

**WEAVER PROXY GROUP SUBSIDIARY CAPITAL STRUCTURE**

December 31, 2004

<u>Company / Subsidiary</u>	<u>Dollars of Capital (\$ Millions)</u>				<u>Percent of Total Capital</u>		
	Long			Total	Long		
	Term	Preferred	Common	Capital	Term	Preferred	Common
	<u>Debt</u>	<u>Equity</u>	<u>Equity</u>		<u>Debt</u>	<u>Equity</u>	<u>Equity</u>
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
<u>Alliant Energy</u>							
Interstate Power	\$960	\$184	\$1,142	\$2,286	42.0 %	8.0 %	50.0 %
Wisconsin Power and Light	364	60	1,051	1,475	24.7	4.1	71.3
<u>CInergy</u>							
Cincinnati Gas & Electric	1,444	20	1,919	3,383	42.7	0.6	56.7
PSI Energy	1,824	42	1,681	3,547	51.4	1.2	47.4
Union Light, Heat and Power	94	0	193	287	32.8	0.0	67.2
<u>DTE Energy Company</u>							
Detroit Edison	2,945	0	2,979	5,924	49.7	0.0	50.3
Michigan Consolidated Gas	785	0	791	1,576	49.8	0.0	50.2
<u>FPL Group</u>							
Florida Power & Light	2,813	0	6,150	8,963	31.4	0.0	68.6
<u>MGE Energy</u>							
Madison Gas & Electric	202	0	288	490	41.2	0.0	58.8
<u>Progress Energy</u>							
Carolina Power & Light	2,750	59	3,072	5,881	46.8	1.0	52.2
Florida Power Corp.	1,912	34	2,321	4,267	44.8	0.8	54.4
<u>Southern Company</u>							
Alabama Power	4,165	465	3,610	8,240	50.5	5.6	43.8
Georgia Power	4,679	15	4,891	9,585	48.8	0.2	51.0
Gulf Power	623	4	592	1,219	51.1	0.3	48.6
Mississippi Power	279	33	546	858	32.5	3.8	63.6
Savannah Electric & Power	238	44	232	514	46.3	8.6	45.1
<u>WPS Resources</u>							
Wisconsin Public Service	508	51	900	1,459	34.8	3.5	61.7
Average					42.4 %	2.2 %	55.3 %

Source: Derived from data in Company 10-K and annual reports.

**BAUDINO PROXY GROUP CAPITAL STRUCTURE**  
**Per Value Line**

Company	2005			2006			2008-2010		
	Long-Term Debt Ratio	Preferred Equity Ratio	Common Equity Ratio	Long-Term Debt Ratio	Preferred Equity Ratio	Common Equity Ratio	Long-Term Debt Ratio	Preferred Equity Ratio	Common Equity Ratio
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
CH Energy Group	40.0 %	2.5 %	57.5 %	37.0 %	2.5 %	60.5 %	39.5 %	2.5 %	58.0 %
Cleco	47.5	2.5	50.0	34.0	3.0	63.0	51.5	2.0	46.5
Con Edison	48.0	1.5	50.5	47.0	1.5	51.5	47.5	1.0	51.5
Empire District El.	51.5	0.0	48.5	50.5	0.0	49.5	47.5	0.0	52.5
Entergy	43.5	2.5	54.0	43.5	2.0	54.5	41.5	2.0	56.5
Northeast Utilities	65.0	1.5	33.5	65.0	1.5	33.5	64.5	1.5	34.0
NSTAR	56.5	1.0	42.5	53.0	1.5	45.5	45.5	1.0	53.5
PPL Corp.	61.0	0.0	39.0	58.5	0.5	41.0	53.0	0.0	47.0
Progress Energy	53.5	0.5	46.0	52.5	0.5	47.0	50.0	0.5	49.5
Southern Company	52.5	2.5	45.0	52.0	2.0	46.0	49.0	1.5	49.5
Wisconsin Energy	48.0	0.5	51.5	51.5	0.5	48.0	48.0	0.5	51.5
Average	51.5 %	1.4 %	47.1 %	49.5 %	1.4 %	49.1 %	48.9 %	1.1 %	50.0 %

Note: Value Line does not report preferred equity ratios. The preferred equity ratios shown above were derived by subtracting the debt and common equity ratios from 100 percent.

Source: *The Value Line Investment Survey, 3/4/05 and 4/1/05.*

**WEAVER PROXY GROUP CAPITAL STRUCTURE**  
**Per Value Line**

Company	2005			2006			2008-2010		
	Long-	Preferred	Common	Long-	Preferred	Common	Long-	Preferred	Common
	Term	Equity	Equity	Term	Equity	Equity	Term	Equity	Equity
	Debt	Ratio	Ratio	Debt	Ratio	Ratio	Debt	Ratio	Ratio
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Alliant Energy	42.5 %	4.5 %	53.0 %	42.5 %	4.5 %	53.0 %	40.5 %	4.5 %	55.0 %
Cinergy	48.0	0.5	51.5	47.5	0.5	52.0	46.5	0.5	53.0
DTE Energy	54.0	0.0	46.0	53.0	0.0	47.0	49.5	0.0	50.5
FPL Group	48.0	0.0	52.0	47.5	0.0	52.5	45.5	0.0	54.5
MGE Energy	37.0	0.0	63.0	37.0	0.0	63.0	35.0	0.0	65.0
Progress Energy	53.5	0.5	46.0	52.5	0.5	47.0	50.0	0.5	49.5
Southern Company	52.5	2.5	45.0	52.0	2.0	46.0	49.0	1.5	49.5
WPS Resources	44.5	2.0	53.5	42.5	2.5	55.0	42.5	2.0	55.5
Average	47.5 %	1.3 %	51.3 %	46.8 %	1.3 %	51.9 %	44.8 %	1.1 %	54.1 %

Note: Value Line does not report preferred equity ratios. The preferred equity ratios shown above were derived by subtracting the debt and common equity ratios from 100 percent.

Source: *The Value Line Investment Survey, 3/4/05 and 4/1/05.*

**LOUISVILLE GAS AND ELECTRIC COMPANY  
KENTUCKY UTILITIES COMPANY  
CASE NOS. 2004-00421 and 2004-00426**

**WORKPAPERS**

**OF**

**ROBERT G. ROSENBERG  
Edgewood Consulting, Inc.**

### INTEREST RATES

	Treasury Bond Yields			Moody's Bond Yields			
	10-Year (1)	20-Year (2)	Long- Term* (3)	Aa (4)	A (5)	Baa (6)	Public Utility (7)
2004 September	4.13	4.89	4.98	5.79	5.98	6.27	6.01
October	4.10	4.85	4.94	5.74	5.94	6.17	5.95
November	4.19	4.89	4.95	5.79	5.97	6.16	5.97
December	4.23	4.88	4.91	5.78	5.92	6.10	5.93
2005 January	4.22	4.77	4.77	5.68	5.78	5.95	5.80
February	4.17	4.61	4.56	5.55	5.61	5.76	5.64
March	4.50	4.89	4.77	5.76	5.83	6.01	5.86
Average, 6 months ending:							
February 2005	4.17	4.82	4.85	5.72	5.87	6.07	5.88
March 2005	4.24	4.82	4.82	5.72	5.84	6.03	5.86

\* The *Federal Reserve Statistical Release* reported the yield on long-term Treasury bond yields (with at least 25 years or more remaining until maturity) through May 2004. From June 2004 onward, the long-term yield reflects an estimate of the yield on a 30-year Treasury bond based on Treasury Department extrapolation from a 20-year Treasury bond.

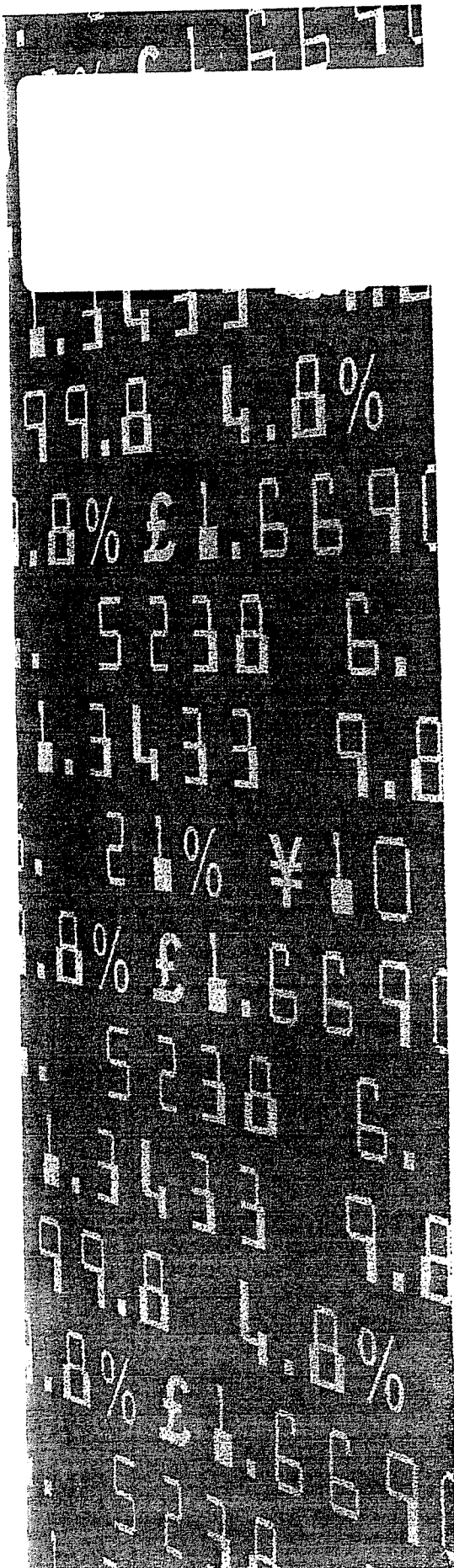
Source: Federal Reserve Statistical Release; Federal Reserve website; Mergent (formerly Moody's) Bond Record; and Moody's website.

# BLUE CHIP FINANCIAL FORECASTS

Top Analysts' Forecasts Of  
U.S. And Foreign Interest Rates,  
Currency Values And The  
Factors That Influence Them.

Vol. 23, No. 12  
December 1, 2004

**ASPEN**  
PUBLISHERS



## Consensus Forecasts Of U.S. Interest Rates And Key Assumptions<sup>1</sup>

Interest Rates	History								Consensus Forecasts-Quarterly Avg.						
	Average For Week Ending				Average For Month				Latest Q	4Q	1Q	2Q	3Q	4Q	1Q
	Nov.19	Nov.12	Nov.5	Oct.29	Oct	Sep.	Aug.	3Q 2004	2004	2005	2005	2005	2005	2005	2006
Federal Funds Rate	2.00	1.79	1.78	1.74	1.76	1.61	1.43	1.43	2.0	2.4	2.7	3.1	3.4	3.7	
Prime Rate	5.00	4.79	4.75	4.75	4.75	4.75	4.42	4.47	5.0	5.4	5.7	6.1	6.4	6.7	
LIBOR, 3-mo.	2.32	2.28	2.20	2.14	2.08	1.89	1.73	1.74	2.2	2.6	3.0	3.3	3.7	3.9	
Commercial Paper, 1-mo.	2.02	2.00	1.92	1.85	1.79	1.67	1.48	1.48	2.0	2.5	2.8	3.2	3.5	3.8	
Treasury bill, 3-mo.	2.13	2.08	1.99	1.91	1.79	1.68	1.50	1.51	2.1	2.4	2.8	3.1	3.4	3.7	
Treasury bill, 6-mo.	2.35	2.30	2.21	2.12	2.05	1.91	1.76	1.79	2.3	2.7	3.0	3.3	3.6	3.8	
Treasury bill, 1 yr.	2.53	2.47	2.35	2.27	2.23	2.12	2.02	2.08	2.5	2.9	3.2	3.6	3.8	4.0	
Treasury note, 2 yr.	2.89	2.82	2.65	2.57	2.58	2.53	2.51	2.56	2.8	3.2	3.5	3.8	4.1	4.3	
Treasury note, 5 yr.	3.52	3.53	3.39	3.30	3.35	3.36	3.47	3.51	3.6	3.9	4.2	4.4	4.6	4.8	
Treasury note, 10 yr.	4.17	4.22	4.12	4.05	4.10	4.13	4.28	4.30	4.2	4.5	4.8	5.0	5.1	5.2	
Treasury note, 20 yr.	4.88	4.95	4.85	4.79	4.85	4.89	5.07	5.07	4.9	5.2	5.4	5.5	5.7	5.8	
Corporate Aaa bond	5.48	5.59	5.50	5.42	5.47	5.46	5.65	5.64	5.6	5.8	6.0	6.2	6.4	6.5	
Corporate Baa bond	6.18	6.25	6.19	6.15	6.21	6.27	6.46	6.45	6.3	6.6	6.8	6.9	7.1	7.2	
State & Local bonds	4.52	4.58	4.45	4.44	4.49	4.56	4.70	4.71	4.6	4.8	4.9	5.1	5.2	5.2	
Home mortgage rate	5.74	5.76	5.70	5.64	5.72	5.76	5.87	5.90	5.8	6.0	6.3	6.4	6.6	6.7	

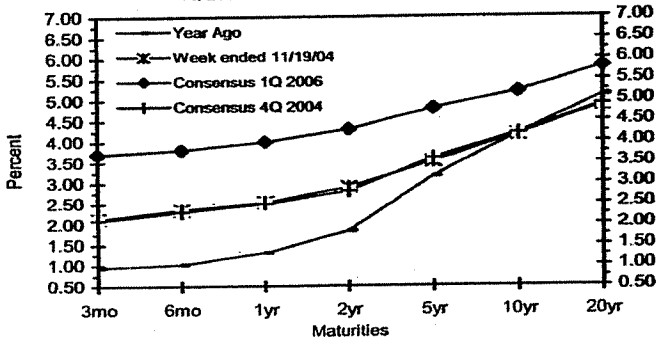
  

Key Assumptions	History								Consensus Forecasts-Quarterly Avg.					
	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q
	2002	2003	2003	2003	2003	2004	2004	2004	2004	2005	2005	2005	2005	2006
Major Currency Index	100.0	95.1	90.8	90.7	87.8	85.3	88.0	86.5	82.4	81.0	80.3	80.1	81.0	81.3
Real GDP	0.7	1.9	4.1	7.4	4.2	4.5	3.3	3.7	3.7	3.3	3.6	3.6	3.5	3.3
GDP Price Index	2.0	2.7	1.1	1.4	1.6	2.8	3.2	1.3	2.1	2.1	2.0	2.1	2.1	2.2
Consumer Price Index	2.0	3.8	0.7	2.4	0.7	3.5	4.8	1.9	2.9	2.3	2.3	2.4	2.4	2.5

<sup>1</sup>Individual panel members' forecasts are on pages 4 through 9. Historical data for interest rates except LIBOR is from Federal Reserve Release (FRSR) H.15. LIBOR quotes available from *The Wall Street Journal*. Definitions reported here are same as those in FRSR H.15. Treasury yields are reported on a constant maturity basis. Historical data for the U.S. Federal Reserve Board's Major Currency Index is from FRSR H.10 and G.S. Historical data for Real GDP and GDP Chained Price Index are from the Bureau of Economic Analysis (BEA). Consumer Price Index (CPI) history is from the Department of Labor's Bureau of Labor Statistics (BLS).

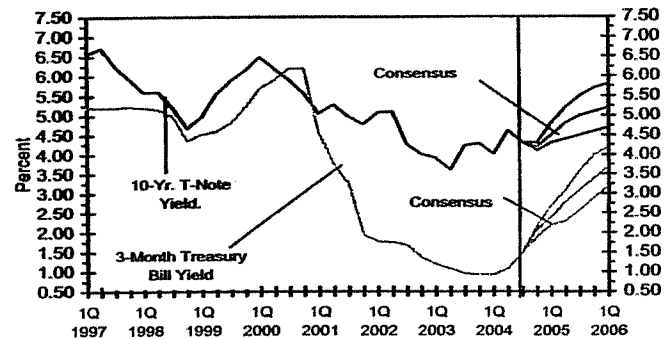
### U.S. Treasury Yield Curve

Week ended November 19, 2004 and Year Ago vs. 4Q 2004 and 1Q 2006 Consensus forecasts



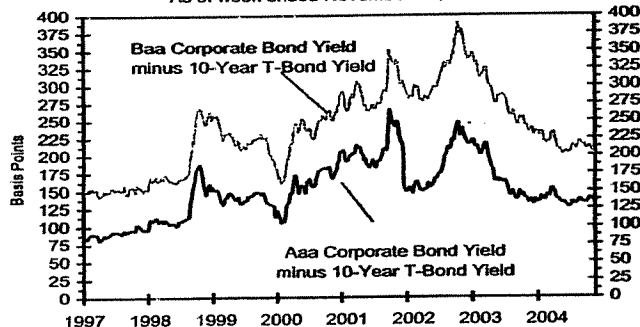
### U.S. 3-Mo. T-Bills & 10-Yr. T-Note Yield

(Quarterly Average) History Forecast



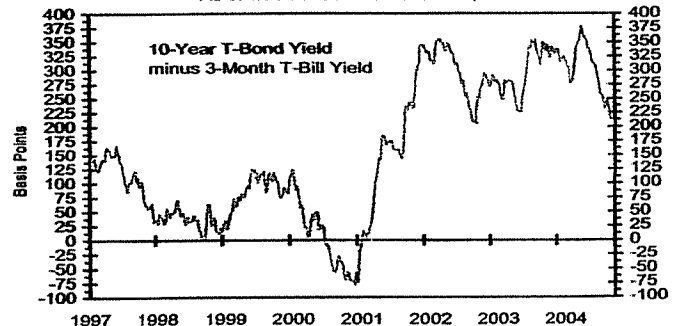
### Corporate Bond Spreads

As of week ended November 19, 2004



### U.S. Treasury Yield Curve

As of week ended November 19, 2004



## Long Range Forecasts:

I. The table below contains results of our twice-annual LONG-RANGE CONSENSUS survey. There are also Top 10 and Bottom 10 averages for each variable. Shown are estimates for the years 2006 through 2010 and averages for the five-year periods 2006-2010 and 2011-2015. Apply these projections cautiously. Few economic, demographic and political forces can be evaluated accurately over such time spans.

		Average For The Year					Five-Year Averages	
		2006	2007	2008	2009	2010	2006-10	2011-15
<b>Interest Rates</b>								
1. Federal Funds Rate	CONSENSUS	4.0	4.3	4.4	4.4	4.3	4.3	4.2
	Top 10 Average	4.6	5.1	5.5	5.3	5.2	5.1	5.1
	Bottom 10 Average	3.5	3.6	3.7	3.6	3.5	3.6	3.5
2. Prime Rate	CONSENSUS	7.0	7.3	7.4	7.4	7.3	7.3	7.3
	Top 10 Average	7.6	8.1	8.5	8.3	8.2	8.1	8.1
	Bottom 10 Average	6.5	6.6	6.7	6.6	6.5	6.6	6.5
3. LIBOR, 3-Mo.	CONSENSUS	4.3	4.6	4.7	4.6	4.6	4.5	4.5
	Top 10 Average	4.9	5.4	5.7	5.5	5.4	5.4	5.4
	Bottom 10 Average	3.8	3.9	3.9	3.9	3.8	3.9	3.8
4. Commercial Paper, 1-Mo.	CONSENSUS	4.2	4.5	4.6	4.5	4.5	4.5	4.4
	Top 10 Average	4.7	5.2	5.5	5.3	5.3	5.2	5.2
	Bottom 10 Average	3.7	3.8	3.9	3.8	3.7	3.8	3.7
5. Treasury Bill Yield, 3-Mo.	CONSENSUS	4.0	4.3	4.4	4.4	4.3	4.3	4.2
	Top 10 Average	4.8	5.2	5.4	5.3	5.1	5.2	5.1
	Bottom 10 Average	3.4	3.5	3.6	3.6	3.4	3.5	3.5
6. Treasury Bill Yield, 6-Mo.	CONSENSUS	4.2	4.5	4.6	4.5	4.5	4.5	4.5
	Top 10 Average	4.9	5.4	5.6	5.4	5.3	5.3	5.3
	Bottom 10 Average	3.7	3.7	3.8	3.8	3.7	3.7	3.8
7. Treasury Bill Yield, 1-Yr.	CONSENSUS	4.4	4.7	4.8	4.7	4.7	4.7	4.6
	Top 10 Average	5.0	5.6	5.8	5.6	5.5	5.5	5.4
	Bottom 10 Average	3.9	3.9	4.0	4.0	3.9	3.9	4.0
8. Treasury Note Yield, 2-Yr.	CONSENSUS	4.7	5.0	5.0	4.9	4.9	4.9	4.9
	Top 10 Average	5.4	5.9	4.7	5.7	5.7	5.5	5.6
	Bottom 10 Average	4.1	4.2	4.2	4.2	4.2	4.2	4.2
10. Treasury Note Yield, 5-Yr.	CONSENSUS	5.1	5.4	5.5	5.4	5.5	5.4	5.4
	Top 10 Average	5.9	6.5	6.7	6.3	6.5	6.4	6.2
	Bottom 10 Average	4.5	4.6	4.6	4.6	4.6	4.6	4.6
11. Treasury Note Yield, 10-Yr.	CONSENSUS	5.5	5.8	5.8	5.7	5.7	5.7	5.7
	Top 10 Average	6.4	7.0	7.1	6.6	6.6	6.7	6.6
	Bottom 10 Average	4.9	4.9	4.9	4.9	4.9	4.9	4.9
12. Treasury Note Yield, 20-Yr.	CONSENSUS	6.0	6.3	6.3	6.2	6.1	6.2	6.2
	Top 10 Average	7.0	7.4	7.5	7.1	7.1	7.2	7.2
	Bottom 10 Average	5.3	5.3	5.3	5.3	5.3	5.3	5.3
13. Corporate Aaa Bond Yield	CONSENSUS	6.8	7.0	7.1	7.0	7.0	7.0	7.0
	Top 10 Average	7.7	8.3	8.4	8.0	7.9	8.0	7.9
	Bottom 10 Average	6.2	6.2	6.3	6.3	6.3	6.3	6.3
13. Corporate Baa Bond Yield	CONSENSUS	7.5	7.7	7.8	7.7	7.7	7.7	7.6
	Top 10 Average	8.3	8.9	9.0	8.6	8.7	8.7	8.5
	Bottom 10 Average	6.9	6.9	7.0	7.0	6.9	7.0	7.0
14. State & Local Bonds Yield	CONSENSUS	5.6	5.8	5.8	5.7	5.7	5.7	5.7
	Top 10 Average	6.4	6.6	6.6	6.4	6.5	6.5	6.5
	Bottom 10 Average	5.1	5.2	5.2	5.2	5.1	5.1	5.1
15. Home Mortgage Rate	CONSENSUS	7.0	7.2	7.3	7.2	7.1	7.1	7.1
	Top 10 Average	7.9	8.5	8.6	8.1	8.1	8.2	8.1
	Bottom 10 Average	6.2	6.2	6.2	6.2	6.2	6.2	6.2
A. FRB - Major Currency Index	CONSENSUS	81.5	82.2	83.3	84.1	84.7	83.2	85.0
	Top 10 Average	88.3	91.9	94.6	96.5	97.7	93.8	97.4
	Bottom 10 Average	76.1	73.7	74.0	74.6	74.7	74.6	74.6
		Year-Over-Year, % Change					Five-Year Averages	
		2005	2006	2007	2008	2009	2005-09	2010-14
B. Real GDP	CONSENSUS	3.5	3.4	3.3	3.1	3.1	3.3	3.2
	Top 10 Average	3.9	3.8	3.8	3.8	3.8	3.8	3.6
	Bottom 10 Average	3.1	2.9	2.7	2.2	2.3	2.6	2.8
C. GDP Chained Price Index	CONSENSUS	2.2	2.3	2.3	2.2	2.2	2.3	2.2
	Top 10 Average	2.9	3.0	3.2	2.9	2.9	3.0	2.7
	Bottom 10 Average	1.8	1.9	1.9	1.8	1.8	1.8	1.8
D. Consumer Price Index	CONSENSUS	2.6	2.6	2.7	2.5	2.6	2.6	2.5
	Top 10 Average	3.2	3.2	3.5	3.2	3.3	3.2	3.1
	Bottom 10 Average	2.1	2.2	2.1	2.1	2.1	2.1	2.1



# Fed Lifts Rates, Warns on Inflation

## First Concerns About Prices In 4 Years Could Presage End of 'Measured' Boosts

By GREG IP

WASHINGTON—The Federal Reserve nudged interest rates higher, as expected, but signaled for the first time in more than four years that it is concerned with inflation.

