Exhibit No.:
Witness: Michael Gorman
Type of Exhibit: Direct Testimony
Issues: Revenue Requirement
Sponsoring Party: Missouri Industrial Energy Consumers
Case No.: ER-2010-0036

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Union Electric Company, d/b/a AmerenUE's Tariffs to Increase Its Annual Revenues for Electric Service	)))))	**Case No. ER-2010-0036** Tariff Nos. YE-2010-0054 and YE-2010-0055

Direct Testimony and Schedules of

Michael Gorman

On behalf of

Missouri Industrial Energy Consumers

December 18, 2009

BRUBAKER & ASSOCIATES, INC.
CHESTERFIELD, MO 63017

Project 9187

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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 direct testimony and schedules which were prepared in written form for introduction into evidence in Missouri Public Service Commission Case No. ER-2010-0036.

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 17th day of December, 2009.

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

Notary Public

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Direct 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 WHAT IS YOUR OCCUPATION?

A I am a consultant in the field of public utility regulation and a managing principal with the firm of Brubaker & Associates, Inc., energy, economic, and regulatory consultants.

Q PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A These are set forth in Appendix A of my testimony.

Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

A This testimony is presented on behalf of the Missouri Industrial Energy Consumers (MIEC). These companies purchase substantial quantities of electricity from AmerenUE (Company), principally at the primary and transmission voltage levels.

Their cost of electricity would increase approximately 18% if AmerenUE were granted the full amount of the increase which it has requested. The outcome of this proceeding will have a substantial impact on these companies' cost of doing business, and thus they are vitally interested in the outcome.

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

A I will recommend a fair return on common equity and an overall rate of return for AmerenUE.

Q PLEASE SUMMARIZE YOUR RATE OF RETURN RECOMMENDATIONS.

A I recommend the Missouri Public Service Commission (Commission) award AmerenUE a return on common equity of 10.0%. My recommended return on equity is at the midpoint of my estimated range of 9.5% to 10.5%. Based on this recommended return on equity, I recommend an overall rate of return of 7.87% for AmerenUE, as shown on Schedule MPG-1.

Q HOW DID YOU ESTIMATE AMERENUE'S COST OF EQUITY?

A My recommended return on equity for AmerenUE is based on a Discounted Cash Flow (DCF), a Risk Premium (RP), and a Capital Asset Pricing Model (CAPM) analyses.

I demonstrate that my recommended return on equity and proposed capital structure for AmerenUE will provide AmerenUE with an opportunity to realize cash flow financial coverages and balance sheet strength that conservatively support AmerenUE's current bond rating. Consequently, my recommended return on equity

represents fair compensation for AmerenUE's investment risk, and it will preserve AmerenUE's financial integrity and credit standing.

Q IN AMERENUE'S LAST RATE CASE, CASE NO. ER-2008-0318, DID THE COMMISSION IDENTIFY CERTAIN CONSIDERATIONS FOR ESTABLISHING A FAIR RETURN ON EQUITY FOR AMERENUE?

A Yes. In the last case, the Commission stated that it would consider the authorized returns on equity awarded to other integrated electric utility companies around the country and would consider quarterly compounding in estimating a DCF return estimate. I discuss each of these issues in detail in support of my recommended return on equity of 10.0%.

To summarize, the industry authorized return on equity is toward the high end of my estimated range for AmerenUE in this case. However, I believe improvements to capital markets for AmerenUE, and the need to mitigate the revenue increase in this proceeding in order to soften the rate increase impact on AmerenUE's customers, support awarding a return on equity at the midpoint of my estimated range, rather than at the high end of my estimated range.

Further, I explain why adjusting the DCF results for the quarterly compounding return does not accurately measure AmerenUE's cost of common equity and will provide investors with the opportunity to earn the reinvestment return produced through payment of dividends on a quarterly basis twice; first, through the increase in the authorized return on equity, and second, after the dividends are paid and reinvested in other investments of comparable risk and return. The reinvestment return does not represent a cost to AmerenUE, and should not be included in its authorized return on equity.

Q HOW DOES YOUR AUTHORIZED RETURN ON EQUITY COMPARE TO AMERENUE'S LAST AUTHORIZED RETURN ON EQUITY?

A In its last rate case, where rates went into effect March of 2009, AmerenUE was awarded a return on equity of 10.76%. (Case No. ER-2008-0318; January 27, 2009). In its rate case prior to that, AmerenUE was awarded a return on equity of 10.20%. Rates in that proceeding went into effect on July 23, 2007. (Case No. ER-2007-0002, May 22, 2007).

AmerenUE's authorized returns on equity in the last two cases have consistently been at the high end of the range I found to be reasonable, or even slightly above my estimated cost of equity range. Further, I believe declines in capital market costs for low-risk investments such as regulated utility companies like AmerenUE justify a lower return on equity in this case relative to AmerenUE's last two rate cases. In addition, while my recommended return on equity is lower than AmerenUE has been awarded in its last two rate cases, I believe this is reasonable given the challenging financial condition AmerenUE's customers are in given the difficult economic times, and also represents fair compensation as estimated below.

Q DO YOU BELIEVE MARKET COSTS OF CAPITAL FOR AMERENUE ARE LOWER IN THIS CASE RELATIVE TO ITS LAST TWO RATE CASES?

A Yes. Market costs of capital in this rate case are lower than the cost of capital that existed at the time of AmerenUE's last two rate cases. This is illustrated by a comparison of bond yields in this case to the bond yields I used in AmerenUE's last two rate cases, to estimate its authorized return on equity. This is shown below in Table 1.

TABLE 1

Capital Costs – AmerenUE Rate Cases

Description	Current Case[1]	ER-2008-0318[2]	ER-2007-0002[3]
"A" Rated Utility Bond Yields	5.57%	6.38%	6.00%
"Baa" Rated Utility Bond Yields	6.16%	6.95%	6.26%
13-Week Period Ending	11/20/2009	08/15/2008	11/10/2006

Sources:
[1]Schedule MPG-2, page 1.
[2]Schedule MPG-2, page 2.
[3]Schedule MPG-2, page 3.

As shown in the table above, the current market cost of debt for "A" and Baa" rated utility bond yields has decreased in this case relative to AmerenUE's last two rate cases. The current "A" rated utility bond yield is 5.57%, and this is lower than the 6.38% and 6.00% in AmerenUE's last two rate cases. Also, the current "Baa" utility bond yield is 6.16%, which is lower than the 6.95% and 6.26% "Baa" utility bond yields that existed in AmerenUE's last two rate cases, respectively. Based on this evidence, I conclude that cost of capital for AmerenUE in this case is lower than it has been in its last two rate cases.

Q DIDN'T THE GLOBAL FINANCIAL CRISIS (GFC) IN THE SECOND HALF OF 2008 SIGNIFICANTLY INCREASE COST OF CAPITAL IN THE MARKET?

A It did temporarily but utility security values have recovered. Please refer to the utility and Treasury bond yield graph (Schedule MPG-2, page 4). As shown on this graph, during the last two quarters of 2008 and the first quarter of 2009, utility bond yields increased significantly. Also, Treasury bond yields decreased during this same period of time. During this time of severe economic distress, the spread between

utility bond yields and Treasury bond yields widened dramatically (yield spreads are shown on page 5) and the market exhibited a flight to quality. This was a difficult time for corporate issuers including utility companies. More recent data shows that utility bond yields have recovered dramatically and utility bond yield spreads to Treasury securities have declined to more normal levels.

Q HOW DO YOU RECOMMEND THE COMMISSION USE THIS INFORMATION ON A COMPARISON OF CAPITAL MARKET COSTS IN THIS CASE RELATIVE TO AMERENUE'S LAST TWO RATE CASES?

A Recognizing today's low cost capital market environment, the Commission should award AmerenUE a return on equity that reflects fair compensation for its operating and financial risks, while at the same time minimizing the rate increase necessary to provide fair compensation to AmerenUE and recover its cost of service.

In so doing the Commission should give strong consideration to the economic hardships imposed on AmerenUE's customers in today's difficult economic climate. While the economy has not yet recovered from the GFC, the capital markets have recovered from the severe conditions that took place in late 2008 and early 2009.

This is a balanced approach to ensure that rates are increased no more than necessary to fully recover prudent and reasonable costs, and also provide fair compensation.

Industry Overview

Q PLEASE DESCRIBE THIS SECTION OF YOUR TESTIMONY.

A In this section of my testimony I review the industry authorized returns on equity, current credit rating and investment return performance of the electric utility industry.

Based on the assessments discussed below, I find the credit rating outlook of the industry to be strong and supportive of the industry's financial integrity. Further, electric utilities' stocks have exhibited strong return performance and are again characterized as a safe investment.

Q DID YOU REVIEW INDUSTRY AUTHORIZED RETURNS ON EQUITY IN ESTIMATING WHAT YOU BELIEVE TO BE A FAIR RATE OF RETURN FOR AMERENUE IN THIS CASE?

A Yes. As shown on my Schedule MPG-3, I show industry average authorized returns on equity for electric utility companies over the last five years. I also reviewed the credit rating history, and stock investment returns for the industry over that same period. Industry authorized returns on equity have averaged approximately 10.4% from 2006 to date, and have averaged approximately 10.5% over the last 5 to 6 years.

These authorized returns on equity have supported investment grade credit ratings for the electric utility industry and robust stock price performance over the last five years. Indeed, electric utility stocks have outperformed the overall marketplace during this time period.

Q PLEASE DESCRIBE THE ELECTRIC UTILITIES' CREDIT RATING OUTLOOK.

A Standard & Poor's (S&P) provided an assessment of the credit rating of U.S. electric utilities for the first quarter 2009. S&P's commentary included the following:

> Against a strong headwind in the credit markets, the regulated U.S. electric utility sector performed well during the first quarter of 2009. Highlights include continued capital market access with robust debt issuance by operating companies in this quarter. March 2009 issuance volume exceeded the combined first two months of 2009; through the first quarter of 2009 issuance exceeded $16 billion, about

25% more than the same 2008 period. Several companies have proactively prefunded issuance in advance of maturities, taking advantage of investor appetite and favorable spreads as compared to investment-grade issuers in other sectors.

In response to recessionary pressures and slowing demand, many companies have pared back discretionary spending and growth plans. This moderating of capital expenditure programs should ease some balance sheet and liquidity burden.

* * *

Our forecast for the electric sector is for a stable ratings trend for the balance of 2009. Currently, more than three-quarters of rated entities have stable outlooks with the average rating at 'BBB'. The depth of the recession in certain pockets of the U.S. economy, combined with weaker cash flow measures and ballooning debt balances, may cause credit deterioration on the margin for some, but we expect the majority of electric companies to maintain current ratings in 2009. Our forecast incorporates expectations of responsive regulatory decision making, continued demand by investors for utility operating company debt, ample liquidity access provided by bank lines, and moderate capital expenditures. On the horizon, future capital needs to improve reliability, integrated renewable resources, and potentially address carbon emissions limit upward rating momentum for the near term.[1]

Further, Moody's also acknowledges the following for the electric utility industry in its report. Moody's states:

Overview

The U.S. investor-owned electric utility sector enjoys solid credit metrics and the fundamental credit outlook remains stable. In general, state regulators continue to let the utilities recover prudently incurred operating costs and capital expenditures relatively quickly, and with reasonable rates of return. Moreover, we believe state regulators would otherwise prefer to regulate financially healthy companies.

The sector is also well positioned relative to many other corporate/industrial sectors, primarily due to the fundamental business plan: providing monopolistic electric service within a designated service territory in exchange for oversight and limitations on profitability. However, we are increasingly concerned with business and operating risks, which are not new but appear to be accelerating faster than previously understood. These business and operating risks include potential environmental legislation from the Obama Administration; the continued capital investment needs for refurbishing

[1]Standard & Poor's RatingsDirect: "Industry Report Card: U.S. Electric Utility Sector Performed Well In First Quarter Of 2009," March 30, 2009 (emphasis added).

aging infrastructure; and a potentially more contentious regulatory relationship amid a protracted or severe recession.[2]

Similarly, Fitch states:

> **Overview**
>
> The U.S. Utilities, Power, and Gas (UPG) sector 2010 outlook is framed in the context of Fitch Ratings' outlook for a slow U.S. economic recovery in 2010, with stable outlooks for most of the business segments within the UPG universe except for negative 2010 credit outlook for competitive generators and retail propane distributors.
>
> * * *
>
> **Resilient Performance in 2009**
>
> Companies in the UPG sector weathered the recession and financial crisis of 2008–2009 with considerably less pain than sectors such as financial institutions, cyclical industrials, and retailers. The absence of significant defaults in the sector is in stark contrast to the upswing in defaults and bankruptcy filings across the rest of the U.S. economy, consistent with the defensive reputation of the sector.
>
> In general, companies in the UPG sector entered 2009 in reasonably sound financial condition; some drew down their bank credit facilities during the banking crisis in late 2008 and repaid the loans as the bank and financial markets stabilized during 2009.[3]

As noted by S&P, Moody's and Fitch above, the regulated electric utility industry is maintaining strong investment grade credit and is well positioned to weather the current economic downturn. Therefore, reasoned and rational adjustments to AmerenUE's rates should attempt to provide fair compensation, but also support AmerenUE's competitive rate position and service area economy.

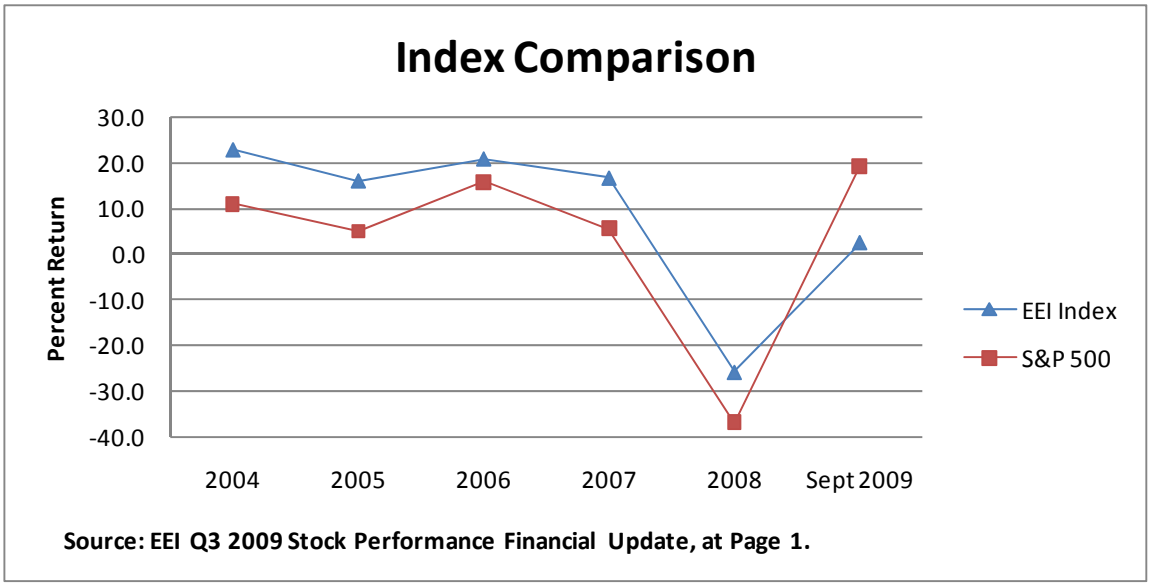
[2]Moody's Investors Service Industry Outlook: "U.S. Investor-Owned Electric Utilities," January 2009 (emphasis added).

[3]Fitch Ratings: "U.S. Utilities, Power and Gas 2010 Outlook," December 4, 2009.

Q PLEASE DESCRIBE ELECTRIC UTILITY STOCK PRICE PERFORMANCE OVER THE LAST FIVE YEARS.

A As shown in Figure 1 below, the Edison Electric Institute (EEI) has recorded electric utility stock price performance compared to the market. The EEI data shows that its Electric Utility Index has outperformed the market over the last five years (2004-2008). Again, this strong stock performance indicates commission-authorized returns on equity over the last several years have been positively received by the market.

FIGURE 1



Source: EEI Q3 2009 Stock Performance Financial Update, at Page 1.

During the first three quarters of 2009, the EEI Index underperformed the market, which is not unusual for stocks that are considered "safe havens" during periods of market turbulence. In fact, the EEI states the following:

> Given the bullish turn in the markets since March, the EEI Index's underperformance of the major averages in 2009 is not surprising. Defensive stocks typically lag early in market rebounds coming out of recession, and the EEI Index had delivered a five-year run of beating broad market returns (from 2004 through 2008). As in the second quarter, the stock market's biggest gainers in the third were often the financially weaker and more speculative issues that had fallen hardest

> in the market downturn and beaten-down cyclical companies benefitting from a prospective return to global economic growth.
>
> * * *
>
> The Utility sector – with its conservative, stable business models and large regulated asset base – suffered less in the crushing bear market than did many other industries, and has predictably trailed those that bounced off very depressed bear market lows.[4]

Q HAS ELECTRIC UTILITY STOCK PERFORMANCE SUPPORTED THE NOTION THAT ELECTRIC UTILITY STOCKS ARE LOW-RISK INVESTMENTS?

A Yes. While clearly the market performance for all securities was poor throughout 2008 and 2009, one positive signal from the market performance is the fact that electric utility stocks and bonds have continued to be perceived by the market as "safe" investments. Indeed, during times of market duress, the market generally exhibits a "flight to quality," and lower-risk securities generally perform better than the overall market and higher-risk securities. This has happened throughout the last year. For example, EEI noted the following concerning electric utility stock performance in 2008:

> **Flight to Safety**
>
> The relatively stronger performance of utility stocks in both the quarter and the year offers a classic illustration of their traditional role as a defensive investment in times of market stress. In a weakening economy, investors are drawn to the relative stability offered by utilities' dividend yields and more predictable earnings (in comparison with other sectors of the economy), made possible by the essential role that electricity plays in the lives of Americans at work and at home compared to other, more optional products and services.
>
> Indeed, the comparative category returns shown in Charts II and VIII highlight the theme that dividend stability and earnings predictability – generally most associated with the regulated utility business model – translated into better stock market performance in 2008. The Regulated group's -5.9% return in the fourth quarter was about 8 percentage points better than the Mostly Regulated group's

[4] *EEI Q3 2009 Financial Update*.

> -14.0% return, which in turn was slightly better than the Diversified group's -17.0% return. The Regulated group, with a -15.6% return for the year as a whole, also outperformed the Mostly Regulated group's -27.0% return and the Diversified group's -33.9% return for the year.[5]

This stock price performance again supports the notion that regulated electric utilities are perceived by the market as safe haven investments, which will help support their access to capital during difficult financial times. This is clearly evident through a review of their stable credit outlook and stable stock prices, relative to the securities of non-regulated companies.

AMERENUE'S CREDIT STANDING

Q PLEASE SUMMARIZE AMERENUE'S CURRENT CREDIT STANDING.

A AmerenUE is owned by Ameren Corp. AmerenUE's current corporate bond rating from S&P and Moody's is "BBB-" and "Baa2," respectively. AmerenUE's current senior secured credit rating from S&P and Moody's is "BBB" and "A3," respectively.[6] Recent comments from S&P and Moody's concerning AmerenUE's credit position include the following:

S&P:

> The ratings on Union Electric Co. (UE) reflect Ameren Corp.'s consolidated credit profile. UE's ratings also reflect its excellent business profile and Ameren's significant financial profile. Ameren's subsidiaries also consist of utilities, Central Illinois Public Service Co., Central Illinois Light Co. (CILCO; a subsidiary of CILCORP Inc.), and Illinois Power Co. Ameren's unregulated businesses include Ameren Energy Generating Co. and Ameren Energy Resources Generating Co. (a subsidiary of CILCO). Ameren also has an 80% ownership of Electric Energy, Inc., which operates non-rate-regulated electric generation facilities. As of June 30, 2009, Ameren had about $8.4 billion of total debt outstanding. Based on the combination of future earnings, cash flow, and capital expenditures, we currently view Ameren as about 60% regulated and 40% unregulated.

[5] "Stock Performance," EEI *Q4 2008 Financial Update* at 4-5.
[6] Ameren Corporation 10-Q for the period ending September 30, 2009.

In most circumstances, Standard & Poor's will not rate a wholly owned subsidiary higher than the parent. Exceptions can be made on the basis of structural or regulatory insulation, which in the case of UE, in our view, is not present. Therefore, regardless of UE's excellent business profile and relatively healthy financial condition as a stand-alone basis, Standard & Poor's views the rating on UE to be affected by Ameren's non-regulated businesses.

UE's excellent business profile reflects the more recent constructive regulatory order in Missouri that approved an annual electric rate increase of $162 million and also approved a fuel adjustment clause that will allow for the recovery of 95% of the company's fuel and purchase power expenses (after netting for off system sales revenue). Although we recognize that the past winter's ice storms and the ongoing recession will continue to have an impact on the company's load growth and cash flow measures, nevertheless, we view the overall regulatory environment in Missouri as a credit enhancing situation compared to several years ago.[7]

Moody's:

AmerenUE's credit rating reflects financial metrics that have declined in recent years but are expected to stabilize in the mid-Baa rating range going forward. The company's ratings also consider higher operating costs, growing capital expenditures for environmental compliance and transmission and distribution system reliability, and the higher debt levels being incurred to finance these investments. The ratings also reflect a recently constructive rate case decision, including approval of a fuel adjustment clause, a positive indication that the regulatory environment for investor-owned utilities in Missouri has improved.[8]

Q HOW DID YOU USE THIS INFORMATION IN ASSESSING AMERENUE'S INVESTMENT RISK AND TO ESTIMATE ITS CURRENT MARKET RETURN ON EQUITY?

A I carefully considered the credit opinions of S&P and Moody's in assessing AmerenUE's current investment risk and outlooks. Specifically, I recognized that

[7]Standard & Poor's RatingsDirect: "Union Electric Co. d/b/a AmerenUE," August 27, 2009, emphasis added.

[8]Moody's Investors Service Credit Opinion: "Union Electric Company," August 17, 2009.

S&P's operating risk assessment of AmerenUE is negatively impacted by AmerenUE's affiliation with its higher risk parent company.

Moody's credit rating, on the other hand, is primarily focused on AmerenUE's stand-alone financial and operating risk. Moody's concluded that AmerenUE's credit metrics have stabilized in the mid "Baa" category, which supports its corporate credit rating, and that it finds the regulatory treatment for AmerenUE to reflect constructive regulatory decisions, and stated approvingly of the adoption of a fuel adjustment clause. These actions supported Moody's decision to include AmerenUE's senior secured debt in an industry-wide upgrade on August 3, 2009. At that time, Moody's upgraded what it stated to be a majority of senior secured debt for utility companies by one notch. AmerenUE was included in that group of utility companies with upgraded senior secured debt ratings.

AMERENUE'S PROPOSED CAPITAL STRUCTURE

Q WHAT CAPITAL STRUCTURE IS THE COMPANY REQUESTING TO USE TO DEVELOP ITS OVERALL RATE OF RETURN FOR ELECTRIC OPERATIONS IN THIS PROCEEDING?

A AmerenUE's proposed capital structure, as supported by AmerenUE's witness Mr. Michael O'Bryan, is shown below in Table 2.

