Exhibit No.
Issue: Fuel and Purchased Power Cost
Witness: W. L. Gipson
Type of Exhibit: Supplemental
Direct Testimony
Sponsoring Party: Empire District
Case No. ER-2006-0315

Before the Public Service Commission
of the State of Missouri

Supplemental Direct Testimony

of

W. L. Gipson

July 2006

SUPPLEMENTAL DIRECT TESTIMONY
OF
W. L. GIPSON
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. ER-2006-0315

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. William L. Gipson, 602 Joplin Street, Joplin, Missouri 64801.

Q. WHO IS YOUR EMPLOYER AND WHAT POSITION DO YOU HOLD?

A. The Empire District Electric Company ("Empire" or "Company") is my employer. I hold the position of President and Chief Executive Officer.

Q. ARE YOU THE SAME WILLIAM GIPSON THAT FILED DIRECT TESTIMONY IN THIS RATE CASE BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION ("COMMISSION")?

A. Yes.

Q. MR. GIPSON, WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL DIRECT TESTIMONY?

A. The purpose of my supplemental direct testimony is to respond to a portion of the Commission's request for additional information with respect to the recovery of fuel and purchased power costs in this rate case. In addition, I will introduce the other Empire representatives that will be responding to the Commission's request. In connection with all of this, I would like to emphasize that with respect to its fuel and purchased power costs, Empire is simply asking for <u>timely recovery</u> of the total amount of these expenses.

Q. PLEASE DECRIBE GENERALLY THE INFORMATION EMPIRE IS PROVIDING IN RESPONSE TO THE COMMISSION'S ORDER OF JUNE 20, 2006.

A. The Commission requested additional information on the following topics:

- Weather data in the Empire service area and its use in determining the overall revenue requirement in this rate case,
- A three year forecast of Empire's anticipated natural gas and purchased power usage,
- An analysis of the costs associated with hedging 100 percent of its expected natural gas usage for the next three years,
- What hedging strategy would offer the most benefit to the Empire consumers over the next three years, and
- Other relevant information

Q. WHO IS RESPONDING TO THE COMMISSION ON BEHALF OF EMPIRE IN EACH OF THESE AREAS?

A. The weather information will be provided by Jayna Long. The expected fuel and purchased power information will be provided by Todd Tarter. Rick McCord will provide an analysis of natural gas hedging strategy and a recommendation concerning a preferred hedging strategy. Finally, Steve Fetter and I will provide responses to the Commission's request for other relevant information.

Q. BY WAY OF BACKGROUND, WHY DOES EMPIRE NEED A MISSOURI RETAIL RATE INCREASE AT THIS TIME?

A. As has been stated in Empire's direct testimony, the major factors driving the request for a Missouri rate adjustment at this time are increases in both fuel and purchased energy costs.

This has been confirmed in the direct testimonies filed by certain other parties to this case; namely, the Staff of the Commission ("Staff"), the Office of the Public Counsel ("OPC") and the industrial interveners, Explorer Pipeline Company and Praxair, Inc. As indicated by Empire's direct testimony, the Company has been unable to recover its energy costs through the combination of base rates and the Interim Energy Charge ("IEC") authorized by the Commission in Empire's last rate case. This fact has also been confirmed in several of the testimonies filed by certain other parties in this case. As a result of the under-recovery of its energy costs, a fact that has contributed to a deterioration of the Company's return on equity, Empire has requested in this case that the IEC be terminated and that other means to recover its costs be implemented.

Q. HOW SHOULD THE COMMISSION ADDRESS FUEL COST RECOVERY IN THIS CASE?

A. As indicated, what Empire seeks is the timely recovery of its fuel and purchased power costs. In this regard, the Commission is aware that in the Company's last rate case Empire agreed "...for the duration of the IEC approved in this case ... to forego any right ... to request <u>the use of</u>, or <u>to use</u> ... a fuel adjustment clause." (emphasis added). (Empire believes that this means the Company cannot make a request to <u>implement</u> an FAC while the IEC is in effect. That is to say, the thrust of the agreement from the Company's perspective was to prevent the <u>use</u> of both an FAC as well as an IEC at the same time. Empire understands, however, that the Commission has interpreted the language of the agreement differently. Empire will not reargue this point, but does want to make it clear for the record that the Company believes its filing in this case, <u>to first terminate the IEC</u> and <u>only then to implement or use</u> <u>an FAC</u>, was consistent with this agreement.) Based upon my understanding of the Commission's order of May 2, 2006, the Commission has determined that because of the agreement in the last case, Empire may seek to eliminate the IEC, but the Company may not request a fuel adjustment mechanism. As a consequence the Company's options for energy cost recovery in this case may be limited to the traditional method of recovery of energy costs through base rates, a method which Empire proposed in its filing. I do not take this to mean, however, that some other energy cost recovery method, agreed to among the parties or directed by the Commission when it issues its final order in this case, is necessarily prohibited. In this regard, given the volatile nature of the fuel and energy markets at this time, it would be prudent, in my judgment, for the parties and the Commission to keep an open mind to other alternatives or interpretations of the agreement from the last case to allow timely energy cost recovery in this case.

Q. WOULD YOU VIEW SOME SORT OF AN AMORTIZATION AS AN ALTERNATIVE?

A. No. The amortization vehicle which resulted from the Company's regulatory plan docket is designed to maintain certain Standard & Poor's ("S&P") ratios during the construction of Iatan 2. It was not designed as a replacement for the timely recovery of prudently incurred fuel and purchased power expense or as a substitute for an adjustment to the Company's authorized return on equity in the absence of timely recovery of those costs.

Q. WHAT LEVEL OF FUEL AND PURCHASED POWER EXPENSE IS INCLUDED IN EMPIRE'S CURRENT BASE RATES?

A. The amount of total fuel and purchased power expense in Empire's base rates is $125,000,000 (total Company) as established in Case No. ER-2004-0570, the Company's last Missouri rate case. In addition, in that case, an IEC was established allowing the Company to collect an additional $10,000,000 (total Company) subject to refund.

Q. WHAT IS THE LEVEL OF FUEL AND PURCHASED POWER EXPENSE THE COMPANY INCLUDED IN ITS FILING IN THIS CASE?

A. In the original filing made on February 1, 2006, Empire included total fuel and purchased power expense of $162,888,204 on a total Company basis. At March 31, 2006, Empire's actual total Company fuel and purchased expense was approximately $162,000,000.

Q. HOW DO THESE NUMBERS COMPARE TO THE COMPANY'S FORECAST?

A. In the information presented in the Supplemental Direct Testimony of Todd Tarter in response to the Commission's order, it is shown that Empire's forecast of future energy costs range from $168,991,695 to $184,171,272, a difference of over $15 million. As indicated in the testimony, there are many factors, such as plant outages, weather and load growth in addition to the price of natural gas which can have a significant influence on future energy costs.

Q. WHAT WILL HAPPEN TO THE RATES CHARGED TO EMPIRE'S MISSOURI ELECTRIC CUSTOMERS IF THE COMPANY'S ENERGY COSTS DECREASE FROM THE HIGH LEVELS THAT ARE DRIVING THIS RATE CASE?

A. As I understand it, under the "fixed" or "point in time" method of energy cost recovery the base rates charged to the Missouri customers would not decline if energy costs decline. Conversely, rates would not increase if energy costs increase. Under the first scenario the Company would over-recover its energy costs and under the second scenario would under-recover.

Q. WHAT IS YOUR UNDERSTANDING AS TO HOW RATING AGENCIES VIEW SITUATIONS IN WHICH A UTILITY UNDER-RECOVERS ITS ENERGY COSTS?

A. I would encourage the Commission to read Schedule WLG-1, a S&P report published March 22, 2006 titled "Fuel and Purchased Power Cost Recovery in the Wake of Volatile Gas and Power Markets – U.S. Electric Utilities to Watch," specifically pages 3 and 5. Clearly, S&P believes that the total recovery of fuel and purchased power costs are imperative. I would encourage the Commission to also read Schedule WLG-2, a companion S&P report published March 23, 2006 titled "Downgrade Potential Across Credit Grade and Sectors," specifically page 11. In hindsight, this was the shot across the Company's bow as S&P downgraded Empire on May 17, 2006 (see Schedule WLG-3 "Research Update: Empire Electric Downgraded to 'BBB-"on Expected Tight Financials") citing "To strengthen Empire's cash flow during its planned capital spending for generation and environmental compliance, [latan 2, latan 1 and Asbury environmental – contemplated by the regulatory plan –in Case No. EO-2005-0263, as well as Plum Point] constructive rate relief will be essential and should include recovery of fuel and purchased power on a timely basis." Similar language appears in reports from Fitch and Moody's rating services as well as the sell-side equity analysts that cover Empire. I frankly do not know how it could be much clearer: debt and equity analysts believe the total recovery of fuel and purchased power expense on a timely basis is critical to maintain ratings that, in turn, provide for the lowest costs for capital, the very capital required to build base-load generation to serve our customers.

Q. WHAT OTHER INFORMATION WOULD YOU LIKE THE COMMISSION TO CONSIDER?

A. I would like the Commission to read certain sections of its Staff's report in Case No. GW-2006-0110, which I have attached to my testimony as ScheduleWLG-4, and consider the relevance in the instant situation – a regulated utility seeking to timely recover its prudently incurred costs necessary to deliver reliable service to its customers.

On page 24 of the report it is said "gas-fired generation plays an important and necessary role in peaking and intermediate generation. Coal-fired generation, for example, is not an appropriate or efficient method to meet peak demand for electricity which occurs in the summer months. The concerns expressed above should not be interpreted as a blanket condemnation of gas-fired generation."

Specifically, on page 28 of the report it is said "Without some mechanism to address this fuel volatility, like the current PGA process, LDCs would be subject to significant swings in over- and under-collections of actual natural gas cost compared to an embedded natural gas rate. This situation could result in frequent earnings complaints and emergency rate relief cases and could result in significant credit risk to the LDCs. If this situation were not addressed, it could result in pre-payment requirements from natural gas suppliers and other types of credit-related payments that could ultimately impact the delivered price and availability of natural gas to LDCs and their customers."

And finally, on page 36 it is said "these task forces are attempting to ameliorate circumstances for end-use customers that result from market prices that are, to a large degree, beyond the control of any parties to this proceeding."

Q. DO YOU HAVE ANY FINAL COMMENTS?

A. Yes. In summary, Empire seeks the timely recovery of its energy costs. If this does not happen as a result of this case, this may adversely impact the Company's credit ratings and increase its cost of capital.

Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL DIRECT TESTIMONY?

A. Yes, it does.

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Fuel And Purchased Power Cost Recovery In The Wake Of Volatile Gas And Power Markets--U.S. Electric Utilities To Watch

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The overwhelming majority of an electric utility's operating expenses is concentrated in two categories--fuel and purchased power. To the extent that changes in the price of these items are not reflected in rates--either because a company's rates are frozen or it lacks access to a timely fuel and purchased-power adjustment mechanism--a utility can be exposed to greater cash flow volatility. The highly volatile natural gas and wholesale power markets of the past year have piqued investor interest in this regard. Ultimately, the question is: Which companies are most at risk of potential cash flow volatility?

In this report, Standard & Poor's Ratings Services assesses the varying degrees of exposure for companies operating under rate freezes and companies with access to no or weak fuel and purchased-power adjustment mechanisms. Fuel and purchased-power adjustment mechanisms allow utilities to periodically pass along to customers changes in fuel and purchased power costs without having to file a formal rate case.

Table 1 (in the appendix at the end of this report) presents our findings for vertically integrated companies. Table 2 focuses on electric distributors subject to generation rate caps. Each table lists companies in order of "exposure" to potential cash flow volatility, with five possible qualitative designations: high, considerable, intermediate, modest, and low. Companies in each "exposure" category are listed in alphabetical order and are not ranked.

Which Companies Were Included In The Survey?

Standard & Poor's limited its survey to companies in at least one of the following categories:

- Vertically integrated electric utilities operating under a rate freeze,
- Vertically integrated electric utilities without access to a fuel and purchased-power adjustment mechanism or those who have a weak adjustment mechanism,
- Vertically integrated electric utilities that have only recently obtained access to an adjustment mechanism, but have typically had a contentious relationship with regulators, and
- Electric distributors with provider-of-last-resort (POLR) obligations that are also subject to generation rate caps.

Examples of weak adjustment mechanisms include those that are triggered only after a company's incremental costs reach very high thresholds or those that, once triggered, force a company to accumulate significant deferrals before implementing a surcharge that results in real cash. Weak adjustment mechanisms may also cap accumulated deferrals or surcharges between rate cases.

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Assessing A Vertically Integrated Utility's Exposure To Potential Cash Flow Volatility

To identify those vertically integrated utilities in our survey that are especially vulnerable to potential cash flow volatility, we analyzed each company's operating risk profile. Operating risk is characterized as high, intermediate, or low (see chart).

Assessing A Vertically Integrated Company's Exposure To Potential Cash Flow Volatility

Historically Challenged Regulatory Relations	Intermediate	Modest	Low
No or Weak Fuel and Purchased-Power Adjustment Mechanism	Considerable	Intermediate	Modest
Rate Freeze or Generation Rate Cap	High	Considerable	Intermediate
	High	Intermediate	Low

Operating risk was considered high if a company had or could have material exposure to natural gas markets or short-term wholesale power markets where natural gas is typically on the margin.

In determining the operating risk of these vertically integrated utilities, we focused on the following factors:

- Whether the company's supply portfolio is primarily gas-fired,
- Whether a company depends on the production of a handful of units and therefore is subject to outage risk (especially if said units have had poor operational histories),
- Whether a company is short capacity and thus potentially dependent on the short-term power markets (especially if the company has supply contracts that are either rolling off or short-term in nature), and
- Whether a company is located in a region where natural gas- and oil-fired generation typically set the regional wholesale electricity price.

As an example, Arizona Public Service Co. (APS) was considered to have "high" operating risk because it relies heavily on gas-fired generation, is short capacity, has some unit concentration with respect to the Palo Verde nuclear plant, and is located in a region where natural gas- and oil-fired generation is typically on the margin.

By analyzing the cross-section between "access to recovery" and "operating risk," Standard & Poor's assigned qualitative "exposure" designation to each of the vertically integrated companies, based on a five-category scale of high, considerable, moderate, modest, and low.

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Assessing An Electric Distributor's Exposure To Potential Cash Flow Volatility

The analysis for the electric distributors in our survey (all of which currently have POLR obligations and are subject to generation rate caps) differed from our analysis of the vertically integrated companies.

When assessing the exposure of this specific group of electric distributors, Standard & Poor's focused on the structure of a company's power supply contracts. In other words, we focused on the kinds of risks current contracts tried to guard against and how likely the company's contract profile was to change in the interim. Specifically, we considered the following factors:

- Whether a company's supply contracts protect against commodity and volume risk,
- Whether a company's supply counterparties reserve the right to termination prior to rate cap expiration, and
- Whether a company's regulators are considering generation rate cap extensions.

Distributors with long-term, load-following power-supply contracts can be fairly well insulated from commodity and volume risk. Companies with supply contracts that provide for only block power are subject to volume risk and are incrementally more exposed to cash flow volatility. If counterparties reserve the right to early termination--as FirstEnergy Solutions Corp. does regarding its supply arrangements with Metropolitan Edison Co. and Pennsylvania Electric Co.--the potential for commodity risk (and ensuing cash flow volatility) can be high. Likewise, in states that are considering rate-cap extensions, the potential for commodity risk at the electric distributor level is also high. In these states, distributors may have to recontract their supply arrangements at market rates (once their current contracts expire) while collecting capped (and potentially below-market) generation rates from customers. For this reason, when the Illinois governor and other legislators took several unfavorable actions to prevent Illinois utilities from raising electric rates in 2007, Standard & Poor's placed Central Illinois Public Service Co. (BBB+/--) and Illinois Power Co. (BBB+/--) on CreditWatch with negative implications, and lowered its issuer credit rating on Commonwealth Edison Co. to 'BBB+' from 'A-'.

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Which Companies Are Potentially Most At Risk?

Among the vertically integrated electric utilities, our survey identified the following utilities as "considerably" exposed to potential cash flow volatility:

- APS,
- Empire District Electric Co.,
- Aquila Inc.,
- Public Service Company of New Mexico,
- Tucson Electric Power Co., and
- Virginia Electric Power Co.

Of these six, three operate under rate freezes, and all but APS lack access to an adjustment mechanism. APS has a weak adjustment mechanism. The operating risk profile for these companies ranges from "high" to "intermediate." "High" operating risk was correlated with material exposure to the natural gas and wholesale power markets, either because the company has a relatively large gas-fired generation fleet, material unit concentration, a short capacity position, or is located in a region where gas is typically on the margin. The combination of weak regulatory support and elevated operating risk pressures the stand-alone business risk profiles for these utilities. All but Virginia Electric have business profile scores greater than '5'. (Utility business profiles are categorized from '1' (excellent) to '10' (vulnerable)). While other factors (including the performance of parent and affiliate companies) may dominate Standard & Poor's assessment of credit quality for these six companies, both APS and Public Service New Mexico have experienced adverse rating actions that are partially attributable to increased exposure to potential cash flow volatility due to poor regulatory recovery and elevated operating risk. See table 1 for "exposure" classifications for all vertically integrated companies in this survey, including detailed comments for each company.

