 9.3%
[4] $[(2.4\%/4 * (1.093)^{1/4}) + (1.093)^{1/4}]^4 - 1$

Q IS THERE ANY EVIDENCE THAT LONG-TERM GROWTH IN EARNINGS AND DIVIDENDS OF THE S&P 500 WILL TRACK THE GROWTH OF THE U.S. GDP?

A Yes. Morningstar found that the dividends and earnings of the S&P 500 generally grew in tandem with the nominal GDP over long periods of time.[5] Further, as noted in my direct testimony, academic research supports the rational conclusion that over long-term sustainable periods, the earnings and dividend growth of mature companies, which are a reasonable proxy for the overall market, will track that of the nominal GDP growth. As such, actual historical performance and rational expectations based on sound academic principles, support the conclusion that long-term sustainable growth rates for the market index will not exceed that of the growth of the U.S. GDP.

Q HOW DOES DR. MORIN'S MARKET DCF GROWTH RATE COMPARE TO THE PROJECTED GROWTH OF THE U.S. GDP?

A The growth rate Dr. Morin used in his market DCF return estimate of 9.3% significantly exceeds the consensus economists' projections of GDP growth over the next five and ten years. Specifically, *The Blue Chip Economic Indicators* publishes the consensus of economists' projected long-term growth to be approximately 5%. Dr. Morin's market DCF return estimate of 9.3% is nearly twice as high as that of the projected long-term GDP growth. Therefore, Dr. Morin's market-based DCF analysis produces a flawed market return estimate, which significantly inflates his market risk premium estimate. Therefore, Dr. Morin's prospective market risk premium is based on a flawed analysis, is unreliable, and should be rejected.

[5] *Ibbotson SBBI 2008 Valuation Yearbook (Morningstar, Inc.)* at 92.

Q WHAT DO YOU CONCLUDE BASED ON YOUR ASSESSMENT OF DR. MORIN'S MARKET RISK PREMIUM STUDIES?

A I believe Dr. Morin's use of the market risk premium of 7.4% exceeds the high end of reasonable market risk premium studies. Using Morningstar data, a reasonable market risk premium is in the range of 6.2% to 7.1%. The midpoint of that range is 6.65%. I reject Dr. Morin's prospective market risk premium for the reasons described above.

Q HAVE THE BETAS OF DR. MORIN'S PROXY GROUP CHANGED SINCE HE FILED HIS TESTIMONY?

A Yes. They have declined, as shown on my Schedule MPG-R-1. The S&P Integrated Electric Utility Index beta has declined from 0.87 to 0.81. The beta for the Moody's Electric Utility Index group has declined from 0.86 to 0.80. (Morin Direct at 35).

Q HOW WOULD DR. MORIN'S CAPM ESTIMATE BE IMPACTED IF A MORE REASONABLE MARKET RISK PREMIUM IS USED?

A Using a market risk premium of 6.65%, which is the midpoint of the range of market risk premiums estimated by Morningstar, and excluding a flotation cost adjustment, Dr. Morin's CAPM return estimate would decline to 10.29%.[6]

Q PLEASE DESCRIBE DR. MORIN'S EMPIRICAL CAPM (ECAPM) ANALYSIS.

A The ECAPM analysis adds two weighted risk premiums to a risk-free rate: a 75% weighted risk premium based on a 0.87 utility beta, and a 25% weighted risk premium based on a beta equal to the overall market beta of 1.0. The theory of the ECAPM is

[6] 4.5% + (.87 x 6.65%).

that a beta of less than 1.0 will increase toward the market beta of 1.0 over time, which is necessary because the risk of securities will be increasing over time.

Q WHAT ISSUES DO YOU TAKE WITH DR. MORIN'S ECAPM ANALYSIS?

A The ECAPM analysis should be rejected for several reasons. First, the practical result of Dr. Morin's ECAPM is that the CAPM return is based on a beta estimate of 0.90,[7] instead of his actual *Value Line* utility beta of 0.87. Indeed, the ECAPM analysis significantly overstates a utility company-specific risk premium for use in a risk premium analysis.

Second, the ECAPM produces the same adjustment result on a CAPM return estimate as does the use of an adjusted *Value Line* beta. Theoretical constructs of the ECAPM are based on a raw beta or unadjusted betas. Using a raw beta, the ECAPM will increase the CAPM return estimate when the raw betas are less than 1.0, and decrease the CAPM return estimate when the raw betas are greater than 1.0.

