

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

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

**In the Matter of Union Electric Company,
d/b/a AmerenUE's Tariffs to Increase Its
Annual Revenues for Electric Service**

Case No. ER-2010-0036
Tariff Nos. YE-2010-0054
and YE-2010-0055

Direct Testimony and Schedules of

Michael Gorman

On behalf of

Missouri Industrial Energy Consumers

December 18, 2009

BAI
BRUBAKER & ASSOCIATES, INC.
CHESTERFIELD, MO 63017

Project 9187

MIEC Exhibit No. *408*
Date *3-18-10* Reporter *XF*
File No. *ER-2010-0036*

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

Affidavit of Michael Gorman

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

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

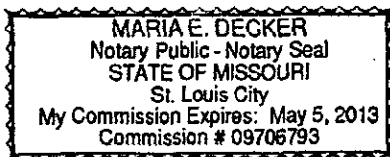
2. Attached hereto and made a part hereof for all purposes is my direct testimony and schedules which were prepared in written form for introduction into evidence in Missouri Public Service Commission Case No. ER-2010-0036.

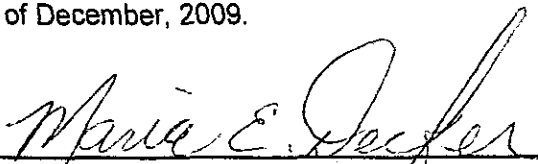
3. I hereby swear and affirm that the testimony and schedules are true and correct and that they show the matters and things they purport to show.



Michael Gorman

Subscribed and sworn to before me this 17th day of December, 2009.





Notary Public

**In the Matter of Union Electric Company,
d/b/a AmerenUE's Tariffs to Increase Its
Annual Revenues for Electric Service**

Direct Testimony of Michael Gorman

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

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

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

8 **Q PLEASE SUMMARIZE YOUR RATE OF RETURN RECOMMENDATIONS.**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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TABLE 1

Capital Costs – AmerenUE Rate Cases

<u>Description</u>	<u>Current Case¹</u>	<u>ER-2008-0318²</u>	<u>ER-2007-0002³</u>
"A" Rated Utility Bond Yields	5.57%	6.38%	6.00%
"Baa" Rated Utility Bond Yields	6.16%	6.95%	6.26%
13-Week Period Ending	11/20/2009	08/15/2008	11/10/2006

Sources:

¹Schedule MPG-2, page 1.

²Schedule MPG-2, page 2.

³Schedule MPG-2, page 3.

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

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

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

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

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

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

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

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

20 **Industry Overview**

21 **Q PLEASE DESCRIBE THIS SECTION OF YOUR TESTIMONY.**

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

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

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

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

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

18 **Q PLEASE DESCRIBE THE ELECTRIC UTILITIES' CREDIT RATING OUTLOOK.**

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

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

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1 25% more than the same 2008 period. Several companies have
2 proactively prefunded issuance in advance of maturities, taking
3 advantage of investor appetite and favorable spreads as compared to
4 investment-grade issuers in other sectors.

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

9 * * *

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

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

25 Overview

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

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

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

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

Similarly, Fitch states:

Overview

The U.S. Utilities, Power, and Gas (UPG) sector 2010 outlook is framed in the context of Fitch Ratings' outlook for a slow U.S. economic recovery in 2010, with stable outlooks for most of the business segments within the UPG universe except for negative 2010 credit outlook for competitive generators and retail propane distributors.

* * *

Resilient Performance in 2009

Companies in the UPG sector weathered the recession and financial crisis of 2008–2009 with considerably less pain than sectors such as financial institutions, cyclical industrials, and retailers. The absence of significant defaults in the sector is in stark contrast to the upswing in defaults and bankruptcy filings across the rest of the U.S. economy, consistent with the defensive reputation of the sector.

In general, companies in the UPG sector entered 2009 in reasonably sound financial condition; some drew down their bank credit facilities during the banking crisis in late 2008 and repaid the loans as the bank and financial markets stabilized during 2009.³

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

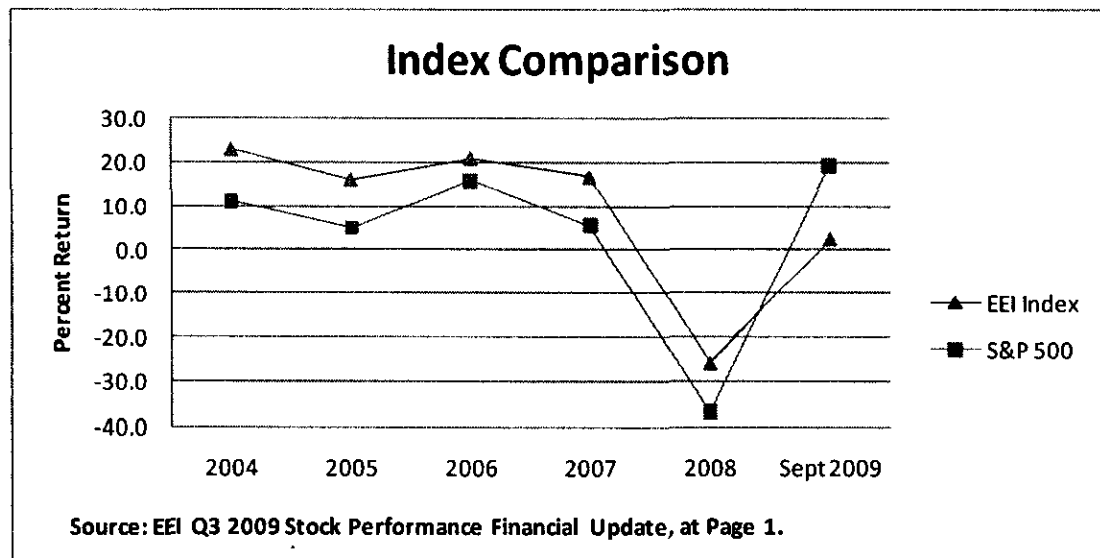
²Moody's Investors Service Industry Outlook: "U.S. Investor-Owned Electric Utilities," January 2009 (emphasis added).

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

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

3 A As shown in Figure 1 below, the Edison Electric Institute (EEI) has recorded electric
4 utility stock price performance compared to the market. The EEI data shows that its
5 Electric Utility Index has outperformed the market over the last five years
6 (2004-2008). Again, this strong stock performance indicates commission-authorized
7 returns on equity over the last several years have been positively received by the
8 market.

FIGURE 1



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

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

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1 in the market downturn and beaten-down cyclical companies
2 benefitting from a prospective return to global economic growth.

3 * * *

4 The Utility sector – with its conservative, stable business models and
5 large regulated asset base – suffered less in the crushing bear market
6 than did many other industries, and has predictably trailed those that
7 bounced off very depressed bear market lows.⁴

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

10 **A** Yes. While clearly the market performance for all securities was poor throughout
11 2008 and 2009, one positive signal from the market performance is the fact that
12 electric utility stocks and bonds have continued to be perceived by the market as
13 “safe” investments. Indeed, during times of market duress, the market generally
14 exhibits a “flight to quality,” and lower-risk securities generally perform better than the
15 overall market and higher-risk securities. This has happened throughout the last
16 year. For example, EEI noted the following concerning electric utility stock
17 performance in 2008:

18 **Flight to Safety**

19 The relatively stronger performance of utility stocks in both the quarter
20 and the year offers a classic illustration of their traditional role as a
21 defensive investment in times of market stress. In a weakening
22 economy, investors are drawn to the relative stability offered by
23 utilities’ dividend yields and more predictable earnings (in comparison
24 with other sectors of the economy), made possible by the essential
25 role that electricity plays in the lives of Americans at work and at home
26 compared to other, more optional products and services.

27 Indeed, the comparative category returns shown in Charts II and VIII
28 highlight the theme that dividend stability and earnings predictability –
29 generally most associated with the regulated utility business model –
30 translated into better stock market performance in 2008. The
31 Regulated group’s -5.9% return in the fourth quarter was about
32 8 percentage points better than the Mostly Regulated group’s

⁴EEI Q3 2009 Financial Update.

1 -14.0% return, which in turn was slightly better than the Diversified
2 group's -17.0% return. The Regulated group, with a -15.6% return for
3 the year as a whole, also outperformed the Mostly Regulated group's
4 -27.0% return and the Diversified group's -33.9% return for the year.⁵

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

10 **AMERENUE'S CREDIT STANDING**

11 **Q PLEASE SUMMARIZE AMERENUE'S CURRENT CREDIT STANDING.**

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

17 **S&P:**

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

⁵"Stock Performance," EEI Q4 2008 Financial Update at 4-5.

⁶Ameren Corporation 10-Q for the period ending September 30, 2009.

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

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

18 **Moody's:**

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

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

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

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

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

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

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

13 **AMERENUE'S PROPOSED CAPITAL STRUCTURE**

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

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

TABLE 2 <u>AmerenUE's Proposed Capital Structure</u> (March 31, 2009)	
<u>Description</u>	<u>Percent of Total Capital</u>
Long-Term Debt	51.008%
Short-Term Debt	0.000%
Preferred Stock	1.600%
Common Equity	<u>47.392%</u>
Total Regulatory Capital Structure	100.000%
Source: Schedule MGO-E1.	

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

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

7 **Return on Common Equity**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

¹⁰EEI Dividends Q3 2009 Financial Update.

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

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

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

14 The S&P Electric Utilities Proxy Group has an average common equity ratio of
15 41.9% (including short-term debt) from AUS and 43.3% (excluding short-term debt)
16 from *Value Line*. This proxy group's common equity ratio is slightly lower than
17 AmerenUE's common equity ratio of 47.4%. As such, this proxy group has greater
18 financial risk than AmerenUE.