TABLE 2

AmerenUE's Proposed Capital Structure
(March 31, 2009)

Description	Percent of Total Capital
Long-Term Debt	51.008%
Short-Term Debt	0.000%
Preferred Stock	1.600%
Common Equity	47.392%
Total Regulatory Capital Structure	100.000%

Source: Schedule MGO-E1.

Q DO YOU RECOMMEND ANY ADJUSTMENTS TO THE CAPITAL STRUCTURE PROPOSED BY MR. O'BRYAN TO SET AMERENUE'S RATES IN THIS PROCEEDING?

A No. Mr. O'Bryan's proposed capital structure is consistent with the capital structures authorized by other regulatory jurisdictions and it will allow AmerenUE to maintain its financial integrity.

Return on Common Equity

Q PLEASE DESCRIBE WHAT IS MEANT BY A "UTILITY'S COST OF COMMON EQUITY."

A A utility's cost of common equity is the return investors require on an investment in the utility. Investors expect to achieve their return requirement from receiving dividends and stock price appreciation.

Q PLEASE DESCRIBE THE FRAMEWORK FOR DETERMINING A REGULATED UTILITY'S COST OF COMMON EQUITY.

A In general, determining a fair cost of common equity for a regulated utility has been framed by two decisions of the U.S. Supreme Court: *Bluefield Water Works & Improvement Co. v. Public Serv. Commission of West Virginia,* 262 U.S. 679 (1923) *and Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591 (1944).

These decisions identify the general standards to be considered in establishing the cost of common equity for a public utility. Those general standards provide that the authorized return should: (1) be sufficient to maintain financial integrity; (2) attract capital under reasonable terms; and (3) be commensurate with returns investors could earn by investing in other enterprises of comparable risk.

Q PLEASE DESCRIBE THE METHODS YOU HAVE USED TO ESTIMATE THE COST OF COMMON EQUITY FOR AMERENUE.

A I have used several models based on financial theory to estimate AmerenUE's cost of common equity. These models are: (1) a constant growth Discounted Cash Flow (DCF) model using analyst growth data; (2) a sustainable growth DCF model; (3) a multi-stage growth DCF model; (4) a Capital Asset Pricing Model (CAPM); and (5) a risk premium (RP) model. I have applied these models to a group of publicly traded utilities that I have determined have investment risk similar to AmerenUE.

Q HOW DID YOU SELECT A UTILITY PROXY GROUP SIMILAR IN INVESTMENT RISK TO AMERENUE TO ESTIMATE ITS CURRENT MARKET COST OF EQUITY?

A I relied on the same electric utility proxy group used by AmerenUE witness Dr. Morin to estimate AmerenUE's return on equity.

Q HOW DOES THE INTEGRATED ELECTRIC UTILITIES PROXY GROUP USED BY DR. MORIN AND YOU COMPARE TO THE INVESTMENT RISK OF AMERENUE?

A The Integrated Electric Utilities Proxy Group is shown on page 1 of Schedule MPG-4. This proxy group has an average senior secured credit rating from S&P of "A-," which is slightly higher than AmerenUE's credit rating. This proxy group's senior secured credit rating from Moody's is "A3," which is identical to AmerenUE's senior secured credit rating from Moody's. While the S&P bond rating of AmerenUE is somewhat below that of the proxy group, this bond rating is significantly impacted by AmerenUE's higher risk parent company. As a result, I believe this proxy group is reasonably risk comparable to AmerenUE's stand-alone risk based on a comparison of bond ratings.

The Integrated Electric Utilities Proxy Group has an average common equity ratio of 44.8% (including short-term debt) from AUS and 46.8% (excluding short-term debt) from *Value Line*. This proxy group's common equity ratio is comparable to AmerenUE's of 47.4%, excluding short-term debt. As such, this proxy group has comparable financial risk to AmerenUE.

I also compared AmerenUE's business risk to the business risk of my proxy group based on S&P's ranking methodology. AmerenUE has an S&P business risk profile of "Excellent," which is the same as the S&P business risk profile score of the proxy group. The S&P business profile score indicates AmerenUE's business risk is comparable to the proxy group.

S&P ranks the business risk of a utility company as part of its corporate credit rating review. S&P considers the total investment risk in assigning bond ratings to issuers, including utility companies. S&P's analysis considers both business risk and financial risk in assessing the total credit risk of a corporate entity, including utility

companies. S&P's business risk profile score is based on a six-notch credit rating starting with "Vulnerable" (highest risk) to "Excellent" (lowest risk). Most utility companies' business risk is ranked at the lowest risk categories of "Excellent" or one notch higher risk of "Strong."[9]

The EEI operating designation for most of the companies in the Integrated Electric Utilities Proxy Group is "Regulated" or "Mostly Regulated." Only two companies are designated as "Diversified." The average for all the companies is "Regulated," which indicates similar operating risk to that of AmerenUE.

Q PLEASE DESCRIBE EEI'S BUSINESS RISK ASSESSMENT OF ELECTRIC UTILITY COMPANIES.

A EEI rates publicly traded companies based on their relative exposure to regulated and non-regulated operating risk. EEI designates companies that have 80% or more of total assets in regulated operations "Regulated" entities. "Mostly Regulated" entities are those companies that have 50% to 80% of total assets in regulated operations. Finally, EEI rates companies with less than 50% of assets in regulated enterprises as "Diversified" companies.[10] EEI places publicly traded companies in three categories: "Regulated," "Mostly Regulated" and "Diversified."

The Comparable Risk Proxy Group is made up entirely of "Regulated" and "Mostly Regulated" companies as determined by EEI. There are no "Diversified" companies included in this proxy group. EEI's operating risk assessment of AmerenUE is "Regulated." Hence, the operating risk of this proxy group is comparable to that of AmerenUE.

[9]Standard & Poor's: "U.S. Regulated Electric Utilities Strongest to Weakest," November 30, 2007.

[10]EEI Dividends Q3 2009 Financial Update.

Based on this assessment, I believe the Integrated Electric Utilities Proxy Group has total investment risk that is reasonably comparable to AmerenUE.

Q HOW DOES THE S&P ELECTRIC UTILITIES PROXY GROUP INVESTMENT RISK USED BY DR. MORIN AND YOU COMPARE TO THAT OF AMERENUE?

A The S&P Electric Utilities Proxy Group is shown on page 2 of Schedule MPG-4. This proxy group has an average senior secured credit rating from S&P of "A-," which is higher than AmerenUE's credit rating. This proxy group's credit rating from Moody's is "A3," which is identical to AmerenUE's senior secured credit rating from Moody's. Again, as noted above, the S&P credit rating for AmerenUE does not reflect its current stand-alone credit rating; therefore, it does not suggest that AmerenUE has higher risk on a stand-alone basis relative to the proxy group. As a result, I believe this proxy group is reasonably risk comparable to AmerenUE based on a comparison of bond ratings.

The S&P Electric Utilities Proxy Group has an average common equity ratio of 41.9% (including short-term debt) from AUS and 43.3% (excluding short-term debt) from *Value Line*. This proxy group's common equity ratio is slightly lower than AmerenUE's common equity ratio of 47.4%. As such, this proxy group has greater financial risk than AmerenUE.

I also compared AmerenUE's business risk to the business risk of my proxy group based on S&P's ranking methodology. AmerenUE has an S&P business risk profile of "Excellent," which is the same as the S&P business risk profile score of the proxy group. The S&P business profile score indicates AmerenUE's business risk is comparable to the proxy group.

Finally, the S&P Electric Utilities Proxy Group has an EEI rating primarily of "Mostly Regulated." This indicates an operating risk slightly higher than that of AmerenUE.

Discounted Cash Flow Model

Q PLEASE DESCRIBE THE DCF MODEL.

A The DCF model posits that a stock is valued by summing the present value of expected future cash flows discounted at the investor's required rate of return or cost of capital. This model is expressed mathematically as follows:

$$P_0 = \frac{D_1}{(1+K)^1} + \frac{D_2}{(1+K)^2} \ldots . \frac{D_\infty}{(1+K)^\infty} \text{ where} \qquad \text{(Equation 1)}$$

P_0 = Current stock price
D = Dividends in periods 1 - ∞
K = Investor's required return

This model can be rearranged to estimate the discount rate or investor-required return, "K." If it is reasonable to assume that earnings and dividends will grow at a constant rate, then Equation 1 can be rearranged as follows:

$$K = D_1/P_0 + G \qquad \text{(Equation 2)}$$

K = Investor's required return
D_1 = Dividend in first year
P_0 = Current stock price
G = Expected constant dividend growth rate

Equation 2 is referred to as the annual "constant growth" DCF model.

Q PLEASE BRIEFLY DESCRIBE THE SPECIFIC TYPES OF DCF STUDIES YOU PERFORMED.

A I performed a constant growth DCF analysis using consensus analysts' growth rate projections, a constant growth DCF study using an internally sustainable growth rate

methodology, and a multi-stage growth DCF study. The constant growth study using security analysts' three- to five-year growth rate projections attempts to estimate the results of security analysts' growth outlooks, which should be highly influential to investors in valuing utility stock prices. Unfortunately, analysts' growth rate projections are for a relatively short period of time, and may not reflect the long-term sustainable growth rate outlooks that investors rely on to price utility securities. The sustainable constant growth DCF analysis is based on a derived sustainable growth rate, but that rate may not accurately gauge investors' short-term growth outlooks. Finally, I rely on a multi-stage growth DCF analysis for the added benefit, and potential accuracy, of reflecting investor expectations for variable growth outlooks over time.

Q PLEASE DESCRIBE THE INPUTS TO YOUR CONSTANT GROWTH DCF MODELS.

A As shown under Equation 2 above, the DCF model requires a current stock price, expected dividend, and expected growth rate in dividends.

Q WHAT STOCK PRICE AND DIVIDEND HAVE YOU RELIED ON IN YOUR CONSTANT GROWTH DCF MODELS?

A I relied on the average of the weekly high and low stock prices over a 13-week period ended November 20, 2009. An average stock price is less susceptible to market price variations than a spot price. Therefore, an average stock price is less susceptible to aberrant market price movements, which may not be reflective of the stock's long-term value.

A 13-week average stock price is still short enough to contain data that reasonably reflects current market expectations, but is not so short a period as to be susceptible to market price variations that may not be reflective of the security's long-term value. In my judgment, a 13-week average stock price is a reasonable balance between the need to reflect current market expectations and the need to capture sufficient data to smooth out aberrant market movements.

To compute the dividend input, I used the most recently paid quarterly dividend, as reported in *The Value Line Investment Survey*. This quarterly dividend was multiplied by 4 and adjusted for next year's growth to produce the D_1 factor for use in Equation 2 above.

Q HOW DID YOU DETERMINE THE DIVIDEND GROWTH RATES YOU USED IN YOUR CONSTANT GROWTH DCF MODELS?

A There are several methods one can use to estimate the expected growth in dividends. However, for purposes of determining the market-required return on common equity, one must attempt to estimate investors' consensus about what the dividend or earnings growth rate will be, and not what an individual investor or analyst may use to form individual investment decisions.

Security analysts' growth estimates have been shown to be more accurate predictors of future returns than growth rates derived from historical data. Assuming the market generally makes rational investment decisions, forward-looking growth projections are more likely reflective of the growth estimates considered by the market that influence observable stock prices than are growth rates derived from only historical data.

For my constant growth DCF analyses, I have relied on two types of forward-looking growth estimates. First, I relied on a consensus, or mean, of professional security analysts' earnings growth estimates as a proxy for the investor consensus dividend growth rate expectations. I used the average of three sources of analysts' growth rate estimates: Zacks, SNL Financial, and Reuters. All consensus analysts' projections used were available on November 23, 2009, as reported online.

Each consensus growth rate projection is based on a survey of security analysts. The consensus estimate is a simple arithmetic average, or mean, of surveyed analysts' earnings growth forecasts. A simple average of the growth forecasts gives equal weight to all surveyed analysts' projections. Whether any particular analyst's forecast is more representative of general market expectations is problematic. Therefore, a simple average, or arithmetic mean, of analyst forecasts is a good proxy for market consensus expectations.

Second, I relied on a sustainable growth rate methodology to drive a long-term sustainable forward-looking growth rate.

Q WHAT IS THE GROWTH RATE YOU USED IN YOUR CONSTANT GROWTH DCF MODEL BASED ON ANALYST GROWTH RATES?

A The growth rates I used in my DCF analysis are shown on Schedule MPG-5. The average growth rate for my Integrated Electric Utilities Proxy Group is 6.74%. However, this average growth rate contains significant outliers. For example, Empire District has a growth rate of 34%, which is significantly higher than the growth projections for the other utilities. Therefore, I will rely on the median growth rate estimate of 5.50%, which more accurately captures the group central tendency. The

median growth rate for my S&P Electric Utilities Proxy Group is 5.83%. The midpoint of these growth rate estimates is 5.67%.

Q WHAT ARE THE RESULTS OF YOUR CONSTANT GROWTH DCF MODEL USING CONSENSUS ANALYSTS' GROWTH RATES?

A As shown on Schedule MPG-6, the median constant growth DCF return for my Integrated Electric Utilities Proxy Group and S&P Electric Utilities Proxy Group are 11.03% and 11.01%, respectively, with a midpoint of 11.02%.

Q DO YOU HAVE ANY COMMENTS CONCERNING THE RESULTS OF YOUR CONSTANT GROWTH DCF ANALYSIS USING CONSENSUS ANALYSTS' GROWTH RATES?

A Yes. The constant growth DCF return is not reasonable and represents an overstated return for AmerenUE at this time. The constant growth DCF result is overstated because it is based on a dividend yield of approximately 5.25%,[11] which has increased significantly due to current constrained market conditions; and a median growth rate of approximately 5.67%,[12] which is not sustainable indefinitely as required by this DCF model.

I believe the dividend and growth components of the constant growth model are producing irrational results because they appear to reflect completely contradictory outlooks for the utility industry. Specifically, the dividend yield for utility stocks has been higher recently, caused by drops in the stock price. These utility stock price declines have been caused by concerns about the economy, utility sales,

[11]The midpoint of the dividend yields for the two proxy groups: (5.34% + 5.15%)/2 = 5.25%.
[12]The midpoint of the median growth rate for the two proxy groups: (5.50% + 5.83%)/2 = 5.67%.

and reductions to capital programs that will slow rate base growth. These factors would limit future earnings and dividend growth. In contrast, the growth component in the DCF result still reflects extraordinarily robust growth outlooks. Therefore, the current market assessments for growth for utilities appear to contradict those growth outlooks reflected in security analysts' projections.

Further, the growth rate included in the DCF model is also not sustainable over an indefinite period of time. Therefore, the reliability of the constant growth DCF model is at very best, problematic. Therefore, I do not recommend relying on the results of the constant growth DCF study in this case.

Q WHY DO YOU BELIEVE THAT THE CURRENT DIVIDEND YIELD IS ABNORMALLY HIGH RELATIVE TO HISTORICAL STANDARDS?

A As shown on Schedule MPG-7, the historical dividend yield over the last five years for my Integrated Electric Utilities and S&P Electric Utilities Proxy Groups has been approximately 3.74%.[13] This is significantly lower than the current dividend yield of 5.25% (4.92%[14] unadjusted).

The current dividend yield is driven by the current market uncertainty. The stock prices of the proxy group companies have decreased recently. Those stock price declines in turn have increased the proxy group dividend yield. Part of the cause for the decline in utility stock price relates to the expectation of reduced growth, or more uncertain future growth. Future growth is affected by the current economic environment, which has affected customer sales growth and caused many utilities to reduce capital programs to conserve cash. For example, the Edison Electric Institute has projected that the current economic recession will cause utilities to reduce capital

[13](3.89% + 3.59%)/2 = 3.74%.
[14](4.94% + 4.89%)/2 = 4.92%.

expenditure budgets over at least the next two years by as much as 10%.[15] These factors result in a reduction to growth in rate base and the related growth in earnings and dividends.

Indeed, *Value Line* observed this in a recent comment on the electric utility industry. *Value Line* recognized utility stocks' deterioration based on economic conditions as follows:

> Since our last review, electric utility stocks as a whole have continued to struggle, based on share-price performance. Many utilities have been hampered by higher capital costs and weaker generation margins stemming from lower demand and a sharp decline in energy prices. Within the Eastern utility group, top losers included *Central Vermont* (-32%), Washington, DC.-based *Pepco Holdings* (-26%), and Ohio-based *First Energy Group* (-22%). Notable gainers included Florida-based *FPL Group* (15%) and New Jersey-based *Public Service Enterprise Group* (10%).[16]

Value Line also has recognized that dividend growth will likely slow after the rather robust pace that took place through calendar year 2008. *Value Line* also stated as follows:

> Dividends have been increasing at a rapid pace since 2002, reflecting relatively healthy balance sheets throughout the industry. In fact, last year 61% of electric utilities raised their dividend, 33% reported no change, 2% reinstated theirs, 2% lowered them, and only 2% are not paying them at all. In any industry these statistics would be viewed as quite favorable. <u>But, 2008 actually marked the slowing of a trend for the electric utility industry, in which the percentage of dividend increases declined. The reversal is attributable to deteriorating economic conditions, elevated capital spending, and higher debt-to-capitalization ratios</u>. Despite this, many utilities are still sporting attractive yields.[17]

[15] Edison Electric Institute, "Electricity: Power The Change That America Needs," February 12, 2009.

[16] *The Value Line Investment Survey Ratings & Reports*, "Electric Utility (East) Industry," May 29, 2009, at 148.

[17] *Id.* (emphasis added).

Q HOW DO THE PROXY GROUPS' PROJECTED GROWTH RATES COMPARE TO HISTORICAL ACTUAL GROWTH AND CONTEMPORARY PROJECTED NOMINAL GROSS DOMESTIC PRODUCT (GDP) GROWTH AND INFLATION RATES?

A As shown on Schedule MPG-8, the historical growth of the proxy groups' dividend (columns 1 and 2) is lower than or comparable to the historical nominal GDP growth (columns 7 and 8).

This historical perspective confirms that the outlook for earnings growth over the next three to five years continues to be unusually robust, and it supports my contention that current three- to five-year earnings growth projections are not reasonable estimates of sustainable long-term growth.

Q WHY DO YOU BELIEVE THE PROXY GROUPS' THREE- TO FIVE-YEAR GROWTH RATE IS IN EXCESS OF A LONG-TERM SUSTAINABLE GROWTH?

A The three- to five-year growth rate of the proxy groups exceeds the growth rate of the overall U.S. economy. As developed below, the consensus of published economists projects that the U.S. GDP will grow at a rate of no more than 4.7% over the next 10 years. A company cannot grow, indefinitely, at a faster rate than the market in which it sells its products. The U.S. economy, or GDP, growth projection represents a ceiling, or high-end, sustainable growth rate for a utility over an indefinite period of time.

Q WHY IS THE GDP GROWTH PROJECTION CONSIDERED A CEILING GROWTH RATE FOR A UTILITY?

A Utilities cannot indefinitely sustain a growth rate that exceeds the growth rate of the overall economy. Utilities' earnings/dividend growth is created by increased utility investment or rate base. Utility plant investment, in turn, is driven by service area economic growth and demand for utility service. In other words, utilities invest in plant to meet sales demand growth, and sales growth in turn is tied to economic growth in their service areas. The Energy Information Administration (EIA) has observed that utility sales growth is less than U.S. GDP growth, as shown on Schedule MPG-9. Utility sales growth has lagged behind GDP growth. Hence, nominal GDP growth is a very conservative, albeit overstated, proxy for electric utility sales growth, rate base growth, and earnings growth. Therefore, GDP growth is a reasonable proxy for the highest sustainable long-term growth rate of a utility.

Q IS THERE RESEARCH THAT SUPPORTS YOUR POSITION THAT, OVER THE LONG TERM, A COMPANY'S EARNINGS AND DIVIDENDS CANNOT GROW AT A RATE GREATER THAN THE GROWTH OF THE U.S. GDP?

A Yes. This concept is supported in both published analyst literature and academic work. Specifically, in a textbook entitled *Fundamentals of Financial Management*, published by Eugene Brigham and Joel F. Houston, the authors state as follows:

> The constant growth model is most appropriate for mature companies with a stable history of growth and stable future expectations. Expected growth rates vary somewhat among companies, but dividends for mature firms are often expected to grow in the future at about the same rate as nominal gross domestic product (real GDP plus inflation).[18]

[18] *Fundamentals of Financial Management* Eugene F. Brigham and Joel F. Houston, Eleventh Edition 2007, Thomson South-Western, a Division of Thomson Corporation, at 298.

Also, Morningstar's *Stocks, Bonds, Bills and Inflation 2009 Yearbook Valuation Edition* tracked dividends of the stock market in comparison to GDP growth over the period 1926 through the end of 2008.[19] Based on that study, the authors found that earnings and dividends for the market have historically grown in tandem with the overall economy. It is important to note that the growth of companies included in the overall market will normally be higher than that of utility companies. These non-utility companies achieve a higher level of growth because they retain a larger percentage of their earnings and pay out a much smaller percentage of their earnings as dividends. Retaining higher percentages of total earnings fuels stronger growth for these non-utility companies. Since the market in general grows at the overall GDP growth rate, it is very conservative (favorable to utilities) to assume that utility companies could achieve this same level of sustained growth without a material reduction in their dividend payout ratios. As such, using the GDP as a maximum sustainable growth rate is a very conservative and high-end estimate for utility companies.

Sustainable Growth Constant DCF

Q IS THERE A WAY OF DEVELOPING A DCF ESTIMATE USING A SUSTAINABLE LONG-TERM GROWTH RATE?

A Yes. This can be developed using an internal growth rate, or sustainable growth, for the companies included in the proxy groups using *Value Line*'s three- to five-year earnings and dividends projections and estimated earned return on equity. An internal growth rate methodology estimates the sustainable growth rate based on the percentage of the utility's earnings that are retained in the company and reinvested in

[19] Morningstar, Inc.: *Stocks, Bonds, Bills and Inflation 2009 Yearbook Valuation Edition* at 67.

utility plant and equipment. These reinvested earnings increase the earnings base and will increase the earned return on equity when those additional earnings are put into service, and the company is allowed to earn its authorized return on the additional investment.

The internal growth methodology is tied to the percentage of earnings retained in the company and not paid out as dividends. The earnings retention ratio is 1 minus the dividend payout ratio. As the payout ratio declines, the earnings retention ratio increases. An increased earnings retention ratio will fuel stronger growth because the business funds more investments with retained earnings. As shown on Schedule MPG-10, *Value Line* projects the proxy group to have a declining dividend payout ratio over the next three to five years. These dividend payout ratios and earnings retention ratios can then be used to develop a sustainable long-term earnings retention growth rate to help gauge whether analysts' current three- to five-year growth rate projections can be sustained over an indefinite period of time.

As shown on Schedule MPG-11, the median sustainable growth rate for my Integrated Electric Utilities and S&P Electric Utilities Proxy Groups using this internal growth rate model is 4.88% and 7.29%, respectively, with a midpoint of approximately 6.09%.