Value Line's adjusted beta creates the same impact on a CAPM return estimate as the ECAPM. Specifically, *Value Line*'s beta adjustment when used in a traditional CAPM return estimate, will increase a CAPM return estimate when the beta is less than 1.0, and decrease the CAPM return estimate when the beta is greater than 1.0. Therefore, an ECAPM with a raw beta produces the same impact on the CAPM return estimate as does a traditional CAPM using an adjusted beta estimate. Importantly, I am not aware of any research, that was subjected to peer review, that supports Dr. Morin's proposed use of an adjusted beta in an ECAPM study. Therefore, Dr. Morin's proposal to use an adjusted beta in an ECAPM is not based on

[7] Weighted at 75% utility proxy beta, plus the market beta of 1.0 weighted at 25%.

sound academic principles, is not supported by the academic community, and should be rejected.

Further, using an adjusted beta in an ECAPM analysis, as Dr. Morin proposes, double-counts the increase in the CAPM return estimates for betas less than 1.0, and correspondingly would decrease the CAPM return estimates for companies that have betas greater than 1.0. Since utility companies have betas less than 1.0, Dr. Morin's application of an ECAPM with adjusted beta estimates, overstates a CAPM return estimate for a utility company.

For all these reasons, Dr. Morin's ECAPM analysis should be rejected.

Historical Risk Premium

Q PLEASE DESCRIBE DR. MORIN'S HISTORICAL RISK PREMIUM.

A Dr. Morin estimates the actual achieved return on electric utility stocks relative to that of long-term Treasury bond securities over the period 1931 through end of year 2006. This produced an achieved return on electric utility stocks above the achieved return on Treasury bonds of 5.7%.[8]

Dr. Morin then adds the estimated electric equity risk premium of 5.7% to his projected yield on long-term Treasury bonds of 4.5%, to arrive at a risk premium estimated return of 10.2%. Finally, he increased these results by 30 basis points to include a flotation cost adder that produced a risk premium return of 10.5%.[9]

Q WHAT ISSUE DO YOU TAKE WITH DR. MORIN'S RISK PREMIUM?

A Dr. Morin's achieved return on utility stocks, compared to Treasury securities, should be given little weight in this proceeding for several reasons. First, Dr. Morin's analysis

[8] Schedule RAM-E3.
[9] Morin Direct Testimony at 44.

has not been updated for the last year, and it therefore skews the results of this historical achieved return study. Dr. Morin's study was concluded in 2006. However, excluding data from 2007 likely has an impact on his study. Failing to update this study diminishes the unbiased nature of the analysis and provides Dr. Morin a means of misrepresenting this historical achieved return estimate.

Second, the achieved return on Treasury securities versus utility securities has been impacted significantly by the dramatic decrease in interest rates over the last 20 years. Hence, the achieved return on these securities is not as much an assessment of consistent or varying risk differentials and required return, as it is an assessment of the impact that declining interest rates and reduced inflation expectations have on stock versus bond investments.

Third, the estimated risk premium from this methodology is sensitive to the annual time period selected. Dr. Morin has used December to December as an annual time period. Had he used different months, for example July through July, his results may have been very different. More thorough analyses, such as that performed by Morningstar, consider annual holding periods that can take place throughout the year. That is, it considers each holding period for each month in the year. Dr. Morin's estimated equity risk premium may be higher than average for 12-month holding periods simply by using end-of-year data. Hence, his analysis of an annual holding period's achieved return is incomplete because it does not reflect the total breadth of possible 12-month holding periods for investments in utility and Treasury securities.

Q CAN DR. MORIN'S RISK PREMIUM ANALYSES BE USED TO PRODUCE A MORE REASONABLE RETURN ESTIMATE?

A Setting aside the issues I have with Dr. Morin's historical 5.7% risk premium, simply excluding his unreasonable 30 basis point flotation cost adjustment, will reduce his risk premium estimate from 10.5% to 10.2%. For the reasons set forth above, I reject the inclusion of a flotation cost adjustment in this case because Dr. Morin has failed to identify AmerenUE-specific costs that are appropriate for including in its rate of return in this proceeding.

DCF Analyses

Q PLEASE DESCRIBE DR. MORIN'S DCF ANALYSES.