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

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

4 Discounted Cash Flow Model

5 Q PLEASE DESCRIBE THE DCF MODEL.

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

$$9 \quad P_0 = \frac{D_1}{(1+K)^1} + \frac{D_2}{(1+K)^2} + \dots + \frac{D_{\infty}}{(1+K)^{\infty}} \quad \text{where} \quad (Equation 1)$$

10

11 P_0 = Current stock price

12 D = Dividends in periods 1 - ∞

13 K = Investor's required return

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

$$17 \quad K = D_1/P_0 + G \quad (Equation 2)$$

18 K = Investor's required return

19 D_1 = Dividend in first year

20 P_0 = Current stock price

21 G = Expected constant dividend growth rate

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

5 A As shown on Schedule MPG-6, the median constant growth DCF return for my
6 Integrated Electric Utilities Proxy Group and S&P Electric Utilities Proxy Group are
7 11.03% and 11.01%, respectively, with a midpoint of 11.02%.

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

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

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

¹¹The midpoint of the dividend yields for the two proxy groups: $(5.34\% + 5.15\%)/2 = 5.25\%$.

¹²The midpoint of the median growth rate for the two proxy groups: $(5.50\% + 5.83\%)/2 = 5.67\%$.

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

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

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

12 **A** As shown on Schedule MPG-7, the historical dividend yield over the last five years for
13 my Integrated Electric Utilities and S&P Electric Utilities Proxy Groups has been
14 approximately 3.74%.¹³ This is significantly lower than the current dividend yield of
15 5.25% (4.92%¹⁴ unadjusted).

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

¹³(3.89% + 3.59%)/2 = 3.74%.

¹⁴(4.94% + 4.89%)/2 = 4.92%.

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

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

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

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

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

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

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

¹⁷*Id.* (emphasis added).

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

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

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

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

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

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

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

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

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

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

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

1 Also, Morningstar's *Stocks, Bonds, Bills and Inflation 2009 Yearbook*
2 *Valuation Edition* tracked dividends of the stock market in comparison to GDP growth
3 over the period 1926 through the end of 2008.¹⁹ Based on that study, the authors
4 found that earnings and dividends for the market have historically grown in tandem
5 with the overall economy. It is important to note that the growth of companies
6 included in the overall market will normally be higher than that of utility companies.
7 These non-utility companies achieve a higher level of growth because they retain a
8 larger percentage of their earnings and pay out a much smaller percentage of their
9 earnings as dividends. Retaining higher percentages of total earnings fuels stronger
10 growth for these non-utility companies. Since the market in general grows at the
11 overall GDP growth rate, it is very conservative (favorable to utilities) to assume that
12 utility companies could achieve this same level of sustained growth without a material
13 reduction in their dividend payout ratios. As such, using the GDP as a maximum
14 sustainable growth rate is a very conservative and high-end estimate for utility
15 companies.

16 **Sustainable Growth Constant DCF**

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

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

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

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

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

15 As shown on Schedule MPG-11, the median sustainable growth rate for my
16 Integrated Electric Utilities and S&P Electric Utilities Proxy Groups using this internal
17 growth rate model is 4.88% and 7.29%, respectively, with a midpoint of approximately
18 6.09%.

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

²⁰(57.06% + 53.06%)/2 = 55.06%.

²¹5.67% + (1 - 55%).

²²Schedule MPG-11, pages 1 and 3, column 4: (11.49% + 12.08%)/2 = 11.79%.

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

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

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

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

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

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

1 result. For example, the Integrated Electric Utilities Proxy Group average return is
2 10.68%. However, that average includes an unusually high result for DPL Inc. on
3 line 8 of 22.07%, which is far above all other estimates. Excluding that result from the
4 sample, would lower the average proxy group return down to 10.27%. The median of
5 the proxy sample is 10.2%. Hence, excluding this clear outlier from the results for the
6 comparable group produces a consistent and reliable DCF return estimate of 10.2%.

7 **Multi-Stage Growth DCF Model**

8 **Q HAVE YOU CONDUCTED ANY OTHER DCF STUDIES?**

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

16 **Q PLEASE DESCRIBE YOUR MULTI-STAGE GROWTH DCF MODEL.**

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

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

1 DCF model. In the third stage starting in the year 11, I used the long-term GDP
2 forecast as a long-term sustainable growth rate. In the Transition growth stage (years
3 6-10), I used an annual linear change from the short-term growth to the long-term
4 growth.

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

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

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

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

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

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

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

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

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

9 **DCF Quarterly Compounding Adjustment**

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

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

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

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

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

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

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

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

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

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

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

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

7 For example, assume AmerenUE has an outstanding bond with a face value
8 of \$1,000, at an interest rate of 6% which is paid in two semi-annual \$30 coupon
9 payments. AmerenUE's cost of this bond is 6%. This 6% cost to AmerenUE is based
10 on a \$30 coupon payment paid in month 6 and month 12 for an annual payment of
11 \$60 relative to the \$1,000 face value of the bond. However, the bond investor would
12 have an annual expected return on this bond of 6.1%. This annual expected return
13 would be realized by receiving the first \$30 semi-annual coupon payment from
14 AmerenUE and reinvesting it for the remaining six months of the year. This would
15 produce \$0.89 of semi-annual compounding return ($\$30 \times [(1.06)^{\frac{1}{2}} - 1]$). Hence, the
16 bond investor would receive \$60 from AmerenUE, and \$0.89 from investing the first
17 coupon for a total annual return of 6.09%, or 6.1%.

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

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

3 **Q DOES THIS EXAMPLE ALSO APPLY TO UTILITY STOCK INVESTMENTS?**

4 A Yes. Assume now that an investor purchased AmerenUE stock for \$100, and
5 expects to receive four quarterly dividends of \$1.50, or \$6.00 per year. The expected
6 cost to the utility of this dividend payment over the year would be \$6.00, or 6.0%.
7 However, the expected effective yield of the dividend to investors would be 6.13%
8 because the quarterly dividends could be reinvested for the remaining term of the
9 year. Hence, the expected end-of-year value of those four \$1.50 quarterly dividend
10 payments to the investor would be \$6.13.²⁴ Again, the utility pays \$6.00 of annual
11 dividends. The \$0.13 is not paid to investors from the utility, but is rather earned in
12 the other investments that earn the same return, which the dividends were invested in
13 throughout the year.

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

20 **Q PLEASE SUMMARIZE THE RESULTS FROM YOUR DCF ANALYSES.**

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

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

TABLE 3	
<u>Summary of DCF Results</u>	
<u>Description</u>	<u>ROE</u>
Constant Growth DCF Model (Analysts' Growth)	11.02%
Constant Growth DCF Model (Sustainable Growth)	10.20%
Multi-Stage Growth DCF Model	<u>10.16%</u>
Average DCF Return	10.46%

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BRUBAKER & ASSOCIATES, INC.

1 This risk premium model is based on two estimates of an equity risk premium.
2 First, I estimated the difference between the required return on utility common equity
3 investments and Treasury bonds. The difference between the required return on
4 common equity and the bond yield is the risk premium. I estimated the risk premium
5 on an annual basis for each year over the period 1986 through second quarter of
6 2009. The common equity required returns were based on regulatory commission-
7 authorized returns for electric utility companies. Authorized returns are typically
8 based on expert witnesses' estimates of the contemporary investor required return.

9 The second equity risk premium method is based on the difference between
10 regulatory commission-authorized returns on common equity and contemporary
11 "A" rated utility bond yields. This time period was selected because over the period
12 1986 through the second quarter of 2009, public utility stocks have consistently
13 traded at a premium to book value. This is illustrated on Schedule MPG-14, where
14 the market-to-book ratio since 1986 for the electric utility industry was consistently
15 above 1.0. Over this time period, regulatory authorized returns were sufficient to
16 support market prices that at least exceeded book value. This is an indication that
17 regulatory authorized returns on common equity supported a utility's ability to issue
18 additional common stock, without diluting existing shares. It further demonstrates that
19 utilities were able to access equity markets without a detrimental impact on current
20 shareholders.

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

Michael Gorman
Page 39

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

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

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

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

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

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

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

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

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

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

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

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

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

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

21 My risk premium analyses produce a return estimate in the range of 9.87% to
22 10.24%, with a midpoint estimate of 10.06%.

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

CAPITAL ASSET PRICING MODEL (CAPM)

2 **Q PLEASE DESCRIBE THE CAPM.**

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

7 $R_i = R_f + B_i \times (R_m - R_f)$ where:

8 $R_i =$ Required return for stock i

9 $R_f =$ Risk-free rate

10 $R_m =$ Expected return for the market portfolio

11 $B_i =$ Beta - Measure of the risk for stock

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

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

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

3 **Q PLEASE DESCRIBE THE INPUTS TO YOUR CAPM.**

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

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

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

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

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

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

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

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

5 **Q WHAT BETA DID YOU USE IN YOUR ANALYSIS?**

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

9 **Q HOW DID YOU DERIVE YOUR MARKET RISK PREMIUM ESTIMATE?**

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

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

18 Morningstar's *Stocks, Bonds, Bills and Inflation 2009 Yearbook* publication
19 estimates the historical arithmetic average real market return over the period 1926 to
20 2008 as 8.5%. A current consensus analysts' inflation projection, as measured by the
21 Consumer Price Index, is 2.1%.²⁷ Using these estimates, the expected market return

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

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

3 The historical estimate of the market risk premium was also estimated by
4 Morningstar in *Stocks, Bonds, Bills and Inflation 2009 Yearbook*. Over the period
5 1926 through 2008, Morningstar's study estimated that the arithmetic average of the
6 achieved total return on the S&P 500 was 11.70%, and the total return on long-term
7 Treasury bonds was 6.10%. The indicated equity risk premium is 5.60% (11.70% -
8 6.10% = 5.60%).

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

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

²⁸ { [(1 + 0.085) * (1 + 0.021)] - 1 } * 100.