The shift in tone raises the prospect that the Fed could accelerate the pace of rate increases, though not just yet. It raised its target for the federal-funds rate, charged on overnight loans between banks, to 2.75% from 2.5%, its seventh quarter-point increase since June. It also repeated, as it has since last May, that it expects to raise rates at a "measured" pace, which markets have taken to mean a quarter of a percentage point per meeting.

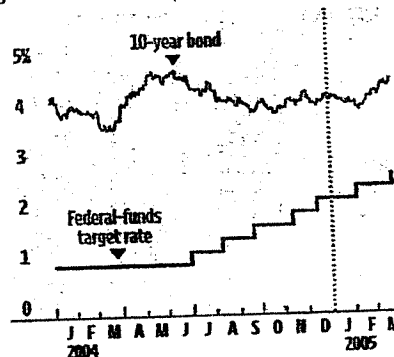
But it said: "Though longer-term inflation expectations remain well contained, pressures on inflation have picked up in recent months and pricing power is more evident."

It also said that "upside and downside risks" to growth and inflation would be kept "roughly equal" only "with appropriate monetary policy action." That qualifier has been absent from prior statements.

By retaining "measured," the Fed signaled "the most likely scenario is a quarter point per meeting for a number of

### Fed Jolt

Federal-funds target interest rate and the yield on the 10-year bond



Source: WSJ Market Data Group

meetings," said Richard Clarida, economic strategist at Clinton Group, a New York hedge fund. But "they won't be bound to that" if economic data call for bigger moves.

Laurence Meyer, a former Fed governor who now is an analyst at Macroeconomic Advisers, said the Fed thinks it will raise rates further than it thought just a few months ago.

Futures markets now see a 50% probability of a half-point increase at one of the Fed's next two meetings, and that the rate will top 4% by year end. Those prospects drove the yield on the 10-year Treasury bond up to 4.61% yesterday,

the highest in eight months, from 4.51%.

The Fed raised the little-used discount rate, charged on short-term Fed loans to commercial banks, to 3.75% from 3.5%, acting on requests from 10 of the Fed's 12 regional reserve banks. It was unclear why the Kansas City and Dallas banks didn't ask for the quarter-point increase. Their boards may have asked for a larger one.

Yesterday's statement was the first since November 2000 in which the Fed has explicitly acknowledged growing inflation risks. From 2001 to 2003, the Fed was preoccupied with either weak economic growth or the risk of outright deflation. For the past year, however, Fed officials believe the U.S. has been at "price stability"—a zone where inflation, at about 1.5% by their preferred measure, doesn't figure significantly in companies' or households' decisions.

Several factors have since sounded inflation alarm bells.

First, the economic expansion is steadily eating through the unused capacity left over from the 2001 recession. Yesterday, the Fed described growth as "solid," instead of "moderate," as it said in February.

Second, the weaker dollar and higher commodity and energy prices are being felt. Yesterday, the Labor Department said producer prices rose 0.4% in February from January, mostly because of sharply higher energy costs. Excluding food and energy, "core" prices rose a more-subdued 0.1%. But excluding a big

Please Turn to Page A4, Column 6

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The Wall Street Journal

3/23/05 p. 2 of 2

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## *Fed Lifts Rates Again, Warns About Inflation*

*Continued From Page A3*  
decline in new-vehicle prices, core prices rose 0.4% and are up 2.8% from a year ago—a stark turnaround from outright declines two years ago.

Third, after a decade of acceleration, productivity growth slowed sharply late last year. It appears to have rebounded in the current quarter, but remains below the heady growth rates of 2003 and early 2004. Productivity—that is, output per worker—determines how costly it is for companies to boost sales.

Some Wall Street analysts thought the Fed would scrap “measured” to give itself more rate flexibility, which some Fed officials also want. Keeping it “softens” the Fed’s message, Mr. Meyer said, but it now is clearly subordinate to “the true commitment...to price stability.”

Mr. Clarida said the Fed might indeed have scrapped “measured” if bond yields had remained as low as they were two months ago. But they shot up after Mr. Greenspan called the low level of yields a “conundrum.” Mr. Clarida says that means the bond market is doing more of the Fed’s work for it, so the Fed for now can stick with “measured” rate changes.

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Regulatory Study  
January 14, 2005

## MAJOR RATE CASE DECISIONS—JANUARY 2003-DECEMBER 2004 SUPPLEMENTAL STUDY

In conjunction with the preparation of the Regulatory Study entitled *Major Rate Case Decisions--January 1990-December 2004*, which will be distributed in the next few weeks, RRA has prepared chronological listings of all cases in that study for the years 2003 and 2004, by type of utility service. These listings, with key data concerning each case, appear on pages 7 through 12 of this Supplemental Study. Tables summarizing cases decided in the last 11 years appear on pages 2 and 3, and graphs summarizing the authorized equity returns in the last 14 years appear on pages 4 through 6. The average equity return authorized electric utilities in 2004 approximated 10.7%, down slightly from 11% in 2003. There were 19 electric equity return determinations in 2004 and 22 in 2003. The average return on equity (ROE) authorized gas utilities approximated 10.6% in 2004, down from 11% in 2003. There were 20 gas cases that included an ROE determination in 2004 and 25 in 2003. For the telecommunications industry, there was one ROE determination (10%) in 2004 and none in 2003.

Over the last several years there have been fewer equity return determinations relative to the 1980's and early 1990's. The reasons for this phenomenon include: industry restructuring/intensifying competition; more efficient utility operations; technological improvements; relatively low inflation and interest rates; accelerated depreciation/amortization programs; the increased utilization of settlements that do not specify return parameters; and, the growing use of performance or price-based regulation. As the number of equity return determinations has declined, the average authorized ROE has less of a relationship to the return that the typical electric, gas, or telecommunications company has an opportunity to earn from regulated operations. In addition, electric industry restructuring in many states has led to the unbundling of rates, with commissions authorizing revenue requirement and return parameters for transmission and/or distribution operations only (which we footnote in our chronology table), thus further complicating data comparability.

The individual electric, gas, and telecommunications cases listed on pages 7 through 12 are presented with the decision date shown first, followed by the company name, the abbreviation of the state issuing the decision, the authorized rate of return (ROR) and ROE, and the common equity component in the adopted capital structure. If the capital structure contained cost-free capital or investment tax credit balances at the overall rate of return, an asterisk (\*) follows the number in this column. Next we show the month and year in which the adopted test year ended, whether the commission utilized an average or a year-end rate base, and the amount of the permanent rate change authorized. The dollar amount represents the permanent rate change ordered at the time a decision was issued. In a few cases, an interim rate change was previously ordered. Fuel adjustment clause rate changes are not reflected in this study.

(Text continued on page 6)

2.

RRA

Average Equity Returns Authorized January 1994 - December 2004

(Return Percent - No. of Observations)

	Period	Electric Utilities	Gas Utilities	Telephone Utilities
1994	Full Year	11.34 (31)	11.35 (28)	11.81 (11)
1995	Full Year	11.55 (33)	11.43 (16)	12.08 (8)
1996	Full Year	11.39 (22)	11.19 (20)	11.74 (4)
1997	Full Year	11.40 (11)	11.29 (13)	11.56 (5)
1998	1st Quarter	11.31 (4)	— (0)	11.30 (1)
	2nd Quarter	12.20 (1)	11.37 (3)	— (0)
	3rd Quarter	11.80 (2)	11.41 (3)	— (0)
	4th Quarter	11.83 (3)	11.69 (4)	— (0)
1998	Full Year	11.66 (10)	11.51 (10)	11.30 (1)
1999	1st Quarter	10.58 (4)	10.82 (3)	13.00 (1)
	2nd Quarter	10.94 (4)	10.82 (3)	— (0)
	3rd Quarter	10.63 (8)	— (0)	— (0)
	4th Quarter	11.08 (4)	10.33 (3)	— (0)
1999	Full Year	10.77 (20)	10.66 (9)	13.00 (1)
2000	1st Quarter	11.06 (5)	10.71 (1)	11.50 (1)
	2nd Quarter	11.11 (2)	11.08 (4)	— (0)
	3rd Quarter	11.68 (2)	11.33 (5)	11.25 (1)
	4th Quarter	12.08 (3)	12.50 (2)	— (0)
2000	Full Year	11.43 (12)	11.39 (12)	11.38 (2)
2001	1st Quarter	11.38 (2)	11.16 (4)	— (0)
	2nd Quarter	10.88 (2)	10.75 (1)	— (0)
	3rd Quarter	10.78 (8)	— (0)	— (0)
	4th Quarter	11.50 (6)	10.65 (2)	— (0)
2001	Full Year	11.09 (18)	10.95 (7)	— (0)
2002	1st Quarter	10.87 (5)	10.67 (3)	— (0)
	2nd Quarter	11.41 (6)	11.64 (4)	— (0)
	3rd Quarter	11.06 (4)	11.50 (3)	— (0)
	4th Quarter	11.20 (7)	10.78 (11)	— (0)
2002	Full Year	11.16 (22)	11.03 (21)	— (0)
2003	1st Quarter	11.47 (7)	11.38 (5)	— (0)
	2nd Quarter	11.16 (4)	11.36 (4)	— (0)
	3rd Quarter	9.95 (5)	10.61 (5)	— (0)
	4th Quarter	11.09 (6)	10.84 (11)	— (0)
2003	Full Year	10.97 (22)	10.99 (25)	— (0)
2004	1st Quarter	11.00 (3)	11.10 (4)	10.00 (1)
	2nd Quarter	10.50 (6)	10.25 (2)	— (0)
	3rd Quarter	10.33 (2)	10.37 (8)	— (0)
	4th Quarter	10.91 (8)	10.66 (6)	— (0)
2004	Full Year	10.73 (19)	10.59 (20)	10.00 (1)

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3.

**Electric Utilities—Summary Table\***

	Period	ROR %	ROE %	Eq. as % Cap. Struc.	Amt. \$ Mil.
1994	Full Year	9.29 (30)	11.34 (31)	45.15 (30)	1,116.9 (40)
1995	Full Year	9.44 (30)	11.55 (33)	45.90 (30)	455.7 (43)
1996	Full Year	9.21 (20)	11.39 (22)	44.34 (20)	-5.6 (38)
1997	Full Year	9.16 (12)	11.40 (11)	48.79 (11)	-553.3 (33)
1998	Full Year	9.44 (9)	11.66 (10)	46.14 (8)	-429.3 (31)
1999	Full Year	8.81 (18)	10.77 (20)	45.08 (17)	-1,683.8 (30)
2000	Full Year	9.20 (12)	11.43 (12)	48.85 (12)	-291.4 (34)
2001	Full Year	8.93 (15)	11.09 (18)	47.20 (13)	14.2 (21)
2002	Full Year	8.72 (20)	11.16 (22)	46.27 (19)	-475.4 (24)
2003	1st Quarter	9.07 (6)	11.47 (7)	49.94 (5)	48.2 (7)
	2nd Quarter	9.07 (4)	11.16 (4)	49.46 (4)	116.2 (5)
	3rd Quarter	8.22 (5)	9.95 (5)	46.09 (5)	-81.0 (5)
	4th Quarter	9.07 (5)	11.09 (6)	52.17 (5)	210.4 (5)
2003	Full Year	8.66 (20)	10.97 (22)	49.41 (19)	313.8 (22)
2004	1st Quarter	8.94 (3)	11.00 (3)	44.94 (3)	-716.4 (4)
	2nd Quarter	7.88 (6)	10.50 (6)	45.59 (6)	641.4 (11)
	3rd Quarter	9.01 (2)	10.33 (2)	45.05 (2)	119.4 (4)
	4th Quarter	8.55 (7)	10.91 (8)	49.64 (6)	1,047.8 (11)
2004	Full Year	8.44 (18)	10.73 (19)	46.84 (17)	1,092.2 (30)

**Gas Utilities—Summary Table\***

1994	Full Year	9.51 (32)	11.35 (28)	48.12 (27)	422.9 (42)
1995	Full Year	9.64 (16)	11.43 (16)	49.98 (15)	-61.5 (31)
1996	Full Year	9.25 (23)	11.19 (20)	47.69 (19)	193.4 (34)
1997	Full Year	9.13 (13)	11.29 (13)	47.78 (11)	-82.5 (21)
1998	Full Year	9.46 (10)	11.51 (10)	49.50 (10)	93.9 (20)
1999	Full Year	8.86 (9)	10.66 (9)	49.06 (9)	51.0 (14)
2000	Full Year	9.33 (13)	11.39 (12)	48.59 (12)	135.9 (20)
2001	Full Year	8.51 (6)	10.95 (7)	43.96 (5)	114.0 (11)
2002	Full Year	8.80 (20)	11.03 (21)	48.29 (18)	303.6 (26)
2003	1st Quarter	8.97 (4)	11.38 (5)	50.69 (4)	35.9 (6)
	2nd Quarter	9.09 (3)	11.36 (4)	50.32 (3)	14.2 (5)
	3rd Quarter	8.54 (4)	10.61 (5)	45.74 (4)	89.5 (6)
	4th Quarter	8.64 (11)	10.84 (11)	51.06 (11)	120.5 (13)
2003	Full Year	8.75 (22)	10.99 (25)	49.93 (22)	260.1 (30)
2004	1st Quarter	8.52 (4)	11.10 (4)	45.61 (4)	58.3 (6)
	2nd Quarter	8.21 (3)	10.25 (2)	46.90 (2)	121.7 (9)
	3rd Quarter	8.27 (8)	10.37 (8)	42.92 (8)	113.4 (8)
	4th Quarter	8.40 (6)	10.66 (6)	49.72 (6)	12.1 (8)
2004	Full Year	8.34 (21)	10.59 (20)	45.90 (20)	303.5 (31)

**Telephone Utilities—Summary Table\***

1994	Full Year	9.91 (12)	11.81 (11)	57.46 (11)	-236.6 (16)
1995	Full Year	9.81 (8)	12.08 (8)	55.02 (7)	-264.0 (14)
1996	Full Year	9.65 (2)	11.74 (4)	56.00 (2)	-348.2 (11)
1997	Full Year	9.57 (5)	11.56 (5)	55.84 (5)	-154.4 (7)
1998	Full Year	9.37 (1)	11.30 (1)	52.00 (1)	-323.3 (13)
1999	Full Year	11.34 (1)	13.00 (1)	66.90 (1)	-570.1 (19)
2000	Full Year	9.52 (2)	11.38 (2)	56.59 (2)	-390.4 (14)
2001	Full Year	9.61 (1)	— (0)	— (0)	-130.0 (8)
2002	Full Year	— (0)	— (0)	— (0)	7.7 (4)
2003	1st Quarter	— (0)	— (0)	— (0)	— (0)
	2nd Quarter	— (0)	— (0)	— (0)	-27.6 (1)
	3rd Quarter	— (0)	— (0)	— (0)	-35.0 (1)
	4th Quarter	— (0)	— (0)	— (0)	— (0)
2003	Full Year	— (0)	— (0)	— (0)	-62.6 (2)
2004	1st Quarter	8.02 (1)	10.00 (1)	44.18 (1)	3.1 (1)
	2nd Quarter	— (0)	— (0)	— (0)	— (0)
	3rd Quarter	— (0)	— (0)	— (0)	— (0)
	4th Quarter	— (0)	— (0)	— (0)	— (0)
2004	Full Year	8.02 (1)	10.00 (1)	44.18 (1)	3.1 (1)

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7.

**ELECTRIC UTILITY DECISIONS**

<b>Date</b>	<b>Company (State)</b>	<b>ROR %</b>	<b>ROE %</b>	<b>Common Eq. as % Cap. Str.</b>	<b>Test Year &amp; Rate Base</b>	<b>Amt. \$ Mil.</b>
1/8/03	Entergy Gulf States (LA)	---	11.10	---	---	-22.1 (B)
1/28/03	Public Service Co. of New Mexico (NM)	---	---	---	---	-35.2 (B,Z,1)
1/31/03	South Carolina Electric & Gas (SC)	9.94	12.45	52.18	3/02-YE	70.7
2/28/03	Madison Gas and Electric (WI)	9.71 (G)	12.30	55.42	12/03-A	20.3
3/6/03	PacifiCorp (WY)	8.45	10.75	45.70	9/01-YE	8.7
3/7/03	Rochester Gas & Electric (NY)	8.11	9.96	41.40	6/03-A	-15.6 (2)
3/20/03	Wisconsin Public Service (WI)	9.24 (G)	12.00	55.00	12/03-A	21.4
3/28/03	Commonwealth Edison (IL)	8.99	11.72	---	12/02-YE	---
						(I,B,3)
<b>2003</b>	<b>1ST QUARTER AVERAGES/TOTAL OBSERVATIONS</b>	<b>9.07</b> 6	<b>11.47</b> 7	<b>49.94</b> 5		<b>48.2</b> 7
4/3/03	Wisconsin Power & Light (WI)	9.04 (G)	12.00	51.72	12/03-A	77.1
4/15/03	Interstate Power & Light (IA)	9.08	11.15	47.20 (U)	12/01-A	25.8 (I,R)
5/15/03	Entergy New Orleans (LA)	---	---	---	---	18.4 (B)
6/25/03	Aquila (CO)	9.07	10.75	47.50	6/02-A	16.0 (B)
6/26/03	Public Service of Colorado (CO)	9.08	10.75	51.40	12/01-A	-21.1 (B)
<b>2003</b>	<b>2ND QUARTER AVERAGES/TOTAL OBSERVATIONS</b>	<b>9.07</b> 4	<b>11.16</b> 4	<b>49.46</b> 4		<b>116.2</b> 5
7/9/03	Public Service Electric & Gas (NJ)	8.18	9.75	41.45	12/02-YE	159.5 (B,Di)
7/16/03	Rockland Electric (NJ)	8.02	9.75	46.00	4/03-YE	-7.2 (Di)
8/1/03	Jersey Central Power & Light (NJ)	8.38	9.50	46.00	12/02-YE	-222.7 (Di)
8/26/03	PacifiCorp (OR)	8.28	10.50	46.00	3/04-A	8.5 (B)
9/3/03	Maine Public Service (ME)	8.25	10.25	51.00	12/02-A	0.9 (B,4)
<b>2003</b>	<b>3RD QUARTER AVERAGES/TOTAL OBSERVATIONS</b>	<b>8.22</b> 5	<b>9.95</b> 5	<b>46.09</b> 5		<b>-61.0</b> 5
12/17/03	Connecticut Light & Power (CT)	8.19	9.85	47.22	12/02-YE	70.5 (Z,TD)
12/17/03	PacifiCorp (UT)	8.43	10.70	47.04	3/03-A	65.0 (B)
12/18/03	Montana-Dakota Utilities (ND)	10.02	11.50	50.32	12/03-A	1.0 (B)
12/19/03	Wisconsin Power & Light (WI)	9.50 (G)	12.00	60.27	12/04-A	14.5
12/19/03	Wisconsin Public Service (WI)	9.20 (G)	12.00	56.00	12/04-A	59.4
12/22/03	Green Mountain Power (VT)	---	10.50	---	---	---
						(B,5)
<b>2003</b>	<b>4TH QUARTER AVERAGES/TOTAL OBSERVATIONS</b>	<b>9.07</b> 5	<b>11.09</b> 6	<b>52.17</b> 5		<b>210.4</b> 5
<b>2003</b>	<b>FULL-YEAR AVERAGES/TOTAL OBSERVATIONS</b>	<b>8.86</b> 20	<b>10.97</b> 22	<b>49.41</b> 19		<b>313.8</b> 22

8.

RRA

**ELECTRIC UTILITY DECISIONS (continued)**

<u>Date</u>	<u>Company (State)</u>	<u>ROR %</u>	<u>ROE %</u>	<u>Common Eq. as % Cap. Str.</u>	<u>Test Year &amp; Rate Base</u>	<u>Amt. \$ Mil.</u>
1/13/04	Madison Gas and Electric (WI)	9.37 (G)	12.00	55.91	12/04-A	11.7
2/26/04	Pacific Gas and Electric (CA)	—	—	—	—	-799.0 (B)
3/2/04	PacifiCorp (WY)	8.42	10.75	44.95	9/02-YE	22.9
3/26/04	Nevada Power (NV)	9.03	10.25	33.97	5/03-YE	48.0
<b>2004</b>	<b>1ST QUARTER AVERAGES/TOTAL OBSERVATIONS</b>	<b>8.94</b> 3	<b>11.00</b> 3	<b>44.94</b> 3		<b>-716.4</b> 4
4/5/04	Interstate Power and Light (MN)	9.05	11.00	47.15	12/02-A	0.2 (I)
4/13/04	Aquila-MPS (MO)	—	—	—	—	14.5 (B)
4/13/04	Aquila-L&P (MO)	—	—	—	—	3.3 (B)
5/5/04	Wisconsin Electric Power (WI)	—	—	—	12/04-A	59.0
5/18/04	PSI Energy (IN)	7.30	10.50	44.44 *	9/02-YE	107.3
5/20/04	Rochester Gas & Electric (NY)	—	—	—	4/05-A	7.4 (B,6)
5/25/04	Idaho Power (ID)	7.85	10.25	45.97	12/03-A	39.5 (R,B,Z)
5/27/04	Sierra Pacific Power (NV)	9.26	10.25	35.77	7/03-YE	46.7 (B)
6/2/04	Pacific Gas & Electric (CA)	—	—	—	12/03-A	274.0 (B)
6/30/04	Kentucky Utilities (KY)	7.00 (G)	10.50	51.58	9/03-YE	46.1 (B,7)
6/30/04	Louisville Gas and Electric (KY)	6.79 (G)	10.50	48.60	9/03-YE	43.4 (B,8)
<b>2004</b>	<b>2ND QUARTER AVERAGES/TOTAL OBSERVATIONS</b>	<b>7.88</b> 6	<b>10.50</b> 6	<b>45.59</b> 6		<b>641.4</b> 11
7/16/04	Southern California Edison (CA)	—	—	—	12/03-A	73.0
8/25/04	Aquila (CO)	8.76	10.25	47.50	8/03-A	8.2 (B)
9/2/04	Public Service New Hampshire (NH)	—	—	—	—	13.5 (B,Z,TD)
9/9/04	Avista Corp. (ID)	9.25	10.40	42.59	12/02-A	24.7
<b>2004</b>	<b>3RD QUARTER AVERAGES/TOTAL OBSERVATIONS</b>	<b>9.01</b> 2	<b>10.33</b> 2	<b>45.05</b> 2		<b>119.4</b> 4
10/27/04	PacifiCorp (WA)	8.39	—	—	—	15.0 (B)
11/9/04	Narragansett Electric (RI)	8.89 (E)	10.50	50.00	—	-10.2 (B,Di)
11/23/04	Cincinnati Gas & Electric (OH)	—	—	—	—	85.0 (R,Z)
11/23/04	Detroit Edison (MI)	7.24	11.00	38.08 *	12/02-A	373.7 (I)
12/8/04	San Diego Gas & Electric (CA)	—	—	—	12/04-A	-8.2 (B,Di)
12/14/04	Interstate Power & Light (IA)	8.83	10.97	47.89	12/03-A	106.7 (I,B)
12/21/04	Georgia Power (GA)	—	11.25	—	12/05-A	194.1 (B)
12/21/04	Wisconsin Public Service (WI)	8.89 (G)	11.50	57.35	12/05-A	61.0
12/22/04	PPL-Electric Utilities (PA)	8.43	10.70	46.87	12/04-YE	194.3 (TD)
12/22/04	Madison Gas and Electric (WI)	9.18 (G)	11.50	57.64	12/05-A	27.4
12/29/04	Western Massachusetts Electric (MA)	—	9.85	—	—	9.0 (B,Di,Z)
<b>2004</b>	<b>4TH QUARTER AVERAGES/TOTAL OBSERVATIONS</b>	<b>8.55</b> 7	<b>10.91</b> 8	<b>49.64</b> 6		<b>1047.8</b> 11
<b>2004</b>	<b>FULL-YEAR AVERAGES/TOTAL OBSERVATIONS</b>	<b>8.44</b> 18	<b>10.73</b> 19	<b>46.84</b> 17		<b>1092.2</b> 30

Regulatory Study  
April 6, 2005

### MAJOR RATE CASE DECISIONS—JANUARY-MARCH 2005

For the first three months of 2005, the average electric equity return authorization by state commissions was 10.44% (eight determinations), slightly lower than the 10.73% average in calendar-2004. The average gas equity return authorization for the first quarter of 2005 was 10.65% (two determinations), in line with the 10.59% average in calendar-2004. During the first quarter of 2005, there were no telecommunications equity return authorizations.