A Dr. Morin performed a constant growth DCF analysis on: (1) Standard & Poor's Integrated Electric Utility Index; and (2) the Moody's Electric Utility Index. Dr. Morin constructed two DCF analyses for each of the utility groups using a consensus analysts' growth rate projection from Zacks for one DCF analysis and a second DCF analysis using *Value Line*'s projected growth rate.

As shown on Schedule RAM-E5 through Schedule RAM-E8, he relied on growth rate estimates in the range of 5.8% to 7.5% from both *Value Line* and Zacks to produce a DCF cost of equity in the range of 10.2% to 11.9%. He then added a 20-30 basis point flotation cost adjustment to arrive at adjusted returns on equity in the range of 10.4% to 12.1%, with a midpoint of 11.25%.

Q PLEASE DESCRIBE THE ISSUES YOU TAKE WITH DR. MORIN'S DCF ANALYSES.

A I have two major issues with Dr. Morin's DCF model. First, Dr. Morin uses *Value Line* growth rate estimates that are provided by a single analyst. Second, he uses growth rate estimates that are not sustainable in the long run.

Q WHY IS IT UNREASONABLE TO RELY ON GROWTH RATE ESTIMATES PROVIDED BY *VALUE LINE*?

A *Value Line* provides projected 3-5 year growth rates estimated by a single security analyst. As discussed above, using a source that contains consensus analysts' growth rate projections supplied by many analysts better reflects the market's growth expectations of the underlying stock. Hence, Dr. Morin's DCF studies, based on his Zacks growth rate projections, are superior to those produced from his *Value Line* growth rate projections.

Therefore, I recommend that the Commission give primary weight to Dr. Morin's DCF return estimates based on his Zacks growth rate models, excluding his flotation cost adjustment.

Q WHY ARE THE GROWTH RATE ESTIMATES USED IN DR. MORIN'S DCF STUDY NOT REASONABLE?

A Dr. Morin average growth rates from *Value Line* and Zacks fall in the range of 5.8% to 7.5%. These growth rate estimates exceed the projected GDP growth rate of 5.0% and 4.8% for the next 5 and 10 years, respectively. As explained in detail above, the GDP growth rate can be used as a proxy for long-term sustainable growth rate because it represents the maximum growth rate of the U.S. economy. The growth

rate estimates used in Dr. Morin's DCF study exceed the projected GDP growth rate of 4.9% (the average of 5.0% and 4.8%) by 90-260 basis points, and inflate the DCF return on equity results for AmerenUE.

Q CAN DR. MORIN'S DCF MODEL BE MODIFIED TO REFLECT MORE REASONABLE GROWTH RATE ESTIMATES?

A Yes. In order to reflect the current industry environment of abnormal capital investments that increase utility rate base and impacts analysts' growth rate projections, Dr. Morin's constant growth DCF model can be modified into a two-stage DCF model that will reflect a more reasonable growth rate in the second stage.

Q DID DR. MORIN RECOGNIZE THE PROBLEMS WITH THE CONSTANT DCF MODEL IN THE CURRENT UTILITY INDUSTRY ENVIRONMENT?

A Yes. At page 59 of his direct testimony, Dr. Morin emphasized the fact that the constant DCF is not applicable in the current dynamic utility industry. Dr. Morin also agrees that using a non-constant DCF model is more reasonable.

Q DID DR. MORIN ATTEMPT TO DEVELOP A TWO-STAGE DCF MODEL?

A Yes. Dr. Morin discussed the use of his average growth rate of 6.2% for the first stage and his estimate for the projected long-term GDP growth of 6.1% for the second stage as discussed at page 60 of his direct testimony.

Applying the Federal Energy Regulatory Commission's methodology adopted by Dr. Morin will require giving 2/3 weight to the average analysts' growth rate of 6.2% and 1/3 weight to his projected GDP growth of 6.1%. Considering the fact that these growth rates are almost identical the return on equity produced by this

methodology is almost identical to the return on equity estimated through the traditional DCF model.

Q DO YOU HAVE ANY CONCERNS WITH DR. MORIN'S GDP GROWTH RATE ESTIMATE OF 6.1%?

A Yes. Dr. Morin's GDP growth projection represents his own judgment, not a consensus estimate provided by independent research such as the *Blue Chip Financial Forecast*. Using a consensus estimate is more accurate because it provides an unbiased opinion for the future state of the U.S. economy. The consensus is more objective than the estimate provided by a single analyst such as Dr. Morin or myself.