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

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

12 Finally, Morningstar found that the 6.5% market risk premium based on the
13 S&P 500 was impacted by an abnormal expansion of price-to-earnings (P/E) ratios
14 relative to earnings and dividend growth during the period 1980 through 2001.
15 Morningstar believes this abnormal P/E expansion is not sustainable. Therefore,
16 Morningstar adjusted this market risk premium estimate to normalize the growth in the
17 P/E ratio to be more in line with the growth in dividends and earnings. Based on this
18 alternative methodology, Morningstar published a long-horizon supply-side market
19 risk premium of 5.7%.³⁰

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

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

³⁰ *Id.* at 67-69.

1 Q WHAT ARE THE RESULTS OF YOUR CAPM ANALYSIS?

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

6 **Return on Equity Summary**

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

10 A Based on my analyses, I estimate AmerenUE's current market cost of equity to be
11 10.0%.

TABLE 4	
<u>Return on Common Equity Summary</u>	
<u>Description</u>	<u>Results</u>
DCF	10.46%
RP	10.06%
CAPM	9.54%

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

1 **FINANCIAL INTEGRITY**

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

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

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

9 **A** S&P publishes a matrix of financial ratios that correspond to its assessment of the
10 business risk of the utility company and related bond rating. S&P updated its credit
11 metric guidelines on November 30, 2007, and incorporated utility metric benchmarks
12 with the general corporate rating metrics. However, the effect of integrating the utility
13 metrics with that of general corporate bonds, resulted in a reduction to the
14 transparency in S&P's credit metric guideline for utilities. Most recently, on May 27,
15 2009 S&P expanded its matrix criteria and included an additional business and
16 financial risk category. Based on S&P's most recent credit matrix, the business risk
17 profile categories are "Excellent," "Strong," "Satisfactory," "Fair," "Weak," and
18 "Vulnerable." Most electric utilities have a business risk profile of "Excellent" or
19 "Strong." The financial risk profile categories are "Minimal," "Modest," "Intermediate,"
20 "Significant," "Aggressive," and "Highly Leveraged." Most of the electric utilities have
21 a financial risk profile of "Aggressive." AmerenUE has an "Excellent" business risk
22 profile and a "Significant" financial risk profile.

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

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

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

12 **Q HOW DID YOU APPLY S&P'S FINANCIAL RATIOS TO TEST THE REASON-**
13 **ABLENESS OF YOUR RATE OF RETURN RECOMMENDATIONS?**

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

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

4 A Yes. Mr. Selecky is proposing to reduce AmerenUE's depreciation expense by
5 \$81.4 million. I recognized this reduced depreciation expense in the estimate of
6 AmerenUE's cash flows.

7 Q HAVE YOU INCLUDED ANY OFF-BALANCE SHEET DEBT?

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

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

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

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

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

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

1 12% to 20%. The FFO/total debt ratio will support a "BBB" rated investment grade
2 bond rating.

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

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

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

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

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

3 **Q DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

4 **A** Yes, it does.

1

Appendix A

2

Qualifications of Michael Gorman

3 Q

PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

4 A

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

6 Q

PLEASE STATE YOUR OCCUPATION.

7 A

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

9 Q

**PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND WORK
10 EXPERIENCE.**

11 A

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

15

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

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

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

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

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

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

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

5 **Q HAVE YOU EVER TESTIFIED BEFORE A REGULATORY BODY?**

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

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

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

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

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AmerenUE

Rate of Return

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

Source:
Schedule MGO-E1.

AmerenUE

Utility Bond Yields (August - November 2009)

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

Source:

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

AmerenUE

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

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

Source:

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

AmerenUE

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

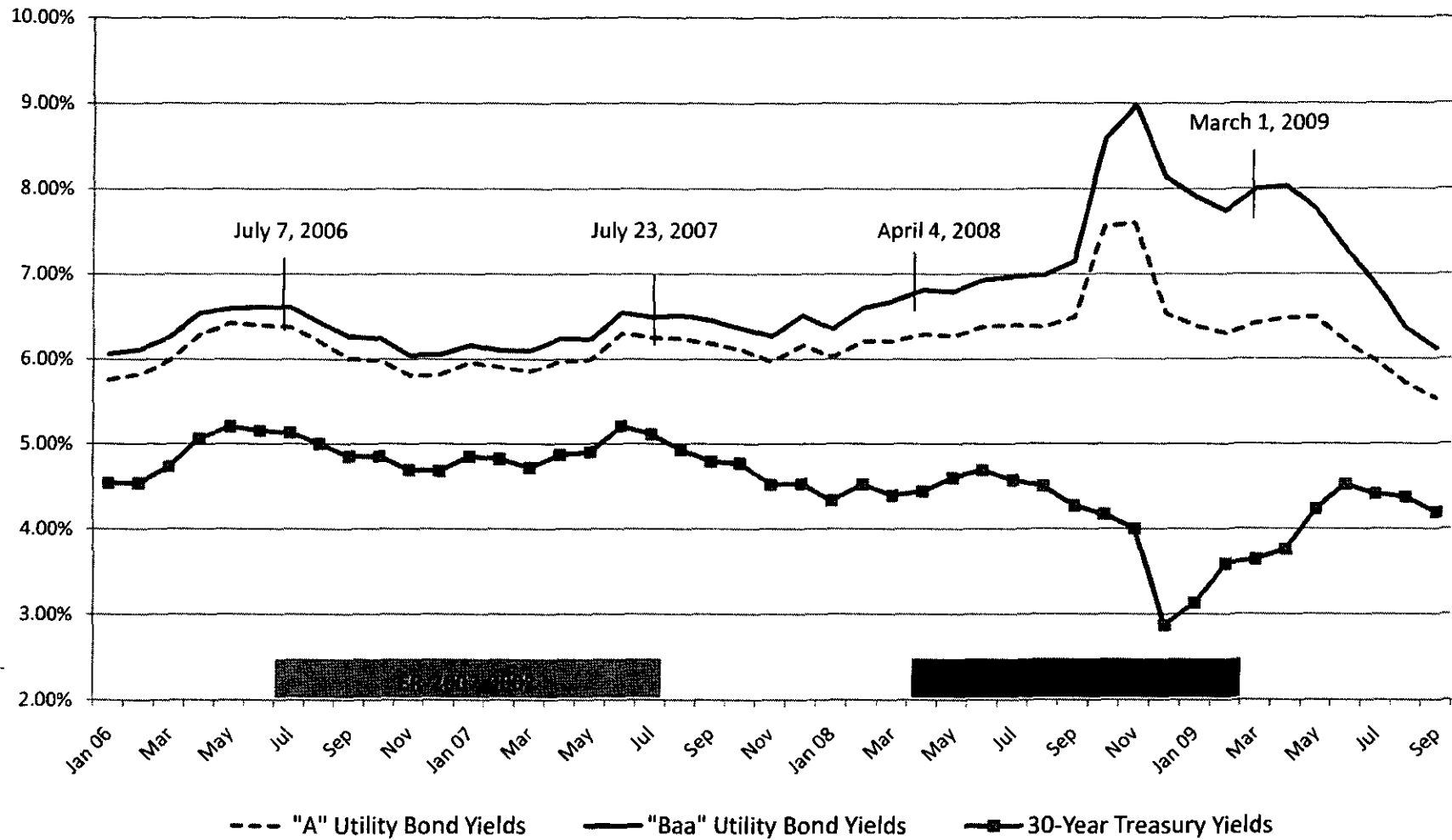
<u>Line</u>	<u>Date</u>	<u>"A" Rating Utility Bond Yield</u> (1)	<u>"Baa" Rating Utility Bond Yield</u> (2)
1	11/10/06	5.80%	6.04%
2	11/03/06	5.93%	6.16%
3	10/27/06	5.92%	6.17%
4	10/20/06	6.04%	6.30%
5	10/13/06	6.06%	6.33%
6	10/06/06	5.97%	6.24%
7	09/29/06	5.90%	6.17%
8	09/22/06	5.92%	6.19%
9	09/15/06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

Source:

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

AmerenUE

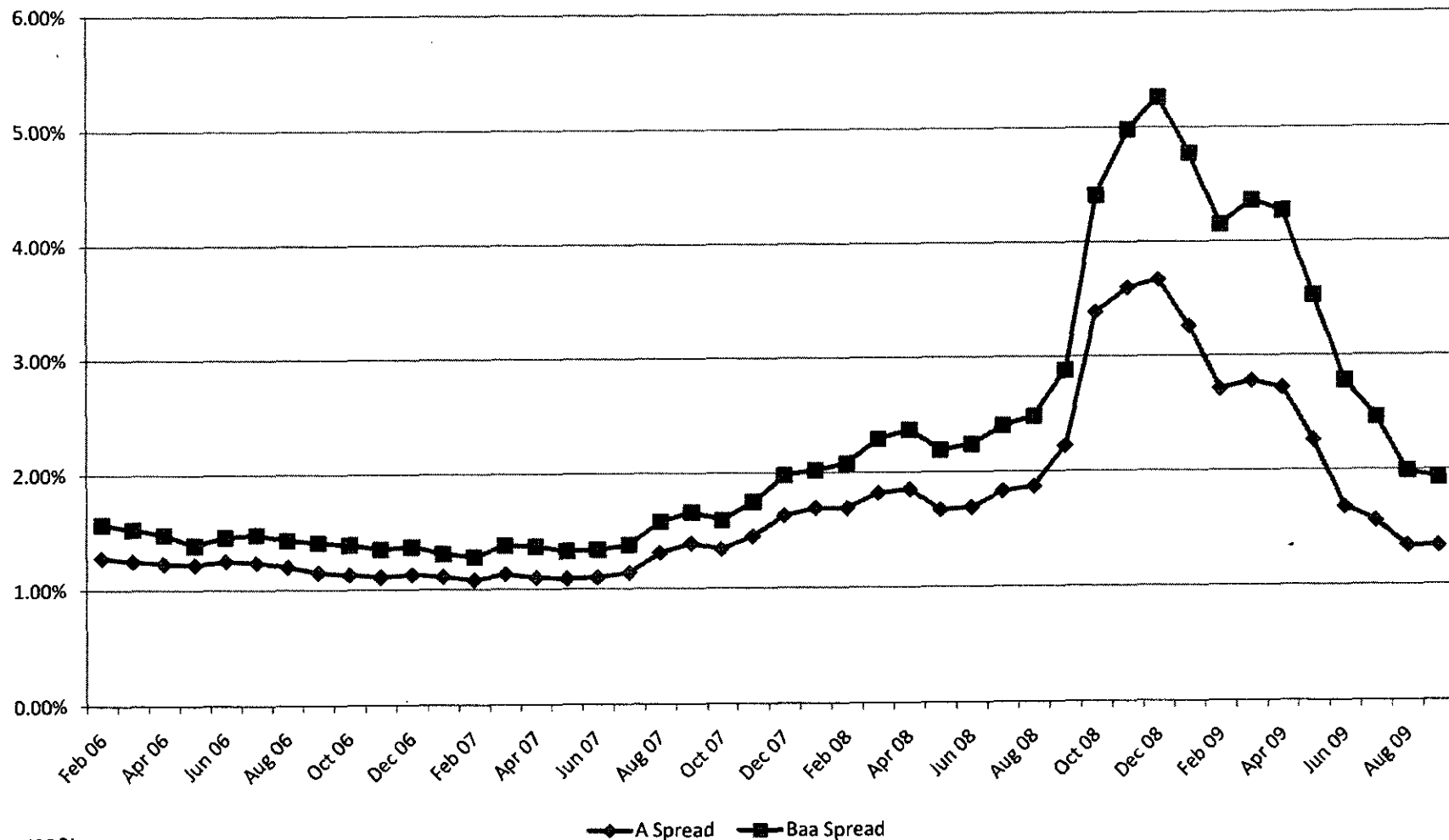
Capital Costs



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

AmerenUE

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



Sources:

Merchant Bond Record.

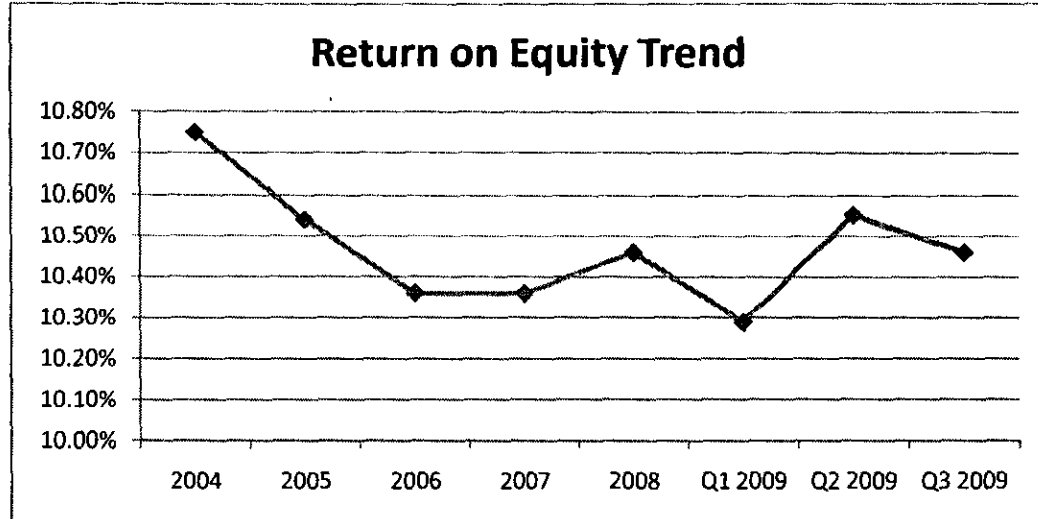
www.moodys.com, Bond Yields and Key Indicators.

St. Louis Fed: Economic Research, <http://research.stlouisfed.org/>

AmerenUE

Electric Utility Authorized Returns on Equity

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



Source:

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

AmerenUE

Proxy Group (Integrated Electric Utilities)

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

Sources:

¹ AUS Utility Reports, November 2009.

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

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

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

⁵ AmerenUE Form 10-Q at 117.

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

AmerenUE

Proxy Group (S&P Electric Utilities)

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

Sources:

¹ AUS Utility Reports, November 2009.

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

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

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

⁵ SNL Interactive, <http://www.snl.com/InteractiveX>, downloaded on November 19, 2009.

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

AmerenUE

Growth Rates (Integrated Electric Utilities)

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

Sources:

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

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

³ Reuters, <http://www.reuters.com/>, downloaded on November 23, 2009.

AmerenUE

Growth Rates (S&P Electric Utilities)

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

Sources:

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

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

³ Reuters, <http://www.reuters.com/>, downloaded on November 23, 2009.

AmerenUE

Constant Growth DCF Model (Integrated Electric Utilities)

<u>Line</u>	<u>Company</u>	<u>13-Week AVG Stock Price¹</u> (1)	<u>Analysts' Growth²</u> (2)	<u>Annual Dividend³</u> (3)	<u>Adjusted Yield</u> (4)	<u>Constant Growth DCF</u> (5)
1	ALLETE	\$33.61	5.50%	\$1.76	5.53%	11.03%
2	Allegheny Energy	\$25.29	10.00%	\$0.60	2.61%	12.61%
3	Alliant Energy	\$27.21	4.33%	\$1.50	5.75%	10.08%
4	Amer. Elec. Power	\$31.09	3.67%	\$1.64	5.47%	9.14%
5	Ameren Corp.	\$25.60	3.67%	\$1.54	6.24%	9.90%
6	CMS Energy Corp.	\$13.54	6.89%	\$0.50	3.95%	10.84%
7	Cleco Corp.	\$24.88	10.41%	\$0.90	3.99%	14.40%
8	DPL Inc.	\$25.96	9.82%	\$1.14	4.82%	14.64%
9	DTE Energy	\$36.42	3.17%	\$2.12	6.00%	9.17%
10	Duke Energy	\$15.78	4.12%	\$0.96	6.34%	10.46%
11	Edison Int'l	\$33.37	3.91%	\$1.24	3.86%	7.77%
12	Empire Dist. Elec.	\$18.26	34.00%	\$1.28	9.39%	43.39%
13	Entergy Corp.	\$79.06	7.17%	\$3.00	4.07%	11.24%
14	Exelon Corp.	\$48.96	3.03%	\$2.10	4.42%	7.45%
15	FPL Group	\$53.36	8.66%	\$1.89	3.85%	12.51%
16	FirstEnergy Corp.	\$45.10	5.50%	\$2.20	5.15%	10.65%
17	G't Plains Energy	\$17.83	2.60%	\$0.83	4.78%	7.37%
18	Hawaiian Elec.	\$18.22	3.00%	\$1.24	7.01%	10.01%
19	IDACORP Inc.	\$28.81	5.00%	\$1.20	4.37%	9.37%
20	PG&E Corp.	\$41.19	7.17%	\$1.68	4.37%	11.54%
21	Pepco Holdings	\$14.86	5.83%	\$1.08	7.69%	13.53%
22	Portland General	\$19.72	6.39%	\$1.02	5.50%	11.90%
23	Progress Energy	\$38.53	4.52%	\$2.48	6.73%	11.24%
24	Public Serv. Enterprise	\$31.04	4.84%	\$1.33	4.49%	9.34%
25	Southern Co.	\$31.80	6.11%	\$1.75	5.84%	11.95%
26	TECO Energy	\$14.05	7.50%	\$0.80	6.12%	13.62%
27	Westar Energy	\$20.03	3.65%	\$1.20	6.21%	9.86%
28	Wisconsin Energy	\$44.80	8.59%	\$1.35	3.27%	11.86%
29	Xcel Energy Inc.	\$19.54	6.45%	\$0.98	5.34%	11.79%
30	Average	\$30.27	6.74%	\$1.42	5.28%	12.02%
31	Median		5.50%		5.34%	11.03%

Sources:

¹ <http://moneycentral.msn.com>, downloaded on November 23, 2009.

² Exhibit MPG-5, page 1, column 7.

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

AmerenUE

Constant Growth DCF Model (S&P Electric Utilities)

<u>Line</u>	<u>Company</u>	<u>13-Week AVG Stock Price¹</u> (1)	<u>Analysts' Growth²</u> (2)	<u>Annual Dividend³</u> (3)	<u>Adjusted Yield</u> (4)	<u>Constant Growth DCF</u> (5)
1	Allegheny Energy	\$25.29	10.00%	\$0.60	2.61%	12.61%
2	Amer. Elec. Power	\$31.09	3.67%	\$1.64	5.47%	9.14%
3	Ameren Corp.	\$25.60	3.67%	\$1.54	6.24%	9.90%
4	CMS Energy Corp.	\$13.54	6.89%	\$0.50	3.95%	10.84%
5	CenterPoint Energy	\$12.58	7.00%	\$0.76	6.47%	13.47%
6	Consol. Edison	\$40.98	3.75%	\$2.36	5.97%	9.72%
7	Constellation Energy	\$32.07	13.36%	\$0.96	3.39%	16.75%
8	DTE Energy	\$36.42	3.17%	\$2.12	6.00%	9.17%
9	Dominion Resources	\$34.47	5.65%	\$1.75	5.36%	11.01%
10	Duke Energy	\$15.78	4.12%	\$0.96	6.34%	10.46%
11	Edison Int'l	\$33.37	3.91%	\$1.24	3.86%	7.77%
12	Entergy Corp.	\$79.06	7.17%	\$3.00	4.07%	11.24%
13	Exelon Corp.	\$48.96	3.03%	\$2.10	4.42%	7.45%
14	FPL Group	\$53.36	8.66%	\$1.89	3.85%	12.51%
15	FirstEnergy Corp.	\$45.10	5.50%	\$2.20	5.15%	10.65%
16	Integrus Energy	\$35.63	15.35%	\$2.72	8.81%	24.16%
17	PG&E Corp.	\$41.19	7.17%	\$1.68	4.37%	11.54%
18	PPL Corp.	\$29.97	10.72%	\$1.38	5.10%	15.82%
19	Pepco Holdings	\$14.86	5.83%	\$1.08	7.69%	13.53%
20	Average	\$34.17	6.77%	\$1.60	5.22%	11.99%
21	Median		5.83%		5.15%	11.01%

Sources:

¹ <http://moneycentral.msn.com>, downloaded on November 23, 2009.