Using the proxy groups' midpoint growth rate of 5.67% and a three- to five-year projected dividend payout ratio of approximately 55%[20] would require an earned return on book equity of 12.60%[21] to support a long-term sustainable growth rate of 5.67%. In comparison, *Value Line* is projecting a group average return on book equity of 11.79%.[22] This information supports my conclusion that current analysts'

[20](57.06% + 53.06%)/2 = 55.06%.
[21]5.67% ÷ (1 – 55%).
[22]Schedule MPG-11, pages 1 and 3, column 4: (11.49% + 12.08%)/2 = 11.79%.

three- to five-year earnings growth projections are not sustainable and will decline over time.

Q WHAT IS THE DCF ESTIMATE USING THIS SUSTAINABLE LONG-TERM GROWTH RATE DCF MODEL?

A The DCF estimate based on this sustainable growth rate is developed on Schedule MPG-12. As shown there, my Integrated Electric Utilities and S&P Electric Utilities Proxy Groups' median sustainable growth DCF return is 10.20% and 11.50%, respectively. The sustainable growth DCF result is based on the dividend and price data used in my constant growth DCF study (analyst growth) and the sustainable growth rate discussed above and developed on Schedule MPG-11.

Q WHAT IS THE DCF ESTIMATED RETURN BASED ON YOUR SUSTAINABLE LONG-TERM GROWTH RATE DCF MODEL?

A I recommend a median DCF return of 10.2% based on the median growth rate from my Integrated Electric Utilities Proxy Group. The median DCF return of the S&P Electric Utilities Proxy Group is derived from sustainable growth rates which still continue to be far too high to be reliable estimates of long-term sustainable growth. For example, as shown on my Schedule MPG-11, page 2, the non-utility companies continue to exhibit unusually high earned returns on equity, which reflect growth rate estimates too high to be sustainable indefinitely, and are, therefore, at very best problematic.

In significant contrast, the sustainable growth rate estimate from the Integrated Electric Utilities Proxy Group appears relatively constant across all samples, with one exception, and produces a much more reasonable and reliable

result. For example, the Integrated Electric Utilities Proxy Group average return is 10.68%. However, that average includes an unusually high result for DPL Inc. on line 8 of 22.07%, which is far above all other estimates. Excluding that result from the sample, would lower the average proxy group return down to 10.27%. The median of the proxy sample is 10.2%. Hence, excluding this clear outlier from the results for the comparable group produces a consistent and reliable DCF return estimate of 10.2%.

Multi-Stage Growth DCF Model

Q HAVE YOU CONDUCTED ANY OTHER DCF STUDIES?

A Yes. My first constant growth DCF is based on consensus analysts' growth rate projections, so it is a reasonable reflection of rational investment expectations over the next three to five years. The limitation on the constant growth DCF model is that it cannot reflect a rational expectation that a period of high/low short-term growth can be followed by a change in growth to a rate that is more reflective of long-term sustainable growth. Hence, I performed a multi-stage growth DCF analysis to reflect this outlook of changing growth expectations.

Q PLEASE DESCRIBE YOUR MULTI-STAGE GROWTH DCF MODEL.

A The multi-stage growth DCF model reflects the possibility of non-constant growth for a company over time. The multi-stage growth DCF model reflects three growth periods: (1) a short-term growth period, which consists of the first five years; (2) a transition period, which consists of the next five years (6 through 10); and (3) a long-term growth period, starting in year 11 through perpetuity.

For the short-term growth period (years 1-5), I relied on the consensus analysts' growth projections described above in relationship to my constant growth

DCF model. In the third stage starting in the year 11, I used the long-term GDP forecast as a long-term sustainable growth rate. In the Transition growth stage (years 6-10), I used an annual linear change from the short-term growth to the long-term growth.

Q WHAT DO YOU BELIEVE IS A REASONABLE SUSTAINABLE LONG-TERM GROWTH RATE?

A A reasonable growth rate that can be sustained in the long run should be based on consensus analysts' projections. *Blue Chip Economic Indicators* publishes consensus GDP growth projections twice a year. Based on its latest issue, the consensus economists published a GDP growth rate of 4.7% projected for 10 years out.[23]

Therefore, I use the consensus economists' projected 10-year outlook on the GDP growth rate of 4.7%, as published by *Blue Chip Economic Indicators,* as an estimate of sustainable long-term growth starting six years out. This consensus GDP growth forecast represents the most likely views of market participants because it is based on published economist projections.

Q WHAT STOCK PRICE, DIVIDEND AND GROWTH RATES DID YOU USE IN YOUR MULTI-STAGE GROWTH DCF ANALYSIS?

A I relied on the same 13-week stock price and the most recent quarterly dividend payment discussed above. For stage one growth, I used the consensus analysts' earnings growth rate projections discussed above in my constant growth DCF model. The transition period begins in year 6 and ends in year 10. In this transition growth

[23] *Blue Chip Economic Indicators*, October 10, 2009, at 15.

stage, I adjusted the growth rate each year, to form a linear movement of the growth rate from the short-term stage to the long-term stage. For the long-term sustainable growth rate starting in year 11, I used 4.7%, which is the consensus economists' projected nominal GDP growth rate.

Q WHAT ARE THE RESULTS OF YOUR MULTI-STAGE GROWTH DCF MODEL?

A As shown on Schedule MPG-13, the median multi-stage growth DCF return on equity for my Integrated Electric Utilities and S&P Electric Utilities Proxy Groups are 10.25% and 10.06%, respectively, with a midpoint of 10.16%.

DCF Quarterly Compounding Adjustment

Q HAVE YOU INCLUDED A QUARTERLY COMPOUNDING ADJUSTMENT TO YOUR DCF RESULTS DESCRIBED ABOVE?

A No. In the Empire District Order ER-2008-0093, and the recent AmerenUE Order ER-2008-0318, the Commission included a 5 basis point adjustment to the DCF return estimates to reflect quarterly compounding. If the Commission chooses to include that 5 basis point adjustment again in this case, then it should add it to the results of my DCF studies shown in Table 3 below.

Q DO YOU BELIEVE IT IS APPROPRIATE TO INCREASE YOUR DCF RETURN ESTIMATE FOR A 5 BASIS POINT QUARTERLY COMPOUNDING ADJUSTMENT?

A No. Including the quarterly compounding adjustment to AmerenUE's authorized return on equity is inappropriate. If a quarterly compounding adjustment is added to a DCF return estimate, shareholders will be permitted to earn the dividend reinvestment

return twice: (1) through the higher authorized return on equity, and (2) through actual receipt of dividends and the reinvestment of those dividends throughout the year. This double counting of the dividend reinvestment return is not reasonable, and will unjustly inflate AmerenUE's rates.

Q PLEASE EXPLAIN WHY THE QUARTERLY COMPOUNDING RETURN SHOULD NOT BE INCLUDED IN AMERENUE'S AUTHORIZED RETURN ON EQUITY.

A Simply put, the quarterly compounding component of the return is not a cost to the utility. Only the utility's cost of common equity capital should be included in the authorized return on equity.

This issue surrounds whether or not the DCF return estimate should include the expectations by investors that they will receive cash flows within the year, that can be reinvested in other investments of comparable risk, and thus the cash flows will produce compounded returns throughout the year. The relevant issue for setting rates is whether or not that reinvestment return is a cost to the utility. It is not!

The reinvestment return is not a cost to the utility and therefore should not be included in the authorized return on equity. While it is reasonable for investors to expect to have the opportunity to earn the compounded return produced by cash flows received within the year, the compound return is not paid to investors by the utility.

Q CAN YOU PROVIDE AN EXAMPLE OF WHY THE COMPOUNDING RETURN ESTIMATE IS NOT A COST TO THE UTILITY?

A Yes. I will provide two examples to help illustrate this point. First, consider the cost to the utility of an outstanding utility bond. Most utility bonds pay a coupon every six

months. The utility annual cost paid to the bond investor is the sum of the two semi-annual coupon payments. A bond investor expects to receive the semi-annual coupon payments from the utility, but also has an opportunity to reinvest the first coupon payment for the remaining six months of the year to enhance his end-of-year return. This compound return component is, however, not a cost to the utility because the utility does not pay the extra return.

For example, assume AmerenUE has an outstanding bond with a face value of $1,000, at an interest rate of 6% which is paid in two semi-annual $30 coupon payments. AmerenUE's cost of this bond is 6%. This 6% cost to AmerenUE is based on a $30 coupon payment paid in month 6 and month 12 for an annual payment of $60 relative to the $1,000 face value of the bond. However, the bond investor would have an annual expected return on this bond of 6.1%. This annual expected return would be realized by receiving the first $30 semi-annual coupon payment from AmerenUE and reinvesting it for the remaining six months of the year. This would produce $0.89 of semi-annual compounding return ($30 x $[(1.06)^{½} - 1]$). Hence, the bond investor would receive $60 from AmerenUE, and $0.89 from investing the first coupon for a total annual return of 6.09%, or 6.1%.

Importantly, if AmerenUE were to recover a 6.1% cost of this bond in its cost of service, and paid that return out to the bond investor, then the bond investor would receive $60.89 from AmerenUE, rather than the $60.00 actual cost, but the bond investor could still reinvest the semi-annual coupon, now $30.89 for the remaining six months of the year. This would provide the investor with the reinvestment return twice, once from utility ratepayers, and a second time after the semi-annual coupon payment was paid and reinvested.

Reflecting this compounding assumption in the authorized return on equity therefore will double count the reinvestment return opportunity.

Q DOES THIS EXAMPLE ALSO APPLY TO UTILITY STOCK INVESTMENTS?

A Yes. Assume now that an investor purchased AmerenUE stock for $100, and expects to receive four quarterly dividends of $1.50, or $6.00 per year. The expected cost to the utility of this dividend payment over the year would be $6.00, or 6.0%. However, the expected effective yield of the dividend to investors would be 6.13% because the quarterly dividends could be reinvested for the remaining term of the year. Hence, the expected end-of-year value of those four $1.50 quarterly dividend payments to the investor would be $6.13.[24] Again, the utility pays $6.00 of annual dividends. The $0.13 is not paid to investors from the utility, but is rather earned in the other investments that earn the same return, which the dividends were invested in throughout the year.

Importantly, the reinvestment return of the dividends is not paid by the utility, and therefore is not part of the utility's cost of capital. Again, if this dividend reinvestment return is included in the utility's authorized return on equity, then investors will receive the dividend reinvestment return twice, once through the authorized return on equity, and a second time when dividends are actually received by investors and reinvested.

Q PLEASE SUMMARIZE THE RESULTS FROM YOUR DCF ANALYSES.

A The results from my DCF analyses are summarized in the table below:

[24] $1.5 \times (1.06)^{.75} + 1.5 \times (1.06)^{.5} + 1.5 \times (1.06)^{.25} + 1.5 = \$6.13$.

TABLE 3

Summary of DCF Results

Description	ROE
Constant Growth DCF Model (Analysts' Growth)	11.02%
Constant Growth DCF Model (Sustainable Growth)	10.20%
Multi-Stage Growth DCF Model	10.16%
Average DCF Return	10.46%

For reasons set forth above, I believe my constant growth DCF model based on analysts' growth is not reasonable because short-term analyst growth rate projections are not reasonable estimates of long-term sustainable growth. The constant growth DCF model based on the sustainable growth approach is based on a growth rate that is sustainable in the long term in comparison to GDP growth, but may not reflect analysts' short-term growth outlooks. The multi-stage growth DCF model return reflects the expectation of changing growth rates over time. Even though I have strong concerns about the accuracy of the constant growth DCF at this time, I included all estimates in my DCF return of approximately 10.46%.

RISK PREMIUM MODEL

Q PLEASE DESCRIBE YOUR BOND YIELD PLUS RISK PREMIUM MODEL.

A This model is based on the principle that investors require a higher return to assume greater risk. Common equity investments have greater risk than bonds because bonds have more security of payment in bankruptcy proceedings than common equity and the coupon payments on bonds represent contractual obligations. In contrast, companies are not required to pay dividends on common equity, or to guarantee returns on common equity investments. Therefore, common equity securities are considered to be more risky than bond securities.

This risk premium model is based on two estimates of an equity risk premium. First, I estimated the difference between the required return on utility common equity investments and Treasury bonds. The difference between the required return on common equity and the bond yield is the risk premium. I estimated the risk premium on an annual basis for each year over the period 1986 through second quarter of 2009. The common equity required returns were based on regulatory commission-authorized returns for electric utility companies. Authorized returns are typically based on expert witnesses' estimates of the contemporary investor required return.

The second equity risk premium method is based on the difference between regulatory commission-authorized returns on common equity and contemporary "A" rated utility bond yields. This time period was selected because over the period 1986 through the second quarter of 2009, public utility stocks have consistently traded at a premium to book value. This is illustrated on Schedule MPG-14, where the market-to-book ratio since 1986 for the electric utility industry was consistently above 1.0. Over this time period, regulatory authorized returns were sufficient to support market prices that at least exceeded book value. This is an indication that regulatory authorized returns on common equity supported a utility's ability to issue additional common stock, without diluting existing shares. It further demonstrates that utilities were able to access equity markets without a detrimental impact on current shareholders.

Based on this analysis, as shown on Schedule MPG-15, the average indicated equity risk premium over U.S. Treasury bond yields has been 5.16%. Of the 24 observations, 18 indicated risk premiums fall in the range of 4.40% to 6.08%. Since the risk premium can vary depending upon market conditions and changing investor risk perceptions, I believe using an estimated range of risk premiums provides the

best method to measure the current return on common equity using this methodology.

As shown on Schedule MPG-16, the average indicated equity risk premium over contemporary Moody's utility bond yields was 3.70% over the period 1986 through the third quarter of 2009. The indicated equity risk premium estimates based on this analysis primarily fall in the range of 3.03% to 4.39% over this time period.

Q DO YOU BELIEVE THAT THIS RISK PREMIUM IS BASED ON A TIME PERIOD THAT IS TOO LONG OR TOO SHORT TO DRAW ACCURATE RESULTS CONCERNING CONTEMPORARY MARKET CONDITIONS?

A No. Contemporary market conditions can change dramatically during the period that rates determined in this proceeding will be in effect. Therefore, relying on a relatively long period of time where stock valuations reflect premiums to book value is an indication that the authorized returns on equity and the corresponding equity risk premiums were supportive of investors' return expectations and provided utilities access to the equity markets under reasonable terms and conditions. Further, this time period is long enough to smooth abnormal market movement that might distort equity risk premiums. While market conditions and risk premiums do vary over time, this historical time period is a reasonable period to estimate contemporary risk premiums.

The time period I use in this risk premium is a generally accepted period to develop a risk premium study using "expectational" data. Conversely, studies have recommended that use of "actual achieved return data" should be based on very long historical time periods. The studies find that achieved returns over short time periods may not reflect investors' expected returns due to unexpected and abnormal stock

price performance. However, these short-term abnormal actual returns would be smoothed over time and the achieved actual returns over long time periods would approximate investors' expected returns. Therefore, it is reasonable to assume that averages of annual achieved returns over long time periods will generally converge on the investors' expected returns.

My risk premium study is based on expectational data, not actual returns, and, thus, need not encompass very long time periods.

Q BASED ON HISTORICAL DATA, WHAT RISK PREMIUM HAVE YOU USED TO ESTIMATE AMERENUE'S COST OF EQUITY IN THIS PROCEEDING?

A The equity risk premium should reflect the relative market perception of risk in the utility industry today. I have gauged investor perceptions in utility risk today on Schedule MPG-17. On that schedule, I show the yield spread between utility bonds and Treasury bonds over the last 29 years. As shown on this schedule, the 2008 utility bond yield spread over Treasury bonds for "A" rated and "Baa" rated utility bonds is 2.25% and 2.97%, respectively. The utility bond spread over Treasury bonds for "A" and "Baa" rated utility bonds for the first three quarters of 2009 is 2.18% and 3.36%, respectively. These utility bond yield spreads over Treasury bond yields are much higher than the 29-year average spreads of 1.61% and 2.01%, respectively.

While the yield spreads for 2008 and first three quarters of 2009 reflect unusually large spreads, the market has started to improve and these spreads have started to decline. For example, the October "A" rated utility bond yield has subsided relative to the end of 2008 and beginning of 2009, down to around 5.54%. This utility bond yield when compared to the current Treasury bond yield of 4.19%, implies a yield spread of around 1.35% which is lower than the 29-year average spread for "A"

utility bonds spread of 1.61%. The same is true for the "Baa" utility yields and spreads.

Q HOW DID YOU ESTIMATE AMERENUE'S COST OF COMMON EQUITY WITH THIS RISK PREMIUM MODEL?

A I added a projected long-term Treasury bond yield to my estimated equity risk premium over Treasury yields. *Blue Chip Financial Forecasts* projects the 30-year Treasury bond yield to be 5.00%, and a 10-year Treasury bond yield to be 4.4%.[25] Using the projected 30-year bond yield of 5.00% and a Treasury bond risk premium of 4.40% to 6.08%, as developed above, produces an estimated common equity return in the range of 9.40% to 11.08%, with a midpoint of 10.24%. This produces a recommended return on equity of 10.24%.

I next added my equity risk premium over utility bond yields to a current 13-week average yield on "Baa" rated utility bonds for the period ending November 20, 2009 of 6.16%, as shown on my Schedule MPG-2, page 1. Adding the utility equity risk premium of 3.03% to 4.39%, as developed above, to a "Baa" rated bond yield of 6.16%, produces a cost of equity in the range of 9.19% to 10.55%, with a midpoint of 9.87%. As shown on pages 4 and 5 of Schedule MPG-2, "A" and "Baa" rated utility bond yields and their respective spreads reached very high levels during late October through December 2008, but they have recovered and converged to the normalized levels observed in the past.

My risk premium analyses produce a return estimate in the range of 9.87% to 10.24%, with a midpoint estimate of 10.06%.

[25] *Blue Chip Financial Forecasts*, November 1, 2009 at 2.

CAPITAL ASSET PRICING MODEL (CAPM)

Q PLEASE DESCRIBE THE CAPM.

A The CAPM method of analysis is based upon the theory that the market required rate of return for a security is equal to the risk-free rate, plus a risk premium associated with the specific security. This relationship between risk and return can be expressed mathematically as follows:

$R_i = R_f + B_i \times (R_m - R_f)$ where:

R_i = Required return for stock i

R_f = Risk-free rate

R_m = Expected return for the market portfolio

B_i = Beta - Measure of the risk for stock

The stock-specific risk term in the above equation is beta. Beta represents the investment risk that cannot be diversified away when the security is held in a diversified portfolio. When stocks are held in a diversified portfolio, firm-specific risks can be eliminated by balancing the portfolio with securities that react in the opposite direction to firm-specific risk factors (e.g., business cycle, competition, product mix, and production limitations).

The risks that cannot be eliminated when held in a diversified portfolio are nondiversifiable risks. Nondiversifiable risks are related to the market in general and are referred to as systematic risks. Risks that can be eliminated by diversification are regarded as non-systematic risks. In a broad sense, systematic risks are market risks, and non-systematic risks are business risks. The CAPM theory suggests that the market will not compensate investors for assuming risks that can be diversified away. Therefore, the only risk that investors will be compensated for are systematic

or non-diversifiable risks. The beta is a measure of the systematic or non-diversifiable risks.

Q PLEASE DESCRIBE THE INPUTS TO YOUR CAPM.

A The CAPM requires an estimate of the market risk-free rate, the company's beta, and the market risk premium.

Q WHAT DID YOU USE AS AN ESTIMATE OF THE MARKET RISK-FREE RATE?

A As previously noted, *Blue Chip Financial Forecasts*' projected 30-year Treasury bond yield is 5.00%.[26] The current 30-year bond yield is 4.32%. I used *Blue Chip Financial Forecasts*' projected 30-year Treasury bond yield of 5.00% for my CAPM analysis.

Q WHY DID YOU USE LONG-TERM TREASURY BOND YIELDS AS AN ESTIMATE OF THE RISK-FREE RATE?

A Treasury securities are backed by the full faith and credit of the United States government. Therefore, long-term Treasury bonds are considered to have negligible credit risk. Also, long-term Treasury bonds have an investment horizon similar to that of common stock. As a result, investor-anticipated long-run inflation expectations are reflected in both common stock required returns and long-term bond yields. Therefore, the nominal risk-free rate (or expected inflation rate and real risk-free rate) included in a long-term bond yield is a reasonable estimate of the nominal risk-free rate included in common stock returns.

Treasury bond yields, however, do include risk premiums related to unanticipated future inflation and interest rates. A Treasury bond yield is not a

[26] *Blue Chip Financial Forecasts*, November 1, 2009 at 2.

risk-free rate. Risk premiums related to unanticipated inflation and interest rates are systematic or market risks. Consequently, for companies with betas less than 1.0, using the Treasury bond yield as a proxy for the risk-free rate in the CAPM analysis can produce an overstated estimate of the CAPM return.

Q WHAT BETA DID YOU USE IN YOUR ANALYSIS?

A As shown on Schedule MPG-18, the Integrated Electric Utilities and S&P Electric Utilities Proxy Groups' average *Value Line* beta estimate is 0.73 and 0.76, respectively.

Q HOW DID YOU DERIVE YOUR MARKET RISK PREMIUM ESTIMATE?

A I derived two market risk premium estimates, a forward-looking estimate and one based on a long-term historical average.

The forward-looking estimate was derived by estimating the expected return on the market (as represented by the S&P 500) and subtracting the risk-free rate from this estimate. I estimated the expected return on the S&P 500 by adding an expected inflation rate to the long-term historical arithmetic average real return on the market. The real return on the market represents the achieved return above the rate of inflation.

Morningstar's *Stocks, Bonds, Bills and Inflation 2009 Yearbook* publication estimates the historical arithmetic average real market return over the period 1926 to 2008 as 8.5%. A current consensus analysts' inflation projection, as measured by the Consumer Price Index, is 2.1%.[27] Using these estimates, the expected market return

[27] *Blue Chip Financial Forecasts*, November 1, 2009 at 2.

is 10.78%.[28] The market premium then is the difference between the 10.78% expected market return, and my 5.00% risk-free rate estimate, or 5.78%.

The historical estimate of the market risk premium was also estimated by Morningstar in *Stocks, Bonds, Bills and Inflation 2009 Yearbook*. Over the period 1926 through 2008, Morningstar's study estimated that the arithmetic average of the achieved total return on the S&P 500 was 11.70%, and the total return on long-term Treasury bonds was 6.10%. The indicated equity risk premium is 5.60% (11.70% - 6.10% = 5.60%).

Q HOW DOES YOUR ESTIMATED MARKET RISK PREMIUM RANGE COMPARE TO THAT ESTIMATED BY MORNINGSTAR?

A Morningstar estimates a forward-looking market risk premium based on actual achieved data from the historical period of 1926 through year-end 2008. Using this data, Morningstar estimates a market risk premium derived from the total return on large company stocks (S&P 500), less the income return on Treasury bonds. The total return includes capital appreciation, dividend or coupon reinvestment returns, and annual yields received from coupons and/or dividend payments. The income return, in contrast, only reflects the income return received from dividend payments or coupon yields. Morningstar argues that the income return is the only true risk-free rate associated with the Treasury bond and is the best approximation of a truly risk-free rate. I disagree with this assessment from Morningstar, because it does not reflect a true investment option available to the marketplace and therefore does not produce a legitimate estimate of the expected premium of investing in the stock

[28] { [(1 + 0.085) ∗ (1 + 0.021)] – 1] } ∗ 100.

market versus that of Treasury bonds. Nevertheless, I will use Morningstar's conclusion to show the reasonableness of my market risk premium estimates.