After hitting a low in the late-1990's and early-2000's, the number of equity return determinations for energy companies increased somewhat and stabilized beginning in 2002. Relatively low inflation and interest rates, competitive pressures, technological improvements, the use of settlements that do not specify return parameters, and a reduced number of companies due to mergers may continue to assert pressure that will prevent the number of determinations from increasing substantially. However, increased costs and the need for generation and delivery system infrastructure upgrades and expansion at many companies argue for at least a modest increase in the number of cases to be filed and decided over the next several years. We also note that electric industry restructuring in many states has led to the unbundling of rates, with state commissions authorizing revenue requirement and return parameters for transmission and/or distribution operations only (which we footnote in our chronology table), complicating data comparability. The tables included in this study are extensions of those contained in the January 14, 2005 Regulatory Study entitled *Major Rate Case Decisions--January 2003-December 2004--Supplemental Study*. Refer to that report for information concerning individual rate case decisions that were rendered in 2003 and 2004.

The table on page 2 shows annual average equity returns authorized since 1995, and by quarter since 1999, in major electric, gas, and telecommunications rate decisions, followed by the number of determinations during each period. The tables on page 3 present the composite industry data for items in the chronology of this and earlier reports, summarized annually since 1995, and quarterly for the most recent nine quarters. The individual electric, gas, and telecommunications cases decided in the first three months of 2005 are listed on page 4, with the decision date shown first, followed by the company name, the abbreviation for the state issuing the decision, the authorized rate of return (ROR), return on equity (ROE), and percentage of common equity in the adopted capital structure. Next we show the month and year in which the adopted test year ended, whether the commission utilized an average or a year-end rate base, and the amount of the permanent rate change authorized. The dollar amounts represent the permanent rate change ordered at the time decisions were rendered. A case is generally considered "major" if the rate change initially requested was \$5 million or greater, or the authorized rate change was at least \$3 million. Gas rate requests that are considered in conjunction with major electric requests are recorded and reported as individual cases, regardless of size. Fuel adjustment clause rate changes are not reflected in this study.



RRA

2.

**Average Equity Returns Authorized January 1995 - March 2005**

(Return Percent - No. of Observations)

	Period	Electric Utilities	Gas Utilities	Telephone Utilities
1995	Full Year	11.55 (33)	11.43 (16)	12.08 (8)
1996	Full Year	11.39 (22)	11.19 (20)	11.74 (4)
1997	Full Year	11.40 (11)	11.29 (13)	11.56 (5)
1998	Full Year	11.66 (10)	11.51 (10)	11.30 (1)
1999	1st Quarter	10.58 (4)	10.82 (3)	13.00 (1)
	2nd Quarter	10.94 (4)	10.82 (3)	— (0)
	3rd Quarter	10.63 (8)	— (0)	— (0)
	4th Quarter	11.08 (4)	10.33 (3)	— (0)
1999	Full Year	10.77 (20)	10.66 (9)	13.00 (1)
2000	1st Quarter	11.06 (5)	10.71 (1)	11.50 (1)
	2nd Quarter	11.11 (2)	11.08 (4)	— (0)
	3rd Quarter	11.68 (2)	11.33 (5)	11.25 (1)
	4th Quarter	12.08 (3)	12.50 (2)	— (0)
2000	Full Year	11.43 (12)	11.39 (12)	11.38 (2)
2001	1st Quarter	11.38 (2)	11.16 (4)	— (0)
	2nd Quarter	10.88 (2)	10.75 (1)	— (0)
	3rd Quarter	10.78 (8)	— (0)	— (0)
	4th Quarter	11.50 (6)	10.65 (2)	— (0)
2001	Full Year	11.09 (18)	10.95 (7)	— (0)
2002	1st Quarter	10.87 (5)	10.67 (3)	— (0)
	2nd Quarter	11.41 (6)	11.64 (4)	— (0)
	3rd Quarter	11.06 (4)	11.50 (3)	— (0)
	4th Quarter	11.20 (7)	10.78 (11)	— (0)
2002	Full Year	11.16 (22)	11.03 (21)	— (0)
2003	1st Quarter	11.47 (7)	11.38 (5)	— (0)
	2nd Quarter	11.16 (4)	11.36 (4)	— (0)
	3rd Quarter	9.95 (5)	10.61 (5)	— (0)
	4th Quarter	11.09 (6)	10.84 (11)	— (0)
2003	Full Year	10.97 (22)	10.99 (25)	— (0)
2004	1st Quarter	11.00 (3)	11.10 (4)	10.00 (1)
	2nd Quarter	10.50 (6)	10.25 (2)	— (0)
	3rd Quarter	10.33 (2)	10.37 (8)	— (0)
	4th Quarter	10.91 (8)	10.66 (6)	— (0)
2004	Full Year	10.73 (19)	10.59 (20)	10.00 (1)
2005	1st Quarter	10.44 (8)	10.65 (2)	— (0)

RRA

3.

**Electric Utilities—Summary Table\***

	Period	ROR %	ROE %	Eq. as % Cap. Struc.	Amt. \$ Mil.
1995	Full Year	9.44 (30)	11.55 (33)	45.90 (30)	455.7 (43)
1996	Full Year	9.21 (20)	11.39 (22)	44.34 (20)	-5.6 (38)
1997	Full Year	9.16 (12)	11.40 (11)	48.79 (11)	-553.3 (33)
1998	Full Year	9.44 (9)	11.66 (10)	46.14 (8)	-429.3 (31)
1999	Full Year	8.81 (18)	10.77 (20)	45.08 (17)	-1,683.8 (30)
2000	Full Year	9.20 (12)	11.43 (12)	48.85 (12)	-291.4 (34)
2001	Full Year	8.93 (15)	11.09 (18)	47.20 (13)	14.2 (21)
2002	Full Year	8.72 (20)	11.16 (22)	46.27 (19)	-475.4 (24)
2003	1st Quarter	9.07 (6)	11.47 (7)	49.94 (5)	48.2 (7)
	2nd Quarter	9.07 (4)	11.16 (4)	49.46 (4)	116.2 (5)
	3rd Quarter	8.22 (5)	9.95 (5)	46.09 (5)	-61.0 (5)
	4th Quarter	9.07 (5)	11.09 (6)	52.17 (5)	210.4 (5)
2003	Full Year	8.86 (20)	10.97 (22)	49.41 (19)	313.8 (22)
2004	1st Quarter	8.94 (3)	11.00 (3)	44.94 (3)	-716.4 (4)
	2nd Quarter	7.88 (6)	10.50 (6)	45.59 (6)	641.4 (11)
	3rd Quarter	9.01 (2)	10.33 (2)	45.05 (2)	119.4 (4)
	4th Quarter	8.55 (7)	10.91 (8)	49.64 (6)	1,047.8 (11)
2004	Full Year	8.44 (18)	10.73 (19)	46.64 (17)	1,092.2 (30)
2005	1st Quarter	8.47 (7)	10.44 (8)	45.55 (8)	544.8 (10)

**Gas Utilities—Summary Table\***

1995	Full Year	9.64 (16)	11.43 (16)	49.98 (15)	-61.5 (31)
1996	Full Year	9.25 (23)	11.19 (20)	47.69 (19)	193.4 (34)
1997	Full Year	9.13 (13)	11.29 (13)	47.78 (11)	-82.5 (21)
1998	Full Year	9.46 (10)	11.51 (10)	49.50 (10)	93.9 (20)
1999	Full Year	8.86 (9)	10.66 (9)	49.06 (9)	51.0 (14)
2000	Full Year	9.33 (13)	11.39 (12)	48.59 (12)	135.9 (20)
2001	Full Year	8.51 (6)	10.95 (7)	43.96 (5)	114.0 (11)
2002	Full Year	8.80 (20)	11.03 (21)	48.29 (18)	303.6 (26)
2003	1st Quarter	8.97 (4)	11.38 (5)	50.69 (4)	35.9 (6)
	2nd Quarter	9.09 (3)	11.36 (4)	50.32 (3)	14.2 (5)
	3rd Quarter	8.54 (4)	10.61 (5)	45.74 (4)	89.5 (6)
	4th Quarter	8.64 (11)	10.84 (11)	51.06 (11)	120.5 (13)
2003	Full Year	8.75 (22)	10.99 (25)	49.93 (22)	260.1 (30)
2004	1st Quarter	8.52 (4)	11.10 (4)	45.61 (4)	56.3 (6)
	2nd Quarter	8.21 (3)	10.25 (2)	46.90 (2)	121.7 (9)
	3rd Quarter	8.27 (8)	10.37 (8)	42.92 (8)	113.4 (8)
	4th Quarter	8.40 (6)	10.66 (6)	49.72 (6)	12.1 (8)
2004	Full Year	8.34 (21)	10.59 (20)	45.90 (20)	303.5 (31)
2005	1st Quarter	8.19 (3)	10.65 (2)	43.00 (1)	50.8 (4)

**Telephone Utilities—Summary Table\***

1995	Full Year	9.81 (8)	12.08 (8)	55.02 (7)	-264.0 (14)
1996	Full Year	9.65 (2)	11.74 (4)	56.00 (2)	-348.2 (11)
1997	Full Year	9.57 (5)	11.56 (5)	55.84 (5)	-154.4 (7)
1998	Full Year	9.37 (1)	11.30 (1)	52.00 (1)	-323.3 (13)
1999	Full Year	11.34 (1)	13.00 (1)	66.90 (1)	-570.1 (19)
2000	Full Year	9.52 (2)	11.38 (2)	58.59 (2)	-390.4 (14)
2001	Full Year	9.61 (1)	— (0)	— (0)	-130.0 (8)
2002	Full Year	— (0)	— (0)	— (0)	7.7 (4)
2003	1st Quarter	— (0)	— (0)	— (0)	— (0)
	2nd Quarter	— (0)	— (0)	— (0)	-27.6 (1)
	3rd Quarter	— (0)	— (0)	— (0)	-35.0 (1)
	4th Quarter	— (0)	— (0)	— (0)	— (0)
2003	Full Year	— (0)	— (0)	— (0)	-62.6 (2)
2004	1st Quarter	8.02 (1)	10.00 (1)	44.18 (1)	3.1 (1)
	2nd Quarter	— (0)	— (0)	— (0)	— (0)
	3rd Quarter	— (0)	— (0)	— (0)	— (0)
	4th Quarter	— (0)	— (0)	— (0)	— (0)
2004	Full Year	8.02 (1)	10.00 (1)	44.18 (1)	3.1 (1)
2005	1st Quarter	— (0)	— (0)	— (0)	— (0)

RRA

4.

Date	Company (State)	ROR %	ROE %	Common Eq. as % Cap. Str.	Test Year & Rate Base	Amt. \$ Mil.
<b>ELECTRIC UTILITY DECISIONS</b>						
<b>2004</b>	<b>FULL-YEAR AVERAGES/TOTAL OBSERVATIONS</b>	<b>8.44</b> <b>18</b>	<b>10.73</b> <b>19</b>	<b>46.84</b> <b>17</b>		<b>1092.2</b> <b>30</b>
1/6/05	South Carolina Electric & Gas (SC)	8.64	10.70	50.31	12/04-YE	41.4
1/28/05	Aquila Networks-WPK (KS)	8.73	10.50	33.63	12/03-YE	7.4
2/18/05	Puget Sound Energy (WA)	8.40	10.30	43.00	9/03-A	56.6
2/25/05	PacifiCorp (UT)	8.37	10.50	47.80	3/06	51.0 (B)
3/10/05	Empire District Electric (MO)	9.18	11.00	49.14	12/03-YE	25.7
3/16/05	Consolidated Edison of New York (NY)	—	—	—	—	325.0 (B,Z,TD)
3/18/05	Dominion North Carolina Power (NC)	—	—	—	12/03	-12.0 (B)
3/24/05	Arizona Public Service (AZ)	7.80	10.25	45.00	12/02-YE	67.6 (B)
3/29/05	Central Vermont Public Service (VT)	8.14	10.00	55.53	12/03-A	-4.9 (B)
3/31/05	Texas-New Mexico Power (TX)	—	10.25	40.00	—	-13.0 (B,Di)
<b>2005</b>	<b>1ST QUARTER AVERAGES/TOTAL OBSERVATIONS</b>	<b>8.47</b> <b>7</b>	<b>10.44</b> <b>8</b>	<b>45.55</b> <b>8</b>		<b>544.8</b> <b>10</b>
<b>GAS UTILITY DECISIONS</b>						
<b>2004</b>	<b>FULL-YEAR AVERAGES/TOTAL OBSERVATIONS</b>	<b>8.34</b> <b>21</b>	<b>10.59</b> <b>20</b>	<b>45.90</b> <b>20</b>		<b>303.5</b> <b>31</b>
1/5/05	Avista Corporation (WA)	8.68	—	—	—	5.4 (B)
2/18/05	Puget Sound Energy (WA)	8.40	10.30	43.00	9/03-A	26.3
3/23/05	National Fuel Gas Distribution (PA)	—	—	—	—	12.0 (B)
3/29/05	SEMCO Energy Gas (MI)	7.49	11.00	—	12/05	7.1 (B)
<b>2005</b>	<b>1ST QUARTER AVERAGES/TOTAL OBSERVATIONS</b>	<b>8.19</b> <b>3</b>	<b>10.65</b> <b>2</b>	<b>43.00</b> <b>1</b>		<b>50.8</b> <b>4</b>
<b>TELEPHONE UTILITY DECISIONS</b>						
<b>2004</b>	<b>FULL-YEAR AVERAGES/TOTAL OBSERVATIONS</b>	<b>8.02</b> <b>1</b>	<b>10.00</b> <b>1</b>	<b>44.18</b> <b>1</b>		<b>3.1</b> <b>1</b>
<b>2005</b>	<b>1ST QUARTER AVERAGES/TOTAL OBSERVATIONS</b>	<b>—</b> <b>0</b>	<b>—</b> <b>0</b>	<b>—</b> <b>0</b>		<b>—</b> <b>0</b>

**FOOTNOTES**

- A- Average
- B- Order followed stipulation or settlement by the parties. Decision particulars not necessarily precedent-setting or specifically adopted by the regulatory body.
- Di- Rate change applicable to distribution rates only.
- TD- Rate change applicable to transmission and distribution rates only.
- YE- Year-end
- Z- Rate change implemented in multiple steps.

Dennis Spurduto

**ADJUSTING DR WEAVER'S DCF ANALYSIS  
FOR MISSING MGE DATA**

	<u>Unadjusted Dividend Yield</u>	<u>Growth Rate</u>	<u>Adjusted Dividend Yield</u>	<u>Cost of Equity</u>
Zacks	4.55 **	4.31	4.75	9.06
Reuters	4.55 **	4.26	4.74	9.00
Thomson	4.55 **	4.43	4.75	9.18
Value Line	4.49 *	4.42	4.69	9.11
Average				9.09

\* Excludes MGE

\*\* Includes MGE

Response of the Attorney General to  
Requests for Information from  
Louisville Gas and Electric Company and Kentucky Utilities Company  
Case No. 2004-00421 and Case No. 2004-00426

Witness Responding: Carl G. K. Weaver

3. In reference to Schedule 34, page 2, provide individual-company cost of equity calculations for each of the companies in Dr. Weaver's analysis.

Answer

See below:

	<u>Current Dividend Yield</u>	<u>Avg. Proj. Growth Rate%</u>	<u>Expected Dividend Yield</u>	<u>Cost of Equity</u>
Alliant	3.94	3.76	4.09	7.85
Cinergy	4.78	3.85	4.96	8.81
DTE	4.79	5.03	5.03	10.06
FPL	3.76	4.73	3.94	8.67
MGE	4.07	6.00	4.31	10.31
Progress	5.50	3.85	5.71	9.56
Southern	4.48	4.75	4.69	9.44
WPS	4.58	4.14	5.62	9.76
			Average	9.30*

The difference between the 9.30% cost rate in the example above and the 9.04 cost rate in Schedule 32, page 2, is explained by MGE's 6% growth rate for Value Line being weighted as 12.5% of the growth in the example above while the other Value Line or any other growth rate makes up 3.57% (1/28) of the growth rates for the other companies.

	Book Value Per Share		Earnings		Dividends		Recent		Number of		Retention		Return on		Growth in		sv	br + sv
	2004	2005	2007-2009	2007-2009	2007-2009	2007-2009	Price	Common Shares	2004	2007-2009	Ratio	Avg. Com. Equity	Retention	Growth	Common Shares	Price Book Ratio		
			Per Share	Per Share	Per Share	Per Share		2004	2007-2009	(b)	(r)	b x r	s	v				
Alliant Energy	22.30	23.15	25.55	2.05	1.26	28.15	116.00	122.40	0.3854	8.1554	3.1428	1.3517	1.2623	1.7052	0.2078	0.3546	3.4974	
Cinergy	21.85	23.60	26.10	2.80	2.04	42.05	187.30	208.10	0.2714	10.9080	2.9607	2.6676	1.9245	5.1338	0.4804	2.4662	5.4269	
DTE Energy	31.65	32.90	38.00	4.50	2.06	43.50	174.00	160.00	0.5422	12.1265	6.5752	-2.0752	1.3744	-2.8522	0.2724	-0.7770	5.7983	
FPL Group	40.35	43.80	50.70	6.70	3.56	72.84	185.80	201.20	0.3754	11.5167	4.3238	2.0107	1.8052	3.6297	0.4460	1.6190	5.9428	
MGE Energy	14.65	15.45	18.00	2.35	1.40	35.96	20.20	20.35	0.4043	13.3879	5.4121	0.1851	2.4546	0.4544	0.5926	0.2693	5.8814	
Progress Energy	31.05	32.00	34.85	3.20	2.50	43.37	248.00	255.00	0.2188	9.3128	2.0372	0.7969	1.3968	1.1131	0.2841	0.3162	2.3534	
Southern Company	13.75	14.65	17.40	2.45	1.70	33.25	740.00	780.00	0.3061	14.4841	4.4339	1.3248	2.4182	3.2036	0.5865	1.8788	6.3127	
WPS Resources	28.20	29.40	33.05	3.45	2.36	49.60	37.40	38.40	0.3159	10.6423	3.3624	0.6618	1.7589	1.1641	0.4315	0.5023	3.8646	
Average	25.48	26.87	30.46	3.31	2.11	43.59	213.59	223.31	0.3524	11.3167	4.0310	0.8654	1.7894	1.6941	0.4127	0.8287	4.8597	
Median	25.25	26.50	29.58	3.00	2.05	42.71	179.90	180.60	0.3457	11.2123	3.8431	1.0608	1.7820	1.4352	0.4387	0.4284	5.5542	

Source: Value Line, 12/3/04 and 12/31/04.

**COMMONWEALTH OF KENTUCKY**  
**BEFORE THE PUBLIC SERVICE COMMISSION**

In the Matter of:

In the Matter of the Gas	)	
Rates of Louisville Gas	)	Case No. 2000-080
and Electric Company	)	

**Testimony of Carl G. K. Weaver**  
**Appearing on behalf of the Office of**  
**The Attorney General for the Commonwealth of Kentucky**  
**Utility and Rate Intervention Division**

**June 21, 2000**

Exhibit \_\_\_\_\_  
 Carl G. K. Weaver  
 Schedule 23

**Stock Prices and Dividend Yields  
 LG&E Gas Business Selected Companies**

Company Name:	Cascade	Laclede	Northwest Nat. Gas	South Jersey Industries
Date	Closing Stock Prices			
05/08/00	16.375	19.875	21.625	26.875
05/09/00	16.313	19.500	21.000	26.750
05/10/00	16.625	19.438	21.063	26.563
05/11/00	16.188	19.875	21.250	26.500
05/12/00	16.125	20.375	21.781	26.375
05/15/00	16.688	19.875	21.500	26.625
05/16/00	16.875	19.375	21.375	26.500
05/17/00	17.000	19.875	21.000	26.375
05/18/00	16.688	19.750	20.813	26.250
05/19/00	16.875	19.500	20.250	26.375
05/22/00	17.250	19.375	20.375	26.375
05/23/00	17.125	19.563	20.813	26.313
05/24/00	17.250	19.375	20.688	26.250
05/25/00	17.250	19.313	21.375	26.250
05/26/00	17.625	19.188	21.750	26.500
05/30/00	17.500	19.313	22.063	26.125
05/31/00	17.750	19.688	21.750	26.063
06/01/00	17.938	19.500	21.875	26.250
06/02/00	17.500	19.875	21.875	26.313
06/05/00	17.313	19.563	21.750	26.063
Avg. Prices	17.013	19.609	21.298	26.384
Dividend Rate	0.960	1.360	1.240	1.480
Dividend Yields	5.64%	6.94%	5.82%	5.61%
Selected Companies Avg. Div. Yield:		6.00%		

Source: YAHOO! Finance, Historical Quotes, June 6, 2000; the Dividend Rate is the latest quarterly dividend multiplied times 4.