Among the electric distributors in our survey, only two (Metropolitan Edison and Pennsylvania Electric) were characterized as having "considerable" exposure to potential cash flow volatility. In both cases, an affiliate supplier (FirstEnergySupply) reserves the right to terminate its contracts with the POLR distributors at any time with 60 days notice. Six distributors were characterized as having an "intermediate" exposure to potential cash flow volatility. These distributors are in states (i.e., Illinois, Maryland, and Delaware) where there is or has been political pressure to extend generation rate caps, retain POLR obligations, and force distributors to recontract supply at (potentially higher) market rates. The remaining six distributors in our survey were characterized as having only a "modest" exposure to potential cash flow volatility. All six distributors use affiliate supply contracts to meet their POLR obligations. While the distributors in this instance are fairly protected against commodity and volume risk, the rate caps expose their affiliate suppliers to considerable risk. (See comments for Potomac Edison Co. and West Penn Power Co. in table 2.) That said, the transfer of risk from distribution subsidiary to affiliate supplier does not completely insulate the distributor from ratings deterioration if regulators do not allow changes in fuel and power costs to be reflected in retail rates. This is because Standard & Poor's typically uses its consolidated ratings methodology when assessing the distributor's credit quality.

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Appendix

Table 1 Vertically Integrated Utilities Exposed To Potential Cash Flow Volatility Due To Changes In Fuel And Power Costs

		Recovery Mechanism					
Company (Parent) (Analyst)	Rating (Business profile score)	Rate freeze or generation rate cap	No, or weak adjustment mechanism	Historically challenged regulatory relations	Operating risk	Exposure to potential cash flow volatility	Comment
Arizona Public Service Co. (Pinnacle West Capital Corp.) (Anne Selting)	BBB-/Stable/A-3 ('6')		X		High	Considerable	APS has had a power supply adjustment mechanism (PSA) in place since March 2005. The PSAis governed by annual adjustments and periodic surcharges. APS can defer for future rate recovery 90% of the difference between actual fuel and power costs and the amount included in base rates. Overall, the PSA is very weak. First, it is triggered based on a date (once a year in February 2006) and not on a threshold level of deferrals. The annual adjustment is also capped at 4 mils per kilowatt-hour for the life of the PSA, which has been fully utilized. To recover amounts in excess of the adjustment, APS must file for a special surcharge, but only after annual PSA adjustments have

							been implemented. Surcharge requests are not capped, but there is no concrete timeline for resolution. APS has a material reliance on gas, with all of its recent plant additions being natural gas-fired and its normally reliable Palo Verde nuclear facility experiencing operational issues. The company's service area is growing about 4% a year, but it is under a self-build moratorium and is contracting for supplies to meet load growth.
Empire District Electric Co. (Gerrit Jepsen)	BBB/Negative/A-3 ('8')		X		High	Considerable	The company has requested a monthly fuel and energy cost recovery mechanism, but the Missouri Commission still needs to formalize rules governing future fuel adjustment clauses in the state. About 60% of Empire's owned generation is gas-fired. Due to the recent pricing environment less than 30% of energy sold is generated using gas-fired resources. Three aging coal plants supply most of Empire's energy.
Missouri Public Service Co. and St. Joe's Power & Light Co. (Aquila Inc.) (Jeanny Silva)	B-/Watch Pos/B-3 ('8')		X		High	Considerable	Aquila's recent rate settlement in Missouri includes updated fuel costs in base rates and eliminates the company's interim energy charge. Rates went into effect in March 2006. The company may gain future access to a fuel and purchased power adjustment (FAC) mechanism. On July 14, 2005, the governor of Missouri signed a law establishing a means for recovering prudently incurred fuel and purchased-power costs without going through a general rate case. However, the Missouri Commission must issue rules before the law can be implemented. Moreover, the initial filing must be made in connection with a general rate proceeding. Aquila expects to file for a FAC in its next electric rate case, which it may not file until July 2006. In 2005, about 53% of owned capacity in Missouri used gas as a primary or combination fuel. Aquila's Sibley plant also accounts for about 29% of Missouri-dedicated capacity. The company must actively hedge its exposure to the gas and wholesale power markets.
Public Service Company of							The company is operating under an electric rate freeze through year-end 2007. Its fuel and purchased power adjuster was eliminated in 1994. While 95% of the power sold to customers is fueled by coal and uranium, outage risk is significant. Output from the San Juan Generating Station and the Palo

New Mexico (PNM Resources Inc.) (Judith Waite)	BBB/Neg/A-3 ('6')	X	X		Intermediate	Considerable	Verde Nuclear Generating Station typically meets about 88% of the company's power needs. While not the primary reason behind Standard & Poor's outlook revision to negative on Jan. 23, 2006, operational difficulties at Palo Verde, lack of an adjuster, and the high cost of replacement power contributed to the rating action.
Tucson Electric Power Co. (Unisource Energy Corp.) (Anne Selting)	BB/Stable/B-2 ('6')	X	X		Intermediate	Considerable	Tucson Electric's retail rates are frozen through 2008 under a settlement agreement reached in 1999. That said, the company has a largely coal-fired generation fleet. Still, outage risk is significant with the company's two Springerville units typically accounting for about 50% of energy generated.
Virginia Electric & Power Co. (Dominion Resources Inc.) (Aneesh Prabhu)	BBB/Stable/A-2 ('5')	X	X		Intermediate	Considerable	Base rates are capped through 2010. Fuel costs and power purchases are subject to a fixed rate recovery through July 1, 2007, when a one-time prospective adjustment will be considered. During this transition period, the risk of fuel-related cost under-recovery is borne by the company. We estimate fuel-related losses at about $290 million (after-tax) in 2005.
AmerenUE (Ameren Corp.) (Barbara Eiseman)	BBB+/Watch Neg/A-2 ('6')		X		Intermediate	Intermediate	On July 14, 2005, the governor of Missouri signed into law new legislation establishing a means for utilities to recover prudently incurred fuel and purchased-power costs without going through a general rate case. The Missouri Commission must first issue rules before the legislation is implemented. Moreover, the initial filing must be made in connection with a general rate proceeding. As such, the company does not currently have access to a fuel and purchased-power adjuster. AmerenUE depends on the Callaway nuclear facility to produce about 16% of its power needs.
Central Illinois Light Co. (Ameren Corp.)	BBB+/Watch Neg/-- ('6')	X	X		Low	Intermediate	CILCO's transmission and distribution operations are under a rate freeze through 2006. The company has a load-following (full requirements) contract with an affiliate through 2006. Certain Illinois legislators have attempted to extend a decade-old retail rate freeze for another three years, which would have forced CILCO, CIPS, and IP to absorb the difference between their capped retail rates and the (market) cost of service and power procurement after the companies' respective contracts expire at the end of 2006. However,

(Barbara Eisman)							there is still uncertainty about the outcome of the company's pending delivery service rate hike request. Parent Ameren has noted that an inability to adjust rates to reflect fuel and timely recovery of power supply costs could, in the extreme, lead to CILCO (and its other Illinois utilities) filing for bankruptcy. Political and regulatory circumstances that could result in a bankruptcy filing caused Standard & Poor's to lower and place its rating of CIPS on CreditWatch with negative implications on Oct. 3, 2006.
Central Vermont Public Service Corp. (Jeanny Silva)	BB+/Stable/-- ('6')		X	X	Intermediate	Intermediate	Central Vermont lacks as fuel adjustment mechanism and has a somewhat contentious relationship with its regulators. That said, the company has very little gas exposure. Still, it is highly dependent on a unit-contingent purchased power contract for output from the Vermont Yankee Nuclear facility. If an outage occurs, the company must request approval to defer replacement power costs. Recovery is only addressed during formal rate cases, which tend to be every two to three years.
Cleveland Electric Illuminating Co. (FirstEnergy Corp.) (Aneesh Prabhu	BBB/Stable/-- ('6')	X	X		Low	Intermediate	All three Ohio FirstEnergy companies are under a rate freeze through 2008. Fuel costs up to $75 million, $77 million, and $79million in 2006, 2007, and 2008, respectively will be recovered from all distribution and transmission customers through a fuel-recovery mechanism. If increased fuel costs are greater than the fuel-recovery mechanism revenues, the excess costs will be deferred by the companies and recovered over 25 years commencing with the distribution rate case first effective on or after January 2009.
Columbus Southern Power Co. (American Electric Power Co. Inc.) (Todd Shipman)	BBB/Stable/-- ('4')	X	X		Low	Intermediate	Generation rates had been frozen during the transition period, which ended in December 2005; the company has agreed to a rate-stabilization plan that caps annual increases in generation rates at 3% through 2008. The plan does not include a fuel-adjustment mechanism, but the company is reliant on low-cost American Electric Power coal-fired system generation.
							As per its stipulation with the Public Utility Commission of Ohio, the company may file for increases to generation rates up to 11% to reflect increased costs in fuel (used in owned generation), environmental

Dayton Power & Light Co. (DPL Inc.) (Brian Janiak)	BB/Positive/-- ('5')	X	X		Low	Intermediate	compliance, taxes, regulatory changes, and security measures. On April 4, 2005, the company filed a request to implement a rate stabilization surcharge effective Jan. 1, 2006. The plan was approved and will phase into rates the effect of increasing fuel and environmental costs over five years, from January 2006 through December 2010. The typical residential customer will experience a 6.7% increase in rates in 2006 and less than 3% increase thereafter and through 2010. Customers are now scheduled to pay market prices for generation starting only in 2011. The company is long capacity and coal reliant (99% of its electric output was from coal-fired units in 2004). Outage risk is moderate, with the company's Stuart plant accounting for 51% of DP&L's coal-fired capacity.
Green Mountain Power Corp. (Jeanny Silva)	BBB/Stable/-- ('5')		X	X	Intermediate	Intermediate	Green Mountain lacks a fuel adjustment mechanism, but has very little gas exposure. Still, the company is dependent on a unit-contingent purchased-power contract for output from the Vermont Yankee (VY) nuclear facility. It also makes short-term power market purchases, which the company must continually hedge. If a VY outage occurs, Green Mountain must request approval to *defer replacement power costs.* Recovery is only addressed during formal rate cases, which tend to be every two to three years.
Indiana Michigan Power Co. (American Electric Power Co. Inc.) (Todd Shipman)	BBB/Stable/-- ('6')	X	X		Low	Intermediate	While rates are set on a cost-of-service basis, Indiana Michigan's base rates are capped through June 2007. Its fuel recovery rate is capped through that time period at a level that automatically increased in January 2006 and will do so again in January 2007. However, Indiana Michigan expects that its actual fuel costs will exceed the capped fuel rates permitted through June 2007. Still, the company is reliant on low-cost American Electric Power coal-fired system generation.
Monongahela Power Co. (Allegheny Energy Inc.) *(Tobias Hsieh)*	BB+/Positive/-- ('5')		X		Intermediate	Intermediate	The company plans to ask West Virginia regulators to reinstate its fuel clause, which was eliminated in 2000. Like Allegheny Energy Supply, Monongahela's reliance on coal exposes it to *rising coal prices.* Moreover, the company's coal plants have moderate outage risk, which can expose the company to incrementally

							higher replacement costs.
Nevada Power Co. (Sierra Pacific Resources) (Swami Venkataraman)	B+/Positive/-- ('6')			X	High	Intermediate	A short capacity position has historically exposed Nevada Power to wholesale power markets. In 2004, the company purchased 59% of its energy needs. Since then, the company has acquired 1,800 MW of gas-fired generation, which will reduce its exposure to the whole power markets, but continue to expose it to fuel risk. Nevada Power has had a troubled history with regulators. In 2002, the Public Utilities Commission of Nevada (PUCN) disallowed $434 million in deferred power costs. Relations are now much improved. In November 2003, the PUCN approved an integrated resource plan (IRP) in which Nevada Power obtains approval before entering into long-term power contracts. Short-term power/fuel purchases are adjusted through new base tariff energy rates (BTER), which the company can file up to twice a year. BTER rates are still subject to a prudency review, but the IRP lays out clear risk-management guidelines that significantly mitigate the risks of disallowance if the company follows its IRP. Nevada Power has completely recovered deferred power costs, with no disallowances for the past two years. Still, the companyhas not accumulated large balances that would really test regulators.
Ohio Edison Co. (FirstEnergy Corp.) (Aneesh Prabhu)	BBB/Stable/-- ('6')	X	X		Low	Intermediate	See Cleveland Electric.
Ohio Power Co. (American Electric Power Co. Inc.) (Todd Shipman)	BBB/Stable/-- ('4')	X	X		Low	Intermediate	Generation rates had been frozen during the transition period, which ended in December 2005; the company has agreed to a rate-stabilization plan that caps annual increases in generation rates at 7% thru 2008. The plan does not include a fuel adjustment mechanism, but the company is reliant on low-cost American Electric Power coal-fired system generation.
PacifiCorp (Anne Selting)	A-/Stable/A-2 ('5')		X		Intermediate	Intermediate	Owned generation is mostly coal-fired, but the company's short position exposes it to the wholesale power markets, which in Utah and Oregon are driven by hydro and gas prices. The company is adding a 1,000 MW combined-cycle gas turbine, which will increase its reliance on gas. -- However, the company has hedged against price and volume fluctuations

							through 2007. Lack of a PSA has been mitigated somewhat by the recent implementation of forward test years in key states.
Portland General Electric Co. (Leo Carrillo)	BBB+/Negative/A-2 ('5')		X - hydro variation excluded from adjustment mechanism		Intermediate	Intermediate	Portland typically purchases about 30% to 35% of its energy requirements from the wholesale market through contracts with tenors of less than three years. An additional 5% to 10% comes from owned gas-fired generation, while an additional 20% to 25% is exposed to hydro risk. This dependence creates the potential for variability in power supply costs, and constitutes Portland's principal business risk. While the company's pass-through mechanism allows PGE to pass most of this variability through to customers, there is currently no mechanism to share the risks and rewards of hydro variability. Portland may file a comprehensive proposal addressing all power cost variability issues, including the pass-through mechanism, as part of its 2007 general rate case.
Puget Sound Energy Inc. (Puget Energy Inc.) (Leo Carrillo)	BBB-/Stable/A-3 ('4')		X		Intermediate	Intermediate	The company's exposure to excess power costs is temporarily capped, but is set to increase beginning mid-2006. A multiyear "power-cost cap" currently limits the company's cumulative power cost exposure to $40 million, a level that the company exceeded in 2004. After he power-cost cap expires, the company's annual exposure will be determined by the "sharing bands" of its current power-cost adjustment mechanism (PCA) mechanism, which gradually reduces the company's exposure as excess power costs meet certain thresholds on an annual basis. The commission granted a temporary 50% cut in the threshold levels from July to December 2006. In 2007 and out, the company's exposure will depend on the Washington Utilities and Transportation Commission's decision regarding Puget's proposed revision to the PCA mechanism that would limit the company's exposure to excess power costs to 50% of the first $25 million. In comparison, the thresholds under the existing PCA expose the company to 100% of the first $20 million of excess power costs, 50% of the next $20 million, 10% of the next $80 million and 5% of excess power costs beyond $120 million. The utility's reliance on hydroelectric supplies and short-term market purchases pressure its operational

							profile.
Sierra Pacific Power Co. (Sierra Pacific Resources) (Swami Venkataraman)	B+/Positive/-- ('6')			X	High	Intermediate	In 2004, Sierra purchased 55% of its energy requirements, the majority of which was from the ST power markets, including hydroelectric power from the Northwest. Fuel and hydro risk make recovery mechanisms important. Like sister utility, Nevada Power, Sierra's relations with regulators have been historically troubled, with $56 million in deferred power costs disallowed in 2002. Relations are now much improved given the company's IRP and access to twice-a-year BTERs.
Toledo Edison Co. (FirstEnergy Corp.) (Aneesh Prabhu)	BBB/Stable/-- ('6')	X	X		Low	Intermediate	See Cleveland Electric.
Westar Energy Inc. (Barbara Eiseman)	BB+/Positive/-- ('5')		X (adjustment clause imminent, however)		Intermediate	Modest	Westar has little gas exposure but moderate outage risk due to the Wolf Creek Nuclear Station (21% of capacity). In December 2005, the Kansas Corporation Commission reinstated a fuel-adjustment clause. Rates will be based on forecast costs with periodic true-up. To the extent actual costs differ from billed amounts, those amounts will accrue in a balancing account that will be cleared at least annually and recovered in a subsequent period. Hence, deferred balances should remain manageable.
Kansas City Power & Light Co. (Great Plains Energy Inc.) (Leo Carrillo)	BBB/Stable/-- ('6')		X		Intermediate	Modest	Stipulated agreements between the company and the Missouri and Kansas commissions freeze the company's rates through 2006, but grant the company permission to request, through a general rate case, an "interim energy charge" to cover expected power cost increases during the implementation of the company's five-year, $1.3 billion capital program. As agreed, the company filed a general rate case early this year with both commissions, but declined to request an interim energy charge in either of them. The company's generating fleet consists four coal plants, a 47% interest in the Wolf Creek nuclear plant, and several oil and gas-fired plants. Asset concentration is moderate, with the largest resource, Wolf Creek, accounting for between 20% and 25% of energy supply.
							As per its rate agreement with the Iowa Utilities Board, Mid-American has agreed not to request a general rate

Mid-American Energy Co. (Scott Taylor)	A-/Stable/A-1 ('5')	X	X		Low	Modest	increase in rates before 2012 unless its Iowa jurisdictional electric ROE falls below 10%. The Iowa Office of Consumer Advocate has agreed not to request or support any rate decreases before January 2012. The company has no fuel and power supply adjustment mechanism. That said, MEC gets all of its self-generated power (about 76% of their needs) from coal and nuclear sources. It purchases about 24%, but only 11% under short-term contracts or spot purchases. Gas is not on the margin in the region. Lastly, none of the company's units are exceptionally large.