² Exhibit MPG-5, page 2, column 7.

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

AmerenUE

Dividend Yields (Integrated Electric Utilities)

Line	Company	Actual						'04 - '08 Average Dividend Yield
		2004 (1)	2005 (2)	2006 (3)	2007 (4)	2008 (5)	2009 ¹ (6)	
1	ALLETE	0.90%	2.80%	3.20%	3.60%	4.40%	5.24%	2.98%
2	Allegheny Energy	N/A	N/A	N/A	0.30%	1.30%	2.37%	0.80%
3	Alliant Energy	3.90%	3.80%	3.30%	3.10%	4.10%	5.51%	3.64%
4	Amer. Elec. Power	4.30%	3.90%	4.10%	3.40%	4.20%	5.28%	3.98%
5	Ameren Corp.	5.50%	4.90%	4.90%	4.90%	6.20%	6.02%	5.28%
6	CMS Energy Corp.	N/A	N/A	N/A	1.20%	2.70%	3.69%	1.95%
7	Cleco Corp.	5.00%	4.20%	3.80%	3.50%	3.80%	3.62%	4.08%
8	DPL Inc.	4.70%	3.70%	3.70%	3.60%	4.30%	4.39%	4.00%
9	DTE Energy	5.00%	4.60%	4.90%	4.40%	5.20%	5.82%	4.82%
10	Duke Energy	N/A	N/A	N/A	4.40%	5.20%	6.09%	4.80%
11	Edison Int'l	3.10%	2.60%	2.60%	2.20%	2.70%	3.72%	2.64%
12	Empire Dist. Elec.	6.00%	5.70%	5.70%	5.40%	6.30%	7.01%	5.82%
13	Entergy Corp.	3.20%	3.00%	2.80%	2.40%	2.90%	3.79%	2.86%
14	Exelon Corp.	3.50%	3.20%	2.80%	2.50%	2.80%	4.29%	2.96%
15	FPL Group	3.90%	3.40%	3.40%	2.70%	3.00%	3.54%	3.28%
16	FirstEnergy Corp.	4.90%	3.70%	3.40%	3.10%	3.20%	4.88%	3.68%
17	G't Plains Energy	5.40%	5.50%	5.60%	5.50%	7.00%	4.68%	5.80%
18	Hawaiian Elec.	4.80%	4.60%	4.60%	5.20%	5.00%	6.81%	4.84%
19	IDACORP Inc.	4.10%	4.10%	3.40%	3.50%	4.00%	4.17%	3.82%
20	PG&E Corp.	N/A	3.40%	3.20%	3.10%	4.00%	4.08%	3.43%
21	Pepco Holdings	5.00%	4.50%	4.30%	3.70%	4.60%	7.27%	4.42%
22	Portland General	N/A	N/A	2.50%	3.30%	4.30%	5.17%	3.37%
23	Progress Energy	5.30%	5.50%	5.50%	5.10%	5.80%	6.44%	5.44%
24	Public Serv. Enterprise	5.10%	3.80%	3.50%	2.70%	3.30%	4.29%	3.68%
25	Southern Co.	4.70%	4.40%	4.50%	4.40%	4.60%	5.50%	4.52%
26	TECO Energy	5.50%	4.40%	4.70%	4.60%	4.90%	5.69%	4.82%
27	Westar Energy	3.90%	4.00%	4.30%	4.20%	5.20%	5.99%	4.32%
28	Wisconsin Energy	2.60%	2.40%	2.20%	2.10%	2.40%	3.01%	2.34%
29	Xcel Energy Inc.	4.70%	4.60%	4.40%	4.00%	4.70%	5.01%	4.48%
30	Average	4.38%	4.03%	3.90%	3.52%	4.21%	4.94%	3.89%

Sources:

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

¹ Exhibit MPG-6, page 1, column 3 / Exhibit MPG-6, page 1, column 1.

AmerenUE

Dividend Yields (S&P Electric Utilities)

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

Sources:

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

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

AmerenUE

Historical Growth Rates (Integrated Electric Utilities)

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

Sources:

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

² The Value Line Investment Survey, November 6, 2009.

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

AmerenUE

Historical Growth Rates (S&P Electric Utilities)

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

Sources:

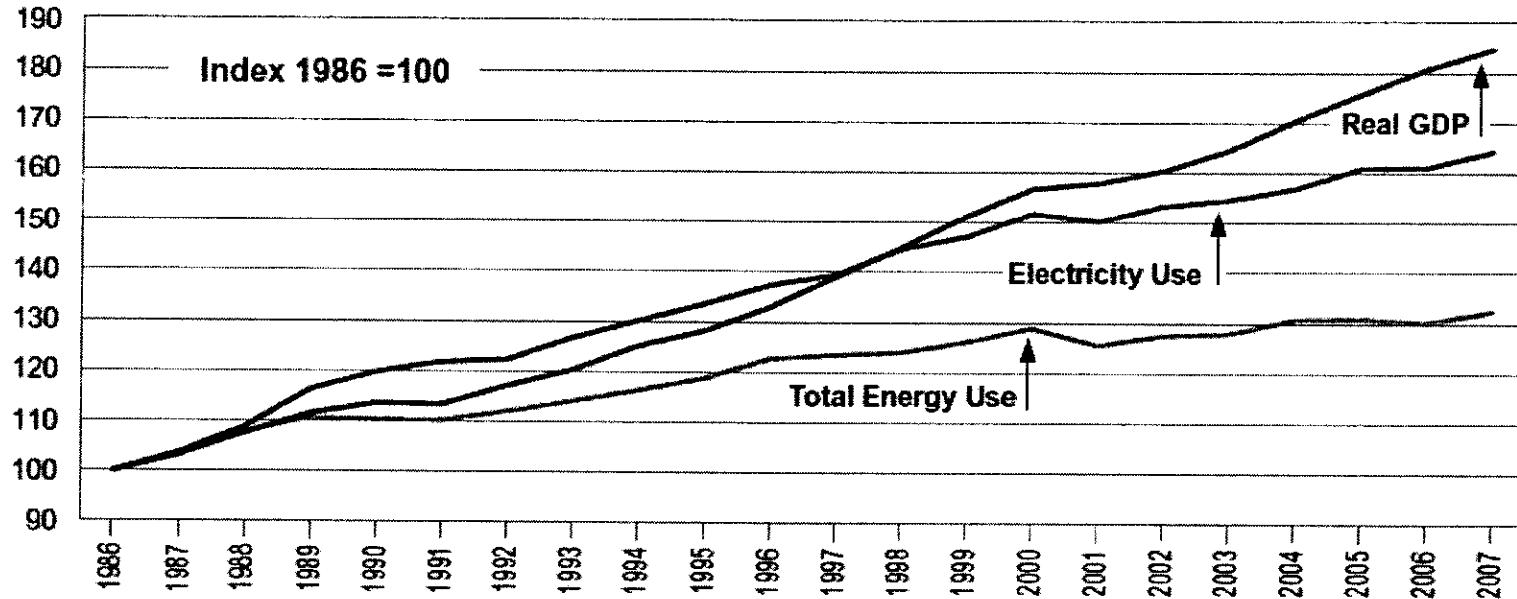
¹ The Value Line Investment Survey, August 28, September 25, and November 6, 2009.

² The Value Line Investment Survey, November 6, 2009.

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

AmerenUE

Electricity Sales Are Linked to U.S. Economic Growth



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

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

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AmerenUE

Current and Projected Payout Ratios (Integrated Electric Utilities)

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

Source:

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

AmerenUE

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

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

Source:

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

AmerenUE

Sustainable Growth Rate (Integrated Electric Utilities)

