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Via Overnight Mail

May 4, 2010

Mr. Jeff Derouen, Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40602

Re: Case No. 2009-00459

Dear Mr. Derouen:

Please find enclosed the original and twelve (12) copies each of the RESPONSES OF KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC. to KENTUCKY POWER COMPANY DATA REQUESTS and FIRST DATA REQUEST OF COMMISSION STAFF filed in the above-referenced matter. By copy of this letter, all parties listed on the Certificate of Service have been served.

Please place this document of file.

Very Truly Yours,

David F. Boehm, Esq.
Michael L. Kurtz, Esq.
BOEHM, KURTZ & LOWRY

MLKkew
Attachment
cc: Certificate of Service

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing was served by e-mailing a true and correct copy via electronic mail (when available) and regular U.S. mail (unless otherwise noted) to all parties on the 4th day of May, 2010.

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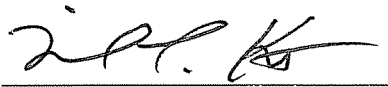

David F. Boehm, Esq.
Michael L. Kurtz, Esq.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF KENTUCKY POWER COMPANY FOR A GENERAL ADJUSTMENT OF ELECTRIC RATES	)))	Case No. 2009-00459

RESPONSES OF KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC TO KENTUCKY POWER COMPANY DATA REQUESTS

1. Please refer to Page 19, lines 4-20, and Page 20, line 1 of Mr. Kollen's testimony.

   (a) Did Mr. Kollen review Recommendations V-1, V-2 and V-3 of the Schumaker & Company March 24, 2003 "Final Report Focused Management Audit of The Hazard Service Area of American Electric Power Power/Kentucky" prior to preparing his testimony? The recommendations are referenced in the Company's Response to the Staff's Second Set of Data Requests, No. 46. (A copy of the recommendations is attached as Exhibit 1 to these data requests)

   (b) Does Mr. Kollen agree or disagree with Recommendations V-1, V-2 and V-3 of the Schumaker & Company Final Report?

   (c) Please provide the basis, including any studies, reports or other documentation, for Mr. Kollen's agreement or disagreement with Recommendations V-1, V-2 and V-3 of the Schumaker & Company Final Report.

Response:

   (a) No.

   (b) Mr. Kollen can neither agree nor disagree without further information.

   (c) Please refer to the response to part (b) of this question.

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In the Matter of:

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2. Please refer to Page 20, lines 2-11, of Mr. Kollen's testimony. Please identify:

(a) The highest System Average Interruption Duration Index that in Mr. Kollen's opinion is consistent with Kentucky Power's obligation to provide reasonable service.

(b) The highest System Average Interruption Frequency Index that in Mr. Kollen's opinion is consistent with Kentucky Power's obligation to provide reasonable service.

(c) The highest Customer Average Interruption Duration Index that in Mr. Kollen's opinion is consistent with Kentucky Power's obligation to provide reasonable service.

(d) Please provide the basis, including any studies, reports or other documentation, for the responses to subparts (a)-(c) of this data request.

Response:

(a) Mr. Kollen has not studied and does not have a recommendation on the highest reasonable SAIDI for KPC.

(b) Mr. Kollen has not studied and does not have a recommendation on the highest reasonable SAIFI for KPC.

(c) Mr. Kollen has not studied and does not have a recommendation on the highest reasonable CAIDI for KPC.

(d) Refer to the responses to parts (a) through (c) of this question.

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In the Matter of:

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3. Please refer to Page 22, Lines 2-5 of Mr. Kollen's testimony.

(a) Please explain and provide the basis, including any studies, reports or other documentation, for Mr. Kollen's testimony that the experience of Public Service Company of Oklahoma "does not demonstrate the superiority of the cycle based approach compared to a performance based approach."

(b) Does Mr. Kollen contend that the employment by Kentucky Power of a performance based vegetation management approach would be superior to the cycle based vegetation management approach?

(c) Please provide the basis, including any studies, reports or other documentation, for the responses to subpart (b) of this data request.

Response:

(a) Refer to page 21 line 2 through page 22 line 7 of Mr. Kollen's Direct Testimony. As noted in that testimony, the Company failed to provide any evidence that the cycle based approached was superior to a performance based approach despite repeated requests for such studies and analyses.

(b) Mr. Kollen contends that the Company has not demonstrated that such a change in its approach to vegetation management is necessary or beneficial and has not justified the costs it proposes to recover.

(c) Please refer to the responses to parts (a) and (b) of this question.

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4. Please refer to Page 26, lines 18-19 of Mr. Kollen's testimony. Please identify:

(a) the specific costs Mr. Kollen is referring to when he testifies: "These costs already are embedded in the test year."

(b) the amount of the costs embedded in the test year and referred to by Mr. Kollen in his testimony quoted in subpart (a) of this data request.

(c) the portions of the application or supporting work papers supporting the response to subparts (a) and (b) of this data request.

Response:

(a) The capital expenditures that already have been incurred and are reflected in the Company's rate base and capitalization.

(b) Mr. Kollen does not have the information requested. Mr. Phillips acknowledges that the Company already has installed SCADA in 37 distribution stations out of 92. [Phillips Direct at 36-37]. These amounts are included in the Company's rate base and capitalization. The Company can obtain these amounts from its accounting records.

(c) Please refer to the response to part (b) of this question.

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5. Please refer to Page 27, lines 6-20, and Page 28, lines 1-12 of Mr. Kollen's testimony. Please identify:

(a) which, if any, of these "reasons" would be addressed in whole or part by a "reliability" tracker that would allow Kentucky Power to recoup reliability associated costs above base rate amounts as they are incurred?

(b) the basis, including any studies, reports or other documentation, supporting the response to subpart (a) of this data request.

Response:

(a) The Company has neither proposed a "reliability tracker" (rider) nor described how such a tracker would operate. If it had proposed such a tracker (rider), based only on the limited description reflected in the question, Mr. Kollen would oppose it. Such trackers (riders) are poor regulatory policy and may not be legal in Kentucky. The same reasons cited in the testimony in opposition to the Company's request for incremental cost recovery also would be applicable to a tracker (rider). In addition, such a tracker (rider) would even more deeply involve the Commission in micromanaging the Company's vegetation management, introduce a new form of ratemaking recovery, and reduce the cost control incentives inherent in the use of a historic test year for all revenues and costs.

(b) Please refer to the response to part (a) of this question.

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RESPONSES OF KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC TO KENTUCKY POWER COMPANY DATA REQUESTS

6. Please refer to Page 13, lines 33-35 of Mr. Kollen's testimony in which he states: "The Company has failed to consider the effect on its costs and revenue requirement due to a richer common equity ratio to offset the rating agencies' imputation of debt equivalents for purchased power contracts."

   (a) Does Mr. Kollen agree that Kentucky Power's interest Rockport Unit Nos. 1 and 2 is a purchased power agreement of the type Mr. Kollen contends ?

   (b) Please provide the basis, including any studies, reports or other documentation, supporting the response to subpart (a) of this data request.

   (c) Please identify each Kentucky Power proceeding in which Kentucky Power has requested "a richer common equity ratio to offset the rating agencies' imputation of debt equivalents for purchased power contracts."

   (d) Please identify and provide any rating agency's rating or report with respect to Kentucky Power in which the rating agency imputed a debt equivalent associated with the Rockport Purchase Power Agreement.

   (e) Please identify the amount of incremental revenue increase that would be required in the current proceeding as a result of a richer common equity ratio to offset the rating agencies' imputation of debt equivalents for purchase power contract.

   (f) Please provide all calculations supporting or relating to the responses to subparts (d) and (e) of this data request.

Response:

   (a) Yes. Typically, the capacity component of PPAs are included by the rating agencies as debt equivalents.

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(b) Please refer to the following link for the S&P's methodology:

http://www2.standardandpoors.com/portal/site/sp/en/eu/page.article/2,1,1,0,1204836565848.html?vregion=eu&vlang=en

(c) Mr. Kollen is not aware that this issue has been addressed in any prior KPCo proceeding for the Rockport PPA.

(d) Mr. Kollen is not aware that any rating agency has imputed a debt equivalent for the Rockport PPA. Mr. Kollen is aware that S&P's does not impute a debt equivalent for the Rockport PPA, but believes this is due to the fact that the PPA is internal to AEP rather than an agreement with an unaffiliated third party. The S&P's debt rating is determined on an AEP consolidated basis rather than on a standalone KPCo basis. Unlike the Rockport PPA, the wind power PPA is with an unaffiliated third party and would be included as a debt equivalent based on the S&P's published methodology (see response to part (b) of this question).

(e) Mr. Kollen has not performed the requested computation in this proceeding. However, Mr. Kollen performed a computation of the effect on the revenue requirement of an imputed debt equivalent for the proposed wind power purchased power contract in Case No. 2009-00545. Please see the confidential Exhibit___(LK-10) attached to his testimony in that proceeding.

(f) Refer to the response to part (e) of this question. In addition, please refer to the Company's response to KIUC 1-3 in this proceeding.

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7. Please refer to Page 19, lines 8-16, Page 20 lines 1-13, and Page 21, lines 1-7 of Mr. Barron's testimony.

(a) Has Mr. Baron calculated the impact of the Company's proposed QP rate design on the total bill for higher load factor QP customers referenced by Mr. Barron at lines 10-11 of page 20 of his testimony?

(b) Has Mr. Baron calculated the impact of the Company's proposed QP rate design on the total bill for customers other than the higher load factor QP customers referenced by Mr. Barron at lines 10-11 of page 20 of his testimony?

(c) Please provide the results of the calculations described in subparts (a) and (b) of this data request and all supporting workpapers.

Response:

(a) No.

(b) No.

(c) No such analyses of the impact of the Company's proposed QP rate design on the total bill for customers has been performed.

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8. Please refer to Page 8, lines 4-14 of Mr. Barron's testimony. Mr. Baron testifies that "residential customers did not pay sufficient revenues during the test year to even cover the operating expenses associated with their usage of power from KPCo, let alone a return on the invested capital (generating units, transmission plant, distribution facilities) built to serve these customers. Rather, KPCo's return on investment built to serve residential customers was provided by all of the other KPCo rate classes (SGS, MGS, LGS, QP, CIP-TOD, MW, OL and SL)." To the extent Kentucky Power is not earning its authorized return on invested capital does Mr. Baron agree that the revenues provided by non-residential rate class customers classes (SGS, MGS, LGS, QP, CIP-TOD, MW, OL and SL) would not be sufficient, when combined with the revenues from residential customers, to provide Kentucky Power its authorized return on capital.

Response:

All else being equal, (for example, assuming that the Company's revenue requirement deficiency is correct, as filed by KPCo), then Mr. Baron agrees with the premise of the statement.

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9. Please refer to Page 15, lines 5-7, of Mr. Baudino's testimony. With respect to the criterion that a member of the proxy group receive at least 50% of its revenue from electric operations:

(a) Please provide copies of all analyses, studies, and documentation prepared by Mr. Baudino demonstrating that the proportion of a company's revenues from electric utility operations is related to investors' risk perceptions.

(b) Please provide all analyses, studies, and documentation prepared by Mr. Baudino to support the use of a 50% of revenue from electric operations threshold in selecting the proxy group. If Mr. Baudino has performed no such analyses or studies, please provide a complete explanation supporting his selection of a 50% threshold, including any studies, reports or other documentation supporting the use of the 50% threshold.

(c) Please provide copies of any independent analyses, studies, or publications that support Mr. Baudino's position that the percent of revenues from electric utility operations is related to investors' risk perceptions.

Response:

(a) Mr. Baudino did not perform the studies referred to in the question. Mr. Baudino employed regulated revenues as a selection criterion in order to develop a group of comparison companies that were similar to Kentucky Power in terms of business risk, which is a relevant risk characteristic considered by investors.

(b) Mr. Baudino selected this criterion in order to include companies that derived a substantial portion of their operations from regulated electric operations. This is important because regulated electric operations are less risky than unregulated ventures. In Mr. Baudino's judgment, a 50% regulated electric revenue cutoff results in a reasonably sized group of companies for purposes of estimating the

cost of equity for the regulated electric operations of Kentucky Power. Mr. Baudino did not prepare any studies or documentation for the 50% regulated electric revenue criterion.

(c) Mr. Baudino does not have any such studies or analyses. Also, please refer to the response to part (a) of this data request.

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10. Please refer to Mr. Baudino's testimony at Page 14, lines 16-23, Page 15, lines 1-17, and Table 1 on Page 16.

(a) Please provide a complete list of all companies considered by Mr. Baudino for inclusion in his proxy group.

(b) For each company listed in response to subpart (a) of this data request please provide the values or other pertinent information for each of the screening criteria used by Mr. Baudino to select his proxy group.

Response:

(a) Mr. Baudino began with the Electric and Electric and Gas Companies listed in the AUS Report, which is included in response to Data Request No. 11.

(b) From the AUS Utility Report for April 2010, Mr. Baudino then selected companies that, according to the report, met the 50% or greater regulated electric criterion and that were rated either BBB or Baa. This resulted in the following group of companies:

	S&P Rating	Moody's Rating
AES Corporation (NYSE-AES)	BBB	A3
Allegheny Energy, Inc. (NYSE-AYE)	BBB+	Baa1
Ameren Corporation (NYSE-AEE)	BBB	Baa1
American Electric Power Co. (NYSE-AEP)	BBB	Baa2
Avista Corporation (NYSE-AVA)	BBB+	Baa1
Central Vermont Public Serv. Corp. (NYSE-CV)	NR	Baa1
Cleco Corporation (NYSE-CNL)	BBB	Baa1
CMS Energy Corporation (NYSE-CMS)	BBB	A3
Duke Energy Corporation (NYSE-DUK)	A	Baa2
El Paso Electric Company (ASE-EE)	BBB	Baa1

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Empire District Electric Co. (NYSE-EDE)	BBB+	Baa1
Entergy Corporation (NYSE-ETR)	A-	Baa1
FirstEnergy Corporation (NYSE-FE)	BBB+	Baa1
Great Plains Energy Incorporated (NYSE-GXP)	BBB+	A3
Hawaiian Electric Industries, Inc. (NYSE-HE)	BBB	Baa2
Northeast Utilities (NYSE-NU)	BBB+	A3
OGE Energy Corp. (NYSE-OGE)	BBB +	Baa1
PG&E Corporation (NYSE-PCG)	BBB+	A3
Pinnacle West Capital Corp. (NYSE-PNW)	BBB-	Baa2
PNM Resources, Inc. (NYSE-PNM)	BB+	Baa2
TECO Energy, Inc. (NYSE-TE)	BBB	Baa1
UIL Holdings Corporation (NYSE-UIL)	NR	Baa2
UniSource Energy Corporation (NYSE-UNS)	BBB+	NR
Westar Energy, Inc. (NYSE-WR)	BBB	Baa1

From the group the following companies were excluded:

AES Corporation – No dividends
Allegheny Energy – proposed merger
Ameren – 2009 dividend cut
CMS Energy – Dividend only resumed in 2007, significant historical earning fluctuations
Duke Energy – 2007 restructuring, no enough historical data to calculate EPS and DPS growth
El Paso Electric – no dividends
FirstEnergy – proposed merger
Great Plains Energy – dividend cut in 2009
Hawaiian Energy – Split dividend yield from Value Line, possible dividend cut
PNM Resources – below investment grade rating from S&P

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11. Please provide a copy of the April 2010 AUS Utility Report referenced at Page 14, lines 21-22 of Mr. Baudino's testimony.

Response:

Please refer to the attached report.

LATEST ISSUE - AUS MONTHLY REPORT

April 2010

REPORT PAGES

ELECTRIC COMPANIES

		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)	(25)
			PER SHARE DATA ($)					PERCENT (2)										NET					% RETURN ON			
		LATEST 12 MONTHS EARNINGS		CURRENT ANNUAL	BOOK VALUE	STOCK PRICE	COMMON SHARES	DIV	DIV	MKT/	DIV/ BOOK	PRICE EARN			TOTAL REV $ MILL	% ELEC	NET PLANT $ MILL	PLANT PER $ REV	S&P BOND	MOODY'S BOND	COMMON EQUITY RATIO	BOOK VALUE COMMON	BOOK VALUE TOTAL	REGULATION ALLOWED	REGULATION ORDER
	COMPANY	AVAILABLE	EARNINGS	DIVIDEND	(1)	3/15/10	O/S MILL	PAYOUT	YIELD	BOOK	(2)	MULT			(1)	REV		(1)	RATING	RATING	(3)	EQUITY (4)	CAPITAL	ROE	DATE
1	Allegheny Energy, Inc. (NYSE-AYE)	12