Q HOW WILL DR. MORIN'S DCF RESULT CHANGE IF WE APPLY THE TWO-STAGE DCF MODEL WITH A CONSENSUS GDP GROWTH PROJECTION?

A Setting aside the issues I have with Dr. Morin's use of the *Value Line* growth estimates, I have applied the two-stage DCF model to his return estimates developed on Schedule RAM-5 through Schedule RAM-8. Excluding Dr. Morin's flotation cost adjustment, the average DCF return will be reduced from 11.0% to 9.5% as shown on Schedule MPG-R-2.

Flotation Cost Adjustment

Q IS DR. MORIN'S PROPOSED FLOTATION COST ADJUSTMENT REASONABLE?

A No. Flotation cost adjustments are a legitimate cost of issuing stock to the public. Actual book costs, however, should be used for this adjustment so the Commission Staff, and other interested intervenors, can audit the Company's actual common

stock flotation expenses for reasonableness and amount. Any adjustment to AmerenUE's cost of service for flotation cost expenses should be based only on known and measurable common stock flotation expenses.

In significant contrast, Dr. Morin's proposed flotation cost adjustment is not based on AmerenUE's known, measurable, prudent, and reasonable common stock flotation costs. Rather, it is based on a general study of market flotation costs that may or may not have any relationship to AmerenUE's actual cost of issuing stock to the public. Indeed, Dr. Morin acknowledges that AmerenUE is not a publicly traded company, and therefore it is unclear what, if any, AmerenUE's common stock flotation cost expenses might be. Further, while AmerenUE receives its incremental equity capital from its parent company, it is not clear whether that equity capital is being funded by public common stock issuances, debt issuances, or internally generated funds. Hence, it simply is not known and measurable what, if any, common stock flotation costs should be properly allocated to AmerenUE and should be reflected in its cost of service in this proceeding. For these reasons, Dr. Morin's proposed flotation cost adjustment is not based on known and measurable expenses and should be rejected.

Q DOES THIS CONCLUDE YOUR REBUTTALTESTIMONY?

A Yes, it does.

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AmerenUE

S&P Integrated Electric Utility Proxy Group
Value Line Beta

Line	Company	Morin Direct[1] (1)	Current[2] (2)
1	ALLETE	0.95	0.85
2	Alliant Energy	0.80	0.80
3	Amer. Elec. Power	0.95	0.85
4	Ameren Corp.	0.80	0.80
5	Cleco Corp.	1.15	0.90
6	CMS Energy Corp.	1.35	0.95
7	DPL Energy Corp.	0.85	0.75
8	DTE Energy	0.80	0.75
9	Edison Int'l	0.85	0.90
10	Empire Dist. Elec.	0.85	0.80
11	Energy East Corp.	0.80	0.65
12	Entergy Corp.	0.85	0.80
13	FPL Group	0.75	0.80
14	Hawaiian Elec.	0.75	0.75
15	IDACORP Inc.	0.95	0.90
16	MGE Energy	0.95	0.85
17	Northeast Utilities	0.80	0.75
18	PG&E Corp.	0.85	0.85
19	Pinnacle West Capital	0.80	0.80
20	PNM Resources	0.90	0.85
21	Portland General	N/A	0.80
22	Progress Energy	0.85	0.75
23	Puget Energy Inc.	0.90	0.80
24	Southern Co.	0.70	0.65
25	TECO Energy	0.95	0.85
26	UniSource Energy	0.60	0.75
27	Westar Energy	0.85	0.85
28	Wisconsin Energy	0.85	0.75
29	Xcel Energy Inc.	0.80	0.80
30	**Average**	**0.87**	**0.81**

Sources:

[1] Morin Schedule RAM-E2-1.

[2] *The Value Line Investment Survey* ; August 8, August 29, and September 26, 2008.

AmerenUE

Moody's Electric Utility Proxy Group
Value Line Beta

Line	Company	Morin Direct[1] (1)	Current[2] (2)
1	Amer. Elec. Power	0.95	0.85
2	CH Energy Group	0.90	0.90
3	Consol. Edison	0.75	0.75
4	Constellation Energy	0.85	0.85
5	Dominion Resources	0.75	0.75
6	DPL Inc.	0.85	0.75
7	DTE Energy	0.80	0.75
8	Duke Energy	N/A	N/A
9	Energy East Cor.	0.80	0.65
10	Exelon Corp	0.90	0.85
11	FirstEnergy Corp.	0.85	0.75
12	IDACORP Inc.	0.95	0.90
13	NiSource Inc.	0.90	0.80
14	OGE Energy	0.85	0.85
15	PPL Corp.	0.90	0.85
16	Progress Energy	0.85	0.75
17	P.S. Enterprise	0.95	0.85
18	Southern Co.	0.70	0.65
19	TECO Energy	0.95	0.85
20	Xcel Energy Inc.	0.80	0.80
21	**Average**	**0.86**	**0.80**

Sources:

[1] Morin Schedule RAM-E2-2.