Table 2 Electric Distributors With Exposure To Potential Cash Flow Volatility Due To Changes In Fuel And Power Costs

Company (Parent) (Analyst)	Rating (Business profile score)	Generation rate cap expiration date	Supply contracts protect against commodity and volume risk?	Supply counterparties reserve right to early contract termination?	Regulators considering rate cap extensions or market rate phase-ins?	Exposure to potential cash flow volatility	Comment
Metropolitan Edison Co. (First Energy Corp.) (Aneesh Prabhu)	BBB/Stable/– ('4')	2010	Company exposed to volume risk	Yes	No	Considerable	The company uses fixed-volume (block) purchased-power contracts (with affiliates and third-party suppliers) to meet its load obligations. This makes Met-Ed sensitive to variations in provider-of-last-resort (POLR) volumes. If POLR volumes fluctuate more than expected, the company's cash flows can be affected. Met-Ed's supplier affiliate (FirstEnergySupply) has threatened to terminate its power contract with the company if regulators do not authorize adequate pass-through of fuel-related cost changes. With Met-Ed's POLR obligation intact through the end of

							2010, the company would need to recontract supply at market rates (which are likely to be *higher than the* current price charged by FirstEnergySupply). As such, contract termination by FirstEnergySupply could weaken Met-Ed's credit quality considerably.
Pennsylvania Electric Co. (First Energy Corp.) (Aneesh Prabhu)	BBB/Stable/– ('4')	2010	Company exposed to *volume risk*	Yes	No	Considerable	The company uses fixed volume (block power) purchased-power contracts (with affiliates and third-party suppliers) to meet its load obligations. This makes Penn-Electric sensitive to variations in POLR volumes. If POLR volumes fluctuate more than expected, the company's cash flows can be affected. The company's supplier affiliate (FirstEnergySupply) has threatened to terminate its power contract with Penn-Electric if regulators do not authorize adequate pass-through of fuel-related cost changes. With Penn-Elec's POLR obligation intact through the end of 2010, the company would need to recontract supply at market rates (which are likely to be *higher than the* current price charged by FirstEnergySupply). As such, contract *termination by* FirstEnergySupply could weaken Penn-Electric's

							credit quality considerably.
Baltimore Gas & Electric Co. (Constellation Energy Inc.) (Tobias Hsieh) </tabletext> <tabledata subtype="tableratingsdata"> BBB+/Watch Pos/A-2 ('3') </tabledata> <tabletext> 2006 </tabletext> <tabletext> Yes </tabletext> <tabletext> No </tabletext> <tabletext> Market rate phase-in approved </tabletext> <tabletext> Intermediate </tabletext> <tabletext> The company currently purchases power from an affiliate via a load-following contract that expires in mid-2006. Residential rates are capped through July 1, 2006 and reflect this legacy contract. In March 2006, Maryland regulators issued a rate stabilization plan that will phase in higher (residential) power prices over two years instead of all at once starting July 1, 2006, when the company was scheduled to begin charging customers the full cost of buying power on the wholesale market. Baltimore Gas & Electric customers will pay full market rates starting July 2008, while the utility can charge a 5% annual interest rate in the interim for the cost of subsidizing rate-payers at below-market rates. Shifting customers to full market-rates would have raised bills by 40% to 81%, with the final amount subject to results from the company's annual auction for wholesale power. Under the above plan, initial increases will be limited to 21%. Baltimore Gas & Electric will be subject to commodity risk. The company is on CreditWatch with positive implications pending Constellation’s merger with higher-rated FPL Group Inc. </tabletext> </tablerow> <tablerow> <tabletext> Central Illinois Public Service Co. (Ameren Corp.) (Barbara Eiseman) </tabletext> <tabledata subtype="tableratingsdata"> BBB+/Watch Neg/-- ('4') </tabledata> <tabletext> 2006 </tabletext> <tabletext> Yes </tabletext> <tabletext> No							

</tabletext> <tabletext> Possible generation rate cap extension </tabletext> <tabletext> Intermediate </tabletext> <tabletext> Central Illinois has POLR responsibility through 2006. That said, it has a load-following (fixed-price) contract expiring in 2006 with an affiliate to meet this obligation. Certain Illinois legislators have attempted to extend rate caps and the company's POLR responsibility by another three years, which would have forced the company to procure power at market rates without adequate or timely recovery of incremental costs. However, there is still uncertainty about the outcome of the company's pending delivery service rate hike request. Parent Ameren has noted that an inability to adjust rates to reflect full and timely recovery of power supply costs could, in the extreme, lead *to Central Illinois (and its other Illinois utilities)* filing for bankruptcy. Political and regulatory circumstances that could result in a bankruptcy filing caused Standard & Poor's to lower its rating of CIPS and place it on CreditWatch with negative implications on Oct. 3, 2005. </tabletext> </tablerow> <tablerow> <tabletext> Commonwealth Edison Co. (Exelon Corp.) (John Kennedy) </tabletext> <tabledata *subtype="tableratingsdata"*> BBB+/Watch Neg/A-2 ('4') </tabledata> <tabletext> 2006 </tabletext> <tabletext> Yes </tabletext> <tabletext> No </tabletext> <tabletext> Possible generation rate cap extension </tabletext> <tabletext> Intermediate </tabletext> <tabletext> To meet its POLR obligation, the company has entered into a load-following contract with affiliate Exelon Generation Co. The contract is fixed at regulated generation capped rates through 2006. Exelon Generation bears risks of fuel-related cost changes. If rate caps are extended in Illinois--the risk transfers to Com-Ed as the company's contract with Exelon Generation will have expired. Legislators in Illinois have

indicated that they may extend rate caps and the company's POLR responsibility by another three years. In October 2005, Standard & Poor's lowered Com-Ed's (and Exelon's) ratings to ‘BBB+’ from ‘A-‘ due to the heightened adversarial regulatory environment in Illinois and the potential for cash flow degradation at the consolidated entity (due to a potential rate cap extension at Com-Ed). The company and its parent and affiliates are currently on CreditWatch with negative implications pending the completion of a merger with Public Service Enterprise Group Inc. </tabletext> </tablerow> <tablerow> <tabletext> Illinois Power Co. (Ameren Corp.) (Barbara Eiseman) </tabletext> <tabledata subtype="tableratingsdata"> BBB+/Watch Neg/-- ('4') </tabledata> <tabletext> 2010 </tabletext> <tabletext> Yes </tabletext> <tabletext> No </tabletext> <tabletext> Possible generation rate cap extension </tabletext> <tabletext> Intermediate </tabletext> <tabletext> Illinois Power has POLR responsibility through 2006. That said, it has a load-following (fixed-price) contract expiring in 2006 with Dynegy Inc. to meet about 70% of its load requirements. Certain Illinois legislators have attempted to extend generation rate caps and the company's POLR responsibility by another three years, which would have forced Illinois Power to procure power at market rates without adequate or timely recovery of incremental costs. However, there is still uncertainty about the outcome of the company's pending delivery service rate hike request. Parent Ameren has noted that an inability to adjust rates to reflect full and timely recovery of power supply costs could, in the extreme, lead to Illinois Power (and its other Illinois utilities) filing for bankruptcy. Political and regulatory circumstances that could result in a bankruptcy filing caused Standard & Poor's to lower its rating of Illinois Power							

and place it on CreditWatch with negative implications on Oct. 3, 2005.' </tabletext> </tablerow> <tablerow> <tabletext> Potomac Electric Power Co. and Delmarva Power & Light Co. (PEPCO Holdings Inc.) (Gerrit Jepsen) </tabletext> <tabledata subtype="tableratingsdata"> BBB+/Watch Neg/A-2 ('3') </tabledata> <tabletext> 2006 </tabletext> <tabletext> Yes </tabletext> <tabletext> No </tabletext> <tabletext> Possible market rate phase-in </tabletext> <tabletext> Intermediate </tabletext> <tabletext> On Mar 17, 2006, Standard & Poor’s placed Pepco Holdings Inc (PHI) and its utility subsidiaries (Pepco and DPL) on CreditWatch with negative implications. The listing reflected concerns that regulatory actions regarding the phase-in of market rates at Pepco and DPL could deteriorate the company’s consolidated financial profile. To minimize the effect on ratepayers of significantly higher power costs after post rate-cap expiration in mid-2006, PHI has proposed a phase-in of increased power costs for DPL’s ad Pepco’s standard offer service customers. DPL’s proposal would result in about $60 million under-recovered power costs by mid-2007 with subsequent rate recovery of this accrued balance over two-years. In Maryland, PEPCO and DPL estimate that under-recoveries could grow beyond $60 million, which would require short-term borrowing. </tabletext> </tablerow> <tablerow> <tabletext> Duquesne Light Co. (Duquesne Light Holdings Inc.) (Gerrit Jepsen) </tabletext> <tabledata subtype="tableratingsdata"> BBB/Negative/-- ('4') </tabledata> <tabletext> 2007 </tabletext> <tabletext> Yes </tabletext> <tabletext> No </tabletext> <tabletext> No </tabletext> <tabletext> Modest </tabletext> <tabletext> Duquesne Light is under a rate and supply plan (POLR III) that allows its residential and small commercial customers (who do not choose an alternative supplier) to receive	BBB+/Watch Pos/A-2 ('3')	2006	Yes	No	Market rate phase-in approved	Intermediate	The company currently purchases power from an affiliate via a load-following contract that expires in mid-2006. Residential rates are capped through July 1, 2006 and reflect this legacy contract. In March 2006, Maryland regulators issued a rate stabilization plan that will phase in higher (residential) power prices over two years instead of all at once starting July 1, 2006, when the company was scheduled to begin charging customers the full cost of buying power on the wholesale market. Baltimore Gas & Electric customers will pay full market rates starting July 2006, while the utility can charge a 5% annual interest rate in the interim for the cost of subqidizing rate-payers at below-market rates. Shifting customers to full market-rates

electric supply *through 2007* at fixed rates. Duquesne Light procures the energy and capacity needed to serve these customers under a full-requirements contract with Duquesne Power – (now a subsidiary of Duquesne Light Holdings). Duquesne Power covers Duquesne Light's power needs through various third-party contracts, including block power contracts, which expose Power and ultimately Duquesne Light Holdings to volume risk. Also, to *the extent that* market prices are higher than the rates Duquesne Light pays Duquesne Power, Duquesne Power may be forced to acquire energy and capacity at a loss, and therefore bears commodity risk. As such, while Duquesne Light's exposure to potential cash flow volatility is considered ”modest.” Duquesne Light Holdings' exposure is considered ”moderate” to “considerable.” Duquesne Light will *need to seek* approval of a revised plan to serve POLR customers after 2007. The specifics of said plan could affect our assessment of exposure to potential cash flow volatility at both Duquesne Light and Duquesne Light Holdings. </tabletext> </tablerow> <tablerow> <tabletext> PECO Energy Co. (Exelon Corp.) (John Kennedy) </tabletext> <tabledata subtype="tableratingsdata"> BBB+/Watch Neg/A-2 ('4') </tabledata> <tabletext> 2010 </tabletext> <tabletext> Yes </tabletext> <tabletext> No </tabletext> <tabletext> No </tabletext> <tabletext> Modest </tabletext> <tabletext> To meet its POLR obligation, the company has entered into a load-following contract with affiliate Exelon Generation Co. The contract is fixed at regulated generation capped rates through 2010. Exelon Generation bears risks of any fuel-related cost changes. Because the power contract is *long-dated and there are no* indications at this time that the affiliate will seek to terminate the contract prematurely, PECO's exposure to potential cash flow volatility is characterized as						would have raised bills by 40% to 81%, with the final amount subject to results from the company's annual auction for wholesale power. Under the above plan, initial increases will be limited to 21%. Baltimore Gas & Electric will be subject to commodity risk. The company is on CreditWatch with positive implications pending Constellation's merger with higher-rated FPL Group Inc.

”modest.” Exelon Generation's and parent Exelon's exposure are characterized as ”considerable.” </tabletext> </tablerow> <tablerow> <tabletext> Potomac Edison Co. (Allegheny Energy Inc.) (Tobias Hsieh) </tabletext> <tabledata subtype="tableratingsdata"> BB+/Positive/-- ('3') </tabledata> <tabletext> 2008 </tabletext> <tabletext> Yes </tabletext> <tabletext> No </tabletext> <tabletext> No </tabletext> <tabletext> Modest </tabletext> <tabletext> Potomac Edison has a load-following contract with affiliate, Allegheny Energy Supply (AES). AES provides power under regulated generation capped rates through 2008. Capped rates are below current market prices and AES is susceptible to rising coal prices. That said, AES has hedged 70% or more of its coal requirements through 2008. Allegheny's coal plants have below-average efficiency statistics and a history of unplanned outages, which could intensify the effect of the capped rates on AES's credit profile. As such, while Potomac's exposure to potential cash flow volatility is characterized as ”modest,” AES's and ultimately Allegheny Energy Inc.’s exposure is characterized as ”considerable” to high.” </tabletext> </tablerow> <tablerow> <tabletext> PPL Electric Utilities Corp. (PPL Corp.) (Dimitri Nikas) </tabletext> <tabledata subtype="tableratingsdata"> A-/Stable/A-2 ('3') </tabledata> <tabletext> 2009 </tabletext> <tabletext> Yes </tabletext> <tabletext> No </tabletext> <tabletext> No </tabletext> <tabletext> Modest </tabletext> <tabletext> PPL-Energy Supply has agreed to supply load-following power at a fixed price to PPL Electric Utilities. Generation rates are capped through 2009. If generation costs are more than what is captured in rates, PPLEnergy Supply bears the risk. PPLElectric Utilities is ring-fenced from PPL Corp. and its affiliates.							