Exhibit \_\_\_\_\_  
 Carl G. K. Weaver  
 Schedule 24 - A

Two-stage DCF Model  
 LG&E Gas Business Selected Companies

Company Name:	Year	Cascade		Laclede		Northwest		S. Jersey Ind.	
		Growth*	Dividend/ Price	Growth*	Dividend/ Price	Growth*	Dividend/ Price	Growth*	Dividend/ Price
Current Dividend:			0.960		1.360		1.240		1.480
Curr. Avg. Stock Price:			(17.013)		(19.609)		(21.298)		(26.384)
Projected Dividends:	2001	4.58	1.004	3.70	1.410	3.92	1.289	4.46	1.546
	2002	4.58	1.050	3.70	1.463	3.92	1.339	4.46	1.615
	2003	4.58	1.098	3.70	1.517	3.92	1.392	4.46	1.687
	2004	4.58	1.148	3.70	1.573	3.92	1.446	4.46	1.762
	2005	4.58	1.201	3.70	1.631	3.92	1.503	4.46	1.841
	2006	5.30	1.265	5.30	1.717	5.30	1.583	5.30	1.938
	2007	5.30	1.332	5.30	1.808	5.30	1.666	5.30	2.041
	2008	5.30	1.402	5.30	1.904	5.30	1.755	5.30	2.149
	2009	5.30	1.476	5.30	2.005	5.30	1.848	5.30	2.263
	2010	5.30	1.555	5.30	2.111	5.30	1.946	5.30	2.383
	2011	5.30	1.637	5.30	2.223	5.30	2.049	5.30	2.509
	2012	5.30	1.724	5.30	2.341	5.30	2.157	5.30	2.642
	2013	5.30	1.815	5.30	2.465	5.30	2.272	5.30	2.783
	2014	5.30	1.911	5.30	2.596	5.30	2.392	5.30	2.930
	2015	5.30	2.013	5.30	2.733	5.30	2.519	5.30	3.085
	2016	5.30	2.119	5.30	2.878	5.30	2.652	5.30	3.249
	2017	5.30	2.232	5.30	3.031	5.30	2.793	5.30	3.421
	2018	5.30	2.350	5.30	3.192	5.30	2.941	5.30	3.602
	2019	5.30	2.475	5.30	3.361	5.30	3.097	5.30	3.793
	2020	5.30	2.606	5.30	3.539	5.30	3.261	5.30	3.994
	2021	5.30	2.744	5.30	3.726	5.30	3.434	5.30	4.206
	2022	5.30	2.889	5.30	3.924	5.30	3.616	5.30	4.429
	2023	5.30	3.042	5.30	4.132	5.30	3.807	5.30	4.664
	2024	5.30	3.204	5.30	4.351	5.30	4.009	5.30	4.911
	2025	5.30	3.374	5.30	4.581	5.30	4.222	5.30	5.171
	2026	5.30	3.552	5.30	4.824	5.30	4.445	5.30	5.445
	2027	5.30	3.741	5.30	5.080	5.30	4.681	5.30	5.734
	2028	5.30	3.939	5.30	5.349	5.30	4.929	5.30	6.038
	2029	5.30	4.148	5.30	5.633	5.30	5.190	5.30	6.358
	2030	5.30	4.367	5.30	5.931	5.30	5.465	5.30	6.695
	2031	5.30	4.599	5.30	6.246	5.30	5.755	5.30	7.049
	2032	5.30	4.843	5.30	6.577	5.30	6.060	5.30	7.423
	2033	5.30	5.099	5.30	6.925	5.30	6.381	5.30	7.816
	2034	5.30	5.370	5.30	7.292	5.30	6.720	5.30	8.231
	2035	5.30	5.654	5.30	7.679	5.30	7.076	5.30	8.667
	2036	5.30	5.954	5.30	8.086	5.30	7.451	5.30	9.126
	2037	5.30	6.269	5.30	8.514	5.30	7.846	5.30	9.610
	2038	5.30	6.602	5.30	8.965	5.30	8.261	5.30	10.119
	2039	5.30	6.952	5.30	9.441	5.30	8.699	5.30	10.656
	2040	5.30	7.320	5.30	9.941	5.30	9.160	5.30	11.220
	2041	5.30	7.708	5.30	10.468	5.30	9.646	5.30	11.815
	2042	5.30	8.116	5.30	11.023	5.30	10.157	5.30	12.441
	2043	5.30	8.547	5.30	11.607	5.30	10.695	5.30	13.101
	2044	5.30	9.000	5.30	12.222	5.30	11.262	5.30	13.795
	2045	5.30	9.477	5.30	12.870	5.30	11.859	5.30	14.526
	2046	5.30	9.979	5.30	13.552	5.30	12.488	5.30	15.296
	2047	5.30	10.508	5.30	14.270	5.30	13.149	5.30	16.107
	2048	5.30	11.065	5.30	15.026	5.30	13.846	5.30	16.960
	2049	5.30	11.651	5.30	15.823	5.30	14.580	5.30	17.859
	2050	5.30	12.268	5.30	16.661	5.30	15.353	5.30	18.806
PV of Perpetuity in 2051 at IRR:			239.563		275.550		294.904		367.212
Internal Rate of Return:			11.0%		12.1%		11.1%		11.0%
Average Internal Rate of Return:			11.0%		12.1%		11.1%		11.3%

Notes: The Current Stock Price is the average 5/08/00 - 5/05/00 prices from Schedule 22.  
 The Current Dividend is the latest quarterly dividend times 4.  
 The first stage is the average of I/B/E/S, Zacks, and Value Line forecasts for 3-5 year growth for each company.  
 The second stage growth rate is the Ibbotson Associates 1926 to 1999 compound rate of growth in large company stocks at 11.3% minus the four company average dividend yield at 6.0%.  
 The present value in year 2051 represents a perpetuity computed as: ((2051 dividend)/(IRR-g))

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ADJUSTMENT OF THE ELECTRIC )  
RATES, TERMS AND CONDITIONS OF ) CASE NO. 2003-00434  
KENTUCKY UTILITIES COMPANY )

and

AN ADJUSTMENT OF THE ELECTRIC AND )  
GAS RATES, TERMS AND CONDITIONS OF ) CASE NO. 2003-00433  
LOUISVILLE GAS AND ELECTRIC COMPANY )

**Testimony of Carl G. K. Weaver**  
**Appearing on behalf of the Office of**  
**The Attorney General for the Commonwealth of Kentucky**  
**Office of Rate Intervention**

**May 2004**

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A. During that period, economic growth, as measured by the change in real GDP, was in a range between 0.3% and 4.4%. Data for each year is shown in Schedule 2.

**Q. Dr. Weaver, in your past testimony except in the ESM case, you used the historical growth rate in dividends per share and book value per share. Why aren't you using these in this analysis?**

A. The advent of deregulation has brought about a fundamental change in the electric utilities industry with respect to dividend payments. Prior to beginning of deregulation, most companies increased their quarterly dividend payments once each year. With the onset of deregulation, many electric companies have paid constant dividends and some have reduced dividends. In the past, reducing a dividend had terrible consequences on a utility company's stock price. Investors who desired dividend income were attracted to utility companies because of their reputation of paying constant and slowly growing dividends. With the advent of deregulation, constant dividend income is less certain.

**Q. What method did you use to measure the historical growth?**

A. I measured the historical growth rates using the geometric mean. The geometric mean provides the measure of the compound rate of growth that occurred over the period being used, 1992 to 2003. An explanation of why the geometric mean should be used to measure a growth rate over time is provided in the portion of my testimony that contains my comments on the testimony of Mr. Rosenberg.

**Q. What were the nine companies' compound growth rates for EPS and CFS from 1992 through 2003?**

Exhibit  
 Carl G. K. Weaver  
 Schedule 35  
 Page 2 of 2

**Multi-stage DCF Model  
 Revised Companies for Data Observations**

Company	4 Yrs		5 Yrs		WPS		Resources	
	3.25%	2.66%	2.80%	1.89%	2.71%	3.10%	3.13%	2.71%
AVG	3.50%	2.88%	3.01%	2.52%	3.37%	3.25%	3.46%	3.00%
	Alliant Energy	Cinergy Corp.	FPL Group	MGE Energy	Progress Energy	Southern Company	Resources	
Name:	Energy	Corp.	Group	Energy	Energy	Company	Resources	
2/14/2005	Growth	Growth	Growth	Growth	Growth	Growth	Growth	
Stock Price	Div.	Div.	Div.	Div.	Div.	Div.	Div.	
	-27.14	-41.03	-79.81	-36.81	-44.24	-33.3	-53.60	
2004	1.05	1.92	2.72	1.37	2.36	1.43	2.22	
2005	2.00%	2.17%	8.33%	0.74%	2.65%	2.16%	1.85%	
2006	2.44%	2.59%	7.43%	2.06%	2.85%	2.81%	2.42%	
2007	2.88%	3.01%	6.53%	3.37%	3.25%	3.46%	3.00%	
2008	3.32%	3.43%	5.63%	4.69%	3.55%	4.10%	3.57%	
2009	3.76%	3.85%	4.73%	6.00%	3.85%	4.75%	4.14%	
2010	3.76%	3.85%	4.73%	6.00%	3.85%	4.75%	4.14%	
2011	3.76%	3.85%	4.73%	6.00%	3.85%	4.75%	4.14%	
2012	3.76%	3.85%	4.73%	6.00%	3.85%	4.75%	4.14%	
2013	3.76%	3.85%	4.73%	6.00%	3.85%	4.75%	4.14%	
2014	3.76%	3.85%	4.73%	6.00%	3.85%	4.75%	4.14%	
2015	3.76%	3.85%	4.73%	6.00%	3.85%	4.75%	4.14%	
2016	3.76%	3.85%	4.73%	6.00%	3.85%	4.75%	4.14%	
2017	3.76%	3.85%	4.73%	6.00%	3.85%	4.75%	4.14%	
2018	3.76%	3.85%	4.73%	6.00%	3.85%	4.75%	4.14%	
PV of dividend perpetuity in 2018:	50.72	78.27	173.41	96.18	84.94	72.68	106.32	
Internal Rate of Return:	7.54%	8.42%	8.31%	9.46%	9.10%	8.90%	8.15%	
Average Internal Rate of Return:							<u>8.65%</u>	

Notes: The Current Dividend is the latest quarterly dividend times 4.

The 2004 rate of growth is the dividend growth rate achieved from 2003-2004 from Value Line.

The 2004 rate of growth converges on the 3-5 year growth forecast (the average of the Zacks, Reuters, Thomson, and Value Line EPS for each company) in the year 2007 which is 4 years beyond the forecast date.

The formula for determining the PV of perpetual dividends equals  $[D_{t+year}(1+g)^2/(k-g)]$  where  $k$  is the iteratively determined IRR and  $g$  is the growth rate.

**COMMONWEALTH OF KENTUCKY**  
**BEFORE THE PUBLIC SERVICE COMMISSION**

In the Matter of:

In the Matter of the Gas            )  
Rates of Louisville Gas            )  
and Electric Company            )            Case No. 2000-080

**Testimony of Carl G. K. Weaver**  
**Appearing on behalf of the Office of**  
**The Attorney General for the Commonwealth of Kentucky**  
**Utility and Rate Intervention Division**

**June 21, 2000**

Case No. 2000-080

Weaver - 38

1 that there will be a new issuance of equity securities in the near-term future.

2 **Q. What did the two-stage DCF model indicate that the cost of equity should be?**

3 A. The average results of the two-stage model indicates that the cost of equity should  
4 be ~~10.0%~~ <sup>11.3%</sup>. The analysis for each of the four companies and the results are shown in  
5 Schedule 24. The arithmetic average of the results obtained for the four companies is

6 <sup>11.3%</sup>  
10.0%

7 **Q. How did you implement the two-stage DCF model?**

8 A. For the first stage of dividend growth, I assumed that dividends would grow at  
9 each of the four selected company's average forecasted growth-rate. For the second  
10 stage, I assumed the compound rate of growth would occur at 5.3%.

**Q. How did you determine the 5.3% second-stage growth rate that you used?**

12 A. This rate was obtained from the 1926-1999 compound rate of return for large  
13 company stocks that was reported by Ibbotson Associates and reduced by the dividend  
14 yield. The rate of return has two components, dividend yield and growth. I subtracted the  
15 four-company 6.0% dividend yield from the 11.3% compounded rate of return to  
16 determine the 5.3% rate.

17 **Q. Were there any other steps required for the implementation of the two-stage model?**

18 A. Yes. I determined the perpetuity value for the dividends in the terminal year of the  
19 analysis. This was done by dividing the terminal year's dividend amount by the calculated  
20 rate of return minus the 5.3% growth rate ( $k-g$ ). I iterated the IRR model three times to  
21 solve for the internal rate of return to avoid the circularity problem that occurs from using  
22 the solution variable in the perpetuity input data.

**COMMONWEALTH OF KENTUCKY**  
**BEFORE THE PUBLIC SERVICE COMMISSION**

In the Matter of:

An Adjustment of the Electric Rates, Terms  
and Conditions of Kentucky Utilities Company )  
)

Case No. 2003-00433

and

An Adjustment of the Gas and Electric Rates,  
Terms and Conditions of Louisville Gas and  
Electric Company )  
)

Case No. 2003-00434

**Exhibit of Carl G. K. Weaver**  
**Appearing on behalf of the Office of**  
**The Attorney General for the Commonwealth of Kentucky**  
**Office of Rate Intervention**

C. Weaver APP.II -12

1 stage model becomes more useful. The actual rate is converged on the forecasted rate in  
2 the first stage and a different rate is used and converged upon in the other stages. A large  
3 change in the growth rate will not generally occur in a single year. Where large changes in  
4 growth are expected, it is appropriate to assume the changes will occur gradually over  
5 multiple periods.

6 **Q. What growth rate do you use for the second stage in the two-stage DCF model?**

7 a. I use the average of the long-term returns for large company common stocks from  
8 Ibbotson Associates. The returns consist of two values -- a dividend yield and a growth  
9 rate. I subtract the average dividend yield from the compound rate of return and the  
10 remainder is the compound growth rate for the second stage. If a rate is used that is less  
11 than this, the analyst is assuming that the company is not able to maintain its share of the  
12 economic output. If a rate greater than this is used, over time, the analyst is assuming that  
13 the company is commanding an increasing share of the economic output.

#### 14 **CAPITAL ASSET PRICING MODEL**

15 **Q. Would you please explain the capital asset pricing model?**

16 a. Yes. The CAPM presumes that investors are risk averse. More risky securities  
17 must provide a higher expected return or investors would have no reason to include them  
18 in their investment portfolios.

19 This higher-risk/higher-expected-return principle permits the cost of equity to be  
20 split into two components: (1) a default-free rate, and (2) a risk premium. The default-  
21 free rate is assumed to be the same for all securities. The risk premium is larger for more



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**IbbotsonAssociates**

**Risk Premia over  
Time Report: 2005**

Estimates for 1926-2004

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*Risk Premia over Time Report  
 2005*

**Table 1** Total Returns, Income Returns  
 and Capital Appreciation

Summary Statistics of  
 Annual Returns

From 1926 to 2004

Series	Geometric Mean	Arithmetic Mean	Standard Deviation
<b>Large Company Stocks</b>			
Total Returns	10.4	12.4	20.3
Income	4.3	4.3	1.5
Capital Appreciation	5.9	7.9	19.6
<b>Ibbotson Small Company Stocks</b>			
Total Returns	12.7	17.5	33.1
<b>Mid-Cap Stocks*</b>			
Total Returns	11.4	14.2	24.9
Income	4.1	4.1	1.7
Capital Appreciation	7.1	9.8	24.2
<b>Low-Cap Stocks*</b>			
Total Returns	11.8	15.8	29.7
Income	3.7	3.8	1.9
Capital Appreciation	7.9	11.8	29.0
<b>Micro-Cap Stocks*</b>			
Total Returns	12.8	19.0	39.4
Income	2.6	2.6	1.8
Capital Appreciation	10.2	16.2	38.8
<b>Long-Term Corporate Bonds</b>			
Total Returns	5.9	6.2	8.6
<b>Long-Term Government Bonds</b>			
Total Returns	5.4	5.8	9.3
Income	5.2	5.2	2.7
Capital Appreciation	0.0	0.4	8.1
<b>Intermediate-Term Government Bonds</b>			
Total Returns	5.4	5.5	5.7
Income	4.7	4.8	2.9
Capital Appreciation	0.5	0.6	4.5
<b>Treasury Bills</b>			
Total Returns	3.7	3.8	3.1
<b>Inflation</b>	3.0	3.1	4.3

Total return is equal to the sum of income return, capital appreciation return, and reinvestment return.

\*Source: Center for Research in Security Prices, University of Chicago.

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ADJUSTMENT OF THE RATES OF )  
KENTUCKY-AMERICAN WATER COMPANY )      CASE NO. 2004-00103

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forecasts for only three of the AG's nine companies in both the small and large proxy groups. It also takes issue with the AG's use of only water companies in its analysis. It argues that the small, thinly traded and not widely followed companies in the AG's analysis indicate the need to employ equity models on other proxy companies that are similar in risk to water companies and are more widely followed in the investment community.

Kentucky-American also disagrees with the AG's approach in the DCF Model. It argues that the DCF model should have been modified to account for the quarterly payment of dividends by the proxy companies. Kentucky-American also states that the AG's method of estimating the dividend yield and his use of historical growth rates to estimate an investor's expectation of future growth are incorrect.

In critiquing the AG's CAPM analysis, Kentucky-American disagrees with the AG's use of the 10-year Treasury note to estimate the risk-free rate and the risk premium used by the AG. It suggests that the AG should have included a small company premium because of the size of the companies used in the proxy groups. It asserts that if the AG's analysis had used the correct factors and methodology described earlier, the result would have been a cost of equity of 13.5 percent.

The Commission agrees with some of Kentucky-American's criticisms of the AG's methodology employed in the DCF analysis. The use of ten-year Treasury bills as the risk free rate in the AG's CAPM analysis does not appear to be the most appropriate risk free rate for the model. While awards to American Water affiliates in other states is not a basis for an award for Kentucky-American, the Commission notes that the AG's ROE recommendation of 8.75 percent is significantly below most awards in 2004.

First Call S&P 500 3/11/05

		Consensus EPS Estimates						
Ticker	Company Name	Period	Report Date	# of Estimates	Mean	High	Low	Median
MMM	3M Company	LTG	-	12	11.38	13	10	11
ABT	Abbott Laboratories	LTG	-	8	10.75	12	8	11
ACE	ACE Limited	LTG	-	12	19.64	77	9	13.8
ADCT	ADC Telecommunications	LTG	-	10	12.15	20	5	10
ADBE	Adobe Systems Incorporated	LTG	-	16	13.96	20	5	15
AMD	Advanced Micro Devices, Inc.	LTG	-	13	13.71	20	4.7	15
AET	Aetna Inc.	LTG	-	13	13.71	20	4.7	15
ACS	Affiliated Computer Services	LTG	-	16	16.38	20	10	16.5
AFL	AFLAC Incorporated	LTG	-	16	14.36	17	7.1	15
A	Agilent Technologies Inc.	LTG	-	6	12.5	15	10	12.5
APD	Air Products & Chemicals, Inc.	LTG	-	5	11	14	9	10
ACV	Alberto-Culver Company	LTG	-	8	12.13	14	10	12
ABS	Albertson's, Inc.	LTG	-	5	6.82	10	2.1	7
AA	Alcoa Inc.	LTG	-	3	8.77	14	2.3	10
AYE	Allegheny Energy, Inc.	LTG	-	4	3.5	5	2	3.5
ATI	Allegheny Technologies Incorporated	LTG	-	2	10	20	0	10
AGN	Allergan, Inc.	LTG	-	9	19.36	25	15.7	18
AW	Allied Waste Industries, Inc.	LTG	-	4	13.98	20	5	15.45
ALL	Allstate Corporation	LTG	-	7	9.71	11	8	10
AT	Alltel Corporation	LTG	-	14	7.14	13	3	6.5
ALTR	Altera Corp.	LTG	-	14	20.04	30	10	20
MO	Altria Group, Inc.	LTG	-	7	8.57	10	7	9
ABK	Ambac Financial Group, Inc.	LTG	-	4	14.25	15	13	14.5
AHC	Amerada Hess Corporation	LTG	-	4	6.35	9	2.5	6.95
AEE	Ameren Corporation	LTG	-	8	3.19	6	1.5	3
AEP	American Electric Power	LTG	-	10	3.61	5	2	3.5
AXP	American Express Company	LTG	-	12	13.04	17	7	13
AIG	American International Group, Inc	LTG	-	15	14.51	20.7	12	14
APCC	American Power Conversion Corporation	LTG	-	2	12.5	13	12	12.5
ASD	American Standard Companies Inc.	LTG	-	8	13.88	18	10	14.5
ABC	AmerisourceBergen Corp.	LTG	-	10	12.7	15	5	13
AMGN	Amgen, Inc.	LTG	-	17	18.45	27	12	19
ASO	AmSouth Bancorporation	LTG	-	10	8.55	10	6.5	9
APC	Anadarko Petroleum Corporation	LTG	-	6	7.25	10	3	7.75
ADI	Analog Devices, Inc.	LTG	-	11	16.95	30	2	17
ANDW	Andrew Corporation	LTG	-	9	13	20	10	12
BUD	Anheuser-Busch Companies, Inc.	LTG	-	9	9	11	7	9
AOC	Aon Corporation	LTG	-	7	7.91	12	5	8
APA	Apache Corporation	LTG	-	9	9.5	20	5	8
AIV	Apartment Investment and Management Co.	LTG	-	1	5	5	5	5
APOL	Apollo Group, Inc.	LTG	-	13	25.15	30	16	25
AAPL	Apple Computer, Inc.	LTG	-	10	24.3	40	15	20
ABI	Applied Biosystems Group	LTG	-	7	9.43	13	5	10
AMAT	Applied Materials, Inc.	LTG	-	13	16.39	25	9	15
AMCC	Applied Micro Circuits Corporation	LTG	-	6	20	25	10	20
ADM	Archer Daniels Midland Company	LTG	-	4	7.75	9	5	8.5
ASN	Archstone-Smith Trust	LTG	-	2	5.5	6	5	5.5
ASH	Ashland Inc.	LTG	-	3	9.7	22.8	2.3	4
T	AT&T Corp.	LTG	-	4	-7.75	3	-35	0.5
ADSK	Autodesk, Inc.	LTG	-	11	15.91	25	5	15
ADP	Automatic Data Processing	LTG	-	15	11	15	5	11
AN	AutoNation, Inc.	LTG	-	6	10.17	12	8	10
AZO	AutoZone, Inc.	LTG	-	17	12.79	18	6.7	13

First Call S&P 500 3/11/05

		Consensus EPS Estimates						
Ticker	Company Name	Period	Report Date	# of Estimates	Mean	High	Low	Median
AV	Avaya Inc.	LTG	-	7	14.06	30	5	10
AVY	Avery Dennison Corporation	LTG	-	5	11.2	12	10	12
AVP	Avon Products, Inc.	LTG	-	9	13.56	15	11	13.5
BHI	Baker Hughes Incorporated	LTG	-	3	20.33	31	15	15
BLL	Ball Corporation	LTG	-	3	13	18	5	16
BAC	Bank of America Corporation	LTG	-	10	9.34	12	8	9.5
BOL	Bausch & Lomb Inc.	LTG	-	8	14.5	18	10	15
BAX	Baxter International Inc.	LTG	-	9	11	15	8	10
BBT	BB&T Corporation	LTG	-	12	9.83	10.2	8.7	10
BDX	Becton, Dickinson and Co.	LTG	-	8	12	20	10	11
BBBY	Bed Bath & Beyond Inc.	LTG	-	16	19.81	25	17	20
BLS	BellSouth Corporation	LTG	-	8	7.24	16	2	7.1
BMS	Bemis Company, Inc.	LTG	-	3	10	12	8	10
BBY	Best Buy Co., Inc.	LTG	-	19	15.73	20	12.9	15
BLI	Big Lots, Inc.	LTG	-	5	15	20	10	15
BIIB	Biogen Idec Inc	LTG	-	20	18.38	31	2	20
BMET	Biomet, Inc.	LTG	-	16	16.17	20	13.4	16
BJS	BJ Services Company	LTG	-	6	22.6	44.4	15	16.1
BMC	BMC Software, Inc.	LTG	-	9	11.89	21	6	10
BA	Boeing Company, The	LTG	-	9	10.98	19	5	12
BSX	Boston Scientific Corp.	LTG	-	14	17.3	25	10	16.65
BMY	Bristol Myers Squibb Co.	LTG	-	14	2.26	11.5	-9.5	2
BRCM	Broadcom Corporation	LTG	-	10	25.65	35	15	25
BF.B	Brown-Forman Corporation	LTG	-	3	10.33	13	8	10
BC	Brunswick Corporation	LTG	-	5	16.6	25	10	15
BNI	Burlington Northern Santa Fe Corporation	LTG	-	5	12.1	14	10	12.5
BR	Burlington Resources Inc	LTG	-	6	7.48	10	3	7.45
BCR	C.R. Bard, Inc.	LTG	-	6	15.33	21	12	15
CPN	Calpine Corporation	LTG	-	3	10	14	8	8
CPB	Campbell Soup Company	LTG	-	9	6.33	8	5	6
COF	Capital One Financial Corp.	LTG	-	14	14.43	20	11	14
CAH	Cardinal Health, Inc.	LTG	-	11	13.68	18	8	14
CMX	Caremark Rx, Inc.	LTG	-	11	13.68	18	8	14
CCL	Carnival Corporation	LTG	-	8	13.75	17	10	13.5
CAT	Caterpillar Inc.	LTG	-	4	11.75	17	8	11
CD	Cendant Corporation	LTG	-	6	12.83	15	10	13
CNP	CenterPoint Energy, Inc.	LTG	-	4	7.5	20	3	3.5
CTX	Centex Corporation	LTG	-	11	16.5	25	10	15
CTL	CenturyTel, Inc.	LTG	-	9	3.76	8	1	3
SCH	Charles Schwab Corp.	LTG	-	10	14.5	20	9	15
CVX	ChevronTexaco Corporation	LTG	-	6	5.87	10	1.5	5.35
CHIR	Chiron Corporation	LTG	-	13	16.21	26.7	8	15
CB	Chubb Corporation	LTG	-	12	10.53	13.4	4	11
CIEN	Ciena Corporation	LTG	-	6	10.67	20	5	9.5
CI	CIGNA Corporation	LTG	-	8	10.38	15	8	10
CINF	Cincinnati Financial Corporation	LTG	-	4	10.25	11	10	10
CIN	Cinergy Corp.	LTG	-	9	4.56	5	3	5
CTAS	Cintas Corporation	LTG	-	11	14.9	18	10	15
CC	Circuit City Stores, Inc.	LTG	-	14	16.39	37.5	10	12
CSCO	Cisco Systems, Inc.	LTG	-	17	13.99	22	5	15
CIT	CIT Group Inc.	LTG	-	10	9.6	13	7	9.5
C	Citigroup Inc.	LTG	-	11	11.13	12	9	12
CZN	Citizens Communications	LTG	-	6	4.28	10	1	3.85