[2] *The Value Line Investment Survey* ; August 8, August 29, and September 26, 2008.

AmerenUE

Two-Stage DCF
Summary

Line	Proxy Group	Recent Price (1)	Annual Dividend (2)	Projected Growth (3)	Adjusted Dividend Yield (4)	Second Stage Growth (5)	Two-Stage Growth DCF (6)
1	S&P Integrated Electric Utilities - Value Line Growth Rates	$35.84	$1.42	5.82%	4.50%	4.90%	9.49%
2	S&P Integrated Electric Utilities - Zacks Growth Rates	$36.19	$1.42	6.95%	4.52%	4.90%	9.68%
3	Moody's Electric Utilities - Value Line Growth Rates	$42.73	$1.60	6.58%	4.33%	4.90%	9.39%
4	Moody's Electric Utilities - Zacks Growth Rates	$41.70	$1.53	7.52%	4.32%	4.90%	9.53%
5	**Average**	**$39.11**	**$1.49**	**6.72%**	**4.42%**	**4.90%**	**9.52%**

Source: Schedule MPG-R-2, Pages 2 to 5.

AmerenUE

Two-Stage DCF
S&P Integrated Electric Utilities
Value Line Growth Rates

Line	Proxy Group[1]	Recent Price[2]	Annual Dividend[2]	Projected Growth[1]	Adjusted Dividend Yield	Second Stage Growth[3]	Two-Stage Growth DCF
		(1)	(2)	(3)	(4)	(5)	(6)
1	ALLETE	$45.15	$1.72	8.00%	4.11%	4.90%	9.47%
2	Alliant Energy	$37.06	$1.40	5.50%	3.99%	4.90%	8.97%
3	Amer. Elec. Power	$42.61	$1.64	6.50%	4.10%	4.90%	9.23%
4	Ameren Corp.	$43.39	$2.54	3.00%	6.03%	4.90%	10.56%
5	Cleco Corp.	$24.58	$0.90	6.50%	3.90%	4.90%	9.02%
6	CMS Energy Corp.	$15.76	$0.36	8.50%	2.48%	4.90%	7.70%
7	DPL Inc.	$28.14	$1.10	10.50%	4.32%	4.90%	10.10%
8	DTE Energy	$44.04	$2.12	4.00%	5.01%	4.90%	9.75%
9	Edison Int'l	$48.32	$1.22	6.50%	2.69%	4.90%	7.73%
10	Empire District Elec.	$19.96	$1.28	8.50%	6.96%	4.90%	12.70%
11	Energy East Corp.	$24.72	$1.24	0.50%	5.04%	4.90%	9.22%
12	Entergy Corp.	$120.03	$3.00	9.50%	2.74%	4.90%	8.10%
13	FPL Group	$65.70	$1.78	11.00%	3.01%	4.90%	8.60%
14	Hawaiian Electric	$24.51	$1.24	1.50%	5.14%	4.90%	9.46%
15	IDACORP Inc.	$29.90	$1.20	2.00%	4.09%	4.90%	8.59%
16	MGE Energy	$35.00	$1.42	6.50%	4.32%	4.90%	9.46%
17	Northeast Utilities	$26.19	$0.85	17.00%	3.81%	4.90%	10.53%
18	PG&E Corp.	$37.31	$1.56	4.50%	4.37%	4.90%	9.21%
19	Pinnacle West Capital	$32.11	$2.10	1.50%	6.64%	4.90%	10.82%
20	PNM Resources	$11.25	$0.92	2.50%	8.38%	4.90%	12.66%
21	Progress Energy	$42.51	$2.46	3.50%	5.99%	4.90%	10.61%
22	Puget Energy Inc.	$27.04	$1.00	6.00%	3.92%	4.90%	8.97%
23	Southern Co.	$36.85	$1.68	3.00%	4.70%	4.90%	9.30%
24	TECO Energy	$19.52	$0.80	4.50%	4.28%	4.90%	9.12%
25	UniSource Energy	$30.78	$0.96	4.00%	3.24%	4.90%	8.03%
26	Westar Energy	$23.37	$1.16	4.50%	5.19%	4.90%	10.02%
27	Wisconsin Energy	$47.73	$1.08	8.00%	2.44%	4.90%	7.61%
28	Xcel Energy Inc.	$19.89	$0.95	5.50%	5.05%	4.90%	10.05%
29	**Average**	**$35.84**	**$1.42**	**5.82%**	**4.50%**	**4.90%**	**9.49%**

Sources:

[1] Schedule RAM-E5-2.