</tabletext> </tablerow> <tablerow> <tabletext> West Penn Power Co. (Allegheny Energy Inc.) (Tobias Hsieh) </tabletext> <tabledata subtype="tableratingsdata"> BB+/Positive/-- ('3') </tabledata> <tabletext> 2010 </tabletext> <tabletext> Yes </tabletext> <tabletext> No </tabletext> <tabletext> No </tabletext> <tabletext> Modest </tabletext> <tabletext> West Penn has a load-following contract with affiliate, Allegheny Energy Supply (AES). AES provides power under regulated generation capped rates through 2010. Capped rates are below current market prices and AES is susceptible to *rising coal* prices. That said, AES has hedged 70% or more of its coal requirements through 2008. Allegheny's coal plants have below-average efficiency statistics and a *history* of unplanned outages, which could intensify the effect of the capped rates on AES's credit profile. As such, while West Penn's exposure to potential cash flow volatility is characterized as ”modest.” AES's and ultimately Allegheny Energy Inc's exposure is characterized as ”considerable” to “*high*.” </tabletext> </tablerow> </table> <object type="tsv" source="2898044" width="0" height="0"> </object> </section> </body> </commentary></spdoc></page>? s (with affiliates and third-party suppliers) to meet its load obligations. This makes Met-Ed sensitive to variations in provider-of-last-resort (POLR) volumes. If POLR volumes fluctuate *more* than expected, the company's cash flows can be affected. Met-Ed's supplier affiliate (FirstEnergySupply) has threatened to terminate its power contract with the company if regulators do not authorize adequate pass-through of fuel-related cost changes. With Met-Ed's POLR obligation intact through the end of 2010, the company would need to recontract supply at market rates (which are likely to be higher than the current price charged by							

FirstEnergySupply). As such, contract termination by FirstEnergySupply could weaken Met-Ed's credit quality considerably. </tabletext> </tablerow> <tablerow> <tabletext> Pennsylvania Electric Co. (First Energy Corp.) (Aneesh Prabhu) </tabletext> <tabledata subtype="tableratingsdata"> BBB/Stable/-- ('4') </tabledata> <tabletext> 2010 </tabletext> <tabletext> Company exposed to volume risk </tabletext> <tabletext> Yes </tabletext> <tabletext> No </tabletext> <tabletext> Considerable </tabletext> <tabletext> The company uses fixed volume (block power) purchased-power contracts (with affiliates and third-party suppliers) to meet its load obligations. This makes Penn-Electric sensitive to variations in POLR volumes. If POLR volumes fluctuate more than expected, the company's cash flows can be affected. The company's supplier affiliate (FirstEnergySupply) has threatened to terminate its power contract with Penn-Electric if regulators do not authorize adequate pass-through of fuel-related cost changes. With Penn-Elec's POLR obligation intact through the end of 2010, the company would need to recontract supply at market rates (which are likely to be higher than the current price charged by FirstEnergySupply). As such, contract termination by FirstEnergySupply could weaken Penn-Electric's credit quality considerably. </tabletext> </tablerow> <tablerow> <tabletext> Baltimore Gas & Electric Co. (Constellation Energy Inc.) (Tobias Hsieh)							
						Central Illinois has POLR responsibility through 2006. That said, it has a load-following (fixed-price) contract expiring in 2006 with an affiliate to meet this obligation. Certain Illinois legislators have attempted to extend rate caps	

Central Illinois Public Service Co. (Ameren Corp.) (Barbara Eiseman)	BBB+/Watch Neg/-- (*4)	2006	Yes	No	Possible generation rate cap extension	Intermediate	and the company's POLR responsibility by another three years, which would have forced the company to procure power at market rates without adequate or timely recovery of incremental costs. However, there is still uncertainty about the outcome of the company's pending delivery service rate hike request. Parent Ameren has noted that an inability to adjust rates to reflect full and timely recovery of *power supply costs* could, in the extreme, lead to Central Illinois (and its other Illinois utilities) filing for bankruptcy. Political and regulatory circumstances that could result in a bankruptcy filing caused Standard & Poor's to lower its rating of CIPS and place it on CreditWatch with negative implications on Oct. 3, 2005.
							To meet its POLR obligation, the company has entered into a load-following contract with affiliate Exelon Generation Co. The contract is fixed at *regulated* generation capped rates through 2006. Exelon Generation bears risks of fuel-related cost changes. If rate caps are extended in Illinois--the risk transfers to Com-Ed as the

Commonwealth Edison Co. (Exelon Corp.) (John Kennedy)	BBB+/Watch Neg/A-2 ('4')	2006	Yes	No	Possible generation rate cap extension	Intermediate	company's contract with Exelon Generation will have expired. Legislators in Illinois have indicated that they may extend rate caps and the company's POLR responsibility by another three years. In October 2005, Standard & Poor's lowered Com-Ed's (and Exelon's) ratings to 'BBB+' from 'A-' due to the heightened adversarial regulatory environment in Illinois and the potential for cash flow degradation at the consolidated entity (due to a potential rate cap extension at Com-Ed). The company and its parent and affiliates are currently on CreditWatch with negative implications pending the completion of a merger with Public Service Enterprise Group Inc.
							Illinois Power has POLR responsibility through 2006. That said, it has a load-following (fixed-price) contract expiring in 2006 with Dynegy Inc. to meet about 70% of its load requirements. Certain Illinois legislators have attempted to extend generation rate caps and the company's POLR responsibility by another three years, which would

Illinois Power Co. (Ameren Corp.) (Barbara Eiseman)	BBB+/Watch Neg/-- ('4')	2010	Yes	No	Possible generation rate cap extension	Intermediate	have forced Illinois Power to procure power at market rates without adequate or timely recovery of incremental costs. However, there is still uncertainty about the outcome of the company's pending delivery service rate hike request. Parent Ameren has noted *that an inability to* adjust rates to reflect full and timely recovery of power supply costs could, in the *extreme, lead to* Illinois Power (and its other Illinois utilities) filing for bankruptcy. Political and regulatory circumstances that could result in a bankruptcy filing caused Standard & Poor's to lower its rating of Illinois Power and place it on CreditWatch with negative implications on Oct. 3, 2005.
							On Mar 17, 2006, Standard & Poor's placed Pepco Holdings Inc (PHI) and its utility subsidiaries *(Pepco* and DPL) on CreditWatch with negative implications. The listing reflected concerns that regulatory actions regarding the phase-in of market rates at Pepco and DPL could deteriorate the company's consolidated financial profile. To minimize the effect on ratepayers of

Potomac Electric Power Co. and Delmarva Power & Light Co. (PEPCO Holdings Inc.) (Gerrit Jepsen)	BBB+/Watch Neg/A-2 ('3')	2006	Yes	No	Possible market rate phase-in	Intermediate	significantly higher power costs after post rate-cap expiration in mid-2006, PHI has proposed a phase-in of increased power costs for DPL's nd Pepco's standard offer service customers. DPL's proposal would result in about $60 million under-recovered power costs by mid-2007 with subsequent rate recovery of this accrued balance over two-years. In Maryland, PEPCO and DPL estimate that under-recoveries could grow beyond $60 million, which would require short-*term borrowing*.
							Duquesne Light is under a rate and supply plan (POLR III) that allows its residential and small commercial customers (who do not choose an alternative supplier) to receive electric supply through 2007 at fixed rates. Duquesne Light procures the energy and capacity needed to serve these customers under a full-requirements contract with Duquesne Power -- (now a subsidiary of Duquesne Light Holdings). *Duquesne Power* covers Duquesne Light's power needs through various third-party contracts, including block power contracts, which expose Power and

Duquesne Light Co. (Duquesne Light Holdings Inc.) (Gerrit Jepsen)	BBB/Negative/-- (*4)	2007	Yes	No	No	Modest	ultimately Duquesne Light Holdings to volume risk. Also, to the extent that market prices are higher than the rates Duquesne Light pays Duquesne Power, Duquesne Power may be forced to acquire energy and capacity at a loss, and therefore bears commodity risk. As such, while Duquesne Light's exposure to potential cash flow volatility is considered "modest." Duquesne Light Holdings' exposure is considered "moderate" to "considerable." Duquesne Light will need to seek approval of a revised plan to serve POLR customers after 2007. The specifics of said plan could affect our assessment of exposure to potential cash flow volatility at both Duquesne Light and Duquesne Light Holdings.
PECO Energy Co. (Exelon Corp.) (John Kennedy)	BBB+/Watch Neg/A-2 (*4)	2010	Yes	No	No	Modest	To meet its POLR obligation, the company has entered into a load-following contract with affiliate Exelon Generation Co. The contract is fixed at regulated generation capped rates through 2010. Exelon Generation bears risks of any fuel-related cost changes. Because the power contract is long-dated and there are no

							indications at this time that the affiliate will seek to terminate the contract prematurely, PECO's exposure to potential cash flow volatility is characterized as "modest." Exelon Generation's and parent Exelon's exposure are characterized as "considerable."
Potomac Edison Co. (Allegheny Energy Inc.) (Tobias Hsieh)	BB+/Positive/-- ('3')	2008	Yes	No	No	Modest	Potomac Edison has a load-following contract with affiliate, Allegheny Energy *Supply (AES). AES* provides power under regulated generation capped rates through 2008. Capped rates are below current market prices and AES is susceptible to rising coal prices. That said, AES has hedged 70% or more of its coal requirements through 2008. Allegheny's coal plants have below-average efficiency statistics and a history of unplanned outages, which could intensify the effect of the capped rates on AES's credit profile. As such, while Potomac's exposure to potential cash flow volatility is characterized as "modest," AES's and ultimately Allegheny Energy Inc.'s exposure is characterized as "considerable" to high."
							PPL-Energy Supply has agreed to

PPL Electric Utilities Corp. (PPL Corp.) (Dimitri Nikas)	A-/Stable/A-2 ('3')	2009	Yes	No	No	Modest	supply load-following power at a fixed price to PPL Electric Utilities. Generation rates are capped through 2009. If generation costs are more than what is captured in rates, PPLEnergy Supply bears the risk. PPLElectric Utilities is ring-fenced from PPL Corp. and its affiliates.
West Penn Power Co. (Allegheny Energy Inc.) (Tobias Hsieh)	BB+/Positive/-- ('3')	2010	Yes	No	No	Modest	West Penn has a load-following contract with affiliate, Allegheny Energy Supply (AES). AES provides power under regulated generation capped rates through 2010. Capped rates are below current market prices and AES is susceptible to rising coal prices. That said, AES has hedged 70% or more of its coal requirements through 2008. Allegheny's coal plants have below-average efficiency statistics and a history of unplanned outages, which could intensify the effect of the capped rates on AES's credit profile. As such, while West Penn's exposure to potential cash flow volatility is characterized as "modest." AES's and ultimately Allegheny Energy Inc's exposure is characterized as "considerable" to "high."

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Downgrade Potential Across Credit Grades And Sectors

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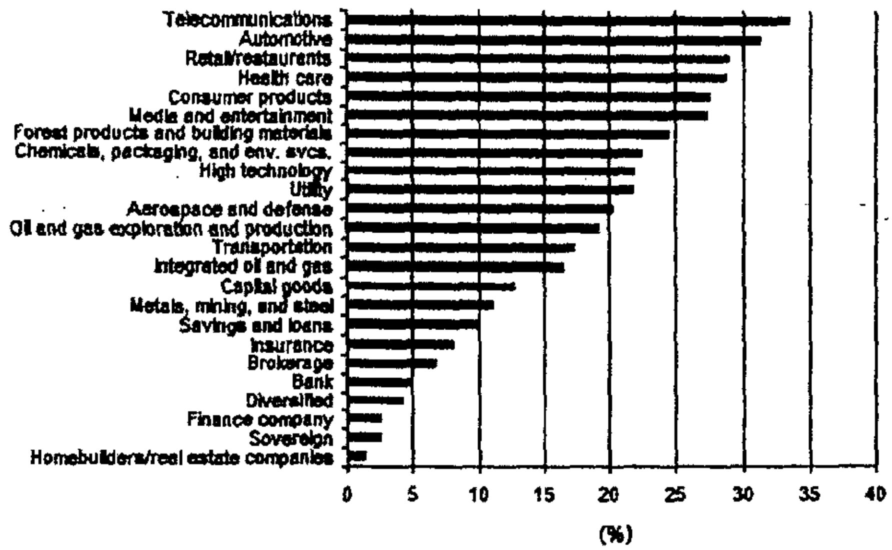
This month, we note the following key takeaways:

- The number of entities at risk of potential downgrades jumped to a high of 659 in mid-March, compared with 636 in mid-February. This count represents the highest since the commencement of this report last September.
- Almost 86% of those at risk of downgrades were located either in the U.S. or Europe.
- Telecommunications and automotive sectors appeared the most vulnerable to deterioration in credit quality, in terms of the count of issuers listed with a negative bias relative to the total rated universe.
- Many of the entities at risk of potential downgrades were in the consumer discretionary domain (telecommunications, automotive, retail/restaurants and health care), where pressures have been building (owing to greater consumer indebtedness, growing uncertainty about the housing outlook, and high energy prices) and momentum is expected to decelerate.
- Among industrial issuers listed with a negative bias, homebuilders/real estate companies appeared least vulnerable, with only 2% of total issuers listed with a negative bias as of Mar. 22, 2006.
- The greatest potential for downgrades was seen in the 'B+' rating designation, which constituted 19% of total potential downgrades globally.

Timely and ongoing surveillance of issuers at risk of downgrades can provide value to investors in their sectoral credit-allocation process as well as in hedging against potential capital losses arising from a rating downgrade. Indeed, in many of these sectors at risk of potential downgrades, the proportion of issuers listed with a negative bias (i.e. negative outlook or ratings on CreditWatch with negative implications) are currently at more elevated levels than have historically been recorded, highlighting the risks to credit quality. The fact that borrowing costs have not budged meaningfully from favorable lows, notwithstanding the turnaround in short-term benchmark rates, undoubtedly remains a favorable factor for many issuers.

Chart 1

Subsector Distribution Of Potential Downgrades As A Share Of Total Rated



Data as of March 22, 2006. Source: Standard & Poor's Global Fixed Income Research.

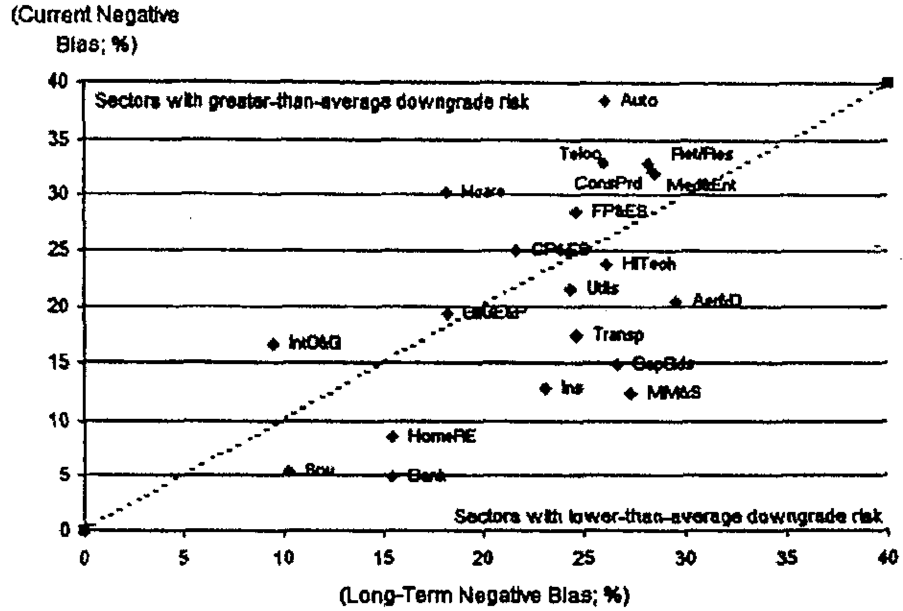
Entities with either a negative outlook or with ratings on CreditWatch with negative implications are a good leading indicator of actual downgrades. A long-term study published by Standard & Poor's Global Fixed Income Research corroborates this unequivocally. CreditWatch status and outlooks are strong predictors of ratings behavior, both in the aggregate as well as when broken out by rating category, region, or sector. For all ratings on CreditWatch with negative implications, 64% are downgraded. Negative rating outlooks result in company downgrades 35% of the time.

As of Mar. 22, 2006, of the 659 entities listed with either a negative outlook or with ratings on CreditWatch with negative implications across all rating designations from 'AAA' to 'B-', 68% of the issuers were based in the U.S. The highest potential for downgrades was seen in the 'B+' rating designation, which constituted 19% of total potential downgrades globally. By comparison, 332 entities were poised to benefit from potential upgrades across the rating designations 'AA+' to 'B-'.

Of the 659 entities at risk of potential downgrade, five were rated 'AAA'. All 'AAA' rated issuers were based in Europe, and three of these entities were in the financial sector. The negative outlooks on two Austrian banks (HYPO TIROL BANK AG and Oberoesterreichische Landesbank AG) reflect expectations that existing state guarantees will be phased out over a transition period and that in the absence of explicit state guarantees, future counterparty credit ratings are expected to be lower. The negative outlook on France-based IXIS Corporate & Investment Bank reflects the end of CDC's guarantee on new debt issues and financial transactions from Jan. 23, 2007. At that time, the long-term counterparty credit rating on IXIS CIB will be lowered to the level of that of its new parent, CNCE. Among nonfinancials, one was a Switzerland-based consumer products company (Nestlé S.A.), and the other a Germany-based transportation entity (DFS Deutsche Flugsicherung GmbH). For a full list of entities listed with a negative bias, see Table 2.

Chart 2

Outlook/CreditWatch-Driven Assessment Of Relative Downgrade Vulnerability Across Sectors



Data as of March 22, 2006. Source: Standard & Poor's Global Fixed Income Research.

Globally, the top sectors most vulnerable to downgrades were telecommunications, automotive, retail/restaurants, health care, consumer products, and media and entertainment. In each case, the percentage of entities listed with a negative bias in proportion to the total number of ratings in the sector was higher than 28% or higher (see Chart 1). It is also noteworthy that in most of these sectors, the current negative bias exceeds the long-term average. Chart 2 displays a breakout of both the most recent distribution of negative bias (defined as the number of entities listed with either a negative outlook or a CreditWatch with negative implications on March 22, 2006 relative to the total rated population in each sector) as well as the long-term average of negative bias beginning in 1990 and ending in the fourth quarter of 2005. The dotted diagonal running across the chart indicates that the current negative bias exactly matches the long-term average negative bias. Sectors located to the left of the diagonal indicate higher-than-average risk of potential downgrade, whereas sectors to the right of the diagonal indicate lower-than-average risk.