Line	Company	3 to 5 Year Projections								Growth	
		Dividends	Earnings	Book Value	Adjustment	Adjusted	Payout	Retention	Internal	Rate Plus	Rate Plus
		Per Share (1)	Per Share (2)	Per Share (3)	Factor (4)	ROE (5)	Ratio (6)	Rate (7)	Growth Rate (8)		
1	ALLETE	\$1.92	\$2.75	\$28.75	1.01	9.57%	9.68%	69.82%	30.18%	2.92%	4.45%
2	Allegheny Energy	\$1.20	\$3.35	\$25.90	1.04	12.93%	13.49%	35.82%	64.18%	8.66%	8.93%
3	Alliant Energy	\$1.92	\$3.20	\$31.05	1.02	10.31%	10.51%	60.00%	40.00%	4.20%	4.27%
4	Amer. Elec. Power	\$1.90	\$3.50	\$33.50	1.02	10.45%	10.70%	54.29%	45.71%	4.89%	5.58%
5	Ameren Corp.	\$1.70	\$3.00	\$37.25	1.01	8.05%	8.16%	56.67%	43.33%	3.53%	2.77%
6	CMS Energy Corp.	\$0.80	\$1.50	\$14.50	1.03	10.34%	10.64%	53.33%	46.67%	4.97%	5.19%
7	Cleco Corp.	\$1.60	\$2.50	\$21.75	1.02	11.49%	11.73%	64.00%	36.00%	4.22%	4.88%
8	DPL Inc.	\$1.30	\$2.70	\$10.10	1.02	26.73%	27.22%	48.15%	51.85%	14.12%	16.93%
9	DTE Energy	\$2.50	\$4.00	\$41.25	1.01	9.70%	9.81%	62.50%	37.50%	3.68%	3.66%
10	Duke Energy	\$1.10	\$1.40	\$17.75	1.01	7.89%	7.94%	78.57%	21.43%	1.70%	1.67%
11	Edison Int'l	\$1.50	\$4.50	\$39.75	1.03	11.32%	11.67%	33.33%	66.67%	7.78%	7.78%
12	Empire Dist. Elec.	\$1.35	\$1.75	\$17.50	1.01	10.00%	10.12%	77.14%	22.86%	2.31%	2.98%
13	Entergy Corp.	\$3.60	\$8.00	\$60.50	1.04	13.22%	13.70%	45.00%	55.00%	7.54%	7.41%
14	Exelon Corp.	\$2.40	\$5.50	\$28.25	1.05	19.47%	20.46%	43.64%	56.36%	11.54%	10.19%
15	FPL Group	\$2.30	\$5.00	\$41.25	1.04	12.12%	12.57%	46.00%	54.00%	6.79%	7.99%
16	FirstEnergy Corp.	\$2.65	\$5.25	\$36.75	1.03	14.29%	14.72%	50.48%	49.52%	7.29%	7.29%
17	G't Plains Energy	\$1.10	\$1.60	\$22.25	1.00	7.19%	7.22%	68.75%	31.25%	2.26%	1.31%
18	Hawaiian Elec.	\$1.24	\$1.75	\$16.75	1.01	10.45%	10.54%	70.88%	29.14%	3.07%	3.23%
19	IDACORP Inc.	\$1.40	\$2.75	\$36.00	1.03	7.64%	7.84%	50.91%	49.09%	3.85%	3.93%
20	PG&E Corp.	\$2.20	\$4.25	\$35.75	1.03	11.89%	12.27%	51.76%	48.24%	5.92%	7.13%
21	Pepco Holdings	\$1.08	\$1.80	\$21.50	1.01	8.37%	8.47%	60.00%	40.00%	3.39%	2.52%
22	Portland General	\$1.20	\$2.00	\$23.75	1.01	8.42%	8.50%	60.00%	40.00%	3.40%	2.95%
23	Progress Energy	\$2.56	\$3.60	\$36.80	1.01	9.78%	9.90%	71.11%	28.89%	2.86%	3.18%
24	Public Serv. Enterprise	\$1.70	\$3.75	\$24.25	1.05	15.46%	16.17%	45.33%	54.67%	8.84%	8.18%
25	Southern Co.	\$2.00	\$3.00	\$21.75	1.02	13.79%	14.13%	66.67%	33.33%	4.71%	5.70%
26	TECO Energy	\$0.90	\$1.40	\$11.75	1.02	11.91%	12.18%	64.29%	35.71%	4.35%	4.58%
27	Westar Energy	\$1.40	\$2.20	\$27.20	1.03	8.09%	8.33%	63.64%	36.36%	3.03%	3.02%
28	Wisconsin Energy	\$2.15	\$4.50	\$38.00	1.03	11.84%	12.18%	47.78%	52.22%	6.36%	6.37%
29	Xcel Energy Inc.	\$1.10	\$2.00	\$19.00	1.02	10.53%	10.75%	55.00%	45.00%	4.84%	4.96%
30	Average	\$1.72	\$3.19	\$28.29	1.02	11.49%	11.78%	57.06%	42.94%	5.28%	5.48%
31	Median										4.88%

Sources:

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

¹ Page 2, Column 9.

AmerenUE

Sustainable Growth (Integrated Electric Utilities)

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

Sources:

¹ <http://moneycentral.msn.com>, downloaded on November 23, 2009.

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

³ Expected Growth in the Number of Shares.

⁴ Expected Profit of Stock Investment.

AmerenUE

Sustainable Growth Rate (S&P Electric Utilities)

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

Sources:

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

¹ Page 4, Column 9.

AmerenUE

Sustainable Growth (S&P Electric Utilities)

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

Sources:

¹ <http://moneycentral.msn.com>, downloaded on November 23, 2009.

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

³ Expected Growth in the Number of Shares.

⁴ Expected Profit of Stock Investment.

AmerenUE

Sustainable Constant Growth DCF Model (Integrated Electric Utilities)

<u>Line</u>	<u>Company</u>	<u>13-Week AVG Stock Price¹</u> (1)	<u>Sustainable Growth²</u> (2)	<u>Annual Dividend³</u> (3)	<u>Adjusted Yield</u> (4)	<u>Constant Growth DCF</u> (5)
1	ALLETE	\$33.61	4.45%	\$1.76	5.47%	9.92%
2	Allegheny Energy	\$25.29	8.93%	\$0.60	2.58%	11.52%
3	Alliant Energy	\$27.21	4.27%	\$1.50	5.75%	10.01%
4	Amer. Elec. Power	\$31.09	5.58%	\$1.64	5.57%	11.15%
5	Ameren Corp.	\$25.60	2.77%	\$1.54	6.18%	8.95%
6	CMS Energy Corp.	\$13.54	5.19%	\$0.50	3.88%	9.07%
7	Cleco Corp.	\$24.88	4.88%	\$0.90	3.79%	8.67%
8	DPL Inc.	\$25.96	16.93%	\$1.14	5.14%	22.07%
9	DTE Energy	\$36.42	3.66%	\$2.12	6.03%	9.69%
10	Duke Energy	\$15.78	1.67%	\$0.96	6.19%	7.86%
11	Edison Int'l	\$33.37	7.78%	\$1.24	4.00%	11.78%
12	Empire Dist. Elec.	\$18.26	2.98%	\$1.28	7.22%	10.20%
13	Entergy Corp.	\$79.06	7.41%	\$3.00	4.08%	11.49%
14	Exelon Corp.	\$48.96	10.19%	\$2.10	4.73%	14.91%
15	FPL Group	\$53.36	7.99%	\$1.89	3.83%	11.81%
16	FirstEnergy Corp.	\$45.10	7.29%	\$2.20	5.23%	12.52%
17	G't Plains Energy	\$17.83	1.31%	\$0.83	4.72%	6.03%
18	Hawaiian Elec.	\$18.22	3.23%	\$1.24	7.03%	10.26%
19	IDACORP Inc.	\$28.81	3.93%	\$1.20	4.33%	8.26%
20	PG&E Corp.	\$41.19	7.13%	\$1.68	4.37%	11.50%
21	Pepco Holdings	\$14.86	2.52%	\$1.08	7.45%	9.97%
22	Portland General	\$19.72	2.95%	\$1.02	5.33%	8.28%
23	Progress Energy	\$38.53	3.18%	\$2.48	6.64%	9.82%
24	Public Serv. Enterprise	\$31.04	8.18%	\$1.33	4.64%	12.82%
25	Southern Co.	\$31.80	5.70%	\$1.75	5.82%	11.52%
26	TECO Energy	\$14.05	4.58%	\$0.80	5.95%	10.53%
27	Westar Energy	\$20.03	3.02%	\$1.20	6.17%	9.19%
28	Wisconsin Energy	\$44.80	6.37%	\$1.35	3.21%	9.57%
29	Xcel Energy Inc.	\$19.54	4.96%	\$0.98	5.26%	10.22%
30	Average	\$30.27	5.48%	\$1.42	5.19%	10.68%
31	Median					10.20%

Sources:

¹ <http://moneycentral.msn.com>, downloaded on November 23, 2009.

² Exhibit MPG-11, page 1, column 10.

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

AmerenUE

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

<u>Line</u>	<u>Company</u>	<u>13-Week AVG Stock Price¹</u> (1)	<u>Sustainable Growth²</u> (2)	<u>Annual Dividend³</u> (3)	<u>Adjusted Yield</u> (4)	<u>Constant Growth DCF</u> (5)
1 ¹	Allegheny Energy	\$25.29	8.93%	\$0.60	2.58%	11.52%
2	Amer. Elec. Power	\$31.09	5.58%	\$1.64	5.57%	11.15%
3	Ameren Corp.	\$25.60	2.77%	\$1.54	6.18%	8.95%
4	CMS Energy Corp.	\$13.54	5.19%	\$0.50	3.88%	9.07%
5	CenterPoint Energy	\$12.58	11.20%	\$0.76	6.72%	17.92%
6	Consol. Edison	\$40.98	3.63%	\$2.36	5.97%	9.60%
7	Constellation Energy	\$32.07	9.02%	\$0.96	3.26%	12.28%
8	DTE Energy	\$36.42	3.68%	\$2.12	6.03%	9.71%
9	Dominion Resources	\$34.47	8.53%	\$1.75	5.51%	14.04%
10	Duke Energy	\$15.78	1.67%	\$0.96	6.19%	7.86%
11 ¹	Edison Int'l	\$33.37	7.78%	\$1.24	4.00%	11.78%
12	Entergy Corp.	\$79.06	7.41%	\$3.00	4.08%	11.49%
13	Exelon Corp.	\$48.96	10.19%	\$2.10	4.73%	14.91%
14	FPL Group	\$53.36	7.99%	\$1.89	3.83%	11.81%
15	FirstEnergy Corp.	\$45.10	7.29%	\$2.20	5.23%	12.52%
16	Integrus Energy	\$35.63	1.80%	\$2.72	7.77%	9.57%
17	PG&E Corp.	\$41.19	7.13%	\$1.68	4.37%	11.50%
18	PPL Corp.	\$29.97	9.53%	\$1.38	5.04%	14.58%
19	Pepco Holdings	\$14.86	2.52%	\$1.08	7.45%	9.97%
20	Average	\$34.17	6.41%	\$1.60	5.18%	11.59%
21	Median					11.50%

Sources:

¹ <http://moneycentral.msn.com>, downloaded on November 23, 2009.