First Call S&P 500 3/11/05

		Consensus EPS Estimates						
Ticker	Company Name	Period	Report Date	# of Estimates	Mean	High	Low	Median
CTXS	Citrix Systems, Inc.	LTG	-	8	13.5	20	10	12.5
CCU	Clear Channel Communications	LTG	-	16	15.22	37	5	14.5
CMS	CMS Energy Corporation	LTG	-	7	3.56	7	2	3
COH	Coach, Inc.	LTG	-	13	20.42	30	15	20
CCE	Coca-Cola Enterprises	LTG	-	8	9.13	12	7	9
CL	Colgate-Palmolive Company	LTG	-	12	9.67	13	7	10
CMCSK	Comcast Corporation	LTG	-	10	17.27	43	8	14
CMA	Comerica Incorporated	LTG	-	12	8.17	10	5.5	8
CBSS	Compass Bancshares, Inc.	LTG	-	6	9.83	10	9	10
CA	Computer Associates International, Inc.	LTG	-	7	14.14	20	10	15
CSC	Computer Sciences Corporation	LTG	-	11	11	15	8	11
CPWR	Compuware Corporation	LTG	-	2	11.5	12	11	11.5
CMVT	Comverse Technology, Inc.	LTG	-	12	18.29	30	12	15
CAG	ConAgra Foods, Inc.	LTG	-	3	7.33	9	5	8
COP	ConocoPhillips	LTG	-	3	7.37	10	3	9.1
ED	Consolidated Edison, Inc.	LTG	-	9	3.2	7.8	2	3
CEG	Constellation Energy Group	LTG	-	7	7.76	10	6	8
CVG	Convergys Corporation	LTG	-	8	11.13	18	8	10
CBE	Cooper Industries, Ltd.	LTG	-	7	10.29	15	2.5	10.5
CTB	Cooper Tire & Rubber Company	LTG	-	1	12	12	12	12
GLW	Corning Incorporated	LTG	-	5	17.4	22	12	18
COST	Costco Wholesale Corp.	LTG	-	17	12.59	16	10	12
CFC	Countrywide Financial Corp.	LTG	-	12	12.79	15	10	12.75
CSX	CSX Corporation	LTG	-	4	11.75	15	10	11
CMI	Cummins Inc.	LTG	-	1	22	22	22	22
CVS	CVS Corporation	LTG	-	7	14.3	24	10	13
DCN	Dana Corporation	LTG	-	6	9.67	14	5	9.5
DHR	Danaher Corporation	LTG	-	11	14.27	25	7	15
DRI	Darden Restaurants, Inc.	LTG	-	13	12.12	15	9	12
DE	Deere & Company	LTG	-	4	7.75	10	6	7.5
DELL	Dell Inc.	LTG	-	13	19.42	27	15	20
DPH	Delphi Corporation	LTG	-	6	7.33	10	5	7
DAL	Delta Air Lines, Inc.							
DVN	Devon Energy Corporation	LTG	-	8	6.31	10	2.5	5.5
DDS	Dillard's, Inc.	LTG	-	4	5.33	7.3	4	5
DG	Dollar General Corp.	LTG	-	12	14.9	18	13	15
D	Dominion Resources, Inc.	LTG	-	9	5.66	7	3.9	6
DOV	Dover Corporation	LTG	-	5	13	14	10	14
DJ	Dow Jones & Co.	LTG	-	10	18.96	40	8	17.8
DTE	DTE Energy Company	LTG	-	5	4.6	6	2	5
DUK	Duke Energy Corporation	LTG	-	11	4.26	8	2	4
DYN	Dynegy Inc.	LTG	-	2	5	10	0	5
ET	E*TRADE FINANCIAL Corporation	LTG	-	4	14.15	22.6	6	14
DD	E.I. DuPont de Nemours	LTG	-	6	9.83	10	9	10
EMN	Eastman Chemical Company	LTG	-	3	7.1	10.8	3.5	7
EK	Eastman Kodak Company	LTG	-	3	6	9	4	5
ETN	Eaton Corporation	LTG	-	4	11.25	13	10	11
EBAY	eBay Inc.	LTG	-	14	31.3	45	22	29.5
ECL	Ecolab Inc.	LTG	-	6	12.17	13	11	12
EIX	Edison International	LTG	-	3	4.9	7	2.7	5
EP	El Paso Corporation	LTG	-	4	8.3	10.2	5	9
ERTS	Electronic Arts Inc.	LTG	-	15	17.59	20	10	19
EDS	Electronic Data Systems	LTG	-	9	13.72	45	2.5	10

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		Consensus EPS Estimates						
Ticker	Company Name	Period	Report	# of	Mean	High	Low	Median
			Date	Estimates				
LLY	Eli Lilly & Co.	LTG	-	20	11.31	15	5.8	11.6
EMC	EMC Corporation	LTG	-	12	23	55	15	19
EMR	Emerson Electric Co.	LTG	-	11	12.6	18.1	8	12
EC	Engelhard Corporation	LTG	-	4	10.75	12	10	10.5
ETR	Entergy Corporation	LTG	-	10	6.11	8	3	6.05
EOG	EOG Resources, Inc.	LTG	-	6	9.17	17	5	8
EFX	Equifax Inc.	LTG	-	6	9.42	12	7	10
EOP	Equity Office Properties Trust	LTG	-	2	3	3	3	3
EQR	Equity Residential	LTG	-	2	4.5	6	3	4.5
EXC	Exelon Corporation	LTG	-	9	5.89	8	3.5	6
ESRX	Express Scripts, Inc.	LTG	-	12	19.96	43	15	18
XOM	Exxon Mobil Corporation	LTG	-	6	6.8	10	4	6.7
FDO	Family Dollar Stores, Inc	LTG	-	15	12.46	18	2	13
FNM	Fannie Mae	LTG	-	11	10.43	15	5	10
FD	Federated Department Str.	LTG	-	10	10.05	13.5	8	10
FII	Federated Investors, Inc.	LTG	-	6	10.17	14	8	10
FDX	FedEx Corporation	LTG	-	6	14.33	15	12	15
FITB	Fifth Third Bancorp	LTG	-	14	11.79	15	9	12
FDC	First Data Corporation	LTG	-	17	13.74	17	7	15
FHN	First Horizon National Corporation	LTG	-	8	8.44	11	4.5	9
FE	FirstEnergy Corp.	LTG	-	8	4.25	6	2	4.5
FISV	Fiserv, Inc.	LTG	-	17	15.59	20.6	10	15
FSH	Fisher Scientific International Inc.	LTG	-	6	16.83	20	14	16
FLR	Fluor Corporation (NEW)	LTG	-	4	12.63	15	10	12.75
F	Ford Motor Company	LTG	-	7	7.43	16	2	6
FRX	Forest Laboratories, Inc.	LTG	-	16	18.49	26	8	18.6
FO	Fortune Brands, Inc.	LTG	-	3	13	15	12	12
FPL	FPL Group, Inc.	LTG	-	13	4.64	7	1	5
BEN	Franklin Resources	LTG	-	10	12.91	20.7	7.4	12
FRE	Freddie Mac	LTG	-	4	11.5	14	8	12
FCX	Freeport-McMoRan Copper & Gold Inc.	LTG	-	1	15	15	15	15
FSL	Freescale Semiconductor, Inc.	LTG	-	4	12	15	8	12.5
GCI	Gannett Co., Inc.	LTG	-	12	9.02	12	5	9
GPS	Gap Inc., The	LTG	-	20	14.1	20	10	15
GTW	Gateway, Inc.							
GD	General Dynamics Corporation	LTG	-	8	9.49	12	5	10.5
GE	General Electric Company	LTG	-	13	10.75	15	7.3	11
GIS	General Mills, Inc.	LTG	-	10	8.65	10	7	8.5
GM	General Motors Corporation	LTG	-	7	5.29	8	2	5
GPC	Genuine Parts Company	LTG	-	3	6.33	8	5	6
GENZ	Genzyme Corporation	LTG	-	12	17.39	23	3	17.5
GP	Georgia-Pacific Corporation	LTG	-	4	4.25	5	2	5
GILD	Gilead Sciences, Inc.	LTG	-	14	20.26	32	12	20
GDW	Golden West Financial	LTG	-	11	13.18	17	11	12
GS	Goldman Sachs Group, Inc.	LTG	-	11	12.64	16	10	12
GR	Goodrich Corporation	LTG	-	7	15.14	22	10	15
GT	Goodyear Tire & Rubber	LTG	-	1	3	3	3	3
GLK	Great Lakes Chemical	LTG	-	4	7	9	4	7.5
GDT	Guidant Corporation	LTG	-	15	13.67	30	3	15
HRB	H&R Block, Inc.	LTG	-	6	12.17	15	8	13
HNZ	H.J. Heinz Company	LTG	-	5	8	9	7	8
HAL	Halliburton Company	LTG	-	3	20.47	39	7.4	15
HDI	Harley-Davidson, Inc.	LTG	-	12	16.17	20	13.5	15



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		Consensus EPS Estimates						
Ticker	Company Name	Period	Report Date	# of Estimates	Mean	High	Low	Median
HET	Harrah's Entertainment, Inc.	LTG	-	9	14.46	20	10	15
HIG	Hartford Financial Services	LTG	-	16	11.45	14	8.1	12
HAS	Hasbro, Inc.	LTG	-	6	10.33	11	10	10
HCA	HCA Inc.	LTG	-	10	11.2	13	9	11.5
HMA	Health Management Associates, Inc.	LTG	-	14	13.79	16	10	14
HPC	Hercules Incorporated	LTG	-	1	7	7	7	7
HSY	Hershey Foods Corporation	LTG	-	10	10.2	13	8	10
HPQ	Hewlett-Packard Company	LTG	-	12	10.92	19	5	10
HLT	Hilton Hotels Corporation	LTG	-	10	13.4	15	9	14
HD	Home Depot, Inc.	LTG	-	16	13.08	15	12	13
HON	Honeywell International	LTG	-	11	11.49	18	5	12
HSP	Hospira, Inc.	LTG	-	5	6.6	8	5	7
HUM	Humana Inc.	LTG	-	7	13.5	18	10	14
HBAN	Huntington Bancshares Incorporated	LTG	-	9	7	8	5	8
ITW	Illinois Tool Works Inc.	LTG	-	9	13.44	20	11	13
RX	IMS Health, Inc.	LTG	-	7	12.39	15	9.7	12
IR	Ingersoll-Rand Company Limited	LTG	-	7	12.14	18	8	12
INTC	Intel Corporation	LTG	-	19	15.5	32	4	15
IBM	International Business Machines Corp.	LTG	-	10	10.45	12	8	10
IGT	International Game Tech.	LTG	-	9	15.56	20	15	15
IP	International Paper Company	LTG	-	3	4.67	7	2	5
IPG	Interpublic Group of Companies, Inc.	LTG	-	4	12	18	10	10
INTU	Intuit Inc.	LTG	-	11	14.91	20	10	15
ITT	ITT Industries, Inc.	LTG	-	9	12.33	15	10	12
JCP	J.C. Penney Company, Inc.	LTG	-	11	11.49	24.7	5	10
JBL	Jabil Circuit, Inc.	LTG	-	13	21.81	28	11	25
JNS	Janus Capital Group Inc.	LTG	-	9	11.61	18	8	11
JDSU	JDS Uniphase Corporation	LTG	-	4	18.75	30	5	20
JP	Jefferson-Pilot Corporation	LTG	-	12	8.32	10	4.7	8.8
JNJ	Johnson & Johnson	LTG	-	13	11.23	15	9	11
JCI	Johnson Controls, Inc.	LTG	-	9	12.89	15	11	12
JNY	Jones Apparel Group, Inc.	LTG	-	9	10.78	15	8	10
JPM	JPMorgan Chase & Co.	LTG	-	10	10.72	12.2	8	10.5
KBH	KB Home	LTG	-	8	13.79	21	10	13.5
K	Kellogg Company	LTG	-	10	8.78	10	8	8.5
KMG	Kerr-McGee Corporation	LTG	-	5	3.8	5	1	4
KEY	KeyCorp	LTG	-	12	7.59	10	5.8	7.5
KSE	KeySpan Corporation	LTG	-	5	4.2	8	2	4
KMB	Kimberly-Clark Corporation	LTG	-	7	8.14	9	7	8
KMI	Kinder Morgan, Inc.	LTG	-	7	11.71	13	11	12
KG	King Pharmaceuticals	LTG	-	4	12.13	20	7	10.75
KLAC	KLA-Tencor Corporation	LTG	-	12	18	25	8	19
KRI	Knight-Ridder, Inc.	LTG	-	11	8.58	12	5	8
KSS	Kohl's Corporation	LTG	-	16	18.96	24	15	18
LLL	L-3 Communications Hldgs.	LTG	-	11	16.14	36	10	15
LH	Laboratory Corp. of America	LTG	-	8	13.81	22	10	12
LEG	Leggett & Platt, Inc.	LTG	-	7	15.1	20	8.7	15
LEH	Lehman Brothers Holdings Inc.	LTG	-	8	11.5	13	8	12
LXK	Lexmark International, Inc.	LTG	-	8	12.13	15	9	12
LTD	Limited Brands, Inc.	LTG	-	17	12.24	18	7	12
LNC	Lincoln National Corporation	LTG	-	14	11.11	12	8	12
LLTC	Linear Technology Corp.	LTG	-	18	19.17	25	3	20
LIZ	Liz Claiborne, Inc.	LTG	-	8	11.5	15	8	10.5

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		Consensus EPS Estimates						
Ticker	Company Name	Period	Report Date	# of Estimates	Mean	High	Low	Median
LMT	Lockheed Martin Corporation	LTG	-	7	11.39	15	8	11
LTR	Loews Corporation	LTG	-	1	8	8	8	8
LPX	Louisiana-Pacific Corporation	LTG	-	2	7	7	7	7
LOW	Lowe's Companies, Inc.	LTG	-	18	17.17	20	14.5	18
LSI	LSI Logic Corporation	LTG	-	4	17.5	20	15	17.5
LU	Lucent Technologies Inc.	LTG	-	9	10.39	25	5	6
MTB	M&T Bank Corporation	LTG	-	6	10	10	10	10
HCR	Manor Care, Inc.	LTG	-	8	14.38	16	10	15
MRO	Marathon Oil Corporation	LTG	-	7	7.23	15.5	1	8
MAR	Marriott International Inc.	LTG	-	11	14.27	17	10	15
MMC	Marsh & McLennan Co's	LTG	-	8	10.94	14	5.5	11
MI	Marshall & Ilsley Corporation	LTG	-	12	9.88	12	6.5	10
MAS	Masco Corporation	LTG	-	5	13.8	15	10	15
MAT	Mattel, Inc.	LTG	-	4	10.08	12	8.3	10
MXIM	Maxim Integrated Products	LTG	-	15	22.4	33	13	25
MYG	Maytag Corporation	LTG	-	4	12.58	24.3	5	10.5
MBI	MBIA Inc.	LTG	-	4	12.5	13	12	12.5
KRB	MBNA Corporation	LTG	-	13	12.64	18	10	12
MKC	McCormick & Company, Inc.	LTG	-	7	9.21	11	7	9.5
MCD	McDonald's Corporation	LTG	-	13	8.49	10	7.3	8
MCK	McKesson Corporation	LTG	-	10	13.9	20	9	14
MWV	MeadWestvaco Corp.	LTG	-	3	7.33	11	3	8
MHS	Medco Health Solutions Inc.	LTG	-	8	15.38	17	15	15
MEDI	MedImmune, Inc.	LTG	-	13	23.01	50	4	22
MDT	Medtronic, Inc.	LTG	-	21	15.43	18.8	14	15
MEL	Mellon Financial Corp.	LTG	-	12	11.08	14	7.6	11.5
MRK	Merck & Co., Inc.	LTG	-	13	5.62	14	2	4
MERQ	Mercury Interactive Corp.	LTG	-	14	23.4	30	20	23.5
MDP	Meredith Corporation	LTG	-	4	12.63	15	11.5	12
MER	Merrill Lynch & Co., Inc.	LTG	-	10	11.9	14	10	12
MET	MetLife, Inc.	LTG	-	12	10.23	15	5.1	10.5
MTG	MGIC Investment Corp.	LTG	-	8	11.88	14	10	12
MU	Micron Technology, Inc.	LTG	-	10	18.85	30	10	18
MSFT	Microsoft Corporation	LTG	-	17	10.97	16	5	11
MIL	Millipore Corporation	LTG	-	7	13.64	15	11	14
MOLXE	Molex, Inc.	LTG	-	7	14.29	15	10	15
TAP	Molson Coors Brewing Company	LTG	-	7	10.86	18	9	10
MON	Monsanto Company	LTG	-	5	13.4	20	10	12
MNST	Monster Worldwide, Inc.	LTG	-	15	26.27	50	20	25
MCO	Moody's Corporation	LTG	-	6	14.75	18	10	15
MWD	Morgan Stanley	LTG	-	10	12.6	15	10	12
MOT	Motorola, Inc.	LTG	-	13	12.23	20	7	10
MYL	Mylan Laboratories Inc.	LTG	-	7	12.93	15	7	15
NBR	Nabors Industries Ltd.	LTG	-	3	32	45	9	42
NCC	National City Corporation	LTG	-	9	7.77	9	4.9	8
NSM	National Semiconductor Corporation	LTG	-	10	16.45	25	10	17
NAV	Navistar International	LTG	-	3	20.67	27	10	25
NCR	NCR Corporation	LTG	-	3	11.67	15	5	15
NTAP	Network Appliance, Inc.	LTG	-	16	26.28	40	15	25
NWL	Newell Rubbermaid Inc.	LTG	-	9	9.33	15	7	9
NEM	Newmont Mining Corporation	LTG	-	1	5	5	5	5
NWS	News Corporation Inc, The	LTG	-	8	15.84	25	11	15.35
NXTL	Nextel Communications	LTG	-	7	10.91	15	6.6	11

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		Consensus EPS Estimates						
Ticker	Company Name	Period	Report Date	# of Estimates	Mean	High	Low	Median
GAS	Nicor Inc.	LTG	-	3	1.83	2	1.5	2
NKE	NIKE, Inc.	LTG	-	10	13.5	15	10	13.5
NI	NiSource Inc.	LTG	-	7	3.57	5	2	4
NE	Noble Corporation	LTG	-	7	25.55	45	7.1	21.9
JWN	Nordstrom, Inc.	LTG	-	15	13.19	19.6	8	13
NSC	Norfolk Southern Corp.	LTG	-	5	13.9	16	10	15
NFB	North Fork Bancorporation, Inc.	LTG	-	9	10.27	12.5	7.4	10
NTRS	Northern Trust Corporation	LTG	-	13	11.74	15	9	12
NOC	Northrop Grumman Corporation	LTG	-	8	10.79	17.5	5	10
NOVL	Novell, Inc.	LTG	-	10	11.96	20	5	12.28
NVLS	Novellus Systems, Inc.	LTG	-	11	14.82	20	8	15
NUE	Nucor Corporation							
NVDA	NVIDIA Corporation	LTG	-	8	19.69	30	10	20
OXY	Occidental Petroleum Corporation	LTG	-	6	6.33	15	3	5
ODP	Office Depot, Inc.	LTG	-	11	11.81	15	10	11
OMX	OfficeMax Incorporated	LTG	-	2	12.5	15	10	12.5
OMC	Omnicom Group Inc.	LTG	-	6	11.92	14	10	12.25
ORCL	Oracle Corporation	LTG	-	15	11.2	15	6	10
PCAR	PACCAR Inc	LTG	-	6	14.17	20	10	14
PTV	Pactiv Corporation	LTG	-	4	10	13	7	10
PLL	Pall Corporation	LTG	-	6	10.67	12	7	11.5
PMTC	Parametric Technology	LTG	-	4	13.75	20	5	15
PH	Parker-Hannifin Corporation	LTG	-	6	13.5	25	10	11.5
PAYX	Paychex, Inc.	LTG	-	14	15.9	20	9.6	16
PGL	Peoples Energy Corp.	LTG	-	4	4.25	6	3	4
PEP	PepsiCo, Inc.	LTG	-	9	10.72	12.5	10	10
PKI	PerkinElmer, Inc.	LTG	-	4	17.25	20	14	17.5
PFE	Pfizer Inc.	LTG	-	20	8.45	22.7	2	8.5
PCG	PG&E Corporation	LTG	-	6	6.18	11.1	3	5
PD	Phelps Dodge Corp.							
PNW	Pinnacle West Capital	LTG	-	5	3.4	6	1	3
PBI	Pitney Bowes Inc.	LTG	-	4	7.25	10	4	7.5
PCL	Plum Creek Timber Co. Inc.	LTG	-	3	6.67	10	5	5
PMCS	PMC-Sierra, Inc.	LTG	-	8	23.13	35	10	25
PNC	PNC Financial Services	LTG	-	9	7.93	10.5	4	8
PWER	Power-One, Inc.	LTG	-	1	15	15	15	15
PPG	PPG Industries, Inc.	LTG	-	5	8.2	9	7	8
PPL	PPL Corporation	LTG	-	11	5.46	8	4	5
PX	Praxair, Inc.	LTG	-	6	10.33	13	9	10
PFG	Principal Financial Group	LTG	-	11	12.54	15	11	12
PGN	Progress Energy, Inc.	LTG	-	8	3.98	7	1.3	3.75
PLD	ProLogis	LTG	-	1	4	4	4	4
PVN	Providian Financial Corp	LTG	-	12	13.5	25	8	13
PRU	Prudential Financial, Inc	LTG	-	11	12.71	16.4	9	13
PEG	Public Service Enterprise Group Inc.	LTG	-	7	4.14	8	2	4
PHM	Pulte Homes, Inc.	LTG	-	10	15.41	27.1	10	15
QLGC	QLogic Corporation	LTG	-	9	12.38	15	10	12
QCOM	QUALCOMM, Inc.	LTG	-	16	20.66	35	15	20
DGX	Quest Diagnostics Incorporated	LTG	-	7	16.56	30	10	15
Q	Qwest Communications International Inc.	LTG	-	2	2	2	2	2
RRD	R.R. Donnelley & Sons Company	LTG	-	1	9	9	9	9
RSH	RadioShack Corporation	LTG	-	14	11.86	15	7	13
RTN	Raytheon Company	LTG	-	7	13.66	22.8	5	12