Of the issuers listed at risk of potential downgrade within telecommunications, the majority (63%) are located in the U.S. Most of the entities listed with negative bias are in the integrated telecommunication services and wireless telecommunication services subcategories. Just over half (52%) of the telecommunications entities at risk of downgrade were rated speculative grade. The high level of merger and acquisition activity continues to be a major factor reshaping the telecommunications sector. Within wireless, the near-term threat is continuing wireless substitution, while an increasingly real threat over the next few years will come from alternative voice over Internet protocol (VoIP) providers.

Within the automotive sector, 82% of entities that are at risk are located in the U.S. More than half of the entities on the list belonged to the auto parts and equipment subcategory. The outlook for auto supplier credit quality is cloudy at best, since the North American auto suppliers' fortunes are tied in large part to those of automakers General Motors Corp., whose production levels are flat, and Ford Motor Co., whose production levels are declining. The sector has also been affected by high gasoline prices (which depresses consumer demand), and high raw material costs (little of which is recovered from the domestic automakers). Auto supplier earnings were also hurt by a spike in fuel and energy costs following Hurricanes Katrina and Rita, which caused a rapid escalation of already high rubber and plastic resin costs. Some vendors serving the sector have become increasingly concerned about the credit quality of auto suppliers, especially after the Oct. 8, 2005, bankruptcy filing of Delphi Corp. and, in some cases, have imposed tighter credit terms.

Within retail/restaurants, the majority (78%) was located in the U.S. and fell into the specialty stores, food and drug retail, and restaurant subcategories. The sector was plagued by cautious consumer spending and eroding profit margins because of rising costs from commodities, energy, and insurance. The food wholesale industry is under pressure from soft sales and profits in the supermarket sector caused by the incursion of nontraditional food retailers and cautious consumer spending. In addition, ongoing consolidation in the supermarket industry creates larger self-distributing chains, causing wholesale attrition in the low single digits. These factors can erode operators' distribution volume and profitability as well as their retail operations. Margins in the restaurant segment are likely to remain under pressure because utility prices are expected to stay high and sales trends will likely soften.

Within health care, vulnerability appeared in the U.S., particularly in the health care facilities, services and pharmaceuticals subcategories. The relative prominence of negative outlooks that currently exist among health service providers generally reflects previous financial sponsor decisions to tap relatively inexpensive and available capital to effect sizable payouts to owners. In a period of rising interest rates, these highly leveraged and low-rated issuers will be subject to increased carrying costs for their floating-rate borrowings, causing credit rating pressure. In the pharmaceutical segment, the preponderance of negative outlooks largely represents longer-term credit concerns, rather than prospects for downgrades in 2006.

Among consumer products, potential downgrades were concentrated mainly in the U.S. (89%). Within the U.S., weakness was concentrated in the food, beverage, and tobacco subgroup, as well as consumer durables and apparel. Nearly three quarters of the U.S. names at risk of potential downgrade within this sector was in the speculative-grade category. Sustained higher raw material and other costs are expected to largely offset moderately positive volume trends and any benefits of restructuring initiatives undertaken over the past several years in addition to selected pricing activity. Intense competition among consumer products companies and the shifting of the balance of power toward the retailer will continue to limit upside potential for issuers. The soft goods and apparel sector continues to face significant pressures, as has been the case over the past several years. The demanding retail environment has led to more promotional activity and contributed to slowing sales growth at some of the major textile and apparel companies. Domestic manufacturers continue to be hurt by pricing pressures arising from higher raw material costs, the influx of low-cost foreign imports, and a more demanding, value-conscious consumer.

The negative bias in media and entertainment was also concentrated in the U.S., which accounted for 78% of all entities at risk of potential downgrade. The outlook for the U.S. media and entertainment industry is less optimistic than previously, with traditional advertising representing an area of slowing momentum and potential negative surprises that could neutralize the expected boost from local elections and Winter Olympics. Publishing and printing subcategory was among the more vulnerable subcategories, the former owing to anemic ad spending and the latter sector continuing to confront challenging credit quality because of overcapacity, high levels of competition, and consolidation. In non-advertising-related sectors, movie exhibitors are hoping for a year of stronger releases after 2005 finished lower, and for the Hollywood studios, DVD sales growth may be slowing, with the huge-volume titles in release raising inventory risk. The music industry is still under siege from piracy, and industry legal efforts have not turned the tide of shrinking CD sales.

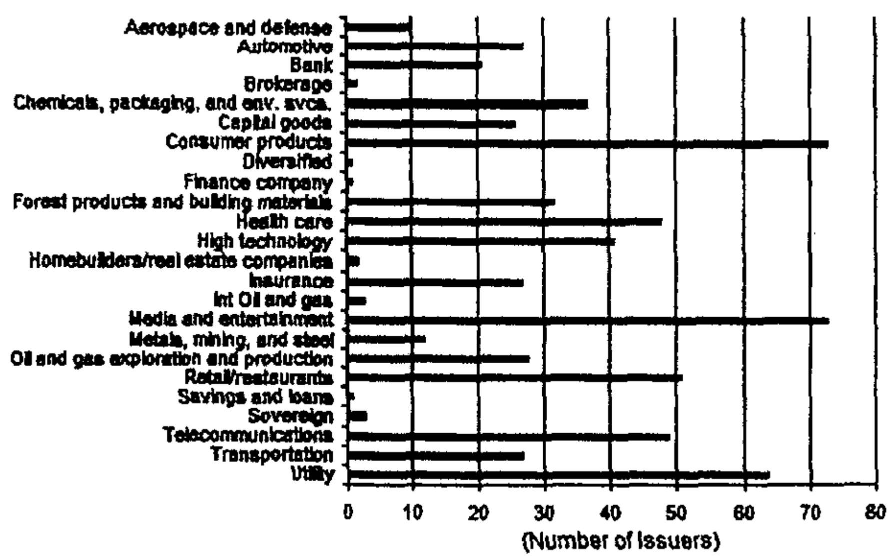
At the opposite end, homebuilders/real estate, sovereigns, and banks appeared least vulnerable to downgrades, with only 3%, 2%, and 5%, respectively, of total issuers listed with a negative bias. Sectors such as diversified and finance companies were omitted because of small sample size.

In terms of absolute count of potential bond downgrades, the consumer products and media and entertainment sector led the potential downgrade list with 73 issuers each (see Chart 3).

The 'B+' rating designation showed the most potential for rating downgrades, constituting 19% of the total global pool of potential downgrades (see Chart 4). By rating category, the preponderance of potential downgrades also appeared in the 'B' rating category—including the 'B+', 'B', and 'B-' rating designations—which constituted 38% of the total pool of potential downgrades. Of the 659 issuers on the current list, 43% are investment grade ('BBB-' or above), and the remaining 57% are speculative grade ('BB+' or below). The concentration in the speculative-grade segment is not surprising because speculative-grade ratings are generally associated with greater volatility.

Chart 3

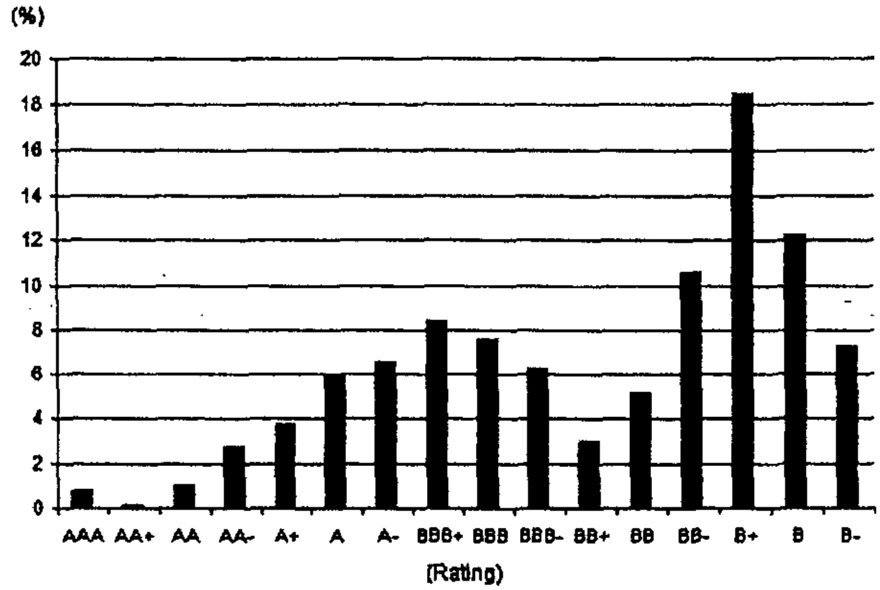
Subsector Distribution Of Potential Downgrades By Count



Data as of March 22, 2006. Source: Standard & Poor's Global Fixed Income Research.

Chart 4

Rating Distribution Of Potential Downgrades



Data as of March 22, 2006. Source: Standard & Poor's Global Fixed Income Research.

Geographically, the U.S. constitutes the largest number of entities listed for potential downgrade, with 443, but that concentration in part reflects the larger rated population in the U.S. (see Table 1). European and U.S. entities together made up 86% of the potential bond downgrades.

Table 1 Negative CreditWatch And Outlook Distribution By Region

	--Number of Issuers--		
Region	CreditWatch Negative	Outlook Negative	Total
Asia/Pacific	11	25	36
Canada	12	31	43
Eastern Europe/Middle East/Africa	2	6	8
Europe	38	83	121
Latin America		6	6
U.S.	110	335	445
Grand total	173	486	659

Data as of March 22, 2006. Source: Standard & Poor's Global Fixed Income Research.

Table 2 Issuers With Negative Outlook Or Ratings On CreditWatch Negative ('AAA' through 'C' Rating Categories)

Rating	Issuer	Sector	Country
AAA/Negative	IXIS Corporate & Investment Bank (Caisse Nationale des Caisses d'Epargne et de Prevoyance)	Bank	France
AAA/Negative	DFS Deutsche Flugsicherung GmbH	Transportation	Germany
AAA/Negative	Nestle S.A.	Consumer products	Switzerland
AAA/Negative	HYPO TIROL BANK AG (Tyrol (State of))	Bank	Austria
	Oberoesterreichische Landesbank AG (Upper		

AAA/Negative	Austria (State of))	Bank	Austria
AA+/Negative	Niederoesterreichische Landesbank Hypothekenbank AG (Lower Austria (State of))	Bank	Austria
AA/Neg	Jefferson-Pilot Corp. (Jefferson Pilot Financial Group)	Insurance	U.S.
AA/Neg	Swiss Reinsurance Co.	Insurance	Switzerland
AA/Negative	Aeroports de Paris	Transportation	France
AA/Negative	American International Group Inc.	Insurance	U.S.
AA/Negative	Banco Popular Espanol, S.A.	Bank	Spain
AA/Negative	Fuji Photo Film Co. Ltd.	Capital goods	Japan
AA/Negative	Nicor Inc.	Utility	U.S.
AA-/Neg	Abertis Infraestructuras S.A.	Transportation	Spain
AA-/Neg	E.ON AG	Utility	Germany
AA-/Neg	Gaz de France S.A.*	Utility	France
AA-/Neg	HDI Haftpflichtverband der Deutschen Industrie VaG	Insurance	Germany
AA-/Negative	American United Life Insurance Co.	Insurance	U.S.
AA-/Negative	BASF AG	Chemicals, packaging, and env. svcs.	Germany
AA-/Negative	Dexia Crediop SpA (Dexia S.A.)	Bank	Italy
AA-/Negative	Electricite de France	Utility	France
AA-/Negative	International Lease Finance Corp.	Transportation	U.S.
AA-/Negative	Landsvirkjun	Utility	Iceland
AA-/Negative	Merck & Co. Inc.	Health care	U.S.
AA-/Negative	OKO Bank (OKO Osuuspankkien Keskuspankki Oyj)	Bank	Finland
AA-/Negative	Procter & Gamble Co.	Consumer products	U.S.
AA-/Negative	Prudential PLC	Insurance	U.K.
AA-/Negative	Republic of Italy	Sovereign	Italy
AA-/Negative	Singapore Post Ltd.	Consumer products	Singapore
AA-/Negative	Transpower New Zealand Ltd.	Utility	New Zealand
AA-/Negative	WGL Holdings Inc.	Utility	U.S.
A+/Neg	Cargill Inc.	Consumer products	U.S.
A+/Neg	First Data Corp.	High technology	U.S.
A+/Neg	Gas Natural SDG, S.A.	Utility	Spain
A+/Neg	Iberdrola S.A.	Utility	Spain
A+/Neg	Sherwin-Williams Co.*	Chemicals, packaging, and env. svcs.	U.S.
A+/Neg	Vodafone K.K. (Vodafone Group PLC)*	Telecommunications	Japan
A+/Negative	Allstate Corp.	Insurance	U.S.
A+/Negative	American Express Company	Finance company	U.S.
A+/Negative	ASM Brescia SpA*	Utility	Italy
A+/Negative	BRISA Auto-Estradas de Portugal S.A.	Transportation	Portugal
A+/Negative	Bristol-Myers Squibb Co.	Health care	U.S.
A+/Negative	Canadian Imperial Bank of Commerce	Bank	Canada
A+/Negative	Acea SpA (City of Rome)	Utility	Italy
A+/Negative	ATAC SpA (City of Rome)	Transportation	Italy
A+/Negative	Enel SpA*	Utility	Italy
A+/Negative	Energie AG Oberoesterreich*	Utility	Austria
A+/Negative	Essent N.V.	Utility	Netherlands
A+/Negative	Hera SpA	Utility	Italy
		Oil and gas exploration and	

A+/Negative	Motiva Enterprises LLC	production	U.S.
A+/Negative	N.V. NUON	Utility	Netherlands
A+/Negative	Nationwide Mutual Insurance Co. (Nationwide Mutual Insurance Intercompany Pool)	Insurance	U.S.
A+/Negative	RWE AG	Utility	Germany
A+/Negative	Security Mutual Life Insurance Co. of NY	Insurance	U.S.
A+/Negative	Torchmark Corp.	Insurance	U.S.
A+/Negative	UniCredito Italiano SpA	Bank	Italy
A/Neg	Aliant Inc.¶	Telecommunications	Canada
A/Neg	Allergan Inc.	Health care	U.S.
A/Neg	AT&T Inc.	Telecommunications	U.S.
A/Neg	BAA PLC*	Transportation	U.K.
A/Neg	BellSouth Corp.	Telecommunications	U.S.
A/Neg	BOC Group PLC (The)	Chemicals, packaging, and env. svcs.	U.K.
A/Neg	Boston Scientific Corp.	Health care	U.S.
A/Neg	Cingular Wireless LLC	Telecommunications	U.S.
A/Neg	Colonial Gas Co. (Eastern Enterprises)*	Utility	U.S.
A/Neg	Boston Gas Co. (Eastern Enterprises)*	Utility	U.S.
A/Neg	Endesa S.A.	Utility	Spain
A/Neg	FPL Group Inc.	Utility	U.S.
A/Neg	KeySpan Corp.*	Utility	U.S.
A/Neg	Copenhagen Airports A/S (Macquarie Airports (MAp))	Transportation	Denmark
A/Neg	National Grid PLC*	Utility	U.K.
A/Negative	Avon Products Inc.	Consumer products	U.S.
A/Negative	Bayerische Hypo- und Vereinsbank AG	Bank	Germany
A/Negative	Television Francaise 1 S.A. (Bouygues S.A.)	Media and entertainment	France
A/Negative	Britannia Building Society	Bank	U.K.
A/Negative	Campbell Soup Co.	Consumer products	U.S.
A/Negative	Cincinnati Financial Corp.	Insurance	U.S.
A/Negative	Corporacion Nacional del Cobre de Chile	Metals, mining, and steel	Chile
A/Negative	Deutsche Post AG	Transportation	Germany
A/Negative	Dublin Airport Authority PLC	Transportation	Ireland
A/Negative	ENECO Holding N.V.	Utility	Netherlands
A/Negative	Caribbean Utilities Co. Ltd. (Fortis Inc.)	Utility	Cayman Islands
A/Negative	Hillenbrand Industries Inc.	Health care	U.S.
A/Negative	Loews Corp.	Consumer products	U.S.
A/Negative	MetLife Inc.	Insurance	U.S.
A/Negative	New York Times Co. (The)	Media and entertainment	U.S.
A/Negative	Norsk Hydro ASA	Int Oil and gas	Norway
A/Negative	Oriental Land Co. Ltd.	Media and entertainment	Japan
A/Negative	Radian Group Inc.	Insurance	U.S.
A/Negative	Rede Ferroviaria Nacional REFER, E.P.	Transportation	Portugal
A/Negative	Telstra Corp. Ltd.	Telecommunications	Australia
A/Negative	Verizon Communications Inc.	Telecommunications	U.S.
A/Negative	Visa International Service Assn.	Brokerage	U.S.
A/Negative	WPS Resources Corp.	Utility	U.S.
A/Negative	Wyeth	Health care	U.S.
A-/Neg	ALLTEL Georgia Communications Corp.	Telecommunications	U.S.