² Exhibit MPG-11, page 3, column 10.

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

AmerenUE

Multi-Stage Growth DCF Model (Integrated Electric Utilities)

Line	Company	13-Week AVG	Annual	First Stage	Second Stage Growth					Third Stage	Multi-Stage
		Stock Price ¹	Dividend ²	Growth	Year 6	Year 7	Year 8	Year 9	Year 10	Growth ³	Growth DCF
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1	ALLETE	\$33.81	\$1.76	5.50%	5.37%	5.23%	5.10%	4.97%	4.83%	4.70%	10.45%
2	Allegheny Energy	\$25.29	\$0.60	10.00%	9.12%	8.23%	7.35%	6.47%	5.58%	4.70%	8.17%
3	Alliant Energy	\$27.21	\$1.50	4.33%	4.39%	4.46%	4.52%	4.58%	4.64%	4.70%	10.34%
4	Amer. Elec. Power	\$31.09	\$1.64	3.67%	3.84%	4.01%	4.18%	4.36%	4.53%	4.70%	9.89%
5	Ameren Corp.	\$25.60	\$1.54	3.67%	3.84%	4.01%	4.18%	4.36%	4.53%	4.70%	10.62%
6	CMS Energy Corp.	\$13.54	\$0.50	6.89%	6.53%	6.16%	5.80%	5.43%	5.07%	4.70%	9.13%
7	Cleco Corp.	\$24.88	\$0.90	10.41%	9.46%	8.50%	7.55%	6.60%	5.65%	4.70%	10.04%
8	DPL Inc.	\$25.96	\$1.14	9.82%	8.96%	8.11%	7.26%	6.41%	5.55%	4.70%	10.92%
9	DTE Energy	\$36.42	\$2.12	3.17%	3.42%	3.68%	3.93%	4.19%	4.44%	4.70%	10.25%
10	Duke Energy	\$15.78	\$0.96	4.12%	4.22%	4.32%	4.41%	4.51%	4.60%	4.70%	10.86%
11	Edison Int'l	\$33.37	\$1.24	3.91%	4.04%	4.17%	4.30%	4.44%	4.57%	4.70%	8.39%
12	Empire Dist. Elec.	\$18.26	\$1.28	34.00%	29.12%	24.23%	19.35%	14.47%	9.58%	4.70%	29.08%
13	Entergy Corp.	\$79.06	\$3.00	7.17%	6.76%	6.35%	5.94%	5.52%	5.11%	4.70%	9.33%
14	Exelon Corp.	\$48.96	\$2.10	3.03%	3.31%	3.59%	3.87%	4.14%	4.42%	4.70%	8.74%
15	FPL Group	\$53.36	\$1.89	8.66%	8.00%	7.34%	6.68%	6.02%	5.36%	4.70%	9.43%
16	FirstEnergy Corp.	\$45.10	\$2.20	5.50%	5.37%	5.23%	5.10%	4.97%	4.83%	4.70%	10.06%
17	G't Plains Energy	\$17.83	\$0.83	2.60%	2.95%	3.30%	3.65%	4.00%	4.35%	4.70%	8.97%
18	Hawaiian Elec.	\$18.22	\$1.24	3.00%	3.28%	3.57%	3.85%	4.13%	4.42%	4.70%	11.15%
19	IDACORP Inc.	\$28.81	\$1.20	5.00%	4.95%	4.90%	4.85%	4.80%	4.75%	4.70%	9.14%
20	PG&E Corp.	\$41.19	\$1.68	7.17%	6.76%	6.34%	5.93%	5.52%	5.11%	4.70%	9.67%
21	Pepco Holdings	\$14.86	\$1.08	5.83%	5.64%	5.46%	5.27%	5.08%	4.89%	4.70%	12.81%
22	Portland General	\$19.72	\$1.02	6.39%	6.11%	5.83%	5.55%	5.26%	4.98%	4.70%	10.69%
23	Progress Energy	\$38.53	\$2.48	4.52%	4.55%	4.58%	4.61%	4.64%	4.67%	4.70%	11.37%
24	Public Serv. Enterprise	\$31.04	\$1.33	4.84%	4.82%	4.80%	4.77%	4.75%	4.72%	4.70%	9.23%
25	Southern Co.	\$31.80	\$1.75	6.11%	5.88%	5.64%	5.41%	5.17%	4.94%	4.70%	10.96%
26	TECO Energy	\$14.05	\$0.80	7.50%	7.03%	6.57%	6.10%	5.63%	5.17%	4.70%	11.71%
27	Westar Energy	\$20.03	\$1.20	3.65%	3.83%	4.00%	4.18%	4.35%	4.53%	4.70%	10.59%
28	Wisconsin Energy	\$44.80	\$1.35	8.59%	7.94%	7.29%	6.65%	6.00%	5.35%	4.70%	8.72%
29	Xcel Energy Inc.	\$19.54	\$0.98	6.45%	6.16%	5.87%	5.58%	5.28%	4.99%	4.70%	10.53%
30	Average	\$30.27	\$1.42	6.74%	6.40%	6.06%	5.72%	5.38%	5.04%	4.70%	10.73%
31	Median										10.25%

Sources:

¹ <http://moneycentral.msn.com>, downloaded on November 23, 2009.

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

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

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

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

Sources:

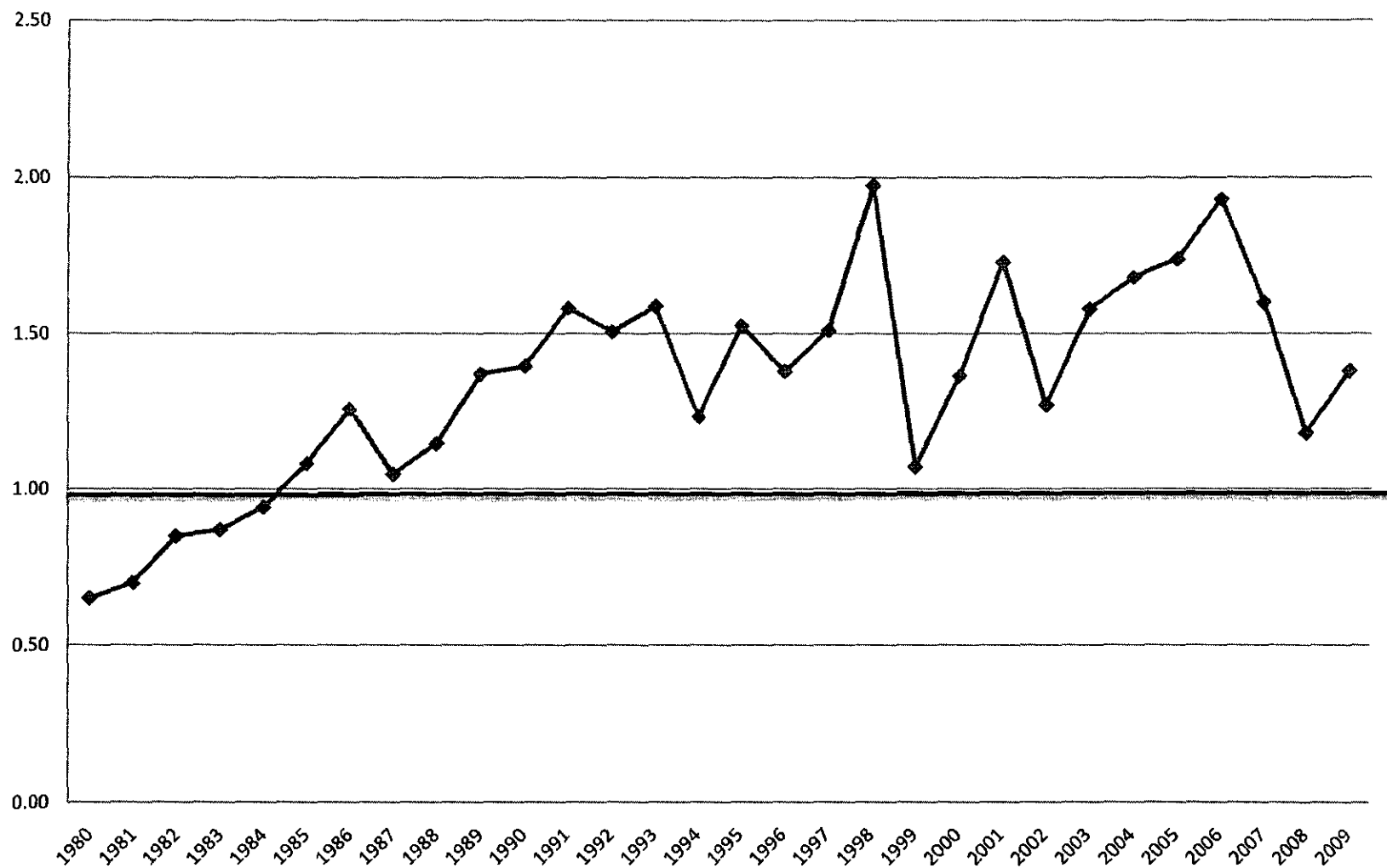
¹ <http://moneycentral.msn.com>, downloaded on November 23, 2009.

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

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

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Electric Common Stock Market/Book Ratio



Sources:

2001 - June 2009: AUS Utility Reports.

1980 - 2000: Mergent Public Utility Manual, 2003.