Morningstar's analysis indicates that a market risk premium falls somewhere in the range of 5.7% to 6.5%. This range is based on several methodologies. First, Morningstar estimates a market risk premium of 6.5% based on the difference between the total market return on common stocks (S&P 500) less the income return on Treasury bond investments. Second, Morningstar found that if the New York Stock Exchange (the NYSE) was used as the market index rather than the S&P 500, that the market risk premium would be 6.3% and not 6.5%. Third, if only the two deciles of the largest companies included in the NYSE were considered, the market risk premium would be 5.8%.[29]

Finally, Morningstar found that the 6.5% 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 adjusted 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 5.7%.[30]

Thus, based on all of Morningstar's estimates, the market risk premium falls somewhere in the range of 5.7% to 6.5%.

[29]Morningstar observes that the S&P 500 and the NYSE Decile 1-2 are both large capitalization benchmarks. Morningstar, Inc. *Ibbotson SBBI 2009 Valuation Yearbook* at 56 and 57.

[30]*Id.* at 67-69.

Q WHAT ARE THE RESULTS OF YOUR CAPM ANALYSIS?

A As shown on Schedule MPG-19, based on my low end market risk premium of 5.7% and high end market risk premium of 6.5%, a risk-free rate of 5.00%, and average proxy group beta estimates of 0.73 and 0.76, my CAPM analysis produces a return in the range of 9.43% to 9.66%, with a midpoint of 9.54%.

Return on Equity Summary

Q BASED ON THE RESULTS OF YOUR RATE OF RETURN ON COMMON EQUITY ANALYSES DESCRIBED ABOVE, WHAT RETURN ON COMMON EQUITY DO YOU RECOMMEND FOR AMERENUE?

A Based on my analyses, I estimate AmerenUE's current market cost of equity to be 10.0%.

TABLE 4

Return on Common Equity Summary

Description	Results
DCF	10.46%
RP	10.06%
CAPM	9.54%

My recommended return on equity for AmerenUE's electric operations is at the approximate midpoint of my estimated range of 9.5% to 10.5%. The low end is based on my CAPM return estimate and my high end is based on my DCF estimate. The risk premium estimate falls near the midpoint.

FINANCIAL INTEGRITY

Q WILL YOUR RECOMMENDED OVERALL RATE OF RETURN SUPPORT AN INVESTMENT GRADE BOND RATING FOR AMERENUE?

A Yes. I have reached this conclusion by comparing the key credit rating financial ratios for AmerenUE at its proposed capital structure, and my return on equity to S&P's benchmark financial ratios using S&P's new credit metric ranges.

Q PLEASE DESCRIBE THE MOST RECENT S&P FINANCIAL RATIO CREDIT METRIC METHODOLOGY.

A S&P publishes a matrix of financial ratios that correspond to its assessment of the business risk of the utility company and related bond rating. S&P updated its credit metric guidelines on November 30, 2007, and incorporated utility metric benchmarks with the general corporate rating metrics. However, the effect of integrating the utility metrics with that of general corporate bonds, resulted in a reduction to the transparency in S&P's credit metric guideline for utilities. Most recently, on May 27, 2009 S&P expanded its matrix criteria and included an additional business and financial risk category. Based on S&P's most recent credit matrix, the business risk profile categories are "Excellent," "Strong," Satisfactory," "Fair," Weak," and "Vulnerable." Most electric utilities have a business risk profile of "Excellent" or "Strong." The financial risk profile categories are "Minimal," "Modest," "Intermediate," "Significant," "Aggressive," and "Highly Leveraged." Most of the electric utilities have a financial risk profile of "Aggressive." AmerenUE has an "Excellent" business risk profile and a "Significant" financial risk profile.

Q PLEASE DESCRIBE S&P'S USE OF THE FINANCIAL BENCHMARK RATIOS IN ITS CREDIT RATING REVIEW.

A S&P evaluates a utility's credit rating based on an assessment of its financial and business risks. A combination of financial and business risks equates to the overall assessment of AmerenUE's total credit risk exposure. S&P publishes a matrix of financial ratios that defines the level of financial risk as a function of the level of business risk.

S&P publishes ranges for three primary financial ratios that it uses as guidance in its credit review for utility companies. The three primary financial ratio benchmarks it relies on in its credit rating process include: (1) debt to EBITDA, (2) funds from operations (FFO) to total debt, and (3) total debt to total capital.

Q HOW DID YOU APPLY S&P'S FINANCIAL RATIOS TO TEST THE REASONABLENESS OF YOUR RATE OF RETURN RECOMMENDATIONS?

A I calculated each of S&P's financial ratios based on AmerenUE's cost of service for retail operations. While S&P would normally look at total Ameren Corp. consolidated financial ratios in its credit review process, my investigation in this proceeding is to judge the reasonableness of my proposed cost of capital for rate-setting in AmerenUE's utility operations. Hence, I am attempting to determine whether the rate of return and cash flow generation opportunity reflected in my proposed utility rates for AmerenUE will support target investment grade bond ratings and financial integrity.

Q DID YOU REFLECT MIEC WITNESS JAMES SELECKY'S PROPOSED DEPRECIATION EXPENSE ADJUSTMENT IN THESE CREDIT METRIC ESTIMATES?

A Yes. Mr. Selecky is proposing to reduce AmerenUE's depreciation expense by $81.4 million. I recognized this reduced depreciation expense in the estimate of AmerenUE's cash flows.

Q HAVE YOU INCLUDED ANY OFF-BALANCE SHEET DEBT?

A Yes. I relied on the S&P report provided in response to discovery request MIEC 8-6. Based on this report, Ameren Corp. has $285 million of operating leases. To allocate the operating leases to Ameren Corp. subsidiaries I relied on the Company's 10-K report. This allocation is developed on my Schedule MPG-20.

Q PLEASE DESCRIBE THE RESULTS OF THIS CREDIT METRIC ANALYSIS FOR AMERENUE.

A The S&P financial metric calculations for AmerenUE are developed on Schedule MPG-20.

As shown on Schedule MPG-20, page 1, column 1, based on an equity return of 10.0%, AmerenUE will be provided an opportunity to produce a debt to EBITDA ratio of 3.2x. This is within S&P's new "Significant" guideline range of 3.0x to 4.0x.[31] This ratio supports a credit rating of "A-."

AmerenUE's retail operations FFO to total debt coverage at a 10.0% equity return would be 19%, which is slightly below the new "Significant" metric guideline range of 20% to 30% and at the high end of S&P's "Aggressive" benchmark range of

[31]Standard & Poor's RatingsDirect: "Criteria Methodology: Business Risk/Financial Risk Matrix Expanded," May 27, 2009.

12% to 20%. The FFO/total debt ratio will support a "BBB" rated investment grade bond rating.

Finally, AmerenUE's total debt ratio to total capital is 52%. This is slightly above the new "Significant" guideline range of 45% to 50% and within S&P's "Aggressive" benchmark range of 50% to 60%. This total debt ratio will support a "BBB" investment grade bond rating.

At my recommended return on equity and AmerenUE's proposed capital structure, the Company's financial credit metrics are supportive of its current "BBB" utility bond rating.

Q DO YOU BELIEVE THIS CREDIT METRIC EVALUATION OF AMERENUE AT YOUR PROPOSED RETURN ON EQUITY PROVIDES MEANINGFUL INFORMATION TO HELP THE COMMISSION DETERMINE THE APPROPRIATENESS OF YOUR RECOMMENDATION?

A Yes. While S&P calculates these credit metrics based on total AmerenUE operations, and not the retail operations of AmerenUE as I have performed in this study, it still provides meaningful information on the proposed rate of return for AmerenUE in this case and how it will contribute and help support consolidated operations credit standing. Further, while credit rating agencies also consider other financial metrics and qualitative considerations, these metrics are largely driven by the cost of service items of depreciation expense and return on equity. Hence, to the extent these important aspects of cost of service impact AmerenUE's internal cash flows, the relative impact on AmerenUE will be measured by these credit metrics. As illustrated above, an authorized return on equity of 10.0%, and MIEC's proposed depreciation

expense adjustment, will support internal cash flows that will be adequate to maintain AmerenUE's current investment grade bond rating.

Q DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A Yes, it does.

Appendix A

Qualifications of Michael Gorman

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

Q PLEASE STATE YOUR OCCUPATION.

A I am a consultant in the field of public utility regulation and a Managing Principal with Brubaker & Associates, Inc., energy, economic and regulatory consultants.

Q PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE.

A In 1983 I received a Bachelors of Science Degree in Electrical Engineering from Southern Illinois University, and in 1986, I received a Masters Degree in Business Administration with a concentration in Finance from the University of Illinois at Springfield. I have also completed several graduate level economics courses.

In August of 1983, I accepted an analyst position with the Illinois Commerce Commission (ICC). In this position, I performed a variety of analyses for both formal and informal investigations before the ICC, including: marginal cost of energy, central dispatch, avoided cost of energy, annual system production costs, and working capital. In October of 1986, I was promoted to the position of Senior Analyst. In this position, I assumed the additional responsibilities of technical leader on projects, and my areas of responsibility were expanded to include utility financial modeling and financial analyses.

In 1987, I was promoted to Director of the Financial Analysis Department. In this position, I was responsible for all financial analyses conducted by the staff. Among other things, I conducted analyses and sponsored testimony before the ICC on rate of return, financial integrity, financial modeling and related issues. I also supervised the development of all Staff analyses and testimony on these same issues. In addition, I supervised the Staff's review and recommendations to the Commission concerning utility plans to issue debt and equity securities.

In August of 1989, I accepted a position with Merrill-Lynch as a financial consultant. After receiving all required securities licenses, I worked with individual investors and small businesses in evaluating and selecting investments suitable to their requirements.

In September of 1990, I accepted a position with Drazen-Brubaker & Associates, Inc. In April 1995 the firm of Brubaker & Associates, Inc. (BAI) was formed. It includes most of the former DBA principals and Staff. Since 1990, I have performed various analyses and sponsored testimony on cost of capital, cost/benefits of utility mergers and acquisitions, utility reorganizations, level of operating expenses and rate base, cost of service studies, and analyses relating industrial jobs and economic development. I also participated in a study used to revise the financial policy for the municipal utility in Kansas City, Kansas.

At BAI, I also have extensive experience working with large energy users to distribute and critically evaluate responses to requests for proposals (RFPs) for electric, steam, and gas energy supply from competitive energy suppliers. These analyses include the evaluation of gas supply and delivery charges, cogeneration and/or combined cycle unit feasibility studies, and the evaluation of third-party asset/supply management agreements. I have also analyzed commodity pricing

indices and forward pricing methods for third party supply agreements, and have also conducted regional electric market price forecasts.

In addition to our main office in St. Louis, the firm also has branch offices in Phoenix, Arizona and Corpus Christi, Texas.

Q HAVE YOU EVER TESTIFIED BEFORE A REGULATORY BODY?

A Yes. I have sponsored testimony on cost of capital, revenue requirements, cost of service and other issues before the Federal Energy Regulatory Commission and numerous state regulatory commissions including: Arkansas, Arizona, California, Colorado, Delaware, Florida, Georgia, Idaho, Illinois, Indiana, Iowa, Kansas, Louisiana, Michigan, Missouri, Montana, New Jersey, New Mexico, New York, North Carolina, Oklahoma, Oregon, South Carolina, Tennessee, Texas, Utah, Vermont, Virginia, Washington, West Virginia, Wisconsin, Wyoming, and before the provincial regulatory boards in Alberta and Nova Scotia, Canada. I have also sponsored testimony before the Board of Public Utilities in Kansas City, Kansas; presented rate setting position reports to the regulatory board of the municipal utility in Austin, Texas, and Salt River Project, Arizona, on behalf of industrial customers; and negotiated rate disputes for industrial customers of the Municipal Electric Authority of Georgia in the LaGrange, Georgia district.

Q PLEASE DESCRIBE ANY PROFESSIONAL REGISTRATIONS OR ORGANIZATIONS TO WHICH YOU BELONG.

A I earned the designation of Chartered Financial Analyst (CFA) from the CFA Institute. The CFA charter was awarded after successfully completing three examinations which covered the subject areas of financial accounting, economics, fixed income and

equity valuation and professional and ethical conduct. I am a member of the CFA Institute's Financial Analyst Society.

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AmerenUE

Rate of Return

Line	Description		Amount (1)	Weight (2)	Cost (3)	Weighted Cost (4)	Pre-Tax Weighted Cost (5)
1	Long-Term Debt	$	3,651,044,928	51.008%	5.967%	3.04%	3.04%
2	Short-Term Debt	$	-	0.000%	0.928%	0.00%	0.00%
3	Preferred Stock	$	114,502,040	1.600%	5.189%	0.08%	0.13%
4	Common Equity	$	3,392,179,086	47.392%	**10.000%**	4.74%	7.70%
5	**Total**	**$**	**7,157,726,054**	**100.00%**		**7.87%**	**10.88%**
6	Composite Tax Rate						38.43%

Source:
Schedule MGO-E1.

AmerenUE

Utility Bond Yields
(August - November 2009)

Line	Date	"A" Rating Utility Bond Yield (1)	"Baa" Rating Utility Bond Yield (2)
1	11/20/09	5.63%	6.14%
2	11/13/09	5.64%	6.21%
3	11/06/09	5.70%	6.26%
4	10/30/09	5.55%	6.12%
5	10/23/09	5.63%	6.21%
6	10/16/09	5.61%	6.21%
7	10/09/09	5.60%	6.20%
8	10/02/09	5.39%	6.00%
9	09/25/09	5.43%	6.01%
10	09/18/09	5.58%	6.15%
11	09/11/09	5.52%	6.11%
12	09/04/09	5.62%	6.24%
13	08/28/09	5.56%	6.19%
14	**13-Wk Average**	**5.57%**	**6.16%**

Source:
www.moodys.com, Bond Yields and Key Indicators.

AmerenUE

Utility Bond Yields
(AmerenUE 2008 Rate Case ER-2008-0318)
(May - August 2008)

Line	Date	"A" Rating Utility Bond Yield (1)	"Baa" Rating Utility Bond Yield (2)
1	08/15/08	6.33%	6.95%
2	08/07/08	6.42%	6.99%
3	08/01/08	6.42%	7.01%
4	07/25/08	6.54%	7.11%
5	07/18/08	6.51%	7.07%
6	07/11/08	6.33%	6.90%
7	07/03/08	6.33%	6.89%
8	06/27/08	6.31%	6.86%
9	06/20/08	6.40%	6.95%
10	06/13/08	6.48%	7.03%
11	06/06/08	6.29%	6.85%
12	05/30/08	6.36%	6.93%
13	05/23/08	6.22%	6.78%
14	**13-Wk Average**	**6.38%**	**6.95%**

Source:
Missouri Public Service Commission Case ER-2008-0318,
Direct of Michael Gorman, Schedule MPG-17.

AmerenUE

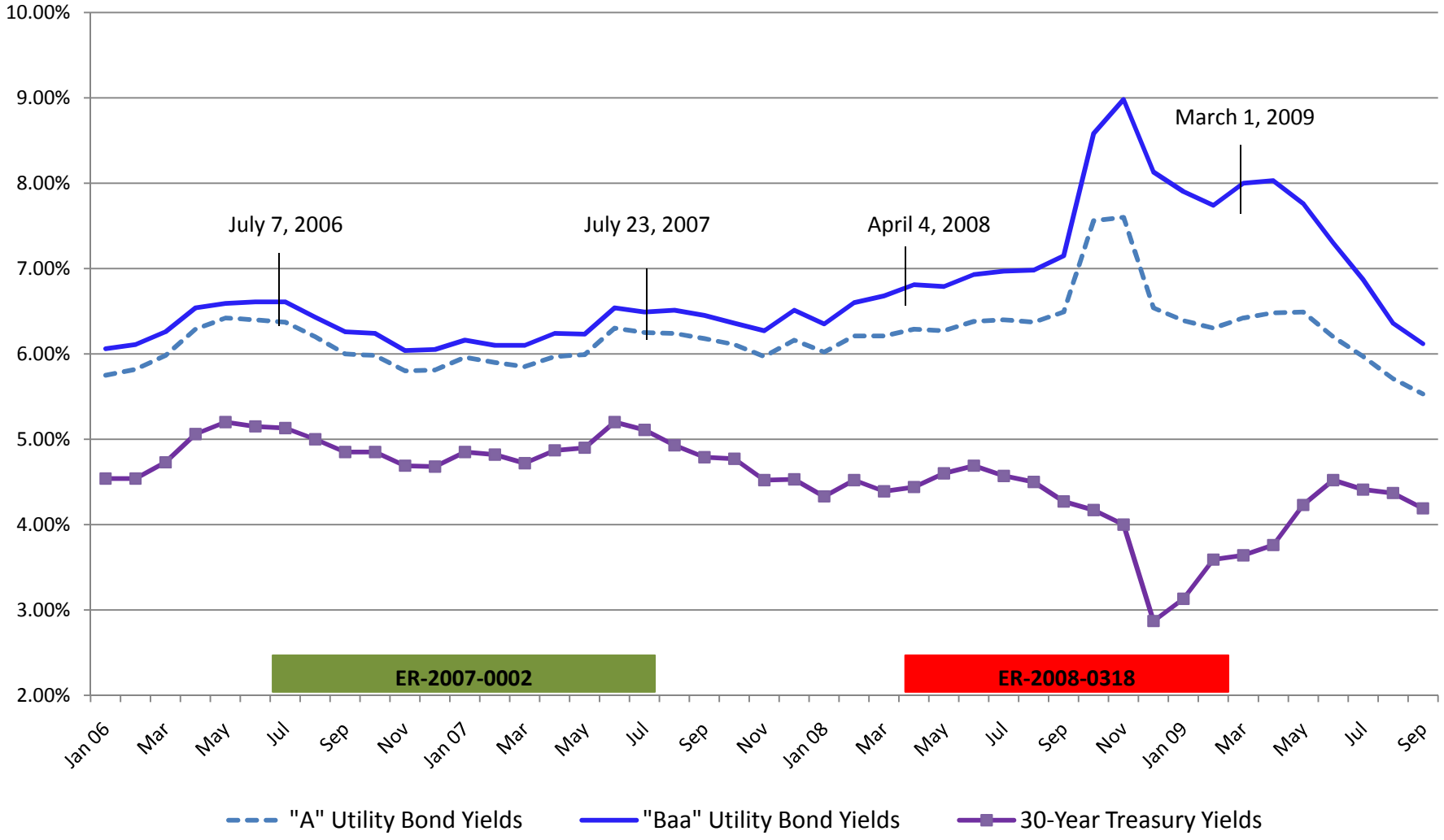
Utility Bond Yields
(AmerenUE 2007 Rate Case ER-2007-0002)
(August - November 2006)

Line	Date	"A" Rating Utility Bond Yield (1)	"Baa" Rating Utility Bond Yield (2)
1	11/10/06	5.80%	6.04%
2	11/03/06	5.93%	6.16%
3	10/27/06	5.92%	6.17%
4	10/20/06	6.04%	6.30%
5	10/13/06	6.06%	6.33%
6	10/06/06	5.97%	6.24%
7	09/29/06	5.90%	6.17%
8	09/22/06	5.92%	6.19%
9	09/15/06	6.06%	6.32%
10	09/08/06	6.07%	6.34%
11	09/01/06	6.06%	6.30%
12	08/25/06	6.13%	6.36%
13	08/18/06	6.19%	6.42%
14	**13-Wk Average**	**6.00%**	**6.26%**

Source:
Missouri Public Service Commission Case ER-2007-0002,
Direct of Michael Gorman, Schedule MPG-9.

AmerenUE

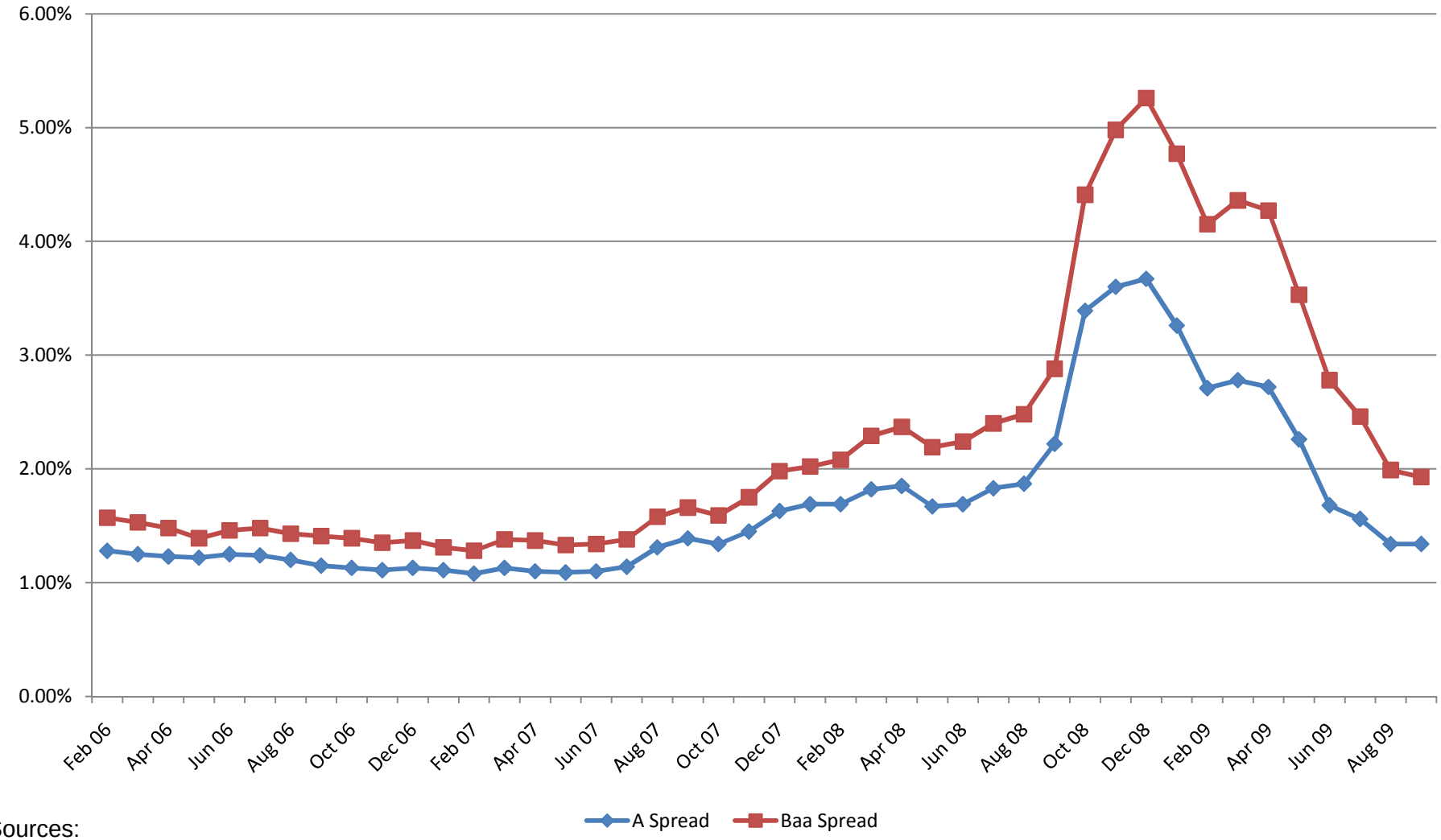
Capital Costs



Sources:
Merchant Bond Record and www.moodys.com, Bond Yields and Key Indicators.