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

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

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Two-Stage DCF
S&P Integrated Electric Utilities
Zacks Growth Rates

Line	Proxy Group[1]	Recent Price[2] (1)	Annual Dividend[2] (2)	Projected Growth[1] (3)	Adjusted Dividend Yield (4)	Second Stage Growth[3] (5)	Two-Stage Growth DCF (6)
1	ALLETE	$45.15	$1.72	5.00%	4.00%	4.90%	8.91%
2	Alliant Energy	$37.06	$1.40	6.00%	4.00%	4.90%	9.06%
3	Amer. Elec. Power	$42.61	$1.64	5.40%	4.06%	4.90%	9.03%
4	Ameren Corp.	$43.39	$2.54	5.00%	6.15%	4.90%	11.07%
5	Cleco Corp.	$24.58	$0.90	9.50%	4.01%	4.90%	9.58%
6	CMS Energy Corp.	$15.76	$0.36	7.30%	2.45%	4.90%	7.55%
7	DPL Inc.	$28.14	$1.10	8.00%	4.22%	4.90%	9.59%
8	DTE Energy	$44.04	$2.12	6.00%	5.10%	4.90%	10.19%
9	Edison Int'l	$48.32	$1.22	10.30%	2.78%	4.90%	8.25%
10	Energy East Corp.	$24.72	$1.24	3.00%	5.17%	4.90%	9.74%
11	Entergy Corp.	$120.03	$3.00	13.30%	2.83%	4.90%	8.66%
12	FPL Group	$65.70	$1.78	10.60%	3.00%	4.90%	8.54%
13	Hawaiian Electric	$24.51	$1.24	4.50%	5.29%	4.90%	10.12%
14	IDACORP Inc.	$29.90	$1.20	5.00%	4.21%	4.90%	9.13%
15	Northeast Utilities	$26.19	$0.85	12.70%	3.67%	4.90%	9.65%
16	PG&E Corp.	$37.31	$1.56	8.50%	4.54%	4.90%	10.02%
17	Pinnacle West Capital	$32.11	$2.10	6.70%	6.98%	4.90%	12.29%
18	PNM Resources	$11.25	$0.92	5.80%	8.65%	4.90%	13.80%
19	Portland General	$23.28	$0.98	7.00%	4.50%	4.90%	9.74%
20	Progress Energy	$42.51	$2.46	4.60%	6.05%	4.90%	10.89%
21	Puget Energy Inc.	$27.04	$1.00	5.50%	3.90%	4.90%	8.88%
22	Southern Co.	$36.85	$1.68	4.60%	4.77%	4.90%	9.62%
23	TECO Energy	$19.52	$0.80	7.30%	4.40%	4.90%	9.67%
24	Westar Energy	$23.37	$1.16	4.50%	5.19%	4.90%	10.02%
25	Wisconsin Energy	$47.73	$1.08	9.40%	2.48%	4.90%	7.79%
26	Xcel Energy Inc.	$19.89	$0.95	5.20%	5.04%	4.90%	9.99%
27	**Average**	**$36.19**	**$1.42**	**6.95%**	**4.52%**	**4.90%**	**9.68%**

Sources:

[1] Schedule RAM-E6-2.