	(ALLTEL Corp.)		
A-/Neg	Alltel Communications Holdings of the Midwest Inc. (ALLTEL Corp.)	Telecommunications	U.S.
A-/Neg	Ciba Specialty Chemicals Holding Inc.	Chemicals, packaging, and env. svcs.	Switzerland
A-/Neg	Cofiroute	Transportation	France
A-/Neg	CVS Corp.	Retail/restaurants	U.S.
A-/Neg	Equitable Resources Inc.*	Utility	U.S.
A-/Neg	Guidant Corp.	Health care	U.S.
A-/Neg	MasterCard International	Brokerage	U.S.
A-/Neg	Telephone & Data Systems Inc.	Telecommunications	U.S.
A-/Neg	Toyota Tsusho Corporation	Diversified	Japan
A-/Negative	AGL Resources Inc.	Utility	U.S.
A-/Negative	Alcoa Inc.	Metals, mining, and steel	U.S.
A-/Negative	Mediocredito del Friuli-Venezia Giulia SpA (Autonomous Region of Friuli-Venezia Giulia)	Bank	Italy
A-/Negative	Avery Dennison Corp.	Chemicals, packaging, and env. svcs.	U.S.
A-/Negative	Banca Popolare di Vicenza ScpA	Bank	Italy
A-/Negative	BCE Inc.	Telecommunications	Canada
A-/Negative	BT Group PLC	Telecommunications	U.K.
A-/Negative	Cheung Kong (Holdings) Ltd.	Home/Real	Hong Kong
A-/Negative	Christchurch International Airport Ltd.	Transportation	New Zealand
A-/Negative	Clorox Co.	Consumer products	U.S.
A-/Negative	EnCana Corp	Oil and gas exploration and production	Canada
A-/Negative	Ethan Allen Interiors Inc.	Consumer products	U.S.
A-/Negative	George Weston Ltd.	Retail/restaurants	Canada
A-/Negative	Health Management Associates Inc.	Health care	U.S.
A-/Negative	Hitachi Software Engineering Co., Ltd.	High technology	Japan
A-/Negative	CitiPower Trust (The) (Hongkong Electric Holdings Ltd.)*	Utility	Australia
A-/Negative	Meiji Yasuda Life Insurance Company	Insurance	Japan
A-/Negative	Murphy Oil Corp.	Int Oil and gas	U.S.
A-/Negative	Noble Corporation	Oil and gas exploration and production	U.S.
A-/Negative	Peoples Energy Corp.	Utility	U.S.
A-/Negative	Republic of Hungary	Sovereign	Hungary
A-/Negative	RWE npower PLC	Utility	U.K.
A-/Negative	Schering-Plough Corp.	Health care	U.S.
A-/Negative	Science Applications International Corp.	High technology	U.S.
A-/Negative	Skandia Insurance Co. Ltd.	Insurance	Sweden
A-/Negative	Suzuki Motor Corp.*	Automotive	Japan
A-/Negative	Svenska Cellulosa Aktiebolaget SCA	Forest products and building materials	Sweden
A-/Negative	Telenor ASA	Telecommunications	Norway
A-/Negative	TNT N.V.¶	Transportation	Netherlands
A-/Negative	TransCanada PipeLines Ltd.	Utility	Canada
A-/Negative	UNIBAIL HOLDING	Home/Real	France
A-/Negative	Volkswagen AG	Automotive	Germany
A-/Negative	Woolworths Ltd.	Retail/restaurants	Australia
BBB+/Neg	Alberto-Culver Co.	Retail/restaurants	U.S.

BBB+/Neg	Ameren Corp.	Utility	U.S.
BBB+/Neg	Boots Group PLC	Retail/restaurants	U.K.
BBB+/Neg	CenturyTel Inc.	Telecommunications	U.S.
BBB+/Neg	Cinergy Corp.	Utility	U.S.
BBB+/Neg	Dow Jones & Co. Inc.¶	Media and entertainment	U.S.
BBB+/Neg	Emera Inc.¶	Utility	Canada
BBB+/Neg	Exelon Corp.	Utility	U.S.
BBB+/Neg	Knight Ridder Inc.	Media and entertainment	U.S.
BBB+/Neg	Linde AG	Chemicals, packaging, and env. svcs.	Germany
BBB+/Neg	McClatchy Co. (The)*	Media and entertainment	U.S.
BBB+/Neg	Merck KGaA*	Health care	Germany
BBB+/Neg	Mittal Steel Co. N.V.	Metals, mining, and steel	Netherlands
BBB+/Neg	Northern Border Partners L.P.	Utility	U.S.
BBB+/Neg	PEPCO Holdings Inc.¶	Utility	U.S.
BBB+/Neg	Portugal Telecom SGPS S.A.	Telecommunications	Portugal
BBB+/Neg	Repsol-YPF S.A.¶	Int Oil and gas	Spain
BBB+/Neg	Telecomunicaciones de Puerto Rico Inc.	Telecommunications	U.S.
BBB+/Neg	Thomson	High technology	France
BBB+/Neg	Tyco International Ltd.	Capital goods	Bermuda
BBB+/Neg	Vinci S.A.	Capital goods	France
BBB+/Neg	Wendy's International Inc.	Retail/restaurants	U.S.
BBB+/Neg	Whirlpool Corp.	Consumer products	U.S.
BBB+/Negative	Altadis S.A.	Consumer products	Spain
BBB+/Negative	Altria Group Inc.	Consumer products	U.S.
BBB+/Negative	AMVESCAP PLC	Bank	U.S.
BBB+/Negative	Aspen Insurance Holdings Ltd.	Insurance	Bermuda
BBB+/Negative	Barbados	Sovereign	Barbados
BBB+/Negative	Boardwalk Pipeline Partners LP	Utility	U.S.
BBB+/Negative	BPB PLC	Forest products and building materials	U.K.
BBB+/Negative	Buckeye Partners L.P.	Utility	U.S.
BBB+/Negative	Canadian Natural Resources Ltd.	Oil and gas exploration and production	Canada
BBB+/Negative	Canadian Oil Sands Ltd. (Canadian Oil Sands Trust)	Oil and gas exploration and production	Canada
BBB+/Negative	Compagnie de Saint-Gobain S.A.	Forest products and building materials	France
BBB+/Negative	ConAgra Foods Inc.	Consumer products	U.S.
BBB+/Negative	Empresa Nacional de Telecomunicaciones S.A. (ENTEL)	Telecommunications	Chile
BBB+/Negative	General Mills Inc.	Consumer products	U.S.
BBB+/Negative	Hellenic Telecommunications Organization S.A.	Telecommunications	Greece
BBB+/Negative	IPC Holdings, Ltd.	Insurance	Bermuda
BBB+/Negative	Kinder Morgan Energy Partners L.P.	Oil and gas exploration and production	U.S.
BBB+/Negative	Koninklijke KPN N.V.	Telecommunications	Netherlands
BBB+/Negative	Leighton Holdings Ltd.	Capital goods	Australia
BBB+/Negative	Aeroporti di Roma SpA (Macquarie Airports (MAp))	Transportation	Italy
BBB+/Negative	Manitoba Telecom Services Inc.	Telecommunications	Canada
BBB+/Negative	National Oilwell Inc.	Oil and gas exploration and production	U.S.

BBB+/Negative	Newell Rubbermaid Inc.	Consumer products	U.S.
BBB+/Negative	Orica Ltd.	Chemicals, packaging, and env. svcs.	Australia
BBB+/Negative	Portland General Electric Co.*	Utility	U.S.
BBB+/Negative	South Jersey Gas Co. (South Jersey Industries Inc.)	Utility	U.S.
BBB+/Negative	Talisman Energy Inc.	Oil and gas exploration and production	Canada
BBB+/Negative	Time Warner Inc.¶	Media and entertainment	U.S.
BBB+/Negative	Union Fenosa S.A.	Utility	Spain
BBB+/Negative	Vector Ltd.	Utility	New Zealand
BBB+/Negative	Weatherford International Ltd	Oil and gas exploration and production	Bermuda
BBB+/Negative	Wisconsin Energy Corp.	Utility	U.S.
BBB/Neg	Alinta Ltd.	Utility	Australia
BBB/Neg	Australian Gas Light Co.(The)*	Utility	Australia
BBB/Neg	AutoNation Inc.*	Automotive	U.S.
BBB/Neg	Autoroutes Paris-Rhin-Rhone	Transportation	France
BBB/Neg	Degussa AG	Chemicals, packaging, and env. svcs.	Germany
BBB/Neg	Entergy Corp	Utility	U.S.
BBB/Neg	GTECH Holdings Corp.	Media and entertainment	U.S.
BBB/Neg	Lafarge S.A.	Forest products and building materials	France
BBB/Neg	Lottomatica SpA	Media and entertainment	Italy
BBB/Neg	Mattel Inc.	Consumer products	U.S.
BBB/Neg	ONEOK Inc.	Utility	U.S.
BBB/Neg	Pilkington PLC	Forest products and building materials	U.K.
BBB/Neg	Reynolds & Reynolds Co. (The)	High technology	U.S.
BBB/Neg	SuperValu Inc.	Consumer products	U.S.
BBB/Neg	Toshiba Corp.	High technology	Japan
BBB/Neg	UGI Utilities Inc. (UGI Corp.)	Utility	U.S.
BBB/Negative	Accor S.A.	Media and entertainment	France
BBB/Negative	BAE Systems PLC	Aerospace and defense	U.K.
BBB/Negative	Beckman Coulter Inc.	Health care	U.S.
BBB/Negative	Cardinal Health Inc.	Retail/restaurants	U.S.
BBB/Negative	Cleco Corp.	Utility	U.S.
BBB/Negative	Convergys Corp.	High technology	U.S.
BBB/Negative	Crane Co.	Capital goods	U.S.
BBB/Negative	Deutsche Lufthansa AG	Transportation	Germany
BBB/Negative	Duquesne Light Holdings Inc.	Utility	U.S.
BBB/Negative	Elisa Corp.	Telecommunications	Finland
BBB/Negative	Empire District Electric Co.	Utility	U.S.
BBB/Negative	Furniture Brands International Inc.	Consumer products	U.S.
BBB/Negative	Government Development Bank for Puerto Rico	Bank	U.S.
BBB/Negative	Hawaiian Electric Industries Inc.	Utility	U.S.
BBB/Negative	International Paper Company	Forest products and building materials	U.S.
BBB/Negative	John Fairfax Holdings Ltd.*	Media and entertainment	Australia
BBB/Negative	Jones Apparel Group Inc.	Consumer products	U.S.
BBB/Negative	Kinder Morgan Inc.	Oil and gas exploration and production	U.S.

BBB/Negative	Laurentian Bank of Canada	Bank	Canada
BBB/Negative	Magellan Midstream Partners LP	Oil and gas exploration and production	U.S.
BBB/Negative	Marsh & McLennan Companies	Insurance	U.S.
BBB/Negative	Metro Inc.	Retail/restaurants	Canada
BBB/Negative	Minebea Co. Ltd.	Capital goods	Japan
BBB/Negative	Montpelier Re Holdings Ltd.	Insurance	Bermuda
BBB/Negative	Norbord Inc.	Forest products and building materials	Canada
BBB/Negative	PNM Resources Inc	Utility	U.S.
BBB/Negative	Rexam PLC	Chemicals, packaging, and env. svcs.	U.K.
BBB/Negative	RPM International Inc.	Chemicals, packaging, and env. svcs.	U.S.
BBB/Negative	Sealed Air Corp.	Chemicals, packaging, and env. svcs.	U.S.
BBB/Negative	Southern Union Co.	Utility	U.S.
BBB/Negative	Terasen Inc.	Utility	Canada
BBB/Negative	Universal Health Services Inc.	Health care	U.S.
BBB/Negative	Waddell & Reed Financial Inc.	Bank	U.S.
BBB/Negative	West Fraser Timber Co. Ltd.	Forest products and building materials	Canada
BBB-/Neg	Albertson's Inc.	Retail/restaurants	U.S.
BBB-/Neg	Black Hills Corp.	Oil and gas exploration and production	U.S.
BBB-/Neg	Bumiputra-Commerce Holdings Berhad*	Bank	Malaysia
BBB-/Neg	Falconbridge Ltd.	Metals, mining, and steel	Canada
BBB-/Neg	Inco Ltd.	Metals, mining, and steel	Canada
BBB-/Neg	Carolina Telephone & Telegraph Co. (Sprint Nextel Corp.)	Telecommunications	U.S.
BBB-/Neg	Centel Corp. (Sprint Nextel Corp.)	Telecommunications	U.S.
BBB-/Neg	Telesat Canada	Telecommunications	Canada
BBB-/Neg	ThyssenKrupp AG	Capital goods	Germany
BBB-/Neg	Vermont Electric Cooperative Inc	Utility	U.S.
BBB-/Neg	VNU N.V.	Media and entertainment	Netherlands
BBB-/Neg	Watson Pharmaceuticals Inc.*	Health care	U.S.
BBB-/Negative	American Axle & Manufacturing Holdings Inc.	Automotive	U.S.
BBB-/Negative	Ashland Inc.	Chemicals, packaging, and env. svcs.	U.S.
BBB-/Negative	Avnet Inc.	High technology	U.S.
BBB-/Negative	Big Lots Inc.	Retail/restaurants	U.S.
BBB-/Negative	Clear Channel Communications Inc.	Media and entertainment	U.S.
BBB-/Negative	CNA Financial Corp.	Insurance	U.S.
BBB-/Negative	Computer Associates International Inc.	High technology	U.S.
BBB-/Negative	Cytec Industries Inc.	Chemicals, packaging, and env. svcs.	U.S.
BBB-/Negative	Deluxe Corp.	Media and entertainment	U.S.
BBB-/Negative	Diversified Utility and Energy Trusts	Utility	Australia
BBB-/Negative	Electronic Data Systems Corp.	High technology	U.S.
BBB-/Negative	L-3 Communications Holdings Inc.	Aerospace and defense	U.S.
BBB-/Negative	Mashantucket Western Pequot Tribe	Media and entertainment	U.S.
BBB-/Negative	Methanex Corp.	Chemicals, packaging, and env. svcs.	Canada
		Forest products and building	

BBB-/Negative	Norske Skogindustrier ASA*	materials	Norway
BBB-/Negative	New York Community Bancorp, Inc	Savings and loans	U.S.
BBB-/Negative	Nexans S.A.	Capital goods	France
BBB-/Negative	Pioneer Corp.	Capital goods	Japan
BBB-/Negative	ProAssurance Corp.	Insurance	U.S.
BBB-/Negative	Sainsbury (J.) PLC	Retail/restaurants	U.K.
BBB-/Negative	Sappi Ltd.	Forest products and building materials	South Africa
BBB-/Negative	Scholastic Corp.	Media and entertainment	U.S.
BBB-/Negative	SEACOR Holdings Inc.	Oil and gas exploration and production	U.S.
BBB-/Negative	Skylark Co. Ltd.	Retail/restaurants	Japan
BBB-/Negative	Southwestern Energy Co.	Oil and gas exploration and production	U.S.
BBB-/Negative	Symbion Health Ltd.	Health care	Australia
BBB-/Negative	Universal American Financial Corp.	Insurance	U.S.
BBB-/Negative	Universal Corp.¶	Consumer products	U.S.
BBB-/Negative	Victor Co. of Japan Ltd. (JVC Corp.)	Capital goods	Japan
BB+/Neg	Affiliated Computer Services Inc.	High technology	U.S.
BB+/Neg	CBRL Group Inc.	Retail/restaurants	U.S.
BB+/Neg	Fresenius AG	Health care	Germany
BB+/Neg	Lear Corp.	Automotive	U.S.
BB+/Neg	Liberty Media Corp.	Media and entertainment	U.S.
BB+/Neg	Nippon Sheet Glass Co. Ltd.	Capital goods	Japan
BB+/Neg	Sensient Technologies Corp.	Consumer products	U.S.
BB+/Neg	Valentia Telecommunications upc	Telecommunications	Ireland
BB+/Negative	Allgemeine Hypothekenbank Rheinboden AG	Bank	Germany
BB+/Negative	Citizens Communications Co.	Telecommunications	U.S.
BB+/Negative	Edison Funding Co.	Utility	U.S.
BB+/Negative	EMI Group PLC	Media and entertainment	U.K.
BB+/Negative	Kerr-McGee Corp.	Oil and gas exploration and production	U.S.
BB+/Negative	Nova Chemicals Corp.	Chemicals, packaging, and env. svcs.	Canada
BB+/Negative	Oriental Financial Group	Bank	U.S.
BB+/Negative	Rent-A-Center Inc.	Consumer products	U.S.
BB+/Negative	RJ Reynolds Tobacco Holdings Inc.	Consumer products	U.S.
BB+/Negative	Sears Canada Inc.	Retail/restaurants	Canada
BB+/Negative	Sears Holdings Corp.	Retail/restaurants	U.S.
BB+/Negative	Stena AB	Transportation	Sweden
BB/Neg	Asia Aluminum Holdings Limited	Metals, mining, and steel	China
BB/Neg	Aztar Corp.	Media and entertainment	U.S.
BB/Neg	Blyth Inc.	Consumer products	U.S.
BB/Neg	Bristow Group Inc.	Oil and gas exploration and production	U.S.
BB/Neg	Cinram International Inc.**	Media and entertainment	Canada
BB/Neg	Fairfax Financial Holdings Ltd.*	Insurance	Canada
BB/Neg	Ferro Corp.	Chemicals, packaging, and env. svcs.	U.S.
BB/Neg	Longview Fibre Co.*	Forest products and building materials	U.S.
BB/Neg	PanAmSat Corp.	Telecommunications	U.S.