AmerenUE

Spread Between "A" or "Baa" Rated Utility Yield and 30-Year Treasury Bond

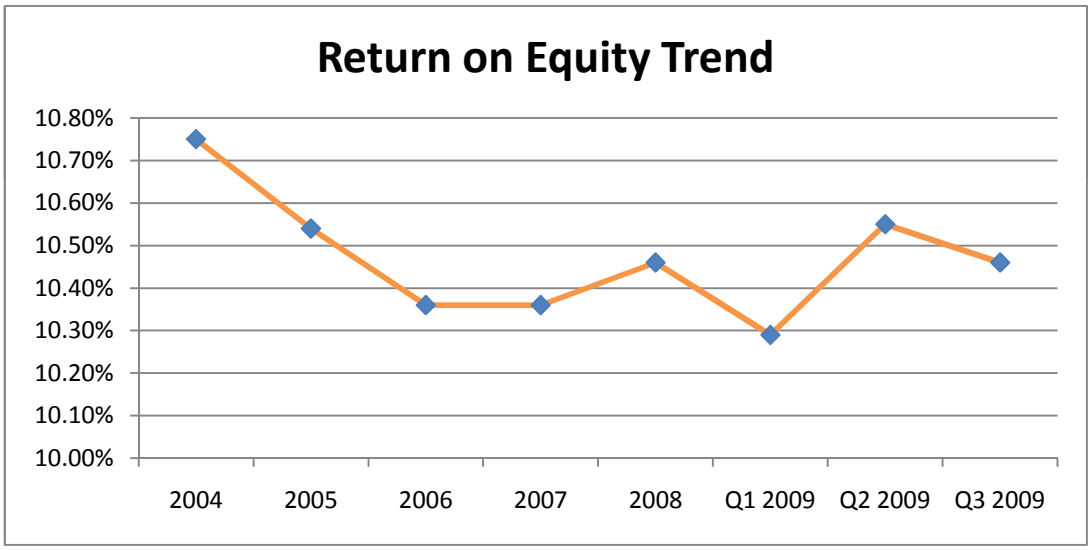


Sources:
Merchant Bond Record.
www.moodys.com, Bond Yields and Key Indicators.
St. Louis Fed: Economic Research, http://research.stlouisfed.org/

AmerenUE

Electric Utility Authorized Returns on Equity

Line	Year	Return on Equity
1	2004	10.75%
2	2005	10.54%
3	2006	10.36%
4	2007	10.36%
5	2008	10.46%
6	Sept-2009	10.43%
7	**04-08 Average**	**10.49%**



Source:
Regulatory Research Associates, Inc., *Regulatory Focus,* October 2, 2009.

AmerenUE

Proxy Group
(Integrated Electric Utilities)

Line	Company	Bond Ratings[1] S&P (1)	Bond Ratings[1] Moody's (2)	Common Equity Ratios *AUS*[1] (3)	Common Equity Ratios *Value Line*[2] (4)	S&P Business Risk Score[3] (5)	EEI Risk Assessment[4] (6)
1	ALLETE	A-	A2	57.0%	58.4%	Strong	Regulated
2	Allegheny Energy	BBB+	Baa1	41.0%	40.9%	Strong	Diversified
3	Alliant Energy	A-	A2	55.0%	58.6%	Excellent	Regulated
4	Amer. Elec. Power	BBB	Baa2	43.0%	40.7%	Excellent	Regulated
5	Ameren Corp.	BBB	Baa1	45.0%	50.8%	Satisfactory	Regulated
6	CMS Energy Corp.	BBB	A3	25.0%	27.4%	Excellent	Regulated
7	Cleco Corp.	BBB	Baa1	46.0%	48.9%	Excellent	Regulated
8	DPL Inc.	A	Aa3	42.0%	41.1%	Excellent	Regulated
9	DTE Energy	A-	A2	44.0%	43.6%	Strong	Regulated
10	Duke Energy	A	Baa2	57.0%	61.3%	Excellent	Mostly Regulated
11	Edison Int'l	A	A1	42.0%	44.5%	Strong	Mostly Regulated
12	Empire Dist. Elec.	BBB+	Baa1	43.0%	46.4%	Excellent	Regulated
13	Entergy Corp.	A-	Baa1	44.0%	40.2%	Strong	Mostly Regulated
14	Exelon Corp.	A-	A3	48.0%	46.6%	N/A	Mostly Regulated
15	FPL Group	A	Aa2	41.0%	45.8%	Excellent	Mostly Regulated
16	FirstEnergy Corp.	BBB+	Baa1	41.0%	47.7%	Strong	Mostly Regulated
17	G't Plains Energy	BBB+	A3	43.0%	49.6%	Excellent	Regulated
18	Hawaiian Elec.	BBB	Baa2	46.0%	52.7%	Strong	Diversified
19	IDACORP Inc.	A-	A3	48.0%	52.4%	Excellent	Regulated
20	PG&E Corp.	BBB+	A3	49.0%	46.5%	Excellent	Regulated
21	Pepco Holdings	A-	A3	43.0%	43.8%	Strong	Mostly Regulated
22	Portland General	A	A3	49.0%	53.8%	Strong	Regulated
23	Progress Energy	A-	A1	44.0%	44.4%	Excellent	Regulated
24	Public Serv. Enterprise	A-	A2	48.0%	49.0%	N/A	Mostly Regulated
25	Southern Co.	A	A2	41.0%	42.6%	Excellent	Regulated
26	TECO Energy	BBB	Baa1	39.0%	38.5%	Excellent	Regulated
27	Westar Energy	BBB	Baa1	44.0%	49.7%	Excellent	Regulated
28	Wisconsin Energy	A-	A1	46.0%	44.8%	Excellent	Regulated
29	Xcel Energy Inc.	A	A2	45.0%	47.1%	Excellent	Regulated
30	**Average**	**A-**	**A3**	**44.8%**	**46.8%**	**Excellent**	**Regulated**
31	AmerenUE	BBB[5]	A3[5]		47.4%[6]	Excellent	Regulated

Sources:

[1] *AUS Utility Reports*, November 2009.

[2] *The Value Line Investment Survey,* August 28, September 25, and November 6, 2009.

[3] *S&P RatingsDirect:* "U.S. Regulated Electric Utilities, Strongest to Weakest," September 1, 2009.

[4] *Edison Electric Institute*: Q3 2009 Rate Case Summary, Companies Listed by Category.

[5] AmerenUE Form 10-Q at 117.

[6] Direct Testimony of Michael O'Bryan, Sch. MGO-E1.

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Proxy Group
(S&P Electric Utilities)

Line	Company	Bond Ratings[1] S&P (1)	Bond Ratings[1] Moody's (2)	Common Equity Ratios *AUS*[1] (3)	Common Equity Ratios *Value Line*[2] (4)	S&P Business Risk Score[3] (5)	EEI Risk Assessment[4] (6)
1	Allegheny Energy	BBB+	Baa1	41.0%	40.9%	Strong	Diversified
2	Amer. Elec. Power	BBB	Baa2	43.0%	40.7%	Excellent	Regulated
3	Ameren Corp.	BBB	Baa1	45.0%	50.8%	Satisfactory	Regulated
4	CMS Energy Corp.	BBB	A3	25.0%	27.4%	Excellent	Regulated
5	CenterPoint Energy	BBB+	Baa1	18.0%	16.7%	Excellent	Mostly Regulated
6	Consol. Edison	A-	A3	48.0%	51.2%	Excellent	Regulated
7	Constellation Energy	BBB	Baa2	34.0%	37.6%	N/A	Diversified
8	DTE Energy	A-	A2	44.0%	43.6%	Strong	Regulated
9	Dominion Resources	A	N/R	40.0%	39.8%	Excellent	Mostly Regulated
10	Duke Energy	A	Baa2	57.0%	61.3%	Excellent	Mostly Regulated
11	Edison Int'l	A	A1	42.0%	44.5%	Strong	Mostly Regulated
12	Entergy Corp.	A-	Baa1	44.0%	40.2%	Strong	Mostly Regulated
13	Exelon Corp.	A-	A3	48.0%	46.6%	N/A	Mostly Regulated
14	FPL Group	A	Aa2	41.0%	45.8%	Excellent	Mostly Regulated
15	FirstEnergy Corp.	BBB+	Baa1	41.0%	47.7%	Strong	Mostly Regulated
16	Integrys Energy	A-	A2	52.0%	57.0%	Excellent	Mostly Regulated
17	PG&E Corp.	BBB+	A3	49.0%	46.5%	Excellent	Regulated
18	PPL Corp.	A-	A3	41.0%	40.5%	Excellent	Diversified
19	Pepco Holdings	A-	A3	43.0%	43.8%	Strong	Mostly Regulated
20	**Average**	**A-**	**A3**	**41.9%**	**43.3%**	**Excellent**	**Mostly Regulated**
21	AmerenUE	BBB[5]	A3[5]		47.4%[6]	Excellent	Regulated

Sources:

[1] *AUS Utility Reports*, November 2009.

[2] *The Value Line Investment Survey,* August 28, September 25, and November 6, 2009.

[3] *S&P RatingsDirect:* "U.S. Regulated Electric Utilities, Strongest to Weakest," September 1, 2009.

[4] *Edison Electric Institute*: Q3 2009 Rate Case Summary, Companies Listed by Category.

[5] *SNL Interactive,* http://www.snl.com/InteractiveX, downloaded on November 19, 2009.

[6] Direct Testimony of Michael O'Bryan, Sch. MGO-E1.

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Growth Rates
(Integrated Electric Utilities)

Line	Company	Zacks Estimated Growth %[1] (1)	Zacks Number of Estimates (2)	SNL Estimated Growth %[2] (3)	SNL Number of Estimates (4)	Reuters Estimated Growth %[3] (5)	Reuters Number of Estimates (6)	Average of Growth Rates (7)
1	ALLETE	4.00%	2	5.00%	3	7.50%	2	5.50%
2	Allegheny Energy	16.00%	3	7.00%	3	7.00%	2	10.00%
3	Alliant Energy	4.50%	2	4.50%	2	4.00%	1	4.33%
4	Amer. Elec. Power	3.25%	4	3.50%	4	4.25%	4	3.67%
5	Ameren Corp.	4.00%	1	3.00%	1	4.00%	1	3.67%
6	CMS Energy Corp.	7.00%	2	7.00%	3	6.67%	3	6.89%
7	Cleco Corp.	9.00%	1	12.50%	2	9.72%	2	10.41%
8	DPL Inc.	6.15%	2	8.30%	3	15.00%	1	9.82%
9	DTE Energy	4.00%	1	2.50%	2	3.00%	3	3.17%
10	Duke Energy	4.67%	3	4.00%	5	3.70%	5	4.12%
11	Edison Int'l	5.00%	1	3.00%	2	3.72%	4	3.91%
12	Empire Dist. Elec.	N/A	N/A	N/A	N/A	34.00%	1	34.00%
13	Entergy Corp.	6.00%	2	7.00%	4	8.52%	4	7.17%
14	Exelon Corp.	2.00%	1	3.50%	4	3.59%	5	3.03%
15	FPL Group	8.40%	5	9.00%	6	8.57%	6	8.66%
16	FirstEnergy Corp.	7.00%	1	4.50%	2	5.00%	1	5.50%
17	G't Plains Energy	2.00%	1	2.00%	1	3.79%	3	2.60%
18	Hawaiian Elec.	3.00%	1	3.00%	1	3.00%	3	3.00%
19	IDACORP Inc.	5.00%	2	5.00%	2	5.00%	2	5.00%
20	PG&E Corp.	7.50%	2	7.00%	5	7.00%	7	7.17%
21	Pepco Holdings	5.00%	3	5.50%	2	7.00%	2	5.83%
22	Portland General	7.00%	2	6.00%	4	6.18%	5	6.39%
23	Progress Energy	4.33%	3	4.00%	5	5.22%	7	4.52%
24	Public Serv. Enterprise	5.33%	3	4.00%	3	5.20%	5	4.84%
25	Southern Co.	8.46%	5	4.90%	6	4.97%	6	6.11%
26	TECO Energy	11.00%	3	5.00%	5	6.50%	2	7.50%
27	Westar Energy	4.50%	2	3.00%	3	3.45%	5	3.65%
28	Wisconsin Energy	8.50%	4	9.00%	5	8.27%	6	8.59%
29	Xcel Energy Inc.	5.48%	4	7.60%	5	6.27%	6	6.45%
30	**Average**	**6.00%**	**2**	**5.37%**	**3**	**6.90%**	**4**	**6.74%**
31	**Median**							**5.50%**

Sources:

[1] Zacks Elite, http://www.zackselite.com/, downloaded on November 23, 2009.

[2] SNL Interactive, http://www.snl.com/, downloaded on November 23, 2009.

[3] Reuters, http://www.reuters.com/, downloaded on November 23, 2009.

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Growth Rates
(S&P Electric Utilities)

Line	Company	Zacks Estimated Growth %[1] (1)	Zacks Number of Estimates (2)	SNL Estimated Growth %[2] (3)	SNL Number of Estimates (4)	Reuters Estimated Growth %[3] (5)	Reuters Number of Estimates (6)	Average of Growth Rates (7)
1	Allegheny Energy	16.00%	3	7.00%	3	7.00%	2	10.00%
2	Amer. Elec. Power	3.25%	4	3.50%	4	4.25%	4	3.67%
3	Ameren Corp.	4.00%	1	3.00%	1	4.00%	1	3.67%
4	CMS Energy Corp.	7.00%	2	7.00%	3	6.67%	3	6.89%
5	CenterPoint Energy	N/A	N/A	N/A	N/A	7.00%	1	7.00%
6	Consol. Edison	3.25%	4	4.00%	5	4.00%	5	3.75%
7	Constellation Energy	12.00%	1	14.80%	1	13.27%	3	13.36%
8	DTE Energy	4.00%	1	2.50%	2	3.00%	3	3.17%
9	Dominion Resources	5.00%	1	5.00%	4	6.95%	4	5.65%
10	Duke Energy	4.67%	3	4.00%	5	3.70%	5	4.12%
11	Edison Int'l	5.00%	1	3.00%	2	3.72%	4	3.91%
12	Entergy Corp.	6.00%	2	7.00%	4	8.52%	4	7.17%
13	Exelon Corp.	2.00%	1	3.50%	4	3.59%	5	3.03%
14	FPL Group	8.40%	5	9.00%	6	8.57%	6	8.66%
15	FirstEnergy Corp.	7.00%	1	4.50%	2	5.00%	1	5.50%
16	Integrys Energy	N/A	N/A	26.20%	2	4.50%	2	15.35%
17	PG&E Corp.	7.50%	2	7.00%	5	7.00%	7	7.17%
18	PPL Corp.	10.00%	1	12.50%	2	9.67%	3	10.72%
19	Pepco Holdings	5.00%	3	5.50%	2	7.00%	2	5.83%
20	**Average**	**6.47%**	**2**	**7.17%**	**3**	**6.18%**	**3**	**6.77%**
21	**Median**							**5.83%**

Sources:
[1] Zacks Elite, http://www.zackselite.com/, downloaded on November 23, 2009.
[2] SNL Interactive, http://www.snl.com/, downloaded on November 23, 2009.
[3] Reuters, http://www.reuters.com/, downloaded on November 23, 2009.

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Constant Growth DCF Model
(Integrated Electric Utilities)

Line	Company	13-Week AVG Stock Price[1] (1)	Analysts' Growth[2] (2)	Annual Dividend[3] (3)	Adjusted Yield (4)	Constant Growth DCF (5)
1	ALLETE	$33.61	5.50%	$1.76	5.53%	11.03%
2	Allegheny Energy	$25.29	10.00%	$0.60	2.61%	12.61%
3	Alliant Energy	$27.21	4.33%	$1.50	5.75%	10.08%
4	Amer. Elec. Power	$31.09	3.67%	$1.64	5.47%	9.14%
5	Ameren Corp.	$25.60	3.67%	$1.54	6.24%	9.90%
6	CMS Energy Corp.	$13.54	6.89%	$0.50	3.95%	10.84%
7	Cleco Corp.	$24.88	10.41%	$0.90	3.99%	14.40%
8	DPL Inc.	$25.96	9.82%	$1.14	4.82%	14.64%
9	DTE Energy	$36.42	3.17%	$2.12	6.00%	9.17%
10	Duke Energy	$15.78	4.12%	$0.96	6.34%	10.46%
11	Edison Int'l	$33.37	3.91%	$1.24	3.86%	7.77%
12	Empire Dist. Elec.	$18.26	34.00%	$1.28	9.39%	43.39%
13	Entergy Corp.	$79.06	7.17%	$3.00	4.07%	11.24%
14	Exelon Corp.	$48.96	3.03%	$2.10	4.42%	7.45%
15	FPL Group	$53.36	8.66%	$1.89	3.85%	12.51%
16	FirstEnergy Corp.	$45.10	5.50%	$2.20	5.15%	10.65%
17	G't Plains Energy	$17.83	2.60%	$0.83	4.78%	7.37%
18	Hawaiian Elec.	$18.22	3.00%	$1.24	7.01%	10.01%
19	IDACORP Inc.	$28.81	5.00%	$1.20	4.37%	9.37%
20	PG&E Corp.	$41.19	7.17%	$1.68	4.37%	11.54%
21	Pepco Holdings	$14.86	5.83%	$1.08	7.69%	13.53%
22	Portland General	$19.72	6.39%	$1.02	5.50%	11.90%
23	Progress Energy	$38.53	4.52%	$2.48	6.73%	11.24%
24	Public Serv. Enterprise	$31.04	4.84%	$1.33	4.49%	9.34%
25	Southern Co.	$31.80	6.11%	$1.75	5.84%	11.95%
26	TECO Energy	$14.05	7.50%	$0.80	6.12%	13.62%
27	Westar Energy	$20.03	3.65%	$1.20	6.21%	9.86%
28	Wisconsin Energy	$44.80	8.59%	$1.35	3.27%	11.86%
29	Xcel Energy Inc.	$19.54	6.45%	$0.98	5.34%	11.79%
30	**Average**	**$30.27**	**6.74%**	**$1.42**	**5.28%**	**12.02%**
31	**Median**		**5.50%**		**5.34%**	**11.03%**

Sources:
[1] http://moneycentral.msn.com, downloaded on November 23, 2009.
[2] Exhibit MPG-5, page 1, column 7.
[3] *The Value Line Investment Survey,* August 28, September 25, and November 6, 2009.

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Constant Growth DCF Model
(S&P Electric Utilities)

Line	Company	13-Week AVG Stock Price[1] (1)	Analysts' Growth[2] (2)	Annual Dividend[3] (3)	Adjusted Yield (4)	Constant Growth DCF (5)
1	Allegheny Energy	$25.29	10.00%	$0.60	2.61%	12.61%
2	Amer. Elec. Power	$31.09	3.67%	$1.64	5.47%	9.14%
3	Ameren Corp.	$25.60	3.67%	$1.54	6.24%	9.90%
4	CMS Energy Corp.	$13.54	6.89%	$0.50	3.95%	10.84%
5	CenterPoint Energy	$12.58	7.00%	$0.76	6.47%	13.47%
6	Consol. Edison	$40.98	3.75%	$2.36	5.97%	9.72%
7	Constellation Energy	$32.07	13.36%	$0.96	3.39%	16.75%
8	DTE Energy	$36.42	3.17%	$2.12	6.00%	9.17%
9	Dominion Resources	$34.47	5.65%	$1.75	5.36%	11.01%
10	Duke Energy	$15.78	4.12%	$0.96	6.34%	10.46%
11	Edison Int'l	$33.37	3.91%	$1.24	3.86%	7.77%
12	Entergy Corp.	$79.06	7.17%	$3.00	4.07%	11.24%
13	Exelon Corp.	$48.96	3.03%	$2.10	4.42%	7.45%
14	FPL Group	$53.36	8.66%	$1.89	3.85%	12.51%
15	FirstEnergy Corp.	$45.10	5.50%	$2.20	5.15%	10.65%
16	Integrys Energy	$35.63	15.35%	$2.72	8.81%	24.16%
17	PG&E Corp.	$41.19	7.17%	$1.68	4.37%	11.54%
18	PPL Corp.	$29.97	10.72%	$1.38	5.10%	15.82%
19	Pepco Holdings	$14.86	5.83%	$1.08	7.69%	13.53%
20	**Average**	**$34.17**	**6.77%**	**$1.60**	**5.22%**	**11.99%**
21	**Median**		**5.83%**		**5.15%**	**11.01%**

Sources:
[1] http://moneycentral.msn.com, downloaded on November 23, 2009.
[2] Exhibit MPG-5, page 2, column 7.
[3] *The Value Line Investment Survey,* August 28, September 25, and November 6, 2009.

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Dividend Yields
(Integrated Electric Utilities)

Line	Company	Actual						'04 - '08 Average
		2004	2005	2006	2007	2008	2009[1]	Dividend Yield
		(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	ALLETE	0.90%	2.80%	3.20%	3.60%	4.40%	5.24%	2.98%
2	Allegheny Energy	N/A	N/A	N/A	0.30%	1.30%	2.37%	0.80%
3	Alliant Energy	3.90%	3.80%	3.30%	3.10%	4.10%	5.51%	3.64%
4	Amer. Elec. Power	4.30%	3.90%	4.10%	3.40%	4.20%	5.28%	3.98%
5	Ameren Corp.	5.50%	4.90%	4.90%	4.90%	6.20%	6.02%	5.28%
6	CMS Energy Corp.	N/A	N/A	N/A	1.20%	2.70%	3.69%	1.95%
7	Cleco Corp.	5.00%	4.20%	3.80%	3.50%	3.80%	3.62%	4.06%
8	DPL Inc.	4.70%	3.70%	3.70%	3.60%	4.30%	4.39%	4.00%
9	DTE Energy	5.00%	4.60%	4.90%	4.40%	5.20%	5.82%	4.82%
10	Duke Energy	N/A	N/A	N/A	4.40%	5.20%	6.09%	4.80%
11	Edison Int'l	3.10%	2.60%	2.60%	2.20%	2.70%	3.72%	2.64%
12	Empire Dist. Elec.	6.00%	5.70%	5.70%	5.40%	6.30%	7.01%	5.82%
13	Entergy Corp.	3.20%	3.00%	2.80%	2.40%	2.90%	3.79%	2.86%
14	Exelon Corp.	3.50%	3.20%	2.80%	2.50%	2.80%	4.29%	2.96%
15	FPL Group	3.90%	3.40%	3.40%	2.70%	3.00%	3.54%	3.28%
16	FirstEnergy Corp.	4.90%	3.70%	3.40%	3.10%	3.20%	4.88%	3.66%
17	G't Plains Energy	5.40%	5.50%	5.60%	5.50%	7.00%	4.66%	5.80%
18	Hawaiian Elec.	4.80%	4.60%	4.60%	5.20%	5.00%	6.81%	4.84%
19	IDACORP Inc.	4.10%	4.10%	3.40%	3.50%	4.00%	4.17%	3.82%
20	PG&E Corp.	N/A	3.40%	3.20%	3.10%	4.00%	4.08%	3.43%
21	Pepco Holdings	5.00%	4.50%	4.30%	3.70%	4.60%	7.27%	4.42%
22	Portland General	N/A	N/A	2.50%	3.30%	4.30%	5.17%	3.37%
23	Progress Energy	5.30%	5.50%	5.50%	5.10%	5.80%	6.44%	5.44%
24	Public Serv. Enterprise	5.10%	3.80%	3.50%	2.70%	3.30%	4.29%	3.68%
25	Southern Co.	4.70%	4.40%	4.50%	4.40%	4.60%	5.50%	4.52%
26	TECO Energy	5.50%	4.40%	4.70%	4.60%	4.90%	5.69%	4.82%
27	Westar Energy	3.90%	4.00%	4.30%	4.20%	5.20%	5.99%	4.32%
28	Wisconsin Energy	2.60%	2.40%	2.20%	2.10%	2.40%	3.01%	2.34%
29	Xcel Energy Inc.	4.70%	4.60%	4.40%	4.00%	4.70%	5.01%	4.48%
30	**Average**	**4.38%**	**4.03%**	**3.90%**	**3.52%**	**4.21%**	**4.94%**	**3.89%**

Sources:
The Value Line Investment Survey, August 28, September 25, and November 6, 2009.
[1] Exhibit MPG-6, page 1, column 3 / Exhibit MPG-6, page 1, column 1.