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

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

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Two-Stage DCF
Moody's Electric Utilities
Value Line Growth Rates

Line	Proxy Group[1]	Recent Price[2] (1)	Annual Dividend[2] (2)	Projected Growth[1] (3)	Adjusted Dividend Yield (4)	Second Stage Growth[3] (5)	Two-Stage Growth DCF (6)
1	Amer. Elec. Power	$42.61	$1.64	6.50%	4.10%	4.90%	9.23%
2	CH Energy Group	$37.99	$2.16	3.00%	5.86%	4.90%	10.39%
3	Consol. Edison	$41.81	$2.34	4.00%	5.82%	4.90%	10.55%
4	Constellation Energy	$85.65	$1.91	15.50%	2.58%	4.90%	8.58%
5	Dominion Resources	$46.37	$1.58	9.50%	3.73%	4.90%	9.26%
6	DPL Inc.	$28.14	$1.10	10.50%	4.32%	4.90%	10.10%
7	DTE Energy	$44.04	$2.12	4.00%	5.01%	4.90%	9.75%
8	Energy East Corp.	$24.72	$1.24	0.50%	5.04%	4.90%	9.22%
9	Exelon Corp.	$88.42	$2.00	10.50%	2.50%	4.90%	7.93%
10	FirstEnergy Corp.	$78.84	$2.20	9.00%	3.04%	4.90%	8.40%
11	IDACORP Inc.	$29.90	$1.20	2.00%	4.09%	4.90%	8.59%
12	NiSource Inc.	$17.29	$0.92	2.50%	5.45%	4.90%	9.92%
13	OGE Energy	$33.27	$1.39	5.50%	4.41%	4.90%	9.40%
14	PPL Corp.	$50.05	$1.34	14.00%	3.05%	4.90%	9.04%
15	Progress Energy	$42.51	$2.46	3.50%	5.99%	4.90%	10.61%
16	Public Serv. Enterprise	$43.91	$1.29	11.50%	3.28%	4.90%	9.00%
17	Southern Co.	$36.85	$1.68	3.00%	4.70%	4.90%	9.30%
18	TECO Energy	$19.52	$0.80	4.50%	4.28%	4.90%	9.12%
19	Xcel Energy Inc.	$19.89	$0.95	5.50%	5.05%	4.90%	10.05%
20	**Average**	**$42.73**	**$1.60**	**6.58%**	**4.33%**	**4.90%**	**9.39%**

Sources:

[1] Schedule RAM-E7-2.

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

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

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Two-Stage DCF
Moody's Electric Utilities
Zacks Growth Rates

Line	Proxy Group[1]	Recent Price[2] (1)	Annual Dividend[2] (2)	Projected Growth[1] (3)	Adjusted Dividend Yield (4)	Second Stage Growth[3] (5)	Two-Stage Growth DCF (6)
1	Amer. Elec. Power	$42.61	$1.64	5.40%	4.06%	4.90%	9.03%
2	Consol. Edison	$41.81	$2.34	3.20%	5.78%	4.90%	10.35%
3	Constellation Energy	$85.65	$1.91	18.00%	2.63%	4.90%	8.97%
4	Dominion Resources	$46.37	$1.58	11.50%	3.80%	4.90%	9.64%
5	DPL Inc.	$28.14	$1.10	8.00%	4.22%	4.90%	9.59%
6	DTE Energy	$44.04	$2.12	6.00%	5.10%	4.90%	10.19%
7	Duke Energy	$18.59	$0.88	6.00%	5.02%	4.90%	10.11%
8	Energy East Corp.	$24.72	$1.24	3.00%	5.17%	4.90%	9.74%
9	Exelon Corp.	$88.42	$2.00	12.00%	2.53%	4.90%	8.13%
10	FirstEnergy Corp.	$78.84	$2.20	7.50%	3.00%	4.90%	8.18%
11	IDACORP Inc.	$29.90	$1.20	5.00%	4.21%	4.90%	9.13%
12	NiSource Inc.	$17.29	$0.92	2.80%	5.47%	4.90%	9.99%
13	OGE Energy	$33.27	$1.39	4.00%	4.35%	4.90%	9.12%
14	PPL Corp.	$50.05	$1.34	10.30%	2.95%	4.90%	8.45%
15	Progress Energy	$42.51	$2.46	4.60%	6.05%	4.90%	10.89%
16	Public Serv. Enterprise	$43.91	$1.29	18.50%	3.49%	4.90%	10.31%
17	Southern Co.	$36.85	$1.68	4.60%	4.77%	4.90%	9.62%
18	TECO Energy	$19.52	$0.80	7.30%	4.40%	4.90%	9.67%
19	Xcel Energy Inc.	$19.89	$0.95	5.20%	5.04%	4.90%	9.99%
20	**Average**	**$41.70**	**$1.53**	**7.52%**	**4.32%**	**4.90%**	**9.53%**

Sources:

[1] Schedule RAM-E8-2.

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

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