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		Consensus EPS Estimates						
Ticker	Company Name	Period	Report Date	# of Estimates	Mean	High	Low	Median
RBK	Reebok International Ltd.	LTG	-	9	13.67	15	12	14
RF	Regions Financial Corp.	LTG	-	11	8.91	14	6	8
RAI	Reynolds American, Inc.	LTG	-	5	6.8	9	5	7
RHI	Robert Half International Inc.	LTG	-	14	18.43	25	13	20
ROK	Rockwell Automation	LTG	-	6	15.67	20	8	16
COL	Rockwell Collins, Inc.	LTG	-	9	11.44	17	6	12
ROH	Rohm and Haas Company	LTG	-	6	9.67	13	7	10
RDC	Rowan Companies, Inc.	LTG	-	4	18.08	32	6.3	17
R	Ryder System, Inc.	LTG	-	1	15	15	15	15
TSG	Sabre Holdings Corporation	LTG	-	3	11.33	15	9	10
SAFC	SAFECO Corporation	LTG	-	9	10.22	15	7	10
SWY	Safeway Inc.	LTG	-	3	8	10	7	7
SANM	Sanmina-SCI Corporation	LTG	-	12	19.17	25	15	20
SLE	Sara Lee Corp.	LTG	-	8	6.75	8	4	7
SBC	SBC Communications Inc.	LTG	-	11	5.96	14.2	2	5.6
SGP	Schering-Plough Corp.	LTG	-	8	21.36	37	10	20.5
SLB	Schlumberger Limited	LTG	-	3	17.1	27	9.3	15
SFA	Scientific-Atlanta, Inc.	LTG	-	8	15	30	8	14.5
SEE	Sealed Air Corp.	LTG	-	4	11.25	13	10	11
S	Sears, Roebuck & Co.	LTG	-	3	8.33	12	5	8
SRE	Sempra Energy	LTG	-	4	6.25	8	5	6
SHW	Sherwin-Williams Company	LTG	-	6	11.5	15	9	11.25
SEBL	Siebel Systems, Inc.	LTG	-	18	13.19	20	5	14.5
SIAL	Sigma-Aldrich Corporation	LTG	-	7	10	16	4	10
SPG	Simon Property Group, Inc	LTG	-	1	5.5	5.5	5.5	5.5
SLM	SLM Corporation	LTG	-	8	13.36	15	5.9	15
SNA	Snap-on Incorporated	LTG	-	1	11	11	11	11
SLR	Soletron Corporation	LTG	-	7	19.29	25	15	20
LUV	Southwest Airlines Co.	LTG	-	7	17.57	31	10	15
SOV	Sovereign Bancorp, Inc.	LTG	-	4	11.75	13	9	12.5
FON	Sprint Corporation	LTG	-	10	12.65	39	1.7	13.15
STJ	St. Jude Medical, Inc.	LTG	-	16	16.13	19	10	17
SPLS	Staples, Inc.	LTG	-	12	15.68	18	12.1	15
SBUX	Starbucks Corporation	LTG	-	11	20.64	25	10	22
HOT	Starwood Hotels & Resorts Worldwide, Inc	LTG	-	11	14.5	17.5	10	15
STT	State Street Corporation	LTG	-	13	12.13	15	10	12
SYK	Stryker Corporation	LTG	-	16	19.48	23.3	15	20
SUNW	Sun Microsystems, Inc.	LTG	-	4	20	50	7	11.5
SDS	SunGard Data Systems Inc.	LTG	-	15	13.53	20	7.5	13.5
SUN	Sunoco, Inc.	LTG	-	4	8.45	16.2	3.6	7
STI	SunTrust Banks, Inc.	LTG	-	10	8.83	10	6	9
SVU	SUPERVALU Inc.	LTG	-	5	8.54	13	5.7	8
SYMC	Symantec Corporation	LTG	-	18	18	30	10	18
SBL	Symbol Technologies	LTG	-	5	16.4	20	10	17
SNV	Synovus Financial Corp.	LTG	-	8	12.25	15	8	12.5
SYT	SYSCO Corporation	LTG	-	7	13.86	17	12	13
TROW	T. Rowe Price Group, Inc.	LTG	-	9	12.78	15	12	12
TGT	Target Corporation	LTG	-	16	15.21	19	13	15
TE	TECO Energy, Inc.	LTG	-	6	3.83	5	3	3.5
TEK	Tektronix, Inc.	LTG	-	6	14	20	8	13.5
TLAB	Tellabs, Inc.	LTG	-	10	11	15	8	10
TIN	Temple-Inland, Inc.	LTG	-	2	6	7	5	6
THC	Tenet Healthcare Corporation	LTG	-	1	8	8	8	8

First Call S&P 500 3/11/05

		Consensus EPS Estimates						
Ticker	Company Name	Period	Report Date	# of Estimates	Mean	High	Low	Median
TER	Teradyne, Inc.	LTG	-	4	16.25	20	12	16.5
TXN	Texas Instruments Incorporated	LTG	-	13	18.35	30	3	20
TXT	Textron Inc.	LTG	-	7	12.43	16	9	12
AES	The AES Corporation	LTG	-	6	14.33	22.99	8	13.5
BK	The Bank of New York Co.	LTG	-	15	11.44	13.5	10	11.2
BSC	The Bear Stearns Companies Inc.	LTG	-	8	12.06	25	7.5	11
BDK	The Black & Decker Corporation	LTG	-	6	9.5	13	5	10
CLX	The Clorox Company	LTG	-	11	9.2	11	8	9
KO	The Coca-Cola Company	LTG	-	10	8.84	11	7	8.5
DOW	The Dow Chemical Company	LTG	-	5	11.6	30	5	7
G	The Gillette Company	LTG	-	9	11.33	14	8	12
KR	The Kroger Co.	LTG	-	5	6.5	8	1.5	8
MAY	The May Department Stores Company	LTG	-	11	6.34	10	2	7
MHP	The McGraw-Hill Companies, Inc.	LTG	-	8	11.74	15	8	12
NYT	The New York Times Company	LTG	-	11	9.81	14	6.3	9.2
PBG	The Pepsi Bottling Group	LTG	-	8	9.38	11	8	9.5
PG	The Procter & Gamble Co.	LTG	-	10	10.8	12	10	11
PGR	The Progressive Corp.	LTG	-	13	11.31	17	7	10
SO	The Southern Company	LTG	-	12	4.69	6	3	5
STA	The St. Paul Travelers Companies, Inc.	LTG	-	10	10.64	15	8	10.7
SWK	The Stanley Works	LTG	-	6	15.33	30	10	13.5
TJX	The TJX Companies, Inc.	LTG	-	14	13.89	15	10	15
TMO	Thermo Electron Corporation	LTG	-	6	15	15	15	15
TIF	Tiffany & Co.	LTG	-	11	12.5	15	4.5	13
TWX	Time Warner Inc.	LTG	-	13	12.68	20	6	11.3
TMK	Torchmark Corporation	LTG	-	10	10.52	13	9.5	10
TOY	Toys R Us, Inc.	LTG	-	4	9.5	12	8	9
RIG	Transocean Inc.	LTG	-	4	40.03	60	17	41.55
TRB	Tribune Company	LTG	-	12	8.97	12	5	9
TXU	TXU Corporation	LTG	-	9	15.33	30	5	12
TYC	Tyco International Ltd.	LTG	-	10	14.7	18	8	15
USB	U.S. Bancorp	LTG	-	12	10.35	11.5	9.7	10
UNP	Union Pacific Corp.	LTG	-	4	10	13	7	10
UIS	Unisys Corporation	LTG	-	6	7.92	11	5	8.25
UPS	United Parcel Service	LTG	-	8	13.71	18.7	8	14
X	United States Steel Corp.	LTG	-	2	6	10	2	6
UTX	United Technologies Corporation	LTG	-	10	11.33	15	8	11
UNH	UnitedHealth Group Inc.	LTG	-	12	17.63	22.5	15	17.5
UVN	Univision Communications Inc.	LTG	-	11	20.87	30	12.5	20
UCL	Unocal Corporation	LTG	-	5	5	10	2	4
UNM	UnumProvident Corp.	LTG	-	9	9.44	12	7	10
UST	UST Inc.	LTG	-	3	7.33	8	7	7
VFC	V.F. Corporation	LTG	-	3	8.67	10	8	8
VLO	Valero Energy Corp.	LTG	-	3	5.27	8	1	6.8
VRTS	VERITAS Software Corporation	LTG	-	17	11.89	20	9	12
VZ	Verizon Communications	LTG	-	12	6.23	20	2	4.5
VIA/B	Viacom Inc.	LTG	-	12	12.19	20	6	12.95
VC	Visteon Corporation	LTG	-	1	6	6	6	6
VMC	Vulcan Materials Company	LTG	-	2	12	15	9	12
GWW	W.W. Grainger, Inc.	LTG	-	6	12.5	15	10	12.5
WB	Wachovia Corporation	LTG	-	15	10.01	11.4	8	10
WAG	Walgreen Company	LTG	-	10	15.29	19	13	15
WMT	Wal-Mart Stores, Inc.	LTG	-	17	14.18	15.1	13	14

First Call S&P 500 3/11/05

		Consensus EPS Estimates						
Ticker	Company Name	Period	Report Date	# of Estimates	Mean	High	Low	Median
DIS	Walt Disney Company, The	LTG	-	13	13.57	21	6	14
WM	Washington Mutual Inc.	LTG	-	8	9.75	13	6	10
WMI	Waste Management, Inc.	LTG	-	5	11.6	15	7	12
WAT	Waters Corporation	LTG	-	7	16.29	20	15	15
WPI	Watson Pharmaceuticals	LTG	-	10	10.03	15	4	10
WLP	WellPoint, Inc.	LTG	-	8	15.31	19	13.5	15
WFC	Wells Fargo & Company	LTG	-	17	11.57	15	9	11.7
WEN	Wendy's International	LTG	-	14	12.21	13.5	10.2	12
WY	Weyerhaeuser Company	LTG	-	4	5.25	7	2	6
WHR	Whirlpool Corporation	LTG	-	3	7.73	11	5.2	7
WWY	William Wrigley Jr. Co.	LTG	-	5	10.6	11	10	11
WMB	Williams Companies, Inc.	LTG	-	3	9.33	15	5	8
WYE	Wyeth	LTG	-	16	8.11	16	4	7.85
XEL	Xcel Energy Inc.	LTG	-	8	4.13	7	3	3.5
XRX	Xerox Corporation	LTG	-	6	10.08	15	5	11
XLNX	Xilinx, Inc.	LTG	-	12	21.38	31	9	20
XL	XL Capital Ltd.	LTG	-	14	17.81	72	8	11.5
XTO	XTO Energy Inc.	LTG	-	6	16.23	29	6.38	13
YHOO	Yahoo! Inc.	LTG	-	12	31.36	50	20	30
YUM	Yum! Brands, Inc.	LTG	-	14	11.06	12.4	9	11
ZMH	Zimmer Holdings, Inc.	LTG	-	16	19.75	34.7	14.5	19.8
ZION	Zions Bancorporation	LTG	-	13	10.81	13	9	11

MEDIAN

## Value Line's 3- to 5-year Price Appreciation Potential—An Update

The following is an update to the evaluation of our 3- to 5-year price appreciation potential that was first published on November 8, 2002. That article and accompanying chart detailed the methodology behind our evaluation and discussed some of the more interesting results. For the benefit of our subscribers, we briefly review the methodology used for this, and the previous, evaluation.

### Price Appreciation Potential

The estimate of the median price appreciation potential is found by first calculating the percentage change between the current price of each stock in our universe and the middle of its 3- to 5-year Target Price Range. These figures are then arrayed, and the median price

appreciation potential is determined. We select the median of the array (the middle) as the most likely price, in order to play down the effect of outliers, that is, excessively large or small percentage price changes.

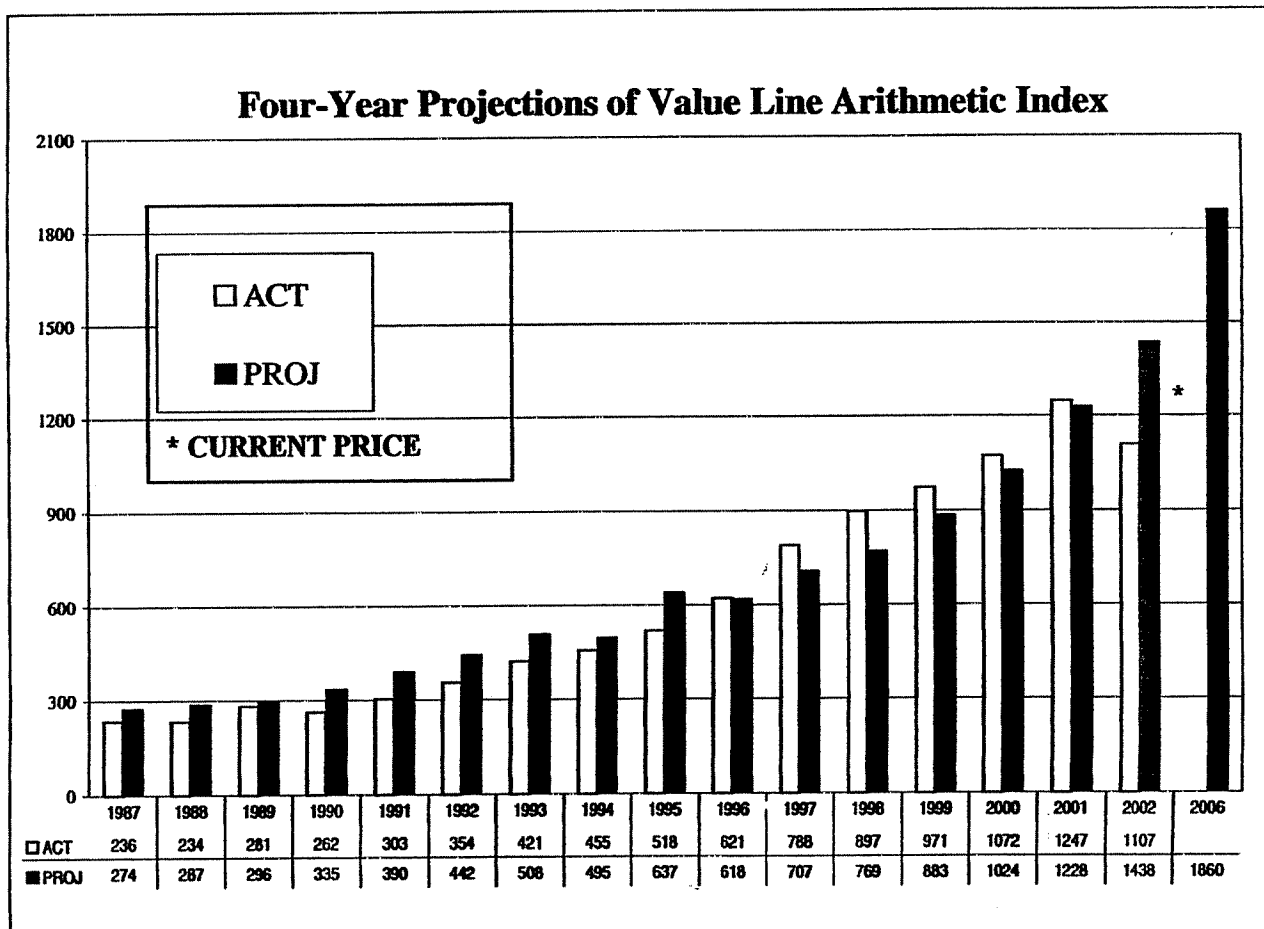
The chart included below depicts the results of those projections from 1983 to 2002, using the Value Line Arithmetic Index as our measure of the market. For simplicity sake, we take the actual price as the average of the middle year of the 3- to 5-year forecast, so that a projection made at the end of 1983 would be compared to the average price of the index in 1987. Strictly speaking this would be a 3 1/2 year forecast, from the end of 1983 to midyear 1987.

### Update for 2002

In contrast to the 1997-2001 period, our estimate for the 4-year appreciation potential for the Value Line Arithmetic Index turned out to be too high by some 30% in 2002. The projection was based on earnings estimates made at the end of 1998—during the heady days of the market bubble.

The current projection for 2006 stands at 1,860. This figure is based on estimates made in the far more sober market environment at the end of 2002. Meanwhile, the Value Line Arithmetic Index has already risen by about 22% since that date.

*Samuel Eisenstadt*  
 Research Chairman



# THE VALUE LINE Investment Survey®

Part 1  
**Summary & Index**

File at the front of the Ratings & Reports binder. Last week's Summary & Index should be removed.

April 15, 2005

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The Median of Estimated **PRICE-EARNINGS RATIOS** of all stocks with earnings

**18.7**

26 Weeks Ago	Market Low	Market High
18.0	10-9-02 14.1	4-5-04 19.7

The Median of Estimated **DIVIDEND YIELDS** (next 12 months) of all dividend paying stocks under review

**1.6%**

26 Weeks Ago	Market Low	Market High
1.6%	10-9-02 2.4%	4-5-04 1.6%

The Estimated Median Price **APPRECIATION POTENTIAL** of all 1700 stocks in the hypothesized economic environment 3 to 5 years hence

**50%**

26 Weeks Ago	Market Low	Market High
45%	10-9-02 115%	4-5-04 40%

**ANALYSES OF INDUSTRIES IN ALPHABETICAL ORDER WITH PAGE NUMBER**  
 Numeral in parenthesis after the industry is rank for probable performance (next 12 months).

INDUSTRY	PAGE	INDUSTRY	PAGE	INDUSTRY	PAGE
Advertising (45)	1921	Educational Services (57)	1580	Insurance (Prop/Cas.) (37)	1794, 584
Aerospace/Defense (34)	543	*Electrical Equipment (27)	1001	Internet (32)	2222
Air Transport (81)	253	Electric Util. (Central) (69)	695	Investment Co. (31)	959
Apparel (76)	1651	Electric Utility (East) (85)	155	Investment Co.(Foreign) (16)	359
Auto & Truck (30)	101	Electric Utility (West) (91)	1775	Machinery (54)	1331
Auto Parts (94)	790	*Electronics (78)	1023	Manuf. Housing/RV (92)	1550
Bank (83)	2101	Entertainment (24)	1861	Maritime (35)	276
Bank (Canadian) (64)	1566	Entertainment Tech (71)	1593	Medical Services (6)	628
Bank (Midwest) (95)	612	Environmental (86)	349	Medical Supplies (39)	179
Beverage (Alcoholic) (70)	1534	Financial Svcs. (Div.) (52)	2129	Metal Fabricating (14)	564
Beverage (Soft Drink) (88)	1541	Food Processing (79)	1481	Metals & Mining (Div.) (10)	1222
Biotechnology (72)	665	Food Wholesalers (46)	1529	Natural Gas (Distrib.) (93)	459
Building Materials (62)	851	Foreign Electronics (25)	1557	Natural Gas (Div.) (15)	437
Cable TV (49)	822	Foreign Telecom. (17)	765	Newspaper (90)	1907
Canadian Energy (33)	428	Furn/Home Furnishings (87)	894	*Office Equip/Supplies (56)	1137
Cement & Aggregates (28)	887	Grocery (63)	1514	Oilfield Svcs/Equip. (13)	1940
Chemical (Basic) (3)	1234	Healthcare Information (75)	654	Packaging & Container (58)	925
Chemical (Diversified) (41)	1961	Home Appliance (47)	118	Paper/Forest Products (60)	908
Chemical (Specialty) (74)	476	Homebuilding (1)	866	Petroleum (Integrated) (12)	405
Coal (2)	520	Hotel/Gaming (53)	1876	Petroleum (Producing) (7)	1930
*Computers/Peripherals (21)	1107	Household Products (77)	942	Pharmacy Services (11)	780
Computer Software/Svcs (19)	2165	Human Resources (50)	1285	Power (89)	974
Diversified Co. (61)	1376	Industrial Services (36)	322	Precious Metals (73)	1214
Drug (80)	1242	Information Services (23)	374	Precision Instrument (67)	125
E-Commerce (26)	1439	Insurance (Life) (42)	1200	Publishing (55)	1893
				Railroad (9)	284
				R.E.I.T. (97)	1173
				Recreation (68)	1841
				Restaurant (51)	292
				Retail Automotive (18)	1665
				Retail Building Supply (5)	880
				Retail (Special Lines) (59)	1708
				Retail Store (38)	1674
				Securities Brokerage (20)	1424
				*Semiconductor (40)	1051
				*Semiconductor Equip (43)	1092
				Shoe (66)	1696
				Steel (General) (4)	574
				Steel (Integrated) (22)	1414
				Telecom. Equipment (44)	742
				Telecom. Services (65)	719
				Thrift (82)	1161
				Tire & Rubber (84)	112
				Tobacco (96)	1573
				Toiletries/Cosmetics (48)	810
				Trucking (8)	265
				Water Utility (98)	1420
				Wireless Networking (29)	509

\*Reviewed in this week's issue.

In three parts: This is Part 1, the Summary & Index. Part 2 is Selection & Opinion. Part 3 is Ratings & Reports. Volume LX, No. 33.  
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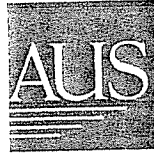
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PRICE APPRECIATION PROJECTION  
VALUE LINE  
9/17/04 to 2/14/05

	<u>Price Appreciation Projection</u>
09/17/04	50
09/24/04	50
10/01/04	50
10/08/04	50
'10/15/04	45
10/22/04	50
10/29/04	50
11/05/04	45
11/12/04	45
11/19/04	40
11/26/04	40
12/03/04	40
12/10/04	35
12/17/04	40
12/24/04	35
12/31/04	35
01/07/05	35
01/14/05	40
01/21/05	40
01/28/05	40
02/04/05	40
02/11/05	40
Average	43

APRIL 2005



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**ELECTRIC**

COMPANY	OPER REV \$ MILL (1)	% ELEC REV	NET PLANT \$ MILL	NET PLANT PER \$ REV (1)
ALLETE, Inc. (NYSE-ALE)	1,431.4	39	883.1	0.62
American Electric Power Co. (NYSE-AEP)	13,920.0	76	22,801.0	1.64
Central Vermont Public Serv. Corp. (NYSE-CV)	235.5	100	298.5	1.27
Cleco Corporation (NYSE-CNL)	745.8	96	1,060.0	1.42
DPL Inc.(NYSE-DPL)	1,199.9	99	2,530.1	2.11
Duquesne Light Holdings Inc. (NYSE-DQE)	897.3	86	1,449.3	1.62
Edison International (NYSE-EIX)	10,199.0	83	0.7	0.00
El Paso Electric Company (ASE-EE)	708.6	99	1,283.0	1.81
Empire District Electric Co. (NYSE-EDE)	325.5	93	857.0	2.63
FirstEnergy Corporation (NYSE-FE)	12,333.0	69	13,478.4	1.09
FPL Group, Inc. (NYSE-FPL)	10,522.0	83	21,226.0	2.02
Great Plains Energy (NYSE-GXP)	2,464.0	44	2,734.5	1.11
Green Mountain Power Corp. (NYSE-GMP)	228.8	100	230.1	1.01
Hawaiian Electric Industries, Inc. (NYSE-HE)	1,924.1	81	2,422.3	1.26
IDACORP, Inc. (NYSE-IDA)	844.5	97	2,209.5	2.62
Maine & Maritimes Corporation (ASE-MAM)	36.9	90	59.6	1.62
OGE Energy Corp. (NYSE-OGE)	4,926.6	32	3,581.0	0.73
Otter Tail Corporation (NDQ-OTTR)	888.6	30	682.1	0.77
Pinnacle West Capital Corp. (NYSE-PNW)	2,918.6	70	7,535.5	2.58
Progress Energy Inc. (NYSE-PGN)	9,772.0	73	14,363.0	1.47
Southern Company (NYSE-SO)	11,925.9	92	28,361.0	2.38
TXU Corp. (NYSE-TXU)	10,161.0	22	16,803.0	1.65
UIL Holdings Corporation (NYSE-UIL)	1,101.3	65	511.7	0.46
Westar Energy, Inc. (NYSE-WR)	1,464.5	100	3,911.0	2.67
AVERAGE				

**COMPANIES**

S&P BOND RATING	MOODY'S BOND RATING	COMMON EQUITY RATIO (3)	% RETURN ON BOOK VALUE		REGULATION	
			COMMON EQUITY (4)	TOTAL CAPITAL	ALLOWED ROE	ORDER DATE
A-	Baa1	62	3.7	4.6	11.60	11/94
BBB	Baa1	41	13.8	8.8	11.31	-
BBB+	NR	60	5.1	5.7	10.25	04/04
BBB+	A3	46	12.7	8.5	12.25	03/04
BBB+	Baa2	33	22.4	11.4	-	09/00
BBB+	Baa1	33	14.9	8.3	-	05/98
BBB+	A3	35	4.0	6.5	11.60	07/04
BBB	Baa2	40	6.5	6.4	11.25	-
A-	Baa1	48	5.8	6.4	11.00	03/05
BBB	Baa1	43	10.4	7.6	12.20	07/03
A	Aa3	44	12.2	8.0	-	03/02
BBB	A2	46	16.4	10.4	-	-
BBB	Baa1	52	10.7	8.6	10.50	12/03
BBB	Baa2	29	10.6	4.7	11.22	-
A-	A3	48	7.8	6.6	10.25	-
NR	NR	53	4.5	5.2	10.25	09/03
BBB +	Baa2	75	5.0	5.2	11.55	-
BBB+	A2	57	10.6	8.4	12.00	-
BBB	Baa1	47	8.1	6.6	11.25	08/98
BBB	A2	42	8.7	7.2	12.75	-
A+	A1	42	15.4	9.3	12.45	-
BBB	Baa1	NM	NM	3.7	11.25	-
NR	Baa2	53	7.1	5.5	10.45	08/04
BBB	Baa3	45	8.2	7.6	11.02	09/01
		47	9.8	7.1	11.32	