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Dividend Yields
(S&P Electric Utilities)

Line	Company	Actual						'04 - '08 Average
		2004	2005	2006	2007	2008	2009[1]	Dividend Yield
		(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	Allegheny Energy	N/A	N/A	N/A	0.30%	1.30%	2.37%	0.80%
2	Amer. Elec. Power	4.30%	3.90%	4.10%	3.40%	4.20%	5.28%	3.98%
3	Ameren Corp.	5.50%	4.90%	4.90%	4.90%	6.20%	6.02%	5.28%
4	CMS Energy Corp.	N/A	N/A	N/A	1.20%	2.70%	3.69%	1.95%
5	CenterPoint Energy	3.70%	3.10%	4.40%	3.90%	5.00%	6.04%	4.02%
6	Consol. Edison	5.30%	5.00%	5.00%	4.80%	5.70%	5.76%	5.16%
7	Constellation Energy	2.90%	2.50%	2.60%	2.00%	2.90%	2.99%	2.58%
8	DTE Energy	5.00%	4.60%	4.90%	4.40%	5.20%	5.82%	4.82%
9	Dominion Resources	4.00%	3.60%	3.60%	3.30%	3.80%	5.08%	3.66%
10	Duke Energy	N/A	N/A	N/A	4.40%	5.20%	6.09%	4.80%
11	Edison Int'l	3.10%	2.60%	2.60%	2.20%	2.70%	3.72%	2.64%
12	Entergy Corp.	3.20%	3.00%	2.80%	2.40%	2.90%	3.79%	2.86%
13	Exelon Corp.	3.50%	3.20%	2.80%	2.50%	2.80%	4.29%	2.96%
14	FPL Group	3.90%	3.40%	3.40%	2.70%	3.00%	3.54%	3.28%
15	FirstEnergy Corp.	4.90%	3.70%	3.40%	3.10%	3.20%	4.88%	3.66%
16	Integrys Energy	4.70%	4.10%	4.40%	4.80%	5.50%	7.64%	4.70%
17	PG&E Corp.	N/A	3.40%	3.20%	3.10%	4.00%	4.08%	3.43%
18	PPL Corp.	3.50%	3.30%	3.40%	2.70%	3.10%	4.60%	3.20%
19	Pepco Holdings	5.00%	4.50%	4.30%	3.70%	4.60%	7.27%	4.42%
20	**Average**	**4.17%**	**3.68%**	**3.74%**	**3.15%**	**3.89%**	**4.89%**	**3.59%**

Sources:

The Value Line Investment Survey, August 28, September 25, and November 6, 2009.

[1] Exhibit MPG-6, page 2, column 3 / Exhibit MPG-6, page 2, column 1.

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Historical Growth Rates
(Integrated Electric Utilities)

Line	Company	Dividend Growth[1] Historical 10 Years (1)	Dividend Growth[1] Historical 5 Years (2)	Dividend Growth[1] 3-5 Years Projection (3)	Inflation (CPI) Historical[1] 10 Years (4)	Inflation (CPI) Historical[1] 5 Years (5)	Inflation (CPI) 3-5 Years Projection[2] (6)	Nominal GDP Historical[1] 10 Years (7)	Nominal GDP Historical[1] 5 Years (8)	Nominal GDP Projected[3] 5 Years (9)	Nominal GDP Projected[3] 10 Years (10)
1	ALLETE	N/A	N/A	3.0%							
2	Allegheny Energy	-17.5%	-24.5%	30.0%							
3	Alliant Energy	-4.5%	-5.0%	7.0%							
4	Amer. Elec. Power	-4.0%	-6.0%	3.0%							
5	Ameren Corp.	N/A	N/A	-6.5%							
6	CMS Energy Corp.	-16.5%	-26.0%	27.5%							
7	Cleco Corp.	1.5%	0.5%	10.0%							
8	DPL Inc.	1.5%	2.0%	3.5%							
9	DTE Energy	N/A	0.5%	3.0%							
10	Duke Energy	N/A	N/A	N/A							
11	Edison Int'l	1.5%	N/A	4.5%							
12	Empire Dist. Elec.	N/A	N/A	1.5%							
13	Entergy Corp.	4.5%	13.0%	5.5%							
14	Exelon Corp.	N/A	15.0%	4.5%							
15	FPL Group	5.5%	7.0%	6.0%							
16	FirstEnergy Corp.	3.0%	6.5%	4.5%							
17	G't Plains Energy	0.5%	N/A	-6.5%							
18	Hawaiian Elec.	N/A	N/A	N/A							
19	IDACORP Inc.	-4.5%	-8.0%	2.5%							
20	PG&E Corp.	0.5%	N/A	7.5%							
21	Pepco Holdings	N/A	17.5%	N/A							
22	Portland General	N/A	N/A	5.5%							
23	Progress Energy	2.5%	2.0%	1.0%							
24	Public Serv. Enterprise	1.0%	2.0%	6.0%							
25	Southern Co.	2.0%	3.0%	4.0%							
26	TECO Energy	-4.0%	-9.0%	2.5%							
27	Westar Energy	-6.5%	-0.5%	4.5%							
28	Wisconsin Energy	-4.0%	4.5%	13.5%							
29	Xcel Energy Inc.	-4.0%	-4.0%	3.0%							
30	**Average**	**-2.1%**	**-0.5%**	**5.8%**	**2.8%**	**3.2%**	**2.5%**	**5.0%**	**5.3%**	**4.9%**	**4.7%**

Sources:

[1] *The Value Line Investment Survey,* August 28, September 25, and November 6, 2009.

[2] *The Value Line Investment Survey,* November 6, 2009.

[3] *Blue Chip Economic Indicators,* October 10, 2009 at 15.

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Historical Growth Rates
(S&P Electric Utilities)

Line	Company	Dividend Growth[1] Historical 10 Years (1)	Dividend Growth[1] Historical 5 Years (2)	Dividend Growth[1] 3-5 Years Projection (3)	Inflation (CPI) Historical[1] 10 Years (4)	Inflation (CPI) Historical[1] 5 Years (5)	Inflation (CPI) 3-5 Years Projection[2] (6)	Nominal GDP Historical[1] 10 Years (7)	Nominal GDP Historical[1] 5 Years (8)	Nominal GDP Projected[3] 5 Years (9)	Nominal GDP Projected[3] 10 Years (10)
1	Allegheny Energy	-17.5%	-24.5%	30.0%							
2	Amer. Elec. Power	-4.0%	-6.0%	3.0%							
3	Ameren Corp.	N/A	N/A	-6.5%							
4	CMS Energy Corp.	-16.5%	-26.0%	27.5%							
5	CenterPoint Energy	N/A	-7.5%	5.5%							
6	Consol. Edison	1.0%	1.0%	1.0%							
7	Constellation Energy	0.5%	16.0%	-8.5%							
8	DTE Energy	N/A	0.5%	3.0%							
9	Dominion Resources	1.5%	2.5%	7.0%							
10	Duke Energy	N/A	N/A	N/A							
11	Edison Int'l	1.5%	N/A	4.5%							
12	Entergy Corp.	4.5%	13.0%	5.5%							
13	Exelon Corp.	N/A	15.0%	4.5%							
14	FPL Group	5.5%	7.0%	6.0%							
15	FirstEnergy Corp.	3.0%	6.5%	4.5%							
16	Integrys Energy	2.5%	3.5%	1.5%							
17	PG&E Corp.	0.5%	N/A	7.5%							
18	PPL Corp.	4.5%	12.5%	7.5%							
19	Pepco Holdings	N/A	17.5%	N/A							
20	**Average**	**-1.0%**	**2.1%**	**6.1%**	**2.8%**	**3.2%**	**2.5%**	**5.0%**	**5.3%**	**4.9%**	**4.7%**

Sources:

[1] *The Value Line Investment Survey,* August 28, September 25, and November 6, 2009.

[2] *The Value Line Investment Survey,* November 6, 2009.

[3] *Blue Chip Economic Indicators,* October 10, 2009 at 15.

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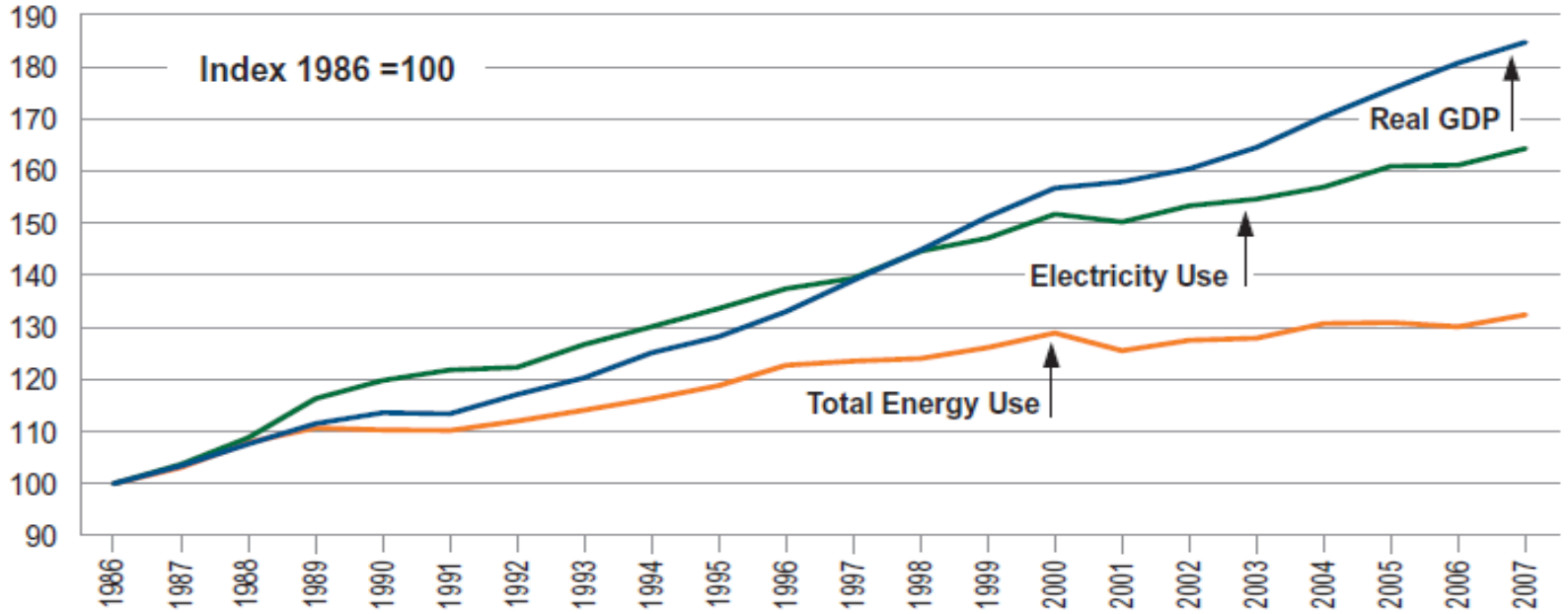
Electricity Sales Are Linked to U.S. Economic Growth



1986 represents the base year. Graph depicts increases or decreases from the base year.

Source: U.S. Department of Energy, Energy Information Administration (EIA).

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Current and Projected Payout Ratios
(Integrated Electric Utilities)

Line	Company	Dividends Per Share		Earnings Per Share		Payout Ratio	
		2008	3-5 Years	2008	3-5 Years	2008	3-5 Years
		(1)	(2)	(3)	(4)	(5)	(6)
1	ALLETE	$1.72	$1.92	$2.82	$2.75	60.99%	69.82%
2	Allegheny Energy	$0.60	$1.20	$2.33	$3.35	25.75%	35.82%
3	Alliant Energy	$1.40	$1.92	$2.54	$3.20	55.12%	60.00%
4	Amer. Elec. Power	$1.64	$1.90	$2.99	$3.50	54.85%	54.29%
5	Ameren Corp.	$2.54	$1.70	$2.88	$3.00	88.19%	56.67%
6	CMS Energy Corp.	$0.36	$0.80	$1.23	$1.50	29.27%	53.33%
7	Cleco Corp.	$0.90	$1.60	$1.70	$2.50	52.94%	64.00%
8	DPL Inc.	$1.10	$1.30	$2.12	$2.70	51.89%	48.15%
9	DTE Energy	$2.12	$2.50	$2.73	$4.00	77.66%	62.50%
10	Duke Energy	$0.90	$1.10	$1.01	$1.40	89.11%	78.57%
11	Edison Int'l	$1.23	$1.50	$3.68	$4.50	33.42%	33.33%
12	Empire Dist. Elec.	$1.28	$1.35	$1.17	$1.75	109.40%	77.14%
13	Entergy Corp.	$3.00	$3.60	$6.20	$8.00	48.39%	45.00%
14	Exelon Corp.	$2.05	$2.40	$4.10	$5.50	50.00%	43.64%
15	FPL Group	$1.78	$2.30	$4.07	$5.00	43.73%	46.00%
16	FirstEnergy Corp.	$2.20	$2.65	$4.38	$5.25	50.23%	50.48%
17	G't Plains Energy	$1.66	$1.10	$1.16	$1.60	143.10%	68.75%
18	Hawaiian Elec.	$1.24	$1.24	$1.07	$1.75	115.89%	70.86%
19	IDACORP Inc.	$1.20	$1.40	$2.18	$2.75	55.05%	50.91%
20	PG&E Corp.	$1.56	$2.20	$3.22	$4.25	48.45%	51.76%
21	Pepco Holdings	$1.08	$1.08	$1.93	$1.80	55.96%	60.00%
22	Portland General	$0.97	$1.20	$1.39	$2.00	69.78%	60.00%
23	Progress Energy	$2.46	$2.56	$2.96	$3.60	83.11%	71.11%
24	Public Serv. Enterprise	$1.29	$1.70	$2.90	$3.75	44.48%	45.33%
25	Southern Co.	$1.66	$2.00	$2.25	$3.00	73.78%	66.67%
26	TECO Energy	$0.80	$0.90	$0.77	$1.40	103.90%	64.29%
27	Westar Energy	$1.16	$1.40	$1.31	$2.20	88.55%	63.64%
28	Wisconsin Energy	$1.08	$2.15	$3.03	$4.50	35.64%	47.78%
29	Xcel Energy Inc.	$0.94	$1.10	$1.46	$2.00	64.38%	55.00%
30	**Average**	**$1.45**	**$1.72**	**$2.47**	**$3.19**	**65.62%**	**57.06%**

Source:
The Value Line Investment Survey, August 28, September 25, and November 6, 2009.

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Current and Projected Payout Ratios
(S&P Electric Utilities)

Line	Company	Dividends Per Share		Earnings Per Share		Payout Ratio	
		2008	3-5 Years	2008	3-5 Years	2008	3-5 Years
		(1)	(2)	(3)	(4)	(5)	(6)
1	Allegheny Energy	$0.60	$1.20	$2.33	$3.35	25.75%	35.82%
2	Amer. Elec. Power	$1.64	$1.90	$2.99	$3.50	54.85%	54.29%
3	Ameren Corp.	$2.54	$1.70	$2.88	$3.00	88.19%	56.67%
4	CMS Energy Corp.	$0.36	$0.80	$1.23	$1.50	29.27%	53.33%
5	CenterPoint Energy	$0.73	$0.92	$1.30	$1.50	56.15%	61.33%
6	Consol. Edison	$2.34	$2.44	$3.36	$3.85	69.64%	63.38%
7	Constellation Energy	$1.91	$1.00	$0.48	$3.50	397.92%	28.57%
8	DTE Energy	$2.12	$2.50	$2.73	$4.00	77.66%	62.50%
9	Dominion Resources	$1.58	$2.20	$3.04	$4.00	51.97%	55.00%
10	Duke Energy	$0.90	$1.10	$1.01	$1.40	89.11%	78.57%
11	Edison Int'l	$1.23	$1.50	$3.68	$4.50	33.42%	33.33%
12	Entergy Corp.	$3.00	$3.60	$6.20	$8.00	48.39%	45.00%
13	Exelon Corp.	$2.05	$2.40	$4.10	$5.50	50.00%	43.64%
14	FPL Group	$1.78	$2.30	$4.07	$5.00	43.73%	46.00%
15	FirstEnergy Corp.	$2.20	$2.65	$4.38	$5.25	50.23%	50.48%
16	Integrys Energy	$2.68	$2.72	$1.58	$3.50	169.62%	77.71%
17	PG&E Corp.	$1.56	$2.20	$3.22	$4.25	48.45%	51.76%
18	PPL Corp.	$1.34	$1.90	$2.45	$3.75	54.69%	50.67%
19	Pepco Holdings	$1.08	$1.08	$1.93	$1.80	55.96%	60.00%
20	**Average**	**$1.67**	**$1.90**	**$2.79**	**$3.74**	**78.68%**	**53.06%**

Source:
The Value Line Investment Survey, August 28, September 25, and November 6, 2009.

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Sustainable Growth Rate
(Integrated Electric Utilities)

Line	Company	3 to 5 Year Projections: Dividends Per Share (1)	Earnings Per Share (2)	Book Value Per Share (3)	Adjustment Factor (4)	ROE (5)	Adjusted ROE (6)	Payout Ratio (7)	Retention Rate (8)	Internal Growth Rate (9)	Growth Rate Plus S * V[1] (10)
1	ALLETE	$1.92	$2.75	$28.75	1.01	9.57%	9.68%	69.82%	30.18%	2.92%	4.45%
2	Allegheny Energy	$1.20	$3.35	$25.90	1.04	12.93%	13.49%	35.82%	64.18%	8.66%	8.93%
3	Alliant Energy	$1.92	$3.20	$31.05	1.02	10.31%	10.51%	60.00%	40.00%	4.20%	4.27%
4	Amer. Elec. Power	$1.90	$3.50	$33.50	1.02	10.45%	10.70%	54.29%	45.71%	4.89%	5.58%
5	Ameren Corp.	$1.70	$3.00	$37.25	1.01	8.05%	8.16%	56.67%	43.33%	3.53%	2.77%
6	CMS Energy Corp.	$0.80	$1.50	$14.50	1.03	10.34%	10.64%	53.33%	46.67%	4.97%	5.19%
7	Cleco Corp.	$1.60	$2.50	$21.75	1.02	11.49%	11.73%	64.00%	36.00%	4.22%	4.88%
8	DPL Inc.	$1.30	$2.70	$10.10	1.02	26.73%	27.22%	48.15%	51.85%	14.12%	16.93%
9	DTE Energy	$2.50	$4.00	$41.25	1.01	9.70%	9.81%	62.50%	37.50%	3.68%	3.66%
10	Duke Energy	$1.10	$1.40	$17.75	1.01	7.89%	7.94%	78.57%	21.43%	1.70%	1.67%
11	Edison Int'l	$1.50	$4.50	$39.75	1.03	11.32%	11.67%	33.33%	66.67%	7.78%	7.78%
12	Empire Dist. Elec.	$1.35	$1.75	$17.50	1.01	10.00%	10.12%	77.14%	22.86%	2.31%	2.98%
13	Entergy Corp.	$3.60	$8.00	$60.50	1.04	13.22%	13.70%	45.00%	55.00%	7.54%	7.41%
14	Exelon Corp.	$2.40	$5.50	$28.25	1.05	19.47%	20.48%	43.64%	56.36%	11.54%	10.19%
15	FPL Group	$2.30	$5.00	$41.25	1.04	12.12%	12.57%	46.00%	54.00%	6.79%	7.99%
16	FirstEnergy Corp.	$2.65	$5.25	$36.75	1.03	14.29%	14.72%	50.48%	49.52%	7.29%	7.29%
17	G't Plains Energy	$1.10	$1.60	$22.25	1.00	7.19%	7.22%	68.75%	31.25%	2.26%	1.31%
18	Hawaiian Elec.	$1.24	$1.75	$16.75	1.01	10.45%	10.54%	70.86%	29.14%	3.07%	3.23%
19	IDACORP Inc.	$1.40	$2.75	$36.00	1.03	7.64%	7.84%	50.91%	49.09%	3.85%	3.93%
20	PG&E Corp.	$2.20	$4.25	$35.75	1.03	11.89%	12.27%	51.76%	48.24%	5.92%	7.13%
21	Pepco Holdings	$1.08	$1.80	$21.50	1.01	8.37%	8.47%	60.00%	40.00%	3.39%	2.52%
22	Portland General	$1.20	$2.00	$23.75	1.01	8.42%	8.50%	60.00%	40.00%	3.40%	2.95%
23	Progress Energy	$2.56	$3.60	$36.80	1.01	9.78%	9.90%	71.11%	28.89%	2.86%	3.18%
24	Public Serv. Enterprise	$1.70	$3.75	$24.25	1.05	15.46%	16.17%	45.33%	54.67%	8.84%	8.18%
25	Southern Co.	$2.00	$3.00	$21.75	1.02	13.79%	14.13%	66.67%	33.33%	4.71%	5.70%
26	TECO Energy	$0.90	$1.40	$11.75	1.02	11.91%	12.18%	64.29%	35.71%	4.35%	4.58%
27	Westar Energy	$1.40	$2.20	$27.20	1.03	8.09%	8.33%	63.64%	36.36%	3.03%	3.02%
28	Wisconsin Energy	$2.15	$4.50	$38.00	1.03	11.84%	12.18%	47.78%	52.22%	6.36%	6.37%
29	Xcel Energy Inc.	$1.10	$2.00	$19.00	1.02	10.53%	10.75%	55.00%	45.00%	4.84%	4.96%
30	**Average**	**$1.72**	**$3.19**	**$28.29**	**1.02**	**11.49%**	**11.78%**	**57.06%**	**42.94%**	**5.28%**	**5.48%**
31	**Median**										**4.88%**

Sources:

The Value Line Investment Survey, August 28, September 25, and November 6, 2009.