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Equity Risk Premium - Treasury Bond

<u>Line</u>	<u>Date</u>	<u>Authorized Electric Returns¹</u> (1)	<u>Treasury Bond Yield²</u> (2)	<u>Indicated Risk Premium</u> (3)
1	1986	13.93%	7.78%	6.15%
2	1987	12.99%	8.59%	4.40%
3	1988	12.79%	8.96%	3.83%
4	1989	12.97%	8.45%	4.52%
5	1990	12.70%	8.61%	4.09%
6	1991	12.55%	8.14%	4.41%
7	1992	12.09%	7.67%	4.42%
8	1993	11.41%	6.59%	4.82%
9	1994	11.34%	7.37%	3.97%
10	1995	11.55%	6.88%	4.67%
11	1996	11.39%	6.71%	4.68%
12	1997	11.40%	6.61%	4.79%
13	1998	11.66%	5.58%	6.08%
14	1999	10.77%	5.87%	4.90%
15	2000	11.43%	5.94%	5.49%
16	2001	11.09%	5.49%	5.60%
17	2002	11.16%	5.43%	5.73%
18	2003	10.97%	4.96%	6.01%
19	2004	10.75%	5.05%	5.70%
20	2005	10.54%	4.65%	5.89%
21	2006	10.36%	4.91%	5.45%
22	2007	10.36%	4.84%	5.52%
23	2008	10.46%	4.28%	6.18%
24	Sept 09	10.43%	3.98%	6.45%
25	Average	11.55%	6.39%	5.16%

Sources:

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

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

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Equity Risk Premium - Utility Bond

<u>Line</u>	<u>Date</u>	<u>Authorized Electric Returns¹</u> (1)	<u>Average "A" Rating Utility Bond Yield²</u> (2)	<u>Indicated Risk Premium</u> (3)
1	1986	13.93%	9.58%	4.35%
2	1987	12.99%	10.10%	2.89%
3	1988	12.79%	10.49%	2.30%
4	1989	12.97%	9.77%	3.20%
5	1990	12.70%	9.86%	2.84%
6	1991	12.55%	9.36%	3.19%
7	1992	12.09%	8.69%	3.40%
8	1993	11.41%	7.59%	3.82%
9	1994	11.34%	8.31%	3.03%
10	1995	11.55%	7.89%	3.66%
11	1996	11.39%	7.75%	3.64%
12	1997	11.40%	7.60%	3.80%
13	1998	11.66%	7.04%	4.62%
14	1999	10.77%	7.62%	3.15%
15	2000	11.43%	8.24%	3.19%
16	2001	11.09%	7.76%	3.33%
17	2002	11.16%	7.37%	3.79%
18	2003	10.97%	6.58%	4.39%
19	2004	10.75%	6.16%	4.59%
20	2005	10.54%	5.65%	4.89%
21	2006	10.36%	6.07%	4.29%
22	2007	10.36%	6.07%	4.29%
23	2008	10.46%	6.53%	3.93%
24	Sept 09	10.43%	6.17%	4.26%
25	Average	11.55%	7.84%	3.70%

Sources:

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

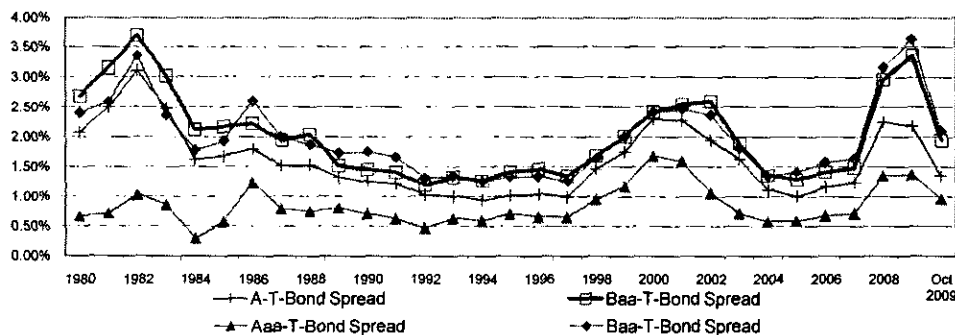
² Economic Report of the President 2008: Table 73. The yields from 2002 to 2005 represent the 20-Year Treasury yields obtained from the Federal Reserve Bank.

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Utility Bond Yield Spreads

Line	Year	Public Utility Bond Yields					Corporate Bond Yields				
		T-Bond Yield ¹ (1)	A ² (2)	Baa ² (3)	A-T-Bond Spread (4)	Baa-T-Bond Spread (5)	Aaa ¹ (6)	Baa ¹ (7)	Aaa-T-Bond Spread (8)	Baa-T-Bond Spread (9)	Baa Utility - Corporate (10)
1	1980	11.27%	13.34%	13.95%	2.07%	2.68%	11.94%	13.67%	0.67%	2.40%	0.28%
2	1981	13.45%	15.95%	16.60%	2.50%	3.15%	14.17%	16.04%	0.72%	2.59%	0.56%
3	1982	12.76%	15.86%	16.45%	3.10%	3.69%	13.79%	16.11%	1.03%	3.35%	0.34%
4	1983	11.18%	13.66%	14.20%	2.48%	3.02%	12.04%	13.55%	0.86%	2.37%	0.65%
5	1984	12.41%	14.03%	14.53%	1.62%	2.12%	12.71%	14.19%	0.30%	1.78%	0.34%
6	1985	10.79%	12.47%	12.96%	1.68%	2.17%	11.37%	12.72%	0.58%	1.93%	0.24%
7	1986	7.78%	9.58%	10.00%	1.80%	2.22%	9.02%	10.39%	1.24%	2.61%	-0.39%
8	1987	8.59%	10.10%	10.53%	1.51%	1.94%	9.38%	10.58%	0.79%	1.99%	-0.05%
9	1988	8.96%	10.49%	11.00%	1.53%	2.04%	9.71%	10.83%	0.75%	1.87%	0.17%
10	1989	8.45%	9.77%	9.97%	1.32%	1.52%	9.26%	10.18%	0.81%	1.73%	-0.21%
11	1990	8.61%	9.86%	10.06%	1.25%	1.45%	9.32%	10.36%	0.71%	1.75%	-0.30%
12	1991	8.14%	9.36%	9.55%	1.22%	1.41%	8.77%	9.80%	0.63%	1.66%	-0.25%
13	1992	7.67%	8.69%	8.86%	1.02%	1.19%	8.14%	8.98%	0.47%	1.31%	-0.12%
14	1993	6.59%	7.59%	7.91%	1.00%	1.32%	7.22%	7.93%	0.63%	1.34%	-0.02%
15	1994	7.37%	8.31%	8.63%	0.94%	1.26%	7.96%	8.62%	0.59%	1.25%	0.01%
16	1995	6.88%	7.89%	8.29%	1.01%	1.41%	7.59%	8.20%	0.71%	1.32%	0.09%
17	1996	6.71%	7.75%	8.17%	1.04%	1.46%	7.37%	8.05%	0.66%	1.34%	0.12%
18	1997	6.61%	7.60%	7.95%	0.99%	1.34%	7.26%	7.86%	0.65%	1.25%	0.09%
19	1998	5.58%	7.04%	7.26%	1.46%	1.68%	6.53%	7.22%	0.95%	1.64%	0.04%
20	1999	5.87%	7.62%	7.88%	1.75%	2.01%	7.04%	7.87%	1.17%	2.00%	0.01%
21	2000	5.94%	8.24%	8.36%	2.30%	2.42%	7.62%	8.36%	1.68%	2.42%	0.00%
22	2001	5.49%	7.76%	8.03%	2.27%	2.54%	7.08%	7.95%	1.59%	2.46%	0.08%
23	2002	5.43%	7.37%	8.02%	1.94%	2.59%	6.49%	7.80%	1.06%	2.37%	0.22%
24	2003	4.96%	6.58%	6.84%	1.62%	1.89%	5.67%	6.77%	0.71%	1.81%	0.07%
25	2004	5.05%	6.16%	6.40%	1.11%	1.35%	5.63%	6.39%	0.58%	1.34%	0.00%
26	2005	4.85%	5.65%	5.93%	1.00%	1.28%	5.24%	6.06%	0.59%	1.41%	-0.14%
27	2006	4.91%	6.07%	6.32%	1.16%	1.41%	5.59%	6.48%	0.68%	1.57%	-0.16%
28	2007	4.84%	6.07%	6.33%	1.23%	1.49%	5.56%	6.48%	0.72%	1.64%	-0.15%
29	2008	4.28%	6.53%	7.25%	2.25%	2.97%	5.63%	7.45%	1.35%	3.17%	-0.20%
30	Sep 2009 ³	3.98%	6.17%	7.34%	2.18%	3.36%	5.35%	7.62%	1.37%	3.64%	-0.28%
31	Oct 2009	4.19%	5.54%	6.13%	1.35%	1.94%	5.15%	6.29%	0.96%	2.10%	-0.16%
32	Average	7.51%	9.12%	9.52%	1.61%	2.01%	8.35%	9.48%	0.84%	1.98%	0.03%

Yield Spreads
Treasury Vs. Corporate & Treasury Vs. Utility



Sources:

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

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

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

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Beta **(Integrated Electric Utilities)**

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

Source:

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

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Beta (S&P Electric Utilities)

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

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

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CAPM

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

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

Sources:

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

² Morningstar, Inc. *Ibbotson S&P 2009 Valuation Yearbook*, p. 69 and 56.

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

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S&P Credit Metrics

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

Sources:

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

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

Notes:

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

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

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

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S&P Credit Metrics Financial Capital Structure

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

Sources:

Schedule MGO-E1.

* Page 3.

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S&P Credit Metrics Operating Leases Adjustment

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

Total Company²

9	Operating Leases	\$ 284.7
10	Imputed Interest Expense	\$ 17.1
11	Imputed Amortization	\$ 23.4

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12	Imputed Debt	\$ 126.4
13	Imputed Interest Expense	\$ 7.6
14	Imputed Amortization	\$ 10.4

Sources:

¹ 2008 Ameren Corp. 10-K and MIEC 8-6.

² Standard & Poor's: Union Electric Co.,
February 27, 2009.