**COMBINATION ELECTRIC**

COMPANY	OPER REV \$ MILL (1)	% ELEC REV	NET PLANT \$ MILL	NET PLANT REV PER \$ REV (1)
AES Corporation (NYSE-AES)	9,471.0	41	18,788.0	1.98
Allegheny Energy, Inc. (NYSE-AYE)	2,958.6	99	6,303.0	2.13
Alliant Energy Corporation (NYSE-LNT)	3,067.4	70	4,422.3	1.44
Ameren Corporation (NYSE-AEE)	5,160.0	83	13,297.0	2.58
Aquila Inc. (NYSE-ILA)	1,711.0	44	2,777.4	1.62
Avista Corporation (NYSE-AVA)	1,148.7	54	1,965.5	1.71
Black Hills Corporation (NYSE-BKH)	1,121.7	16	1,445.7	1.29
CenterPoint Energy (NYSE-CNP)	9,485.0	16	8,084.9	0.85
CH Energy Group, Inc. (NYSE-CHG)	791.5	54	745.1	0.94
Cinergy Corp. (NYSE-CIN)	4,688.0	77	9,929.5	2.12
CMS Energy Corporation (NYSE-CMS)	5,472.0	47	8,636.0	1.58
Consolidated Edison, Inc. (NYSE-ED)	9,778.0	58	15,168.0	1.55
Constellation Energy Group, Inc. (NYSE-CEG)	12,549.7	16	10,086.6	0.80
Dominion (NYSE-D)	13,972.0	39	26,716.0	1.91
DTE Energy Company (NYSE-DTE)	7,114.0	19	10,491.0	1.47
Duke Energy Corporation (NYSE-DUK)	23,401.5	22	33,506.0	1.43
Energy East Corporation (NYSE-EAS)	4,803.4	58	190.1	0.04
Energy Corporation (NYSE-ETR)	10,120.2	78	18,695.6	1.85
Exelon Corporation (NYSE-EXC)	14,515.0	70	21,482.0	1.48
Florida Public Utilities Company (ASE-FPU)	105.2	40	115.1	1.09
MDU Resources Group, Inc. (NYSE-MDU)	2,719.3	7	2,572.7	0.95
MGE Energy, Inc. (NDQ-MGEE)	424.9	59	607.4	1.43
NiSource Inc. (NYSE-NI)	6,668.0	17	8,946.5	1.34
Northeast Utilities (NYSE-NU)	6,686.7	60	5,864.2	0.88
Northwestern Corporation (NYSE-NWEC)	1,089.3	47	1,375.1	1.26
NSTAR (NYSE-NST)	2,954.3	80	3,580.0	1.21
Pepco Holdings, Inc. (NYSE-POM)	7,221.8	61	7,088.0	0.98
PG&E Corporation (NYSE-PCG)	11,080.0	71	18,989.0	1.71
PNM Resources, Inc. (NYSE-PNM)	1,607.2	69	2,324.6	1.45
PPL Corporation (NYSE-PPL)	5,812.0	67	11,209.0	1.93
Public Service Enterprise Group (NYSE-PEG)	10,996.0	63	13,750.0	1.25
Puget Energy, Inc. (NYSE-PSD)	2,572.8	55	4,228.4	1.64
SCANA Corporation (NYSE-SCG)	3,885.0	43	6,762.0	1.74
SEMPRA Energy (NYSE-SRE)	9,410.0	48	11,086.0	1.18
Sierra Pacific Resources (NYSE-SRP)	2,823.8	94	4,926.9	1.74
TECO Energy, Inc. (NYSE-TE)	2,757.8	61	4,657.9	1.69
UniSource Energy Corporation (NYSE-UNS)	1,169.0	84	2,081.1	1.78
Unitil Corporation (ASE-UTL)	214.1	86	204.0	0.95
Vectren Corporation (NYSE-VVC)	1,689.7	38	2,156.2	1.28
Wisconsin Energy Corporation (NYSE-WEC)	3,431.1	62	5,903.1	1.72
WPS Resources Corporation (NYSE-WPS)	4,890.6	18	2,002.6	0.41
Xcel Energy Inc. (NYSE-XEL)	8,365.9	75	14,096.0	1.68
<b>AVERAGE</b>				
<b>COMBINED ELECTRIC/COMBINATION ELECTRIC &amp; GAS AVERAGES</b>				

**& GAS COMPANIES**

S&P BOND RATING	MOODY'S BOND RATING	COMMON EQUITY RATIO (3)	% RETURN ON BOOK VALUE		REGULATION	
			COMMON EQUITY (4)	TOTAL CAPITAL	ALLOWED ROE	ORDER DATE
BBB-	Baa2	8	NM	10.3	-	06/96
BB	Ba1	20	8.8	7.9	10.85	-
A-	A2	47	6.8	6.5	11.50	-
A-	A2	49	10.4	7.7	11.07	-
B-	B2	32	NM	NM	11.31	-
BB+	Baa3	39	4.7	6.6	10.78	-
BBB	Baa1	NM	8.0	13.5	-	-
BBB	Baa2	NM	21.7	8.2	10.53	-
A	A2	58	8.7	7.3	10.30	10/01
B-	Ba3	43	10.8	7.5	11.00	-
BBB-	Baa3	19	6.3	7.6	11.20	-
A	A1	49	8.0	7.2	11.14	-
A	A1	46	13.3	9.1	11.05	-
A-	A2	39	11.6	7.7	10.50	-
BBB+	Baa2	39	8.2	7.3	12.25	-
BBB	Baa2	46	8.1	7.0	11.83	-
BBB+	A3	39	9.1	7.5	11.15	-
A-	Baa2	53	10.7	6.2	11.19	-
A-	A2	41	20.5	11.6	11.72	-
NR	NR	43	6.0	6.5	11.28	-
A-	A2	64	13.3	10.5	11.83	-
AA-	Aa3	57	11.3	8.2	11.50	12/04
BBB	Baa2	42	9.3	7.4	11.97	-
BBB+	A3	33	7.1	6.1	9.87	-
BB	Ba1	NM	5.7	NM	11.46	-
A	A1	37	13.4	8.9	11.63	-
A-	A3	36	8.1	6.8	10.75	-
BBB	Baa1	47	NM	NM	11.22	05/04
BBB	Baa2	50	8.1	6.4	10.25	-
A-	Baa1	35	18.7	10.2	10.70	-
A-	A3	C	7.5	15.3	9.88	-
BBB	Baa2	39	3.4	5.5	10.30	02/05
A-	A1	40	10.6	6.9	11.05	-
A+	A1	48	21.0	12.8	10.90	-
BB+	Ba2	27	2.2	6.2	10.25	-
BBB-	Baa2	30	NM	NM	11.25	-
BBB-	Ba2	30	8.0	9.1	10.67	-
NR	NR	40	8.6	6.4	10.00	-
A-	A3	43	10.1	7.4	11.18	-
A-	A1	40	5.0	4.9	12.20	-
AA-	Aa2	47	14.3	9.5	11.50	12/04
A-	A3	42	9.7	7.8	11.49	-
0	0	40	9.9	8.1	11.06	-
		43	9.9	7.8	11.15	-

Cincinnati G&E  
Case No. 92-1464-EL-AIR  
April 1993

Richard A. Baudin  
Page 31

1 estimate of a comparison group of companies with risk profiles similar to CG&E's.  
2 The cost of equity estimate for this group was 10.36%. I also recalculated the group  
3 average DCF by excluding return estimates less than 10%. This raised the  
4 comparison group DCF return to 10.57%. As a supplementary check on my DCF  
5 estimates, I also calculated a CAPM estimate of return on equity. This analysis  
6 employed the yields on 30-year and 5-year Treasury Bonds as proxies for the risk-  
7 free rate of return. This approach produced estimates of 10.83% and 9.87%.

8  
9 Q. What is your recommendation for a fair rate of return for CG&E?

10  
11 A. My recommendation is that the PUCO grant a "bare bones" rate of return on equity  
12 to CG&E of 10.7%. This recommendation is the approximate average of the group  
13 DCF estimate excluding returns less than 10% and the CAPM estimate that  
14 employed the 30-year Treasury Bond. I omitted the return estimates that fell below  
15 10% because, in my opinion, these estimates do not provide a reasonable premium  
16 over the current 8.3% yield on BBB-rated utility bonds. Overall, this return reflects  
17 investor requirements and strikes the proper balance between risk and return in  
18 today's marketplace.

19  
20 Multiplying the Staff's flotation cost adjustment of 1.02608 by the "bare bones" rate  
21 of return results in my recommended cost of equity of 11.0%.

22  
23 Q. Please explain in a little more detail why you believe that 11.0% is a reasonable

**COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION**

**In the Matter of:**

**THE APPLICATION OF LOUISVILLE GAS AND )  
ELECTRIC COMPANY FOR APPROVAL OF ITS ) CASE NO. 2004-00421  
2004 COMPLIANCE PLAN FOR RECOVERY )  
BY ENVIRONMENTAL SURCHARGE )**

and

**In the Matter of:**

**THE APPLICATION OF KENTUCKY UTILITIES )  
COMPANY FOR A CERTIFICATE OF PUBLIC )  
CONVENIENCE AND NECESSITY TO CONSTRUCT ) CASE NO. 2004-00426  
FLUE GAS DESULFURIZATION SYSTEMS AND )  
APPROVAL OF ITS 2004 COMPLIANCE PLAN FOR )  
RECOVERY BY ENVIRONMENTAL SURCHARGE )**

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**KENTUCKY UTILITY INDUSTRIAL CUSTOMERS INC.  
RESPONSE TO  
LOUISVILLE GAS AND ELECTRIC COMPANY'S AND  
KENTUCKY UTILITIES COMPANY'S  
REQUESTS FOR INFORMATION  
DATED APRIL 6, 2005**

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3. In reference to the statement on page 25, line 18-21, explain why Mr. Baudino believes it is not appropriate to include negative earnings growth rates as a proxy for long-term growth expectations.

**RESPONSE:**

Negative earnings growth is not a reasonable expectation for long-term earnings growth for electric utilities.

---

**COMMONWEALTH OF KENTUCKY  
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**KENTUCKY UTILITY INDUSTRIAL CUSTOMERS INC.  
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DATED APRIL 6, 2005**

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5. In reference to the Value Screen growth rate data on Exhibit (RAB-6), page 2:
- (a) Provide a list of companies included in the growth rate calculation.
  - (b) Indicate if any companies were excluded from the Value Line universe for that calculation. If so, provide the names of the companies excluded and the reasons for the exclusion.
  - (c) Provide the individual-company dividend yields used to get the average dividend yield for the market required return.
  - (d) Indicate the pricing period used to derive the dividend yield for the market required return.
  - (e) Provide the individual-company growth rates used to get the average earnings, book value and dividend growth rates taken from the Value Line source.
  - (f) Provide the Value Line projection of retention growth for each of the companies in the analysis.
  - (g) Are companies with zero or negative projected growth in earnings, book value or dividends per share included in the analysis? (Answer separately for growth in earnings, book value and dividends.)
  - (h) Are companies with zero dividend yield included in the analysis?
  - (i) Provide a computer disc including all the Value Line data.
  - (j) Indicate what years were used in the calculation of the growth rate in earnings, dividends and book value.
  - (k) Provide the raw data and the formula used to calculate the growth in earnings, dividends and book value.

**COMMONWEALTH OF KENTUCKY  
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**KENTUCKY UTILITY INDUSTRIAL CUSTOMERS INC.  
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KENTUCKY UTILITIES COMPANY'S  
REQUESTS FOR INFORMATION  
DATED APRIL 6, 2005**

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**RESPONSE TO 5:**

- (a) Mr. Baudino does not have a list of all the companies used in the calculation. Please refer to the copy of the summary report from the full Value Line database in response to Question 7 from which Mr. Baudino took the data. These summary statistics do not list individual companies.
- (b) Mr. Baudino did not exclude any companies from the full database generated by Value Line.
- (c) Mr. Baudino does not have the requested information because the Value Line summary report does not list individual-company dividend yields.
- (d) The dividend yield was taken from the February 2005 summary of data from the Value Line database.
- (e) Mr. Baudino does not have the requested information because the Value Line summary report does not list growth rates for individual companies.
- (f) Mr. Baudino does not have the requested information because the Value Line summary report does not list retention growth rates for individual companies.
- (g) It is Mr. Baudino's understanding that companies with projected zero and negative growth rates are included in the projections of earnings, book value, and dividend growth.



SUMMARY TABLE  
Companies Not Paying a Dividend

<u>Page Number</u>	<u># of Companies Not Paying a Dividend</u>
2	20
3	30
4	30
5	29
6	35
7	38
8	35
9	33
10	28
11	34
12	40
13	27
14	32
15	28
16	34
17	32
18	29
19	37
20	31
21	30
22	30
	<hr/>
	662

Source: VL, Summary & Index,  
Marcy 4, 2005.

For example, if bond yields rise unexpectedly, investors can receive a higher coupon payment from a newly issued bond than from the purchase of an outstanding bond with the former lower-coupon payment. The outstanding lower-coupon bond will thus fail to attract buyers, and its price will decrease, causing its yield to increase correspondingly, as its coupon payment remains the same. The newly priced outstanding bond will subsequently attract purchasers who will benefit from the shift in price and yield; however, those investors who already held the bond will suffer a capital loss due to the fall in price.

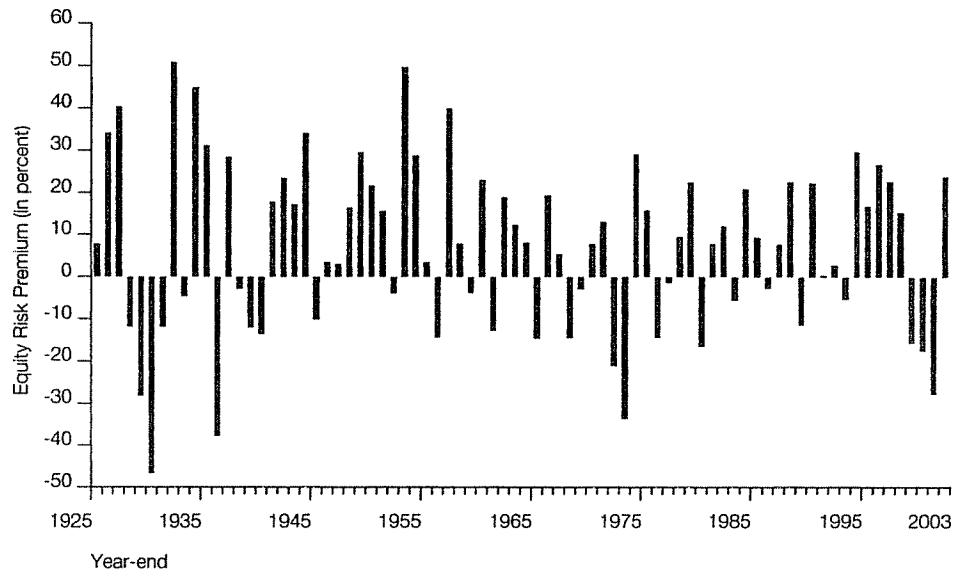
Anticipated changes in yields are assessed by the market and figured into the price of a bond. Future changes in yields that are not anticipated will cause the price of the bond to adjust accordingly. Price changes in bonds due to unanticipated changes in yields introduce price risk into the total return. Therefore, the total return on the bond series does not represent the riskless rate of return. There is no evidence that investors expect the historical trend of bond capital losses to be repeated in the future (otherwise, bond prices would be adjusted accordingly). Therefore, historical total returns are biased downward as indicators of future expectations. The income return better represents the unbiased estimate of the purely riskless rate of return, since an investor can hold a bond to maturity and be entitled to the income return with no capital loss.

#### **Arithmetic versus Geometric Means**

The equity risk premium data presented in this book are arithmetic average risk premia as opposed to geometric average risk premia. The arithmetic average equity risk premium can be demonstrated to be most appropriate when discounting future cash flows. For use as the expected equity risk premium in either the CAPM or the building block approach, the arithmetic mean or the simple difference of the arithmetic means of stock market returns and riskless rates is the relevant number. This is because both the CAPM and the building block approach are additive models, in which the cost of capital is the sum of its parts. The geometric average is more appropriate for reporting past performance, since it represents the compound average return.

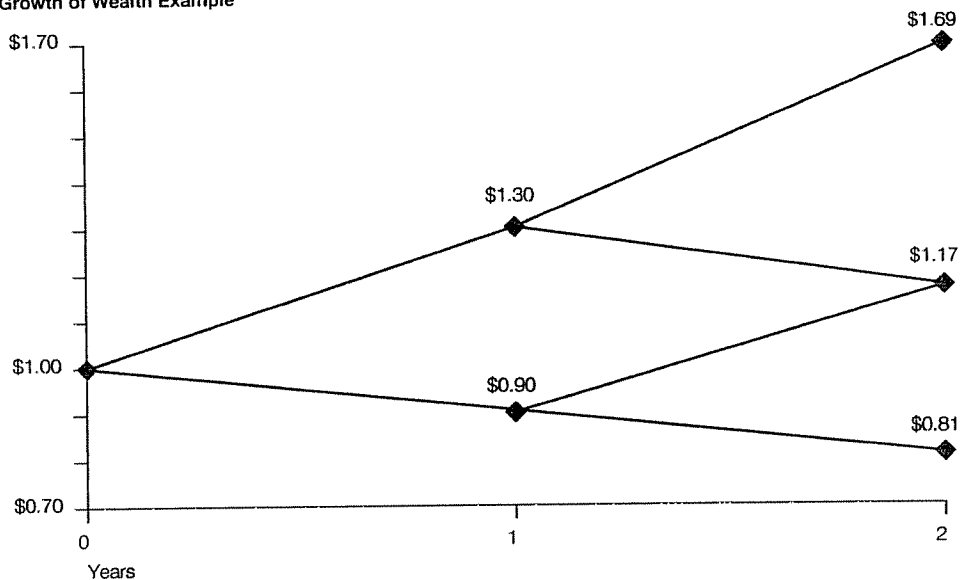
The argument for using the arithmetic average is quite straightforward. In looking at projected cash flows, the equity risk premium that should be employed is the equity risk premium that is expected to actually be incurred over the future time periods. Graph 5-3 shows the realized equity risk premium for each year based on the returns of the S&P 500 and the income return on long-term government bonds. (The actual, observed difference between the return on the stock market and the riskless rate is known as the realized equity risk premium.) There is considerable volatility in the year-by-year statistics. At times the realized equity risk premium is even negative.

Graph 5-3  
Realized Equity Risk Premium Per Year  
1926-2003



To illustrate how the arithmetic mean is more appropriate than the geometric mean in discounting cash flows, suppose the expected return on a stock is 10 percent per year with a standard deviation of 20 percent. Also assume that only two outcomes are possible each year— +30 percent and -10 percent (i.e., the mean plus or minus one standard deviation). The probability of occurrence for each outcome is equal. The growth of wealth over a two-year period is illustrated in Graph 5-4.

Graph 5-4  
 Growth of Wealth Example



The most common outcome of \$1.17 is given by the geometric mean of 8.2 percent. Compounding the possible outcomes as follows derives the geometric mean:

$$[(1 + 0.30) \times (1 - 0.10)]^{1/2} - 1 = 0.082$$

However, the expected value is predicted by compounding the arithmetic, not the geometric, mean. To illustrate this, we need to look at the probability-weighted average of all possible outcomes:

(0.25 × \$1.69) =	\$0.4225
+ (0.50 × \$1.17) =	\$0.5850
+ (0.25 × \$0.81) =	\$0.2025
<b>Total</b>	<u>\$1.2100</u>

Therefore, \$1.21 is the probability-weighted expected value. The rate that must be compounded to achieve the terminal value of \$1.21 after 2 years is 10 percent, the arithmetic mean:

$$\$1 \times (1 + 0.10)^2 = \$1.21$$

The geometric mean, when compounded, results in the median of the distribution:

$$\$1 \times (1 + 0.082)^2 = \$1.17$$

The arithmetic mean equates the expected future value with the present value; it is therefore the appropriate discount rate.

## Viewpoint

# Much ado about dividends

The proposal to eliminate the double taxation of dividends is more notable for what it wouldn't do than for what it would.

*Timothy M. Koller and Susan L. Nolen Foushee*

**I**n January President George W. Bush proposed eliminating the double taxation of stock dividends. Taxing dividends twice, that is, at both the corporate and the individual level, has long differentiated the US tax system from those in many other countries, including France, Germany, and Australia. As the proposal moves to debate in Congress, discussion is likely to focus on whether and how much the change, if adopted, would stimulate the economy, and which portions of the US population are likely to benefit most from the tax cut.

We won't comment on those broader macroeconomic and political issues. From the corporate perspective, however, we have watched with interest as business commentators have analyzed the proposal from the corporate perspective. Some have turned to finance theory to analyze whether the proposal could raise share prices of companies that pay dividends and change the policies of those that currently do not. Others suggest an even more sweeping implication: that ending the double taxation of dividends might better align corporate strategies with economic fundamentals, putting capital to better use and restoring a greater degree of soundness to strategy formulation after a period in which debt-financed growth and

acquisitions seemed to claim pride of place in the strategic thinking of many executives.

We doubt it. Indeed, when viewed from an understanding of the shareholder makeup and share price movements of US companies, we believe that the proposed tax cut will not have a significant or lasting effect on US share prices. Moreover, history and practice suggest that if the proposal becomes law, most US companies will not—and should not—significantly change their dividend policies.

### What the tax cut would do . . .

At the level of the individual investor, the amount of the proposed tax cut would depend on the extent to which income has already been taxed at the corporate level. Investors who receive dividends from companies that have paid US income tax on all their earnings would not pay additional taxes. If those companies have paid tax on only part of their earnings, investors would get a similarly proportioned tax reduction.

As long as companies have paid taxes on their earnings, even those that retain their earnings rather than distribute them as dividends would pass along the benefit to investors. The policy would mandate that when investors sell shares

in companies that have paid taxes on their earnings, those companies must recalculate the stated purchase value of the shares to reflect undistributed earnings. Investors would then pay proportionately lower taxes on the narrower capital gains.

**. . . and not do for shareholders . . .**

Nonetheless, the proposed tax cut isn't likely to have any significant, lasting effect on US share prices. That's primarily because the key investors who drive share prices are already exempt from taxes. Indeed, what little impact the proposal might have had was likely reflected in the 2.2 percent gain in the S&P 500 on the day before the proposal was announced.

Those who believe otherwise draw on classic finance theory.<sup>1</sup> In a world without taxes, the thinking goes, shareholders would be indifferent to whether or not a corporation pays dividends, since the funds to pay dividends would come at their own expense. In a world with taxes, shareholders may face differing tax rates on dividends versus capital gains. Therefore, shareholders will care whether a company chooses to retain its earnings or distribute them as dividends, as this affects how much cash they ultimately earn from their investments. If all investors paid taxes on dividends, then yes, share prices would probably increase if the tax were eliminated.

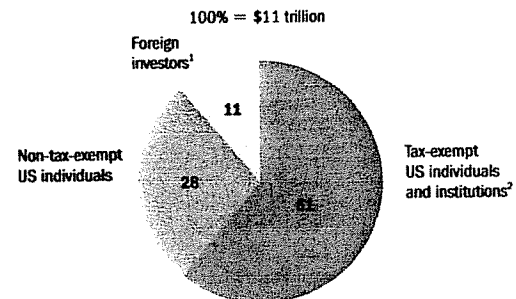
In the United States, however, tax-paying US individual shareholders are in the minority, in terms of their overall ownership of US shares. In 2002, they owned 28 percent of all US shares, whereas US institutions and individuals who hold shares in tax-exempt accounts accounted for 61 percent of share ownership, with the remainder held in foreign hands (Exhibit).

---

**Exhibit. Most US shares are held in tax-exempt individual and institutional accounts**

---

September 2002; percent



<sup>1</sup>As foreign investors' tax status can be complex, we have kept them in a separate category.

<sup>2</sup>Percentage of tax-exempt individuals has been estimated based on 2001 figures for holdings in IRA accounts of mutual funds.

Source: US Federal Reserve Flow of Funds Accounts; Investment Company Institute; McKinsey analysis

---

For the most part, tax-paying individual shareholders ultimately do not drive share prices; non-tax-paying institutional investors do. Furthermore, the trading activity of a company's top 40 to 100 investors—again, usually big institutional investors—account for 70 percent of its stock price movements.<sup>2</sup> Since they are indifferent to the issue of taxes on dividends, these investors are unlikely to set in motion the kinds of changes in their portfolios that would actually drive share prices up.