[1] Page 2, Column 9.

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Sustainable Growth
(Integrated Electric Utilities)

Line	Company	13-Week Average Stock Price[1] (1)	2008 Book Value P/S Projection[2] (2)	Market to Book Ratio (3)	Common Shares Outstanding (in Millions)[2] 2008 (4)	Common Shares Outstanding (in Millions)[2] 3-5 Years (5)	Growth (6)	S Factor[3] (7)	V Factor[4] (8)	S * V (9)
1	ALLETE	$33.61	$25.37	1.32	32.60	41.00	4.69%	6.22%	24.51%	1.52%
2	Allegheny Energy	$25.29	$16.83	1.50	169.36	174.00	0.54%	0.81%	33.46%	0.27%
3	Alliant Energy	$27.21	$25.56	1.06	110.45	116.00	0.99%	1.05%	6.07%	0.06%
4	Amer. Elec. Power	$31.09	$26.33	1.18	406.07	490.00	3.83%	4.52%	15.30%	0.69%
5	Ameren Corp.	$25.60	$32.80	0.78	212.30	252.00	3.49%	2.72%	-28.13%	-0.77%
6	CMS Energy Corp.	$13.54	$10.88	1.24	226.41	237.00	0.92%	1.14%	19.66%	0.22%
7	Cleco Corp.	$24.88	$17.65	1.41	60.04	65.00	1.60%	2.26%	29.07%	0.66%
8	DPL Inc.	$25.96	$8.41	3.09	115.96	124.00	1.35%	4.17%	67.60%	2.82%
9	DTE Energy	$36.42	$36.77	0.99	163.02	178.00	1.77%	1.76%	-0.95%	-0.02%
10	Duke Energy	$15.78	$16.50	0.96	1272.00	1315.00	0.67%	0.64%	-4.59%	-0.03%
11	Edison Int'l	$33.37	$29.21	1.14	325.81	325.81	0.00%	0.00%	12.47%	0.00%
12	Empire Dist. Elec.	$18.26	$15.56	1.17	33.98	41.00	3.83%	4.49%	14.79%	0.66%
13	Entergy Corp.	$79.06	$42.07	1.88	189.36	188.00	-0.14%	-0.27%	46.79%	-0.13%
14	Exelon Corp.	$48.96	$16.79	2.92	658.00	635.00	-0.71%	-2.07%	65.71%	-1.36%
15	FPL Group	$53.36	$28.57	1.87	408.92	438.00	1.38%	2.58%	46.45%	1.20%
16	FirstEnergy Corp.	$45.10	$27.17	1.66	304.84	304.84	0.00%	0.00%	39.76%	0.00%
17	G't Plains Energy	$17.83	$21.39	0.83	119.26	157.00	5.65%	4.71%	-19.98%	-0.94%
18	Hawaiian Elec.	$18.22	$15.35	1.19	90.52	94.50	0.86%	1.03%	15.73%	0.16%
19	IDACORP Inc.	$28.81	$27.76	1.04	46.92	52.00	2.08%	2.16%	3.63%	0.08%
20	PG&E Corp.	$41.19	$25.97	1.59	361.06	400.00	2.07%	3.28%	36.95%	1.21%
21	Pepco Holdings	$14.86	$19.14	0.78	218.91	265.00	3.90%	3.02%	-28.84%	-0.87%
22	Portland General	$19.72	$21.64	0.91	62.58	80.00	5.03%	4.59%	-9.74%	-0.45%
23	Progress Energy	$38.53	$32.55	1.18	264.00	288.00	1.76%	2.08%	15.52%	0.32%
24	Public Serv. Enterprise	$31.04	$15.36	2.02	506.02	490.00	-0.64%	-1.30%	50.51%	-0.65%
25	Southern Co.	$31.80	$17.08	1.86	777.19	823.00	1.15%	2.14%	46.29%	0.99%
26	TECO Energy	$14.05	$9.43	1.49	212.90	218.00	0.47%	0.71%	32.90%	0.23%
27	Westar Energy	$20.03	$20.18	0.99	108.31	114.00	1.03%	1.02%	-0.76%	-0.01%
28	Wisconsin Energy	$44.80	$28.54	1.57	116.92	117.00	0.01%	0.02%	36.29%	0.01%
29	Xcel Energy Inc.	$19.54	$15.35	1.27	453.79	464.00	0.45%	0.57%	21.46%	0.12%
30	**Average**	**$30.27**	**$22.28**	**1.41**	**276.81**	**292.66**	**1.66%**	**1.86%**	**20.27%**	**0.21%**

Sources:

[1] http://moneycentral.msn.com, downloaded on November 23, 2009.

[2] *The Value Line Investment Survey,* August 28, September 25, and November 6, 2009.

[3] Expected Growth in the Number of Shares.

[4] Expected Profit of Stock Investment.

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Sustainable Growth Rate
(S&P Electric Utilities)

Line	Company	3 to 5 Year Projections: Dividends Per Share (1)	Earnings Per Share (2)	Book Value Per Share (3)	Adjustment Factor (4)	ROE (5)	Adjusted ROE (6)	Payout Ratio (7)	Retention Rate (8)	Internal Growth Rate (9)	Growth Rate Plus S * V[1] (10)
1	Allegheny Energy	$1.20	$3.35	$25.90	1.04	12.93%	13.49%	35.82%	64.18%	8.66%	8.93%
2	Amer. Elec. Power	$1.90	$3.50	$33.50	1.02	10.45%	10.70%	54.29%	45.71%	4.89%	5.58%
3	Ameren Corp.	$1.70	$3.00	$37.25	1.01	8.05%	8.16%	56.67%	43.33%	3.53%	2.77%
4	CMS Energy Corp.	$0.80	$1.50	$14.50	1.03	10.34%	10.64%	53.33%	46.67%	4.97%	5.19%
5	CenterPoint Energy	$0.92	$1.50	$9.00	1.04	16.67%	17.37%	61.33%	38.67%	6.72%	11.20%
6	Consol. Edison	$2.44	$3.85	$40.80	1.01	9.44%	9.57%	63.38%	36.62%	3.50%	3.63%
7	Constellation Energy	$1.00	$3.50	$36.25	1.08	9.66%	10.44%	28.57%	71.43%	7.46%	9.02%
8	DTE Energy	$2.50	$4.00	$41.05	1.01	9.74%	9.85%	62.50%	37.50%	3.69%	3.68%
9	Dominion Resources	$2.20	$4.00	$26.00	1.04	15.38%	16.01%	55.00%	45.00%	7.21%	8.53%
10	Duke Energy	$1.10	$1.40	$17.75	1.01	7.89%	7.94%	78.57%	21.43%	1.70%	1.67%
11	Edison Int'l	$1.50	$4.50	$39.75	1.03	11.32%	11.67%	33.33%	66.67%	7.78%	7.78%
12	Entergy Corp.	$3.60	$8.00	$60.50	1.04	13.22%	13.70%	45.00%	55.00%	7.54%	7.41%
13	Exelon Corp.	$2.40	$5.50	$28.25	1.05	19.47%	20.48%	43.64%	56.36%	11.54%	10.19%
14	FPL Group	$2.30	$5.00	$41.25	1.04	12.12%	12.57%	46.00%	54.00%	6.79%	7.99%
15	FirstEnergy Corp.	$2.65	$5.25	$36.75	1.03	14.29%	14.72%	50.48%	49.52%	7.29%	7.29%
16	Integrys Energy	$2.72	$3.50	$39.00	1.00	8.97%	8.93%	77.71%	22.29%	1.99%	1.80%
17	PG&E Corp.	$2.20	$4.25	$35.75	1.03	11.89%	12.27%	51.76%	48.24%	5.92%	7.13%
18	PPL Corp.	$1.90	$3.75	$19.50	1.04	19.23%	19.93%	50.67%	49.33%	9.83%	9.53%
19	Pepco Holdings	$1.08	$1.80	$21.50	1.01	8.37%	8.47%	60.00%	40.00%	3.39%	2.52%
20	**Average**	**$1.90**	**$3.74**	**$31.80**	**1.03**	**12.08%**	**12.47%**	**53.06%**	**46.94%**	**6.02%**	**6.41%**
21	**Median**										**7.29%**

Sources:

The Value Line Investment Survey, August 28, September 25, and November 6, 2009.

[1] Page 4, Column 9.

AmerenUE

Sustainable Growth
(S&P Electric Utilities)

Line	Company	13-Week Average Stock Price[1] (1)	2008 Book Value P/S Projection[2] (2)	Market to Book Ratio (3)	Common Shares Outstanding (in Millions)[2] 2008 (4)	Common Shares Outstanding (in Millions)[2] 3-5 Years (5)	Growth (6)	S Factor[3] (7)	V Factor[4] (8)	S * V (9)
1	Allegheny Energy	$25.29	$16.83	1.50	169.36	174.00	0.54%	0.81%	33.46%	0.27%
2	Amer. Elec. Power	$31.09	$26.33	1.18	406.07	490.00	3.83%	4.52%	15.30%	0.69%
3	Ameren Corp.	$25.60	$32.80	0.78	212.30	252.00	3.49%	2.72%	-28.13%	-0.77%
4	CMS Energy Corp.	$13.54	$10.88	1.24	226.41	237.00	0.92%	1.14%	19.66%	0.22%
5	CenterPoint Energy	$12.58	$5.89	2.14	346.09	420.00	3.95%	8.43%	53.16%	4.48%
6	Consol. Edison	$40.98	$35.43	1.16	273.72	285.00	0.81%	0.94%	13.55%	0.13%
7	Constellation Energy	$32.07	$15.98	2.01	199.13	215.00	1.55%	3.10%	50.17%	1.56%
8	DTE Energy	$36.42	$36.77	0.99	163.02	178.00	1.77%	1.76%	-0.95%	-0.02%
9	Dominion Resources	$34.47	$17.28	2.00	583.20	623.00	1.33%	2.65%	49.88%	1.32%
10	Duke Energy	$15.78	$16.50	0.96	1272.00	1315.00	0.67%	0.64%	-4.59%	-0.03%
11	Edison Int'l	$33.37	$29.21	1.14	325.81	325.81	0.00%	0.00%	12.47%	0.00%
12	Entergy Corp.	$79.06	$42.07	1.88	189.36	188.00	-0.14%	-0.27%	46.79%	-0.13%
13	Exelon Corp.	$48.96	$16.79	2.92	658.00	635.00	-0.71%	-2.07%	65.71%	-1.36%
14	FPL Group	$53.36	$28.57	1.87	408.92	438.00	1.38%	2.58%	46.45%	1.20%
15	FirstEnergy Corp.	$45.10	$27.17	1.66	304.84	304.84	0.00%	0.00%	39.76%	0.00%
16	Integrys Energy	$35.63	$40.79	0.87	75.99	82.00	1.53%	1.34%	-14.50%	-0.19%
17	PG&E Corp.	$41.19	$25.97	1.59	361.06	400.00	2.07%	3.28%	36.95%	1.21%
18	PPL Corp.	$29.97	$13.55	2.21	374.58	370.00	-0.25%	-0.54%	54.80%	-0.30%
19	Pepco Holdings	$14.86	$19.14	0.78	218.91	265.00	3.90%	3.02%	-28.84%	-0.87%
20	**Average**	**$34.17**	**$24.10**	**1.52**	**356.25**	**378.82**	**1.40%**	**1.79%**	**24.27%**	**0.39%**

Sources:

[1] http://moneycentral.msn.com, downloaded on November 23, 2009.

[2] *The Value Line Investment Survey,* August 28, September 25, and November 6, 2009.

[3] Expected Growth in the Number of Shares.

[4] Expected Profit of Stock Investment.

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Sustainable Constant Growth DCF Model
(Integrated Electric Utilities)

Line	Company	13-Week AVG Stock Price[1] (1)	Sustainable Growth[2] (2)	Annual Dividend[3] (3)	Adjusted Yield (4)	Constant Growth DCF (5)
1	ALLETE	$33.61	4.45%	$1.76	5.47%	9.92%
2	Allegheny Energy	$25.29	8.93%	$0.60	2.58%	11.52%
3	Alliant Energy	$27.21	4.27%	$1.50	5.75%	10.01%
4	Amer. Elec. Power	$31.09	5.58%	$1.64	5.57%	11.15%
5	Ameren Corp.	$25.60	2.77%	$1.54	6.18%	8.95%
6	CMS Energy Corp.	$13.54	5.19%	$0.50	3.88%	9.07%
7	Cleco Corp.	$24.88	4.88%	$0.90	3.79%	8.67%
8	DPL Inc.	$25.96	16.93%	$1.14	5.14%	22.07%
9	DTE Energy	$36.42	3.66%	$2.12	6.03%	9.69%
10	Duke Energy	$15.78	1.67%	$0.96	6.19%	7.86%
11	Edison Int'l	$33.37	7.78%	$1.24	4.00%	11.78%
12	Empire Dist. Elec.	$18.26	2.98%	$1.28	7.22%	10.20%
13	Entergy Corp.	$79.06	7.41%	$3.00	4.08%	11.49%
14	Exelon Corp.	$48.96	10.19%	$2.10	4.73%	14.91%
15	FPL Group	$53.36	7.99%	$1.89	3.83%	11.81%
16	FirstEnergy Corp.	$45.10	7.29%	$2.20	5.23%	12.52%
17	G't Plains Energy	$17.83	1.31%	$0.83	4.72%	6.03%
18	Hawaiian Elec.	$18.22	3.23%	$1.24	7.03%	10.26%
19	IDACORP Inc.	$28.81	3.93%	$1.20	4.33%	8.26%
20	PG&E Corp.	$41.19	7.13%	$1.68	4.37%	11.50%
21	Pepco Holdings	$14.86	2.52%	$1.08	7.45%	9.97%
22	Portland General	$19.72	2.95%	$1.02	5.33%	8.28%
23	Progress Energy	$38.53	3.18%	$2.48	6.64%	9.82%
24	Public Serv. Enterprise	$31.04	8.18%	$1.33	4.64%	12.82%
25	Southern Co.	$31.80	5.70%	$1.75	5.82%	11.52%
26	TECO Energy	$14.05	4.58%	$0.80	5.95%	10.53%
27	Westar Energy	$20.03	3.02%	$1.20	6.17%	9.19%
28	Wisconsin Energy	$44.80	6.37%	$1.35	3.21%	9.57%
29	Xcel Energy Inc.	$19.54	4.96%	$0.98	5.26%	10.22%
30	**Average**	**$30.27**	**5.48%**	**$1.42**	**5.19%**	**10.68%**
31	**Median**					**10.20%**

Sources:

[1] http://moneycentral.msn.com, downloaded on November 23, 2009.

[2] Exhibit MPG-11, page 1, column 10.

[3] *The Value Line Investment Survey,* August 28, September 25, and November 6, 2009.

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Sustainable Constant Growth DCF Model
(S&P Electric Utilities)

Line	Company	13-Week AVG Stock Price[1] (1)	Sustainable Growth[2] (2)	Annual Dividend[3] (3)	Adjusted Yield (4)	Constant Growth DCF (5)
1	Allegheny Energy	$25.29	8.93%	$0.60	2.58%	11.52%
2	Amer. Elec. Power	$31.09	5.58%	$1.64	5.57%	11.15%
3	Ameren Corp.	$25.60	2.77%	$1.54	6.18%	8.95%
4	CMS Energy Corp.	$13.54	5.19%	$0.50	3.88%	9.07%
5	CenterPoint Energy	$12.58	11.20%	$0.76	6.72%	17.92%
6	Consol. Edison	$40.98	3.63%	$2.36	5.97%	9.60%
7	Constellation Energy	$32.07	9.02%	$0.96	3.26%	12.28%
8	DTE Energy	$36.42	3.68%	$2.12	6.03%	9.71%
9	Dominion Resources	$34.47	8.53%	$1.75	5.51%	14.04%
10	Duke Energy	$15.78	1.67%	$0.96	6.19%	7.86%
11	Edison Int'l	$33.37	7.78%	$1.24	4.00%	11.78%
12	Entergy Corp.	$79.06	7.41%	$3.00	4.08%	11.49%
13	Exelon Corp.	$48.96	10.19%	$2.10	4.73%	14.91%
14	FPL Group	$53.36	7.99%	$1.89	3.83%	11.81%
15	FirstEnergy Corp.	$45.10	7.29%	$2.20	5.23%	12.52%
16	Integrys Energy	$35.63	1.80%	$2.72	7.77%	9.57%
17	PG&E Corp.	$41.19	7.13%	$1.68	4.37%	11.50%
18	PPL Corp.	$29.97	9.53%	$1.38	5.04%	14.58%
19	Pepco Holdings	$14.86	2.52%	$1.08	7.45%	9.97%
20	**Average**	**$34.17**	**6.41%**	**$1.60**	**5.18%**	**11.59%**
21	**Median**					**11.50%**

Sources:
[1] http://moneycentral.msn.com, downloaded on November 23, 2009.
[2] Exhibit MPG-11, page 3, column 10.
[3] *The Value Line Investment Survey,* August 28, September 25, and November 6, 2009.

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Multi-Stage Growth DCF Model
(Integrated Electric Utilities)

Line	Company	13-Week AVG Stock Price[1] (1)	Annual Dividend[2] (2)	First Stage Growth (3)	Second Stage Growth Year 6 (4)	Year 7 (5)	Year 8 (6)	Year 9 (7)	Year 10 (8)	Third Stage Growth[3] (9)	Multi-Stage Growth DCF (10)
1	ALLETE	$33.61	$1.76	5.50%	5.37%	5.23%	5.10%	4.97%	4.83%	4.70%	10.45%
2	Allegheny Energy	$25.29	$0.60	10.00%	9.12%	8.23%	7.35%	6.47%	5.58%	4.70%	8.17%
3	Alliant Energy	$27.21	$1.50	4.33%	4.39%	4.46%	4.52%	4.58%	4.64%	4.70%	10.34%
4	Amer. Elec. Power	$31.09	$1.64	3.67%	3.84%	4.01%	4.18%	4.36%	4.53%	4.70%	9.89%
5	Ameren Corp.	$25.60	$1.54	3.67%	3.84%	4.01%	4.18%	4.36%	4.53%	4.70%	10.62%
6	CMS Energy Corp.	$13.54	$0.50	6.89%	6.53%	6.16%	5.80%	5.43%	5.07%	4.70%	9.13%
7	Cleco Corp.	$24.88	$0.90	10.41%	9.46%	8.50%	7.55%	6.60%	5.65%	4.70%	10.04%
8	DPL Inc.	$25.96	$1.14	9.82%	8.96%	8.11%	7.26%	6.41%	5.55%	4.70%	10.92%
9	DTE Energy	$36.42	$2.12	3.17%	3.42%	3.68%	3.93%	4.19%	4.44%	4.70%	10.25%
10	Duke Energy	$15.78	$0.96	4.12%	4.22%	4.32%	4.41%	4.51%	4.60%	4.70%	10.86%
11	Edison Int'l	$33.37	$1.24	3.91%	4.04%	4.17%	4.30%	4.44%	4.57%	4.70%	8.39%
12	Empire Dist. Elec.	$18.26	$1.28	34.00%	29.12%	24.23%	19.35%	14.47%	9.58%	4.70%	29.08%
13	Entergy Corp.	$79.06	$3.00	7.17%	6.76%	6.35%	5.94%	5.52%	5.11%	4.70%	9.33%
14	Exelon Corp.	$48.96	$2.10	3.03%	3.31%	3.59%	3.87%	4.14%	4.42%	4.70%	8.74%
15	FPL Group	$53.36	$1.89	8.66%	8.00%	7.34%	6.68%	6.02%	5.36%	4.70%	9.43%
16	FirstEnergy Corp.	$45.10	$2.20	5.50%	5.37%	5.23%	5.10%	4.97%	4.83%	4.70%	10.06%
17	G't Plains Energy	$17.83	$0.83	2.60%	2.95%	3.30%	3.65%	4.00%	4.35%	4.70%	8.97%
18	Hawaiian Elec.	$18.22	$1.24	3.00%	3.28%	3.57%	3.85%	4.13%	4.42%	4.70%	11.15%
19	IDACORP Inc.	$28.81	$1.20	5.00%	4.95%	4.90%	4.85%	4.80%	4.75%	4.70%	9.14%
20	PG&E Corp.	$41.19	$1.68	7.17%	6.76%	6.34%	5.93%	5.52%	5.11%	4.70%	9.67%
21	Pepco Holdings	$14.86	$1.08	5.83%	5.64%	5.46%	5.27%	5.08%	4.89%	4.70%	12.81%
22	Portland General	$19.72	$1.02	6.39%	6.11%	5.83%	5.55%	5.26%	4.98%	4.70%	10.69%
23	Progress Energy	$38.53	$2.48	4.52%	4.55%	4.58%	4.61%	4.64%	4.67%	4.70%	11.37%
24	Public Serv. Enterprise	$31.04	$1.33	4.84%	4.82%	4.80%	4.77%	4.75%	4.72%	4.70%	9.23%
25	Southern Co.	$31.80	$1.75	6.11%	5.88%	5.64%	5.41%	5.17%	4.94%	4.70%	10.96%
26	TECO Energy	$14.05	$0.80	7.50%	7.03%	6.57%	6.10%	5.63%	5.17%	4.70%	11.71%
27	Westar Energy	$20.03	$1.20	3.65%	3.83%	4.00%	4.18%	4.35%	4.53%	4.70%	10.59%
28	Wisconsin Energy	$44.80	$1.35	8.59%	7.94%	7.29%	6.65%	6.00%	5.35%	4.70%	8.72%
29	Xcel Energy Inc.	$19.54	$0.98	6.45%	6.16%	5.87%	5.58%	5.28%	4.99%	4.70%	10.53%
30	**Average**	**$30.27**	**$1.42**	**6.74%**	**6.40%**	**6.06%**	**5.72%**	**5.38%**	**5.04%**	**4.70%**	**10.73%**
31	**Median**										**10.25%**

Sources:

[1] http://moneycentral.msn.com, downloaded on November 23, 2009.

[2] *The Value Line Investment Survey,* August 28, September 25, and November 6, 2009.

[3] *Blue Chip Financial Forecasts,* October 10, 2009 at 15.