BB/Neg	Pride International Inc.*	Oil and gas exploration and production	U.S.
BB/Neg	Royal Group Technologies Ltd.¶	Forest products and building materials	Canada
BB/Neg	Sanyo Electric Co. Ltd.	Capital goods	Japan
BB/Neg	TDC A/S	Telecommunications	Denmark
BB/Neg	Valhi Inc.*	Chemicals, packaging, and env. svcs.	U.S.
BB/Negative	Appleton Papers Inc.	Forest products and building materials	U.S.
BB/Negative	ArvinMeritor Inc.	Automotive	U.S.
BB/Negative	Bombardier Inc.	Aerospace and defense	Canada
BB/Negative	Brown Shoe Co. Inc.	Retail/restaurants	U.S.
BB/Negative	Cascades Inc.	Forest products and building materials	Canada
BB/Negative	Constellation Brands Inc.	Consumer products	U.S.
BB/Negative	Cooper Tire & Rubber Co.	Automotive	U.S.
BB/Negative	EnerSys	Capital goods	U.S.
BB/Negative	GCI Inc.	Telecommunications	U.S.
BB/Negative	IKON Office Solutions Inc.	High technology	U.S.
BB/Negative	Jack in the Box Inc.	Retail/restaurants	U.S.
BB/Negative	Journal Register Co.	Media and entertainment	U.S.
BB/Negative	K2 Inc.	Consumer products	U.S.
BB/Negative	King Pharmaceuticals Inc.	Health care	U.S.
BB/Negative	LifePoint Hospitals Inc.	Health care	U.S.
BB/Negative	Morris Publishing Group LLC (Morris Communications Co. LLC)	Media and entertainment	U.S.
BB/Negative	NBTY Inc.	Consumer products	U.S.
BB/Negative	Reader's Digest Association Inc.	Media and entertainment	U.S.
BB/Negative	Rock-Tenn Co.	Forest products and building materials	U.S.
BB/Negative	Service Corp. International	Health care	U.S.
BB-/Neg	AAT Communications Corp.*	Telecommunications	U.S.
BB-/Neg	Aleris International Inc.*	Metals/mining	U.S.
BB-/Neg	Aurelia Energy N.V.	Oil and gas exploration and production	Netherlands
BB-/Neg	Baxi Holdings Ltd.*	Capital goods	U.K.
BB-/Neg	Beverly Enterprises Inc.	Health care	U.S.
BB-/Neg	Comverse Technology Inc.*	High technology	U.S.
BB-/Neg	Doral Financial Corp.	Bank	U.S.
BB-/Neg	Duratek Inc.	Chemicals, packaging, and env. svcs.	U.S.
BB-/Neg	Hilite International Inc.	Automotive	U.S.
BB-/Neg	Hudson's Bay Co.	Retail/restaurants	Canada
BB-/Neg	Intelsat Ltd.	Telecommunications	Bermuda
BB-/Neg	Intrawest Corp.*	Media and entertainment	Canada
BB-/Neg	Kerzner International Ltd.*	Media and entertainment	Bahamas
BB-/Neg	Millennium Chemicals Inc. (Lyondell Chemical Company)*	Chemicals, packaging, and env. svcs.	U.S.
BB-/Neg	Navistar International Corp.	Automotive	U.S.
BB-/Neg	Softbank Corp.*	High technology	Japan
BB-/Neg	Stoneridge Inc.¶	Automotive	U.S.
BB-/Neg	Susquehanna Media Co.	Media and entertainment	U.S.

BB-/Neg	Swift & Company	Consumer products	U.S.
BB-/Neg	TNS Inc.*	High technology	U.S.
BB-/Neg	Tommy Hilfiger U.S.A. Inc.	Consumer products	U.S.
BB-/Neg	United Components Inc.*	Automotive	U.S.
BB-/Neg	United Rentals Inc.	Capital goods	U.S.
BB-/Negative	ACCO Brands Corp.	Consumer products	U.S.
BB-/Negative	Alaska Air Group Inc.	Transportation	U.S.
BB-/Negative	AMN Healthcare Inc.	Health care	U.S.
BB-/Negative	Angiotech Pharmaceuticals Inc.*	Health care	Canada
BB-/Negative	Buckeye Technologies Inc.*	Forest products and building materials	U.S.
BB-/Negative	Cable & Wireless PLC	Telecommunications	U.K.
BB-/Negative	Cirsa Business Corp. S.A.	Media and entertainment	Spain
BB-/Negative	Consolidated Communications Holdings Inc.	Telecommunications	U.S.
BB-/Negative	Cott Corp.	Consumer products	Canada
BB-/Negative	D&E Communications Inc.	Telecommunications	U.S.
BB-/Negative	Del Monte Foods Co.*	Consumer products	U.S.
BB-/Negative	Dole Food Co. Inc.	Consumer products	U.S.
BB-/Negative	Domtar Inc.	Forest products and building materials	Canada
BB-/Negative	DRS Technologies Inc.	Aerospace and defense	U.S.
BB-/Negative	Extendicare Inc*	Health care	Canada
BB-/Negative	FairPoint Communications Inc.	Telecommunications	U.S.
BB-/Negative	Ford Motor Co.	Automotive	U.S.
BB-/Negative	Forest Oil Corp.	Oil and gas exploration and production	U.S.
BB-/Negative	GulfMark Offshore Inc.	Oil and gas exploration and production	U.S.
BB-/Negative	Hilcorp Energy I L.P.	Oil and gas exploration and production	U.S.
BB-/Negative	Iowa Telecommunications Services Inc.	Telecommunications	U.S.
BB-/Negative	Isle of Capri Casinos Inc.	Media and entertainment	U.S.
BB-/Negative	TFM S.A. de C.V. (Kansas City Southern)	Transportation	Mexico
BB-/Negative	Landry's Restaurants Inc.	Retail/restaurants	U.S.
BB-/Negative	Massey Energy Co.*	Metals, mining, and steel	U.S.
BB-/Negative	Mediacom Communications Corp.	Telecommunications	U.S.
BB-/Negative	M-real Corp.	Forest products and building materials	Finland
BB-/Negative	Navarre Corp.	High technology	U.S.
BB-/Negative	Newpark Resources Inc.	Oil and gas exploration and production	U.S.
BB-/Negative	Owens-Illinois Inc.	Chemicals, packaging, and env. svcs.	U.S.
BB-/Negative	PSEG Energy Holdings LLC (Public Service Enterprise Group Inc.)	Utility	U.S.
BB-/Negative	Quebecor World Inc.	Media and entertainment	Canada
BB-/Negative	Regal Entertainment Group	Media and entertainment	U.S.
BB-/Negative	Rotech Healthcare Inc.	Health care	U.S.
BB-/Negative	Sanmina-SCI Corp.	High technology	U.S.
BB-/Negative	Sequa Corp.	Aerospace and defense	U.S.
BB-/Negative	Sinclair Broadcast Group Inc.	Media and entertainment	U.S.
BB-/Negative	SSA Global Technologies Inc.	High technology	U.S.
BB-/Negative	Stater Bros. Holdings Inc.	Retail/restaurants	U.S.

BB-/Negative	Stillwater Mining Co.	Metals, mining, and steel	U.S.
BB-/Negative	Synagro Technologies Inc.	Chemicals, packaging, and env. svcs.	U.S.
BB-/Negative	TI Automotive Ltd.*	Automotive	U.K.
BB-/Negative	TravelCenters of America Inc.	Retail/restaurants	U.S.
BB-/Negative	Unisys Corp.	High technology	U.S.
BB-/Negative	USI Holdings Corp.	Insurance	U.S.
BB-/Negative	Workflow Management Inc.	Media and entertainment	U.S.
BB-/Negative	WRG Finance PLC	Chemicals, packaging, and env. svcs.	U.K.
B+/Neg	Activant Solutions Inc.¶	High technology	U.S.
B+/Neg	Aearo Corp. (Aearo Technologies Inc.)	Capital goods	U.S.
B+/Neg	Atlantic Mutual Insurance Co. (Atlantic Mutual Companies)*	Insurance	U.S.
B+/Neg	Bally Technologies Inc.	Media and entertainment	U.S.
B+/Neg	CFR Marfa S.A.¶	Transportation	Romania
B+/Neg	CMC Magnetics Corp.	High technology	Taiwan
B+/Neg	Dresser Inc.	Oil and gas exploration and production	U.S.
B+/Neg	Emmis Communications Corp.	Media and entertainment	U.S.
B+/Neg	Jo-Ann Stores Inc.	Retail/restaurants	U.S.
B+/Neg	Nash Finch Co.	Consumer products	U.S.
B+/Neg	National Beef Packing Company LLC¶	Consumer products	U.S.
B+/Neg	Pinnacle Entertainment Inc.*	Media and entertainment	U.S.
B+/Neg	SAZKA a.s.*	Media and entertainment	Czech Republic
B+/Neg	Sea Containers Ltd.	Transportation	Bermuda
B+/Neg	Select Medical Corp. (Select Medical Holdings Corp.)	Health care	U.S.
B+/Neg	SIRVA Inc.	Media and entertainment	U.S.
B+/Neg	Standard Aero Holdings Inc.	Aerospace and defense	Canada
B+/Neg	Stone Energy Corporation	Oil and gas exploration and production	U.S.
B+/Neg	Tele Columbus AG & Co. KG	Telecommunications	Germany
B+/Neg	Thilmany LLC*	Forest products and building materials	U.S.
B+/Negative	Affinity Group Holding Inc.	Media and entertainment	U.S.
B+/Negative	Alion Science and Technology Corp.	High technology	U.S.
B+/Negative	Allbritton Communications Co.	Media and entertainment	U.S.
B+/Negative	Alliance One International Inc.	Consumer products	U.S.
B+/Negative	AmeriPath Inc.	Health care	U.S.
B+/Negative	Antenna TV S.A.	Media and entertainment	Greece
B+/Negative	Apptis Inc.	High technology	U.S.
B+/Negative	Audatex Holdings LLC*	High technology	U.S.
B+/Negative	Berkline/BenchCraft Holdings LLC	Consumer products	U.S.
B+/Negative	Billing Services Group LLC	High technology	U.S.
B+/Negative	CapRock Holdings Inc.	Telecommunications	U.S.
B+/Negative	Caribbean Restaurants LLC*	Retail/restaurants	U.S.
B+/Negative	Carrols Corp.	Retail/restaurants	U.S.
B+/Negative	Center for Diagnostic Imaging Inc.	Health care	U.S.
B+/Negative	Central Parking Corp.	Consumer products	U.S.
B+/Negative	Century Theatres Inc.	Media and entertainment	U.S.

B+/Negative	Cenveo Inc.	Media and entertainment	U.S.
B+/Negative	Chiquita Brands International Inc.	Consumer products	U.S.
B+/Negative	Cincinnati Bell Inc.	Telecommunications	U.S.
B+/Negative	Cinemark USA Inc.	Media and entertainment	U.S.
B+/Negative	Cognis Holding GmbH	Chemicals, packaging, and env. svcs.	Germany
B+/Negative	Collins & Aikman Floorcoverings Inc.	Consumer products	U.S.
B+/Negative	Concentra Inc.	Health care	U.S.
B+/Negative	CPI Holdco Inc.	Aerospace and defense	U.S.
B+/Negative	Data Transmission Network Corp.	Media and entertainment	U.S.
B+/Negative	Diagnostic Imaging Group LLC	Health care	U.S.
B+/Negative	Dollarama Group LP	Retail/restaurants	Canada
B+/Negative	Eastman Kodak Co.	Media and entertainment	U.S.
B+/Negative	Euramax International Inc.	Capital goods	U.S.
B+/Negative	FastenTech Inc.	Capital goods	U.S.
B+/Negative	Foodcorp (Proprietary) Ltd.	Consumer products	South Africa
B+/Negative	Gerresheimer Alpha GmbH	Chemicals, packaging, and env. svcs.	Germany
B+/Negative	Graphic Packaging International Inc.	Forest products and building materials	U.S.
B+/Negative	Gray Television Inc.	Media and entertainment	U.S.
B+/Negative	Hayes Lemmerz International Inc.	Automotive	U.S.
B+/Negative	Hexion Specialty Chemicals Inc.	Chemicals, packaging, and env. svcs.	U.S.
B+/Negative	HM Publishing Corp.	Media and entertainment	U.S.
B+/Negative	IAP Worldwide Services Inc.	Capital goods	U.S.
B+/Negative	IASIS Healthcare Corp.	Health care	U.S.
B+/Negative	Interpublic Group of Cos. Inc.	Media and entertainment	U.S.
B+/Negative	IPC Acquisition Corp.	High technology	U.S.
B+/Negative	Japan Airlines Corporation	Transportation	Japan
B+/Negative	Jarden Corp.*	Consumer products	U.S.
B+/Negative	Jean Coutu Group (PJC) Inc.*	Retail/restaurants	Canada
B+/Negative	Keystone Automotive Operations Inc.	Automotive	U.S.
B+/Negative	Knowledge Learning Corp.	Health care	U.S.
B+/Negative	Lenox Group Inc.	Consumer products	U.S.
B+/Negative	Majestic Star Casino LLC (The) (Majestic Holdco, LLC)	Media and entertainment	U.S.
B+/Negative	Mapco Express Inc.	Retail/restaurants	U.S.
B+/Negative	Mark IV Industries Inc.	Automotive	U.S.
B+/Negative	MarkWest Energy Partners LP	Utility	U.S.
B+/Negative	Masonite International Inc.	Forest products and building materials	Canada
B+/Negative	Matria Healthcare Inc.	Health care	U.S.
B+/Negative	Mauser Beteiligungs GmbH	Chemicals, packaging, and env. svcs.	Germany
B+/Negative	MedCath Holdings Corp.	Health care	U.S.
B+/Negative	Monitronics International Inc.	High technology	U.S.
B+/Negative	OfficeMax Inc.	Retail/restaurants	U.S.
B+/Negative	Oriental Trading Co. Inc.	Retail/restaurants	U.S.
B+/Negative	Perry Ellis International Inc.	Consumer products	U.S.
B+/Negative	Per-Se Technologies Inc.	High technology	U.S.
B+/Negative	Pierre Foods Inc.	Consumer products	U.S.

B+/Negative	Pinnacle Foods Group Inc.	Consumer products	U.S.
B+/Negative	Plastech Engineered Products Inc.	Automotive	U.S.
B+/Negative	Ply Gem Industries Inc.	Forest products and building materials	U.S.
B+/Negative	Polymer Holdings LLC	Chemicals, packaging, and env. svcs.	U.S.
B+/Negative	Pope & Talbot Inc.	Forest products and building materials	U.S.
B+/Negative	PQ Corporation	Chemicals, packaging, and env. svcs.	U.S.
B+/Negative	Protection One Alarm Monitoring Inc.	High technology	U.S.
B+/Negative	Psychiatric Solutions Inc.	Health care	U.S.
B+/Negative	Radiologix Inc.	Health care	U.S.
B+/Negative	Reddy Ice Holdings Inc.	Consumer products	U.S.
B+/Negative	Rent-Way Inc.	Retail/restaurants	U.S.
B+/Negative	RGIS Inventory Specialists	Retail/restaurants	U.S.
B+/Negative	Rite Aid Corp.	Retail/restaurants	U.S.
B+/Negative	Riverdeep Holdings PLC	Media and entertainment	Ireland
B+/Negative	Roundy's Supermarkets Inc.	Consumer products	U.S.
B+/Negative	Safety Products Holdings Inc.	Capital goods	U.S.
B+/Negative	Securus Technologies Inc.	High technology	U.S.
B+/Negative	SFX Entertainment Inc.	Media and entertainment	U.S.
B+/Negative	SGS International Inc.	Media and entertainment	U.S.
B+/Negative	Simmons Bedding Company	Consumer products	U.S.
B+/Negative	Smurfit Kappa Group Ltd.	Forest products and building materials	Ireland
B+/Negative	Solo Cup Company	Chemicals, packaging, and env. svcs.	U.S.
B+/Negative	Southern States Cooperative Inc.	Consumer products	U.S.
B+/Negative	Stanadyne Holdings Inc.	Automotive	U.S.
B+/Negative	Team Health Inc.	Health care	U.S.
B+/Negative	The Newark Group Inc.	Forest products and building materials	U.S.
B+/Negative	International Mill Service Inc. (Tube City IMS Corp.)	Metals, mining, and steel	U.S.
B+/Negative	U.S. Investigations Services Inc.	Consumer products	U.S.
B+/Negative	Unifrax Corp.	Capital goods	U.S.
B+/Negative	US Oncology Inc.	Health care	U.S.
B+/Negative	USEC Inc.	Metals, mining, and steel	U.S.
B+/Negative	Vestel Elektronik Sanayi Ve Ticaret A.S.	High technology	Turkey
B+/Negative	VICORP Restaurants Inc.	Retail/restaurants	U.S.
B+/Negative	Visteon Corp.	Automotive	U.S.
B+/Negative	Vitamin Shoppe Industries Inc.	Retail/restaurants	U.S.
B+/Negative	Vought Aircraft Industries Inc.	Aerospace and defense	U.S.
B+/Negative	Windsor Quality Food Company Ltd.	Consumer products	U.S.
B+/Negative	Wm. Bolthouse Farms Inc.	Consumer products	U.S.
B+/Negative	Wornick Co. (The)	Aerospace and defense	U.S.
B+/Negative	Wyle Laboratories Inc.	High technology	U.S.
B+/Negative	Xerium Technologies Inc.	Capital goods	U.S.
B/Neg	Belden & Blake Corp.	Oil and gas exploration and production	U.S.
B/Neg	Getronics N.V.	High technology	Netherlands
B/Neg	Hawaiian Telcom Communications Inc.	Telecommunications	U.S.

B/Neg	Hollywood Theaters Inc.	Media and entertainment	U.S.
B/Neg	Inn of the Mountain Gods Resort and Casino	Media and entertainment	U.S.
B/Neg	LifeCare Holdings Inc.	Health care	U.S.
B/Neg	Pier 1 Imports Inc.*	Consumer products	U.S.
B/Neg	PRIMEDIA Inc.	Media and entertainment	U.S.
B/Neg	Progressive Gaming International Corporation*	Media and entertainment	U.S.
B/Neg	Reno De Medici SpA	Chemicals, packaging, and env. svcs.	Italy
B/Neg	Sunny Delight Beverages Co.¶	Consumer products	U.S.
B/Neg	Triumph HealthCare Holdings Inc.	Health care	U.S.
B/Neg	True Temper Sports Inc.¶	Consumer products	U.S.
B/Negative	Affinia Group Inc.	Automotive	U.S.
B/Negative	Agrokor d.d.	Consumer products	Croatia
B/Negative	American Pacific Corp.	Chemicals, packaging, and env. svcs.	U.S.
B/Negative	American Safety Razor Co.	Consumer products	U.S.
B/Negative	American Wholesale Insurance Group, Inc.	Insurance	U.S.
B/Negative	AMF Bowling Worldwide Inc.	Media and entertainment	U.S.
B/Negative	Amscan Holdings Inc.	Consumer products	U.S.
B/Negative	Ardagh Glass Group PLC	Chemicals, packaging, and env. svcs.	Ireland
B/Negative	Atlantic Broadband Finance LLC	Telecommunications	U.S.
B/Negative	B&G Foods Holding Corp.	Consumer products	U.S.
B/Negative	Brand Services Inc.	Oil and gas exploration and production	U.S.
B/Negative	Brookstone Inc.*	Retail/restaurants	U.S.
B/Negative	Carmike Cinemas Inc.	Media and entertainment	U.S.
B/Negative	CasaBlanca Resorts	Media and entertainment	U.S.
B/Negative	CCS Medical	Health care	U.S.
B/Negative	COMSYS IT Partners Inc.	Media and entertainment	U.S.
B/Negative	Continental Airlines Inc.	Transportation	U.S.
B/Negative	Damovo Group S.A.	Telecommunications	U.K.
B/Negative	Del Laboratories Inc.	Consumer products	U.S.
B/Negative	DoubleClick Inc.	Media and entertainment	U.S.
B/Negative	El Pollo Loco Inc.	Retail/restaurants	U.S.
B/Negative	EuroFresh Inc.	Consumer products	U.S.
B/Negative	Eye Care Centers of America Inc.	Retail/restaurants	U.S.
B/Negative	Fage Dairy Industry S.A.	Consumer products	Greece
B/Negative	FGX International Inc.	Retail/restaurants	U.S.
B/Negative	FHC Health Systems Inc.	Insurance	U.S.
B/Negative	Fraser Papers Inc.	Forest products and building materials	Canada
B/Negative	Friendly Ice Cream Corp.	Retail/restaurants	U.S.
B/Negative	General Motors Corp.	Automotive	U.S.
B/Negative	General Nutrition Centers Inc.	Retail/restaurants	U.S.
B/Negative	Greektown Holdings LLC	Media and entertainment	U.S.
B/Negative	GXS Corp.	High technology	U.S.
B/Negative	Hanger Orthopedic Group Inc.	Health care	U.S.
B/Negative	Harry & David Operations Corp.	Retail/restaurants	U.S.
B/Negative	Head N.V.	Media and entertainment	Netherlands
B/Negative	Hines Horticulture Inc.	Consumer products	U.S.

B/Negative	HIT Entertainment Ltd.	Media and entertainment	U.S.
B/Negative	Hunter Fan Company*	Consumer products	U.S.
B/Negative	InSight Health Services Corp.	Health care	U.S.
B/Negative	Integrated Alarm Services Group Inc.	High technology	U.S.
B/Negative	Interactive Health LLC	Consumer products	U.S.
B/Negative	InterDent Inc.	Health care	U.S.
B/Negative	Language Line Holdings Inc.	Media and entertainment	U.S.
B/Negative	LBC Holdings LLC	Chemicals, packaging, and env. svcs.	France
B/Negative	Leiner Health Products Inc.	Consumer products	U.S.
B/Negative	Linens 'n Things Inc.	Consumer products	U.S.
B/Negative	Marquee Holdings Inc.	Media and entertainment	U.S.
B/Negative	MD Beauty Incorporated	Consumer products	U.S.
B/Negative	Metaldyne Corp.	Automotive	U.S.
B/Negative	Montecito Broadcast Group, LLC	Media and entertainment	U.S.
B/Negative	MedQuest Inc. (MQ Associates Inc.)	Health care	U.S.
B/Negative	MSC - Medical Services Company	Health care	U.S.
B/Negative	Nabi Biopharmaceuticals	Health care	U.S.
B/Negative	Nyco Holdings 2 ApS	Health care	Denmark
B/Negative	Petro Stopping Centers Holdings L.P.	Retail/restaurants	U.S.
B/Negative	Polypore International Inc.	Capital goods	U.S.
B/Negative	Pregis Corporation	Chemicals, packaging, and env. svcs.	U.S.
B/Negative	Reliant Energy Inc.¶	Utility	U.S.
B/Negative	Restaurant Co. (The)	Retail/restaurants	U.S.
B/Negative	Spanish Broadcasting System Inc.	Media and entertainment	U.S.
B/Negative	Spheris Inc.	Health care	U.S.
B/Negative	SS&C Technologies Inc.	High technology	U.S.
B/Negative	Susser Holdings LLC	Retail/restaurants	U.S.
B/Negative	Tenet Healthcare Corp.	Health care	U.S.
B/Negative	Time Warner Telecom Inc.	Telecommunications	U.S.
B/Negative	TriMas Corp.	Capital goods	U.S.
B/Negative	Ultrapetrol (Bahamas) Ltd	Transportation	Argentina
B/Negative	Vitro S.A. de C.V.	Forest products and building materials	Mexico
B-/Neg	Advanstar Communications Inc.	Media and entertainment	U.S.
B-/Neg	American Media Operations Inc.	Media and entertainment	U.S.
B-/Neg	Global Automotive Logistics S.A.S.	Automotive	France
B-/Neg	IT Holding SpA	Consumer products	Italy
B-/Neg	Leap Wireless International Inc.*	Telecommunications	U.S.
B-/Neg	Nortel Networks Ltd. (Nortel Networks Corp.)*	High technology	Canada
B-/Neg	Viskase Companies Inc.	Chemicals, packaging, and env. svcs.	U.S.
B-/Negative	Amkor Technology Inc.	High technology	U.S.
B-/Negative	ASAT Holdings Ltd.	High technology	Hong Kong
B-/Negative	Blockbuster Inc.	Retail/restaurants	U.S.
B-/Negative	Blue Ridge Paper Products Inc.	Forest products and building materials	U.S.
B-/Negative	Concordia Bus AB	Transportation	Sweden
B-/Negative	Conexant Systems Inc.	High technology	U.S.
B-/Negative	Constar International Inc.	Chemicals, packaging, and env. svcs.	U.S.

B-/Negative	Cornell Companies Inc.	Consumer products	U.S.
B-/Negative	Danka Business Systems PLC	High technology	U.S.
B-/Negative	Dave & Buster's Inc.	Retail/restaurants	U.S.
B-/Negative	Dayton Superior Corp.	Forest products and building materials	U.S.
B-/Negative	Di Giorgio Corp.	Consumer products	U.S.
B-/Negative	Dobson Communications Corp.	Telecommunications	U.S.
B-/Negative	Dunkin' Brands Inc.	Retail/restaurants	U.S.
B-/Negative	Dura Automotive Systems Inc.	Automotive	U.S.
B-/Negative	Eagle Family Foods Inc.	Consumer products	U.S.
B-/Negative	Focus DIY (Finance) PLC	Retail/restaurants	U.K.
B-/Negative	Haights Cross Communications Inc.	Media and entertainment	U.S.
B-/Negative	Heckler & Koch GmbH*	Aerospace and defense	Germany
B-/Negative	Kerasotes Showplace Theatres Holdings LLC	Media and entertainment	U.S.
B-/Negative	Kinetek Inc.	Capital goods	U.S.
B-/Negative	MAAX Holdings Inc.	Forest products and building materials	Canada
B-/Negative	Manila Electric Co.	Utility	Philippines
B-/Negative	Millar Western Forest Products Ltd. (Millar Western Industries Ltd.)	Forest products and building materials	Canada
B-/Negative	MMI Products Inc.	Forest products and building materials	U.S.
B-/Negative	Mothers Work Inc.	Retail/restaurants	U.S.
B-/Negative	MSX International Inc.	Automotive	U.S.
B-/Negative	North American Energy Partners Inc	Oil and gas exploration and production	Canada
B-/Negative	ORBIMAGE Inc.	Telecommunications	U.S.
B-/Negative	Pathmark Stores Inc.	Retail/restaurants	U.S.
B-/Negative	Portola Packaging Inc.	Chemicals, packaging, and env. svcs.	U.S.
B-/Negative	Rompetrol Group N.V. (The)	Oil and gas exploration and production	Romania
B-/Negative	Rural Cellular Corp.	Telecommunications	U.S.
B-/Negative	Schefenacker AG	Automotive	Germany
B-/Negative	Standard Motor Products Inc.	Automotive	U.S.
B-/Negative	Thermadyne Holdings Corporation	Capital goods	U.S.
B-/Negative	Uno Restaurant Holdings Corp.**	Retail/restaurants	U.S.
B-/Negative	US Airways Group Inc.	Transportation	U.S.
B-/Negative	US LEC Corp.	Telecommunications	U.S.
B-/Negative	Verlis Inc.	Media and entertainment	U.S.
B-/Negative	Wise Metals Group LLC	Metals, mining, and steel	U.S.

Parent companies are listed in parentheses. *Indicates an issuer new to the lists since the Feb. 22, 2006, commentary. ¶Indicates an issuer moving to a negative outlook from CreditWatch Negative or to CreditWatch Negative from a negative outlook since the Feb. 22, 2006, commentary. Data as of March 22, 2006. Source: Standard & Poor's Global Fixed Income Research.

STANDARD & POOR'S RATINGSDIRECT

RESEARCH

Research Update: Empire District Electric Downgraded To 'BBB-' On Expected Tight Financials

Publication date: 17-May-2006
Primary Credit Analyst: Gerrit Jepsen, CFA, New York (1) 212-438-2529; gerrit_jepsen@standardandpoors.com

Credit Rating: BBB-/Stable/A-3

Rationale

On May 17, 2006, Standard & Poor's Ratings Services lowered its long-term corporate credit rating on The Empire District Electric Co., an integrated electric utility, to 'BBB-' from 'BBB'. The downgrade reflects Standard & Poor's view that Empire's financial measures will be constrained over the next several years by fuel and power costs that continue to exceed the level recoverable in rates, and by Empire's higher-than-historical level of capital spending, including the acquisition of a Missouri gas utility. Also, senior secured debt ratings were lowered to 'BBB+' from 'A-', and senior unsecured debt ratings were lowered to 'BB+' from 'BBB-'. The short-term rating of 'A-3' was affirmed. The outlook is stable.

Joplin, Mo.-based Empire had $456 million in debt and trust-preferred securities as of March 31, 2006.

Empire's satisfactory business risk profile benefits from a service territory that has limited industrial concentration as well as mostly residential and small commercial customers. In addition, Empire has few competitive operations, and has been willing to sell these unregulated businesses due to financial underperformance. These attributes, however, have historically been moderated by less-than-adequate recovery of O&M expenses and other costs. This will continue to weaken Empire's financial measures during the heavy capital spending phase, which includes the Iatan 2 and Plum Point coal units. Empire's business risk profile is a '6' (satisfactory). (Utility business risk profiles are categorized from '1' (excellent) to '10' (vulnerable).)

To strengthen Empire's cash flow during its planned capital spending for generation and environmental compliance, constructive rate relief will be essential and should include recovery of fuel and purchased power on a timely basis. Historically, Missouri regulation has been restrictive regarding fuel and purchased-power costs because a permanent energy cost recovery (ECR) rider was not statutorily authorized. Under a new Missouri law, utilities operating in the state can seek Missouri Public Service Commission approval of an ECR rider that, if authorized, would provide for the pass-through of rising fuel and power costs. Timely recovery of such expenses, particularly when commodity prices rise rapidly, is important for Empire's credit quality because the company relies on a relatively high level of natural-gas-fired generation and power purchases for its supply. Although Empire filed for a $30 million electric base rate increase in Missouri that, if authorized, would strengthen creditworthiness, the inability to implement an ECR in the near term weakens credit quality, particularly since fuel and power costs currently exceed the level recoverable through base rates and the commpany's interim energy charge.

Empire's adjusted financial ratios are mixed for the 'BBB-' rating, with funds from operations (FFO) interest coverage of about 3.9x, FFO to total debt of about 17%, and total debt to total capital of approximately

56%. When calculating these ratios, Standard & Poor's considers Empire's trust-preferred securities as having minimal equity content due to a lack of deferability of dividends, and adjusts ratios for operating leases and purchase-power agreements. Moreover, net cash flow FFO less dividends to capital expenditures is expected to decline to about 50%, so Empire will need to seek external financing to fund its large capital needs.

Short-term credit factors

Empire's short-term rating is 'A-3'. As of March 31, 2006, Empire had $3.4 million of cash and a $226 million unsecured revolving credit facility available for working capital and as backup for its CP. The facility was recently increased from $150 million, with the incremental $76 million allocated to support an LOC issued in connection with the company's participation in the Plum Point coal unit. As of March 31, 2006, Empire had $46 million drawn on its revolver and no CP outstanding. Empire currently maintains sufficient liquidity to post additional collateral under a stressed scenario in which the company would experience a materially negative credit event and a simultaneous adverse energy price movement. Empire's next long-term debt maturity is $20 million in 2009.

Outlook

The outlook is stable and incorporates the expectation of steady financial performance through its construction program and successful integration of the gas utility. In addition, we expect that Empire will finance its capital needs in a manner that is consistent with the current rating. The outlook could be revised to negative as a result of unfavorable regulatory actions or if the financial measures weaken from increased capital spending or higher-than-expected use of leverage over the next several years. The outlook could be revised to positive if rate recovery is supportive during the construction program, if a reasonable energy cost recovery mechanism is adopted, and if financial measures begin to show sustainable improvement.

Ratings List

Ratings Lowered

	To	From
The Empire District Electric Co.		
Corp credit rtg	BBB-/Stable/--	BBB/Negative/--
Sr secd debt	BBB+	A-
Sr unsecd debt	BB+	BBB-
Pfd stk	BB	BB+

Rating Affirmed

The Empire District Electric Co.	
CP	A-3

Complete ratings information is available to subscribers of RatingsDirect, Standard & Poor's Web-based credit analysis system, at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; under Credit Ratings in the left navigation bar, select Find a Rating, then Credit Ratings Search.

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