Indeed, experience in other countries would seem to confirm our expectations. For example, when the incoming Labour government in the United Kingdom proposed to drop dividend tax credits for investors in mid-1997, some observers estimated that the market would fall by as much as 13 percent. Although the leading UK share index, the FTSE 100, dropped 2 percent after the first leaks of the plan, by the time of its official

announcement the index had fully recovered its value.

### . . . and strategists

Similarly, if the proposed tax cut is enacted into law, most US companies probably should not significantly change their dividend policies. The questions they consider will remain the same: can they consistently and reliably pay at the proposed level every quarter? Or would this amount to a one-off distribution that would be better accomplished with a share repurchase? How would the markets interpret any changes in dividend policy? For many companies who want to execute a one-off distribution, share repurchases will remain a more attractive option, as they have no implicit promise that the company will repeat the action every quarter.

It's also unlikely that companies would pay increased dividends at the expense of making needed capital investments. In fact, our observations in practice suggest the contrary: companies that can find valuable projects are typically not constrained by sources of financing, whether equity or debt, or by commitments to pay dividends. Rather, managerial constraints, such as finding the time and skills to bring promising projects to fruition, are a much greater hurdle.

Others have suggested that companies will now have an incentive to raise equity (with the promise of future dividend payments), correcting a perceived swing toward debt financing in the 1990s. However, with the exception of telecoms and utilities during that period, US companies have held their debt-to-capital ratios remarkably constant over the past 40 years, at an average of 45.5 percent—

and the balance overall during much of the 1990s was actually lower than the 40-year average. Thus, there is no swing to debt financing to correct.

Still others have predicted that managers will have to introduce or increase dividends in order to meet investor demand. With a few exceptions, we believe that the preponderance of tax-indifferent institutional investors will mean little demand for significant increases. The few exceptions will include companies that have accumulated large cash reserves, which will likely come under pressure from their shareholders to distribute them, and companies where CFOs must plan to optimize shareholder wealth via dividends for tax-paying individual shareholders that hold significant stakes.

---

In the end, the proposed tax cut will have no significant impact either on investor wealth or on manager behavior. Both investors and managers would be better off looking at the underlying ways to create value than overly concerning themselves with the mechanics of how it is returned to shareholders. ■

*Tim Koller* (Tim\_Koller@McKinsey.com) is a principal in McKinsey's New York office, where *Susan Nolen Foushee* (Susan\_Nolen\_Foushee@McKinsey.com) is a consultant. Copyright © 2003 McKinsey and Company. All rights reserved.

<sup>1</sup> Merton Miller and Franco Modigliani, "Dividend policy, growth, and the valuation of shares," *Journal of Business*, October 1961, Volume 34, pp. 411-433.

<sup>2</sup> For companies in the S&P 500 with market capitalization between \$500 million and \$200 billion. See Kevin P. Coyne and Jonathan Witter, "What makes your stock price go up and down," *The McKinsey Quarterly*, 2002 Number 2, pp. 28-39.

# Dividend Stocks Haven't Caught Investors' Fancy

*Despite 2003 Tax Break in U.S., Bull Market Investing Still Favors Nonpayers Making the Big Gains*

By E.S. BROWNING

## ABREAST OF THE MARKET

**F**OR THE PAST two years, pundits have been forecasting a new era in dividend investing, but like many new eras, this one is off to an uncertain start.

President Bush's move to cut dividend taxes to 15%, which took effect in 2003, was widely expected to provoke a flurry of dividend increases and investment in dividend-paying stocks. Half of that happened: Companies did announce a surge of dividend boosts, highlighted by the \$32.62 billion special dividend—\$3 a share—that Microsoft Corp. paid last year.<sup>2</sup>

But the new passion for dividend stocks simply hasn't taken hold, at least not yet. Since the current bull market began in October 2002, investor treatment of dividend stocks has been about the same as it was in past bull markets.

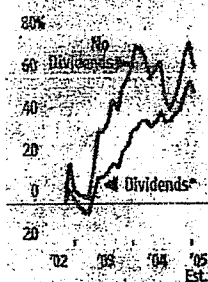
That is, when the market has seemed strong, investors have tended to favor faster-growing stocks that don't pay dividends. Only during periods of market weakness have dividend stocks taken over leadership. Dividend stocks, in other words, continue to be treated as a refuge in times of trouble. They aren't emerging as leaders in times of strength.

The result: Since October 2002, stocks that don't pay dividends have produced significantly stronger returns than dividend-paying stocks.

"I have been very surprised" that dividend

Please Turn to Page C2, Column 1

**With & Without**  
 Returns of S&P 500  
 stocks by dividend policy



\* With dividends reinvested.  
 Source: Ned Davis Research

# Dividends' Time Hasn't Come

Continued From Page C1

stocks haven't done better since the tax cut, says Terence McLaughlin, president and chief investment officer of New York money-management firm Lighthouse

## ABREAST OF THE MARKET

you would tend to think that people would want to come back and start owning more conservative stocks, which would pay them a dividend each year."

Mr. McLaughlin says he thinks dividends will become more popular with investors with time, but that remains a question mark. So far, to the concern of some analysts, investors don't seem entirely to have shaken the lust for highfliers that they demonstrated during the bubble of the late 1990s.

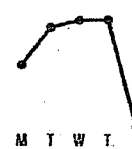
The nondividend stocks in the Standard & Poor's 500-stock index rose more than 63% since October 2002, according to Ned Davis Research. The dividend payers rose less than 52%—and that includes their reinvested dividends, before taxes. After dividend taxes, the dividend-stock gains would have been less.

Some analysts say that it could take time for investors to get excited about dividends, and that the results will come. They point out that the dividend payers did much better last year than the nonpayers, rising more than 16% compared with less than 7% for the nonpayers. But the gains for dividend payers came when the market was soft, a time when investors feared the future, when dividend stocks historically have tended to be at their strongest.

When investors were more hopeful, dividend stocks fell behind. Starting in September, as confidence began to creep back, nonpayers again eclipsed dividend payers. Nonpayers rose 21% from the start of September through year's end, compared with a 13% gain (again, including dividends) for the dividend payers. It wasn't until the start of this year, as market confidence again plunged, that dividend payers again performed better. Through Thursday, they had fallen 3% since the year began, compared with a 7% decline for nonpayers. Of the 500 stocks in the S&P 500 index, 121 don't pay dividends.

While this failure of dividend stocks to become leaders may seem odd when

**Merck**  
 \$28.02, down 10%



you focus just on the tax cut, it makes some sense when you step back and consider the market as a whole. Investors always look for the biggest possible return, and at most times, they expect that to come from stock-price appreciation, not from dividends. Although dividends historically have made up more than 40% of stock returns, they make up far less today.

Even with all the dividend boosts of late, dividend payments represent less than 2% of the value of the stocks in the S&P 500. That 2% looks like great protection when investors think stocks are headed for trouble, but it doesn't catch their eyes when stock prices are rising.

"The dividend by itself isn't enough to make an investor buy," says Jack Ablin, chief investment officer at Harris Private Bank in Chicago. "It is just going to be the caboose on this whole decision."

Part of the problem, he says, is that the Bush tax cut applied to individuals, but not to pension funds or foundations, which represent a huge part of the investment community and tend to be more active investors than individuals. Such institutional investors never paid dividend taxes and are no more interested in dividends than they were before, he says.

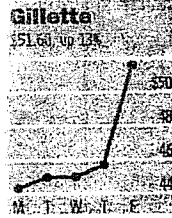
Last week, the Dow Jones Industrial Average finally did rise, after beginning the year with three consecutive weekly

declines. That mild recovery helped non-dividend stocks a little, but not much. Stocks appear ready to finish January with a monthly decline, which could bode ill for the rest of the year. The Dow industrials edged up 34.21 points on the week, to 10427.20. That included a decline on Friday of 40.20 points and left the industrials down 3.3% in 2005. The S&P 500 behaved similarly.

One thing some analysts forget is that, at about the same time dividend taxes were cut, capital-gains taxes were cut, pushing the top capital-gains tax rate to 15%, says Tim Hayes, chief investment strategist at Ned Davis Research in Venice, Fla. That made it as attractive to take a capital gain as to receive a dividend—more so for some people, since the capital gain may come years down the road, postponing the tax.



"If anything it may have increased the appeal of the stock market in general," Mr. Hayes says, rather than of dividend stocks in particular. At the same time, he adds,



"there is a lagging effect between tax-law changes and dividend payouts." It is possible that dividend stocks will become more popular as investors slowly wake up to what is afoot and as companies raise dividends further.

Another thing that could help dividend stocks would be a prolonged period of weak stock performance, which is what many analysts fear may be in store.

In 2003, the Dow industrials rose 25%, making dividends seem puny. But last year, they rose only 3%, so a couple percentage points in dividends on top made a big difference. If stock gains continue to be moderate, investors could begin to chase dividends more actively. They could become even more interested in owning dividend stocks if the market were to continue the downward drift it has begun this year.

**Friday's Market Activity**

Merck tumbled \$3.16, or 10%, to \$28.02 in more than triple its average daily trading volume. An appeals court ruling opened the door for generic versions of the once-a-week formulation of Merck's blockbuster osteoporosis drug Fosamax to hit the market a decade early, beginning in 2008. Merck separately said the Securities and Exchange Commission's investigation into the withdrawal of its pain medication Vioxx had become formal. The decline erased about \$6.9 billion of the drug maker's market value, knocking it down to about \$62 billion.

Teva Pharmaceutical Industries, the world's largest maker of copycat drugs, rose 60 cents, or 2.2%, to 28.31, after Merck's news. Teva said it got approval from the Food and Drug Administration to market a generic form of a Bristol-Myers Squibb treatment for Type 2 diabetes. Bristol-Myers fell 63 cents, or 2.6%, to 23.46.

Gillette rose 5.91, or 13%, to 51.60 after consumer-products giant Procter & Gamble said it plans to acquire the shaving powerhouse for \$52.4 billion in stock. P&G, which also said net income rose 12% in its second quarter ended Dec. 31, shed 1.17, or 2.1%, to 54.15.

Microsoft inched up seven cents to 26.18. The company said strong sales of personal computers and its Halo 2 videogame helped increase sales and more than double earnings in its second quarter ended Dec. 31. Microsoft also raised its full-year financial forecast.

Sammina-SCI dropped 1.05, or 14%, to 6.37. The electronics-manufacturing services company reported disappointing earnings for its first quarter ended Jan. 1 and a downbeat second-quarter outlook.

Millipore fell 4.08, or 8.6%, to 43.27. The technology company said fourth-quarter net income tumbled 24% and questioned whether some of its gain on a tax benefit should have been recorded in an earlier period.

McKesson rose 3.20, or 11%, to 33.54. The supplier of health-care products and information reported a net loss in its third quarter ended Dec. 31, compared with a net profit a year earlier, hurt by legal costs arising from a 1999 accounting scandal.

Constellation Energy Group advanced 3.24, or 7.1%, to 48.61, after saying fourth-quarter earnings jumped 13%, as the retail electric-and-gas business at one of its units drove earnings.

Beckman Coulter declined 4.78, or 6.7%, to 66.40. The maker of biomedical testing products said fourth-quarter net income fell 15%, as increased operating costs and a higher-than-anticipated mix of lower-margin products more than offset a favorable currency effect.

—Cynthia Schreiber

**KENTUCKY UTILITIES COMPANY**

**CASE NO. 2004-00426**

**Response to Request for Information Posed by the Attorney General  
Dated January 26, 2005**

**Question No. 10**

**Responding Witness: Valerie L. Scott**

Q-10. Refer to Exhibit RMC-2 Case No. 2004-426. Definition 1-b indicates that the overall all rate of return consist of the “[cost of short term debt, long term debt, preferred stock, and common equity].” For KU, provide the December 31, 2004:

- a) outstanding amount of short-term debt excluding accounts receivable financing;
- b) weighted average interest rate on the short-term debt excluding accounts receivable financing;
- c) outstanding amount of accounts receivable financing;
- d) weighted average interest rate on the accounts receivable financing;
- e) outstanding amount of long-term debt;
- f) total cost of long-term debt stated as a percent;
- g) outstanding amount of other debt, if any;
- h) total cost of the other debt stated as a percent;
- i) outstanding amount of preferred stock;
- j) cost of the preferred stock; and
- k) outstanding amount of common equity.

- A-10.
- a) \$34,820,000
  - b) 2.220 %
  - c) Zero
  - d) Not Applicable
  - e) \$726,210,817
  - f) 3.428 %
  - g) Not Applicable
  - h) Not Applicable
  - i) \$39,726,895
  - j) 5.679 %
  - k) \$982,204,150

Note: the amounts above are not jurisdictionalized for Kentucky retail operations only. Please see the response to Question No. 3.

**Standard & Poor's Ratings Services**

**Utility Financial Ratio Definitions**

<b>Net cash flow / capital expenditures (%)</b>	Numerator	Funds from operations (FFO) - Preferred dividends - Common dividends - Amortized portion of securitized debt - Contributions to nuclear decommissioning trust
	Denominator	Capital expenditures (net)
<b>Total debt / capital (%) Adjusted</b>	Numerator	Notes payable + Current maturities (LTD & pfd) + Current maturities (hybrid preferreds) + Current capitalized lease obligations + Long-term debt + Capitalized lease obligations + Hybrid preferred securities - Securitized debt - Non-recourse debt + Total OBS debt
	Denominator	Notes payable + Current maturities (LTD & pfd) + Current maturities (hybrid preferreds) + Current capitalized lease obligations + Long-term debt + Capitalized lease obligations + Hybrid preferred securities + Minority interest + Preferred stock + Common equity - Securitized debt - Non-recourse debt + Total OBS debt
<b>Return on common equity (%)</b>	Numerator	Net income from continuing operations - Preferred dividends - AFUDC (debt)/capitalized interest - AFUDC (equity)
	Denominator*	Common equity *Avg. for two years
<b>Common dividend payout (%)</b>	Numerator	Common dividends
	Denominator	Net income from continuing operations - Preferred dividends

is because the cash outflows for these liabilities will not occur for a number of years and will then extend out in a form similar to operating expenses over a further extended period of time. This is taken into account by looking at both gross and net debt ratios.

### *U.S. Securitization*

Beginning in the late 1990s, legislatively approved stranded cost securitization has become an increasingly used financing technique among investor-owned electric utilities. In its simplest form, a stranded cost securitization isolates a dedicated stream of cash flow into a separate special purpose entity (SPE) and uses that stream of cash flow to provide annual debt service for the securitized debt instrument.

Moody's generally treats securitization debt of industrial and financial issuers as being on-credit debt. The debt that is being securitized usually carries a rating that is higher than that of the issuing entity, and the assets that are being sold to the separate SPE are often of better quality than the assets that remain with the issuer.

Stranded cost securitization differs somewhat from other generic securitizations because the asset being sold is often of poor quality prior to the passage of legislation and the completion of a securitization. In most cases, the asset represents stranded costs that would have been written off by the utility in the absence of legislation allowing for recovery through a surcharge on regulated customers.

Instead, the state regulator – and sometimes the state legislature – establishes the authority for a surcharge on customers' bills, and authorizes the sale of securitized debt. The utility then sells the right to collect a dedicated stream of future cash flows from its regulated customer base that is sufficient to provide debt service on the securitized piece of debt. The issuing utility is typically required to use the proceeds of the debt offering to retire both debt and equity in a manner intended to maintain a predetermined capital structure. The securitization generally has language that enables the tariff to be unilaterally raised in the event that future sales turn out to be lower than originally planned.

Generally speaking, Moody's views stranded cost securitization as being credit-neutral to credit-positive since it typically addresses a major credit overhang, some form of potential stranded costs, and legislatively requires the utilities to use the proceeds for debt and equity reduction in a manner that targets a relatively conservative capital structure.

For the most part, the securitization tariff is separate from the "general tariff" charged to customers and any increase in the size of the securitization tariff is not at the expense of the general tariff. However, in two states, Illinois and Michigan, the utilities operate under a rate freeze, which precludes them from raising rates until the termination of their respective rate freeze. As such, any increase in the securitization tariff is at the expense of revenues and cash flow that would be available to service debt of the remaining creditors of the utility.

Along the same lines, Moody's notes that the size of the securitization tariff relative to the total tariff is an important element in evaluating the credit implications of a securitization because it can impact the future ability of a utility to obtain subsequent rate relief for other costs of service. In effect, customers do not discriminate between the securitization tariff and the general tariff when paying their bills. Consequently, to the extent that the securitization tariff needs to be increased, the financial flexibility and associated credit quality of the utility may be compromised, particularly if the securitization tariff is large relative to the general tariff and if the increase is taken from the cash flow of the utility. As a consequence, Moody's considers the impact that a securitization may have on the ability of the utility to raise rates in the future.

In calculating balance sheet leverage, Moody's treats the securitized bonds as being fully non-recourse to the utility even though accounting guidelines require the debt to appear on the utility's balance sheet. Consistent with this view, all balance sheet capitalization metrics exclude the securitized debt from the capital structure given the legal separateness that exists between the debt of the utility and the debt of the SPE, and the fact that regulators set future rates based upon a capital structure that does not include the securitization debt.

However, in looking at cash flow coverages, Moody's analysis stresses ratios that include the securitized debt in the company's total debt as being the most consistent with the analysis of comparable companies. This recognizes that regulatory approval for recovery of stranded costs and securitization are not always inextricably linked. Many utilities have approval for recovery of stranded costs but do not execute a securitization financing. Regulatory approval of stranded costs can be a credit transforming event when there is substantial doubt about recovery. However, the subsequent completion of a securitization financing does not change the amounts that are expected to be recovered. A securitization transaction does make it extremely unlikely that regulators can later disavow an agreement to allow recovery, and regulatory approval is often packaged together with a securitization with the view that ratepayers will benefit from low borrowing costs.

2004 Capital Structure

	Common Equity	Preferred Equity	Long-Term Debt	Total Capital	[Excludes Securitized Debt] % Common Equity	Securitization Debt	Total Cap. Including Sec. Debt	[Includes Securitized Debt] % Common Equity	Value Line % Common Equity
Northeast Utilities	2,297	116	2,790	5,203	44.1	1,546	6,749	34.0	34.0
NSTAR	1,441	43	1,793	3,277	44.0	309	3,586	40.2	40.0
PPL Corporation	4,239	51	6,881	11,171	37.9	1,159	12,330	34.4	37.9

Source: Company 10-K Reports; Baudino Exhibit\_\_\_(RAB-8).

<b>STANDARD &amp; POOR'S</b>	<b>RATINGS DIRECT</b>
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## Research: U.S. Utility Regulation Returns To Center Stage

Publication date: 14-Apr-2005  
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Regulatory risk has always been a key component of Standard & Poor's Ratings Services' assessment of investor-owned utilities' creditworthiness. Decisions by public service commissions can profoundly affect utilities' credit quality. Among the most dramatic examples of this influence in recent years were the decisions by the California Public Utilities Commission (CPUC) in 2000 and 2001 not to provide desperately needed rate relief on a timely basis to the state's two largest utilities and the severe write-offs related to deferred power costs that the Nevada Public Commission forced Nevada Power Co. and Sierra Pacific Power Co. to incur. In recent years, Standard & Poor's emphasis on the decisions by state commissions has been less pronounced simply because so many jurisdictions have been working through multiyear restructuring transition periods. During this time, rates were frequently frozen, and companies and customers have been adjusting (albeit with limited success) to the opportunity that customers have to choose alternate power suppliers.

But the confluence of the approaching end of these transitions periods and the growing need in certain regions of the country for significant resource additions is quickly returning the regulatory arena to center stage. In assessing the regulatory environment in which a utility operates, Standard & Poor's analysis is guided by certain principles, most prominently consistency and predictability, as well as efficiency and timeliness. For a regulatory scheme to be considered supportive of credit quality, commissions must limit uncertainty in the recovery of a utility's investment. They must also eliminate, or at least greatly reduce, the issue of rate-case lag that may prove detrimental if a utility needs rate relief.

While it is still too early to determine what trends may prevail regarding decisions for the post-transition market structure, it is noteworthy how credit quality is emerging as an integral component in recent rulings by commissions regarding resource planning. Indeed, in a few jurisdictions, credit ratings and rating methodology have been incorporated into rate decisions or stipulations.

In a recent article, Standard & Poor's reviewed the supportive qualities of the Colorado Public Utility Commission's ruling with respect to Public Service Co. of Colorado's resource acquisition plan. Among other things, a comprehensive settlement agreement was designed specifically to ensure that the utility's credit profile would not weaken as a result of pending stress related to a sizable construction program. This agreement effectively addresses the timely recovery of future costs associated with supply and environmental compliance. The company will be allowed to increase equity up to 60% of capital to reflect the economic cost incurred by its existing purchased power contracts. Furthermore, the commission tied the inclusion of amounts of construction work in progress (CWIP) to be allowed in rate base specifically to Standard & Poor's ratings and the ratings equivalent of another rating agency. For instance, if PS Colorado's senior unsecured debt rating is below 'BBB+' at Standard & Poor's or the equivalent from another rating agency, accrued CWIP for the 12 months following the rate case test year can be added to rate base for purposes of determining the required rate increase.

In Missouri, Kansas City Power & Light Co. (KCPL) announced a stipulated agreement with the staff of the Missouri Public Service Commission, the Missouri Office of Public Counsel, and other signatories that supports the regulated utility's \$1.3 billion five-year capital investment program. Although the agreement would freeze rates through 2006, it also incorporates an option to implement an interim power-cost adjustment clause and the ability to file for annual rate cases for 2007 through 2009 without the risk of intervention by agreement signatories. Moreover, the plan explicitly uses Standard & Poor's credit ratios as guidelines for awarding rate relief. Specifically, the plan calls for adjustments to the amortization of KCPL's regulatory assets to support funds from operations (FFO) interest coverage and FFO to total debt of 3.8x and 25%, respectively. (As an aside, the state of Missouri is expected to pass a bill that allows utilities to recover fuel and purchased-power costs, as well as pollution control-related expenditures, by means of a

surcharge on customers' bills).

In California, the CPUC recognized that operating leverage should be considered in formulating utility generation resource-procurement plans. While generally supportive of credit quality, the CPUC's procurement decision partially discounted the full effect of debt equivalents that Standard & Poor's uses to evaluate the operating leverage and imputed debt service created by purchased-power obligations, but has generally adopted Standard & Poor's methodology. Perhaps more importantly, the CPUC also extended legislative provisions that temper the exposure of utility operating cash flow to volatility.

Elsewhere, although not explicitly linking Standard & Poor's to their deliberations, states have clearly acted with credit quality in mind. For instance, the Arizona Corporation Commission adopted with few changes the terms of a settlement agreement negotiated by 21 of 22 parties in August 2004 that resolved many of the issues that have challenged the consolidated credit quality of Pinnacle West Capital Corp. (PWCC) and Arizona Public Service Co. Among the most significant benefits of the settlement was the rate-basing of 1,790 MW of generation that is currently owned by Pinnacle West Energy Corp. (PWEC), PWCC's nonregulated wholesale generation subsidiary. As a result, PWEC's merchant plant ownership will drop from about 2,200 MW of nameplate capacity to about 425 MW, significantly lowering PWCC's business risk profile.

Not all state actions are likely to be as supportive of credit quality as those noted here. There are simply far too many rate filings to be adjudicated to draw such a conclusion. Indeed, in early April the Vermont Public Service Board issued an adverse rating decision for Central Vermont Public Service Corp. that decreased rates and ordered refunds that totaled about 15% of the company's 2004 funds from operations. But the emphasis on negotiated settlements among a large number of interested parties in advance of a commission ruling, and the incorporation more fully of credit quality as a noteworthy goal for companies about to undertake significant capital expenditure programs, may bode well for many commission decisions.

Later this year, Standard & Poor's, working with RKS Research & Consulting, will publish the conclusions of an updated survey of state regulators that will focus on many of the themes discussed here, as well as on other issues of interest to fixed-income investors. Examples include how regulators are looking at insulating regulated operations from nonregulated business pursuits, the post-transition structure of power markets, provider-of-last-resort responsibility, regional transmissions organizations, and fuel price volatility.