AmerenUE

Multi-Stage Growth DCF Model
(S&P Electric Utilities)

Line	Company	13-Week AVG Stock Price[1] (1)	Annual Dividend[2] (2)	First Stage Growth (3)	Second Stage Growth Year 6 (4)	Year 7 (5)	Year 8 (6)	Year 9 (7)	Year 10 (8)	Third Stage Growth[3] (9)	Multi-Stage Growth DCF (10)
1	Allegheny Energy	$25.29	$0.60	10.00%	9.12%	8.23%	7.35%	6.47%	5.58%	4.70%	8.17%
2	Amer. Elec. Power	$31.09	$1.64	3.67%	3.84%	4.01%	4.18%	4.36%	4.53%	4.70%	9.89%
3	Ameren Corp.	$25.60	$1.54	3.67%	3.84%	4.01%	4.18%	4.36%	4.53%	4.70%	10.62%
4	CMS Energy Corp.	$13.54	$0.50	6.89%	6.53%	6.16%	5.80%	5.43%	5.07%	4.70%	9.13%
5	CenterPoint Energy	$12.58	$0.76	7.00%	6.62%	6.23%	5.85%	5.47%	5.08%	4.70%	11.92%
6	Consol. Edison	$40.98	$2.36	3.75%	3.91%	4.07%	4.23%	4.38%	4.54%	4.70%	10.39%
7	Constellation Energy	$32.07	$0.96	13.36%	11.91%	10.47%	9.03%	7.59%	6.14%	4.70%	9.97%
8	DTE Energy	$36.42	$2.12	3.17%	3.42%	3.68%	3.93%	4.19%	4.44%	4.70%	10.25%
9	Dominion Resources	$34.47	$1.75	5.65%	5.49%	5.33%	5.18%	5.02%	4.86%	4.70%	10.33%
10	Duke Energy	$15.78	$0.96	4.12%	4.22%	4.32%	4.41%	4.51%	4.60%	4.70%	10.86%
11	Edison Int'l	$33.37	$1.24	3.91%	4.04%	4.17%	4.30%	4.44%	4.57%	4.70%	8.39%
12	Entergy Corp.	$79.06	$3.00	7.17%	6.76%	6.35%	5.94%	5.52%	5.11%	4.70%	9.33%
13	Exelon Corp.	$48.96	$2.10	3.03%	3.31%	3.59%	3.87%	4.14%	4.42%	4.70%	8.74%
14	FPL Group	$53.36	$1.89	8.66%	8.00%	7.34%	6.68%	6.02%	5.36%	4.70%	9.43%
15	FirstEnergy Corp.	$45.10	$2.20	5.50%	5.37%	5.23%	5.10%	4.97%	4.83%	4.70%	10.06%
16	Integrys Energy	$35.63	$2.72	15.35%	13.58%	11.80%	10.03%	8.25%	6.48%	4.70%	18.25%
17	PG&E Corp.	$41.19	$1.68	7.17%	6.76%	6.34%	5.93%	5.52%	5.11%	4.70%	9.67%
18	PPL Corp.	$29.97	$1.38	10.72%	9.72%	8.72%	7.71%	6.71%	5.70%	4.70%	11.54%
19	Pepco Holdings	$14.86	$1.08	5.83%	5.64%	5.46%	5.27%	5.08%	4.89%	4.70%	12.81%
20	**Average**	**$34.17**	**$1.60**	**6.77%**	**6.42%**	**6.08%**	**5.73%**	**5.39%**	**5.04%**	**4.70%**	**10.51%**
21	**Median**										**10.06%**

Sources:

[1] http://moneycentral.msn.com, downloaded on November 23, 2009.

[2] *The Value Line Investment Survey,* August 28, September 25, and November 6, 2009.

[3] *Blue Chip Financial Forecasts,* October 10, 2009 at 15.

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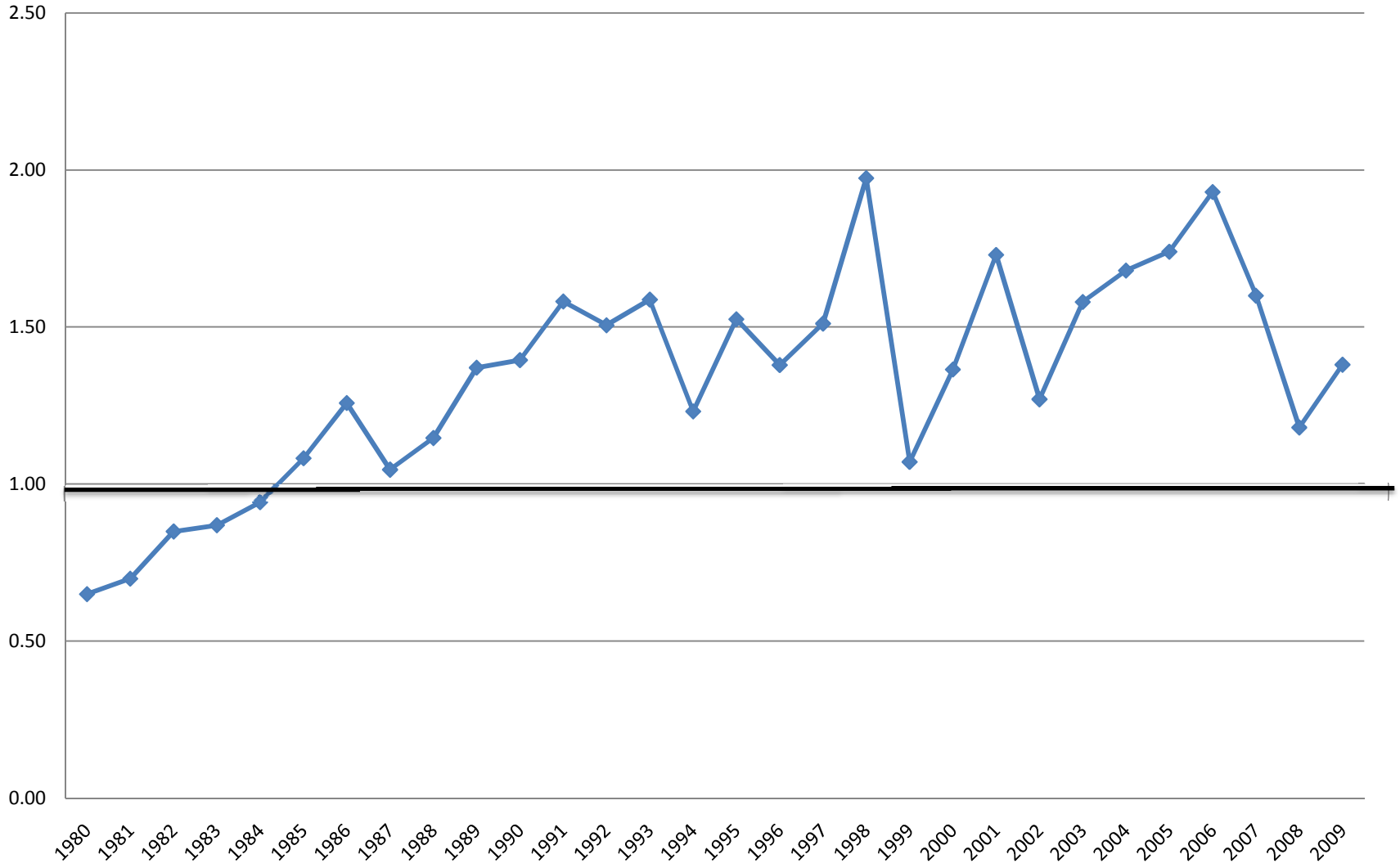
Electric Common Stock Market/Book Ratio



Sources:
2001 - June 2009: *AUS Utility Reports.*
1980 - 2000: Mergent Public Utility Manual, 2003.

AmerenUE

Equity Risk Premium - Treasury Bond

Line	Date	Authorized Electric Returns[1] (1)	Treasury Bond Yield[2] (2)	Indicated Risk Premium (3)
1	1986	13.93%	7.78%	6.15%
2	1987	12.99%	8.59%	4.40%
3	1988	12.79%	8.96%	3.83%
4	1989	12.97%	8.45%	4.52%
5	1990	12.70%	8.61%	4.09%
6	1991	12.55%	8.14%	4.41%
7	1992	12.09%	7.67%	4.42%
8	1993	11.41%	6.59%	4.82%
9	1994	11.34%	7.37%	3.97%
10	1995	11.55%	6.88%	4.67%
11	1996	11.39%	6.71%	4.68%
12	1997	11.40%	6.61%	4.79%
13	1998	11.66%	5.58%	6.08%
14	1999	10.77%	5.87%	4.90%
15	2000	11.43%	5.94%	5.49%
16	2001	11.09%	5.49%	5.60%
17	2002	11.16%	5.43%	5.73%
18	2003	10.97%	4.96%	6.01%
19	2004	10.75%	5.05%	5.70%
20	2005	10.54%	4.65%	5.89%
21	2006	10.36%	4.91%	5.45%
22	2007	10.36%	4.84%	5.52%
23	2008	10.46%	4.28%	6.18%
24	Sept 09	10.43%	3.98%	6.45%
25	**Average**	**11.55%**	**6.39%**	**5.16%**

Sources:

[1] Regulatory Research Associates, Inc., *Regulatory Focus,* Jan. 85 - Dec. 06, and October 2, 2009. The data for Sept 2009 represents the 9-month period ending September 2009.

[2] Economic Report of the President 2008: Table 73. The yields from 2002 to 2005 represent the 20-Year Treasury yields obtained from the Federal Reserve Bank.

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Equity Risk Premium - Utility Bond

Line	Date	Authorized Electric Returns[1] (1)	Average "A" Rating Utility Bond Yield[2] (2)	Indicated Risk Premium (3)
1	1986	13.93%	9.58%	4.35%
2	1987	12.99%	10.10%	2.89%
3	1988	12.79%	10.49%	2.30%
4	1989	12.97%	9.77%	3.20%
5	1990	12.70%	9.86%	2.84%
6	1991	12.55%	9.36%	3.19%
7	1992	12.09%	8.69%	3.40%
8	1993	11.41%	7.59%	3.82%
9	1994	11.34%	8.31%	3.03%
10	1995	11.55%	7.89%	3.66%
11	1996	11.39%	7.75%	3.64%
12	1997	11.40%	7.60%	3.80%
13	1998	11.66%	7.04%	4.62%
14	1999	10.77%	7.62%	3.15%
15	2000	11.43%	8.24%	3.19%
16	2001	11.09%	7.76%	3.33%
17	2002	11.16%	7.37%	3.79%
18	2003	10.97%	6.58%	4.39%
19	2004	10.75%	6.16%	4.59%
20	2005	10.54%	5.65%	4.89%
21	2006	10.36%	6.07%	4.29%
22	2007	10.36%	6.07%	4.29%
23	2008	10.46%	6.53%	3.93%
24	Sept 09	10.43%	6.17%	4.26%
25	**Average**	**11.55%**	**7.84%**	**3.70%**

Sources:

[1] Regulatory Research Associates, Inc., *Regulatory Focus,* Jan. 85 - Dec. 06, and October 2, 2009. The data for Sept 2009 represents the 9-month period ending September 2009.

[2] Economic Report of the President 2008: Table 73. The yields from 2002 to 2005 represent the 20-Year Treasury yields obtained from the Federal Reserve Bank.

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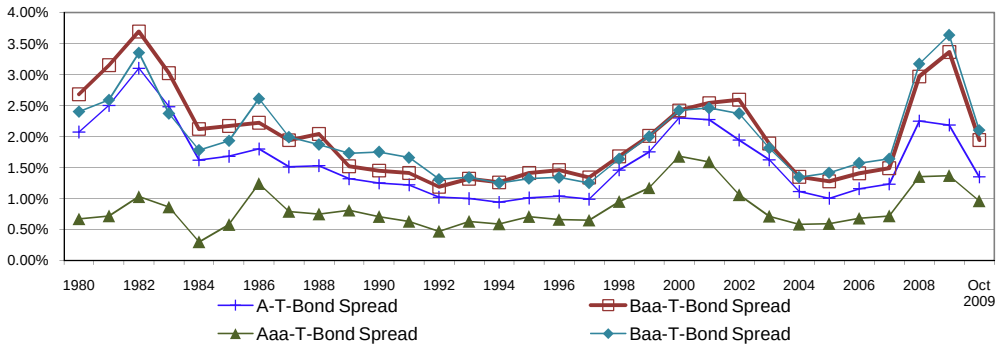
Utility Bond Yield Spreads

Line	Year	T-Bond Yield[1] (1)	Public Utility Bond Yields A[2] (2)	Baa[2] (3)	A-T-Bond Spread (4)	Baa-T-Bond Spread (5)	Corporate Bond Yields Aaa[1] (6)	Baa[1] (7)	Aaa-T-Bond Spread (8)	Baa-T-Bond Spread (9)	Baa Utility - Corporate (10)
1	1980	11.27%	13.34%	13.95%	2.07%	2.68%	11.94%	13.67%	0.67%	2.40%	0.28%
2	1981	13.45%	15.95%	16.60%	2.50%	3.15%	14.17%	16.04%	0.72%	2.59%	0.56%
3	1982	12.76%	15.86%	16.45%	3.10%	3.69%	13.79%	16.11%	1.03%	3.35%	0.34%
4	1983	11.18%	13.66%	14.20%	2.48%	3.02%	12.04%	13.55%	0.86%	2.37%	0.65%
5	1984	12.41%	14.03%	14.53%	1.62%	2.12%	12.71%	14.19%	0.30%	1.78%	0.34%
6	1985	10.79%	12.47%	12.96%	1.68%	2.17%	11.37%	12.72%	0.58%	1.93%	0.24%
7	1986	7.78%	9.58%	10.00%	1.80%	2.22%	9.02%	10.39%	1.24%	2.61%	-0.39%
8	1987	8.59%	10.10%	10.53%	1.51%	1.94%	9.38%	10.58%	0.79%	1.99%	-0.05%
9	1988	8.96%	10.49%	11.00%	1.53%	2.04%	9.71%	10.83%	0.75%	1.87%	0.17%
10	1989	8.45%	9.77%	9.97%	1.32%	1.52%	9.26%	10.18%	0.81%	1.73%	-0.21%
11	1990	8.61%	9.86%	10.06%	1.25%	1.45%	9.32%	10.36%	0.71%	1.75%	-0.30%
12	1991	8.14%	9.36%	9.55%	1.22%	1.41%	8.77%	9.80%	0.63%	1.66%	-0.25%
13	1992	7.67%	8.69%	8.86%	1.02%	1.19%	8.14%	8.98%	0.47%	1.31%	-0.12%
14	1993	6.59%	7.59%	7.91%	1.00%	1.32%	7.22%	7.93%	0.63%	1.34%	-0.02%
15	1994	7.37%	8.31%	8.63%	0.94%	1.26%	7.96%	8.62%	0.59%	1.25%	0.01%
16	1995	6.88%	7.89%	8.29%	1.01%	1.41%	7.59%	8.20%	0.71%	1.32%	0.09%
17	1996	6.71%	7.75%	8.17%	1.04%	1.46%	7.37%	8.05%	0.66%	1.34%	0.12%
18	1997	6.61%	7.60%	7.95%	0.99%	1.34%	7.26%	7.86%	0.65%	1.25%	0.09%
19	1998	5.58%	7.04%	7.26%	1.46%	1.68%	6.53%	7.22%	0.95%	1.64%	0.04%
20	1999	5.87%	7.62%	7.88%	1.75%	2.01%	7.04%	7.87%	1.17%	2.00%	0.01%
21	2000	5.94%	8.24%	8.36%	2.30%	2.42%	7.62%	8.36%	1.68%	2.42%	0.00%
22	2001	5.49%	7.76%	8.03%	2.27%	2.54%	7.08%	7.95%	1.59%	2.46%	0.08%
23	2002	5.43%	7.37%	8.02%	1.94%	2.59%	6.49%	7.80%	1.06%	2.37%	0.22%
24	2003	4.96%	6.58%	6.84%	1.62%	1.89%	5.67%	6.77%	0.71%	1.81%	0.07%
25	2004	5.05%	6.16%	6.40%	1.11%	1.35%	5.63%	6.39%	0.58%	1.34%	0.00%
26	2005	4.65%	5.65%	5.93%	1.00%	1.28%	5.24%	6.06%	0.59%	1.41%	-0.14%
27	2006	4.91%	6.07%	6.32%	1.16%	1.41%	5.59%	6.48%	0.68%	1.57%	-0.16%
28	2007	4.84%	6.07%	6.33%	1.23%	1.49%	5.56%	6.48%	0.72%	1.64%	-0.15%
29	2008	4.28%	6.53%	7.25%	2.25%	2.97%	5.63%	7.45%	1.35%	3.17%	-0.20%
30	Sep 2009[3]	3.98%	6.17%	7.34%	2.18%	3.36%	5.35%	7.62%	1.37%	3.64%	-0.28%
31	Oct 2009	4.19%	5.54%	6.13%	1.35%	1.94%	5.15%	6.29%	0.96%	2.10%	-0.16%
32	**Average**	**7.51%**	**9.12%**	**9.52%**	**1.61%**	**2.01%**	**8.35%**	**9.48%**	**0.84%**	**1.98%**	**0.03%**

Yield Spreads

Treasury Vs. Corporate & Treasury Vs. Utility



Sources:

[1] Economic Report of the President 2008: Table 73 at 316. The yields from 2002 to 2005 represent the 20-Year Treasury yields obtained from the Federal Reserve Bank.

[2] *Mergent Public Utility Manual* 2003. Moody's Daily News Reports.

[3] The data for Sep 2009 represents the 9-month period ending September 2009.

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Beta
(Integrated Electric Utilities)

Line	Company	Beta
1	ALLETE	0.70
2	Allegheny Energy	0.95
3	Alliant Energy	0.70
4	Amer. Elec. Power	0.70
5	Ameren Corp.	0.80
6	CMS Energy Corp.	0.80
7	Cleco Corp.	0.65
8	DPL Inc.	0.60
9	DTE Energy	0.75
10	Duke Energy	0.65
11	Edison Int'l	0.80
12	Empire Dist. Elec.	0.75
13	Entergy Corp.	0.70
14	Exelon Corp.	0.85
15	FPL Group	0.75
16	FirstEnergy Corp.	0.80
17	G't Plains Energy	0.75
18	Hawaiian Elec.	0.70
19	IDACORP Inc.	0.70
20	PG&E Corp.	0.55
21	Pepco Holdings	0.80
22	Portland General	0.70
23	Progress Energy	0.65
24	Public Serv. Enterprise	0.80
25	Southern Co.	0.55
26	TECO Energy	0.85
27	Westar Energy	0.75
28	Wisconsin Energy	0.65
29	Xcel Energy Inc.	0.65
30	**Average**	**0.73**

Source:
The Value Line Investment Survey,
August 28, September 25, and November 6, 2009.

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Beta
(S&P Electric Utilities)

Line	Company	Beta
1	Allegheny Energy	0.95
2	Amer. Elec. Power	0.70
3	Ameren Corp.	0.80
4	CMS Energy Corp.	0.80
5	CenterPoint Energy	0.80
6	Consol. Edison	0.65
7	Constellation Energy	0.80
8	DTE Energy	0.75
9	Dominion Resources	0.70
10	Duke Energy	0.65
11	Edison Int'l	0.80
12	Entergy Corp.	0.70
13	Exelon Corp.	0.85
14	FPL Group	0.75
15	FirstEnergy Corp.	0.80
16	Integrys Energy	0.95
17	PG&E Corp.	0.55
18	PPL Corp.	0.70
19	Pepco Holdings	0.80
20	**Average**	**0.76**

Source:
The Value Line Investment Survey,
August 28, September 25, and November 6, 2009.

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CAPM

Line	Integrated Electric Utilities	CAPM Range Low	CAPM Range High
1	Risk-Free Rate[1]	5.00%	5.00%
2	Risk Premium[2]	5.70%	6.50%
3	Beta[3]	0.73	0.73
4	CAPM	9.14%	9.72%
5	**CAPM Average**	**9.43%**	

Line	S&P Electric Utilities	CAPM Range Low	CAPM Range High
6	Risk-Free Rate[1]	5.00%	5.00%
7	Risk Premium[2]	5.70%	6.50%
8	Beta[3]	0.76	0.76
9	CAPM	9.35%	9.96%
10	**CAPM Average**	**9.66%**	
11	**CAPM Midpoint**	**9.54%**	

Sources:

[1] *Blue Chip Financial Forecasts*; November 1, 2009, p. 2.

[2] Morningstar, Inc. *Ibbotson SBBI 2009 Valuation Yearbook,* p. 69 and 56.

[3] *The Value Line Investment Survey,* August 28, September 25, and November 6, 2009.

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S&P Credit Metrics

Line	Description		Amount (1)	S&P Benchmark[1/2] Significant "A-" Rating (2)	S&P Benchmark[1/2] Aggressive "BBB" Rating (3)	Reference (4)
1	Rate Base ($ 000)	$	6,001,444			SCHEDULE GSW-E19.
2	Weighted Common Return		4.74%			Schedule MPG-1, Line 4, Col. 4.
3	Pre-Tax Rate of Return		10.88%			Schedule MPG-1, Line 5, Col. 5.
4	Income to Common	$	284,420			Line1 x Line 2.
5	EBIT	$	652,701			Line 1 x Line 3.
6	Depreciation & Amortization*	$	295,001			SCHEDULE GSW-E19 Less $81.407 million.
7	Imputed Amortization	$	10,387			Page 3 , Line 14.
8	Deferred Income Taxes & ITC	$	(6,581)			SCHEDULE GSW-E19.
9	Funds from Operations (FFO)	$	583,226			Sum of Line 4 and Lines 6 through Line 8.
10	Imputed Interest	$	7,590			Page 3 , Line 13.
11	EBITDA	$	965,679			Sum of Line 5 through Line 7 and Line 10.
12	Total Debt Ratio		52%	45% - 50%	**50% - 60%**	Page 2, Sum of Lines 1 through 3, Col. 2.
13	Debt to EBITDA		3.2x	**3.0x - 4.0x**	4.0x - 5.0x	(Line 1 x Line 12) / Line 11.
14	FFO to Total Debt		19%	20% - 30%	**12% - 20%**	Line 9 / (Line 1 x Line 12).

Sources:

[1] Standard & Poor's: "U.S. Utilities Ratings Analysis Now Portrayed in The S&P Corporate Ratings Matrix," May 27, 2009.

[2] Standard & Poor's: "U.S. Integrated Electric Utility Companies, Strongest to Weakest," September 1, 2009.

Notes:

Based on the new S&P metrics, Ameren Corp. has a "Satisfactory" business profile and a "Significant" financial profile.

Based on the new S&P metrics, AmerenUE has an "Excellent" business profile and a "Significant" financial profile.

* Reflects the depreciation adjustment proposed by the MIEC witness Mr. James T. Selecky.

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S&P Credit Metrics
Financial Capital Structure

Line	Description	Amount (1)	Weight (2)
1	Long-Term Debt	$ 3,651,044,928	50.124%
2	Operating Leases*	$ 126,371,939	1.735%
3	Short-Term Debt	$ -	0.000%
4	Preferred Stock	$ 114,502,040	1.572%
5	Common Equity	$ 3,392,179,086	46.570%
6	**Total**	**$ 7,284,097,993**	**100.00%**

Sources:
Schedule MGO-E1.
* Page 3.

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S&P Credit Metrics
Operating Leases Adjustment

Line	Description	Amount (1)	Weight (2)
	Operating leases[1]		
1	UE	$ 174	44%
2	CIPS	$ 2	1%
3	Genco	$ 143	36%
4	CILCORP	$ 18	5%
5	CILCO	$ 18	5%
6	IP	$ 8	2%
7	Other	$ 29	7%
8	**Total**	**$ 392**	**100%**

	Total Company[2]	
9	Operating Leases	$ 284.7
10	Imputed Interest Expense	$ 17.1
11	Imputed Amortization	$ 23.4
	AmerenUE	
12	Imputed Debt	$ 126.4
13	Imputed Interest Expense	$ 7.6
14	Imputed Amortization	$ 10.4

Sources:
[1] 2008 Ameren Corp. 10-K and MIEC 8-6.
[2] Standard & Poor's: Union Electric Co., February 27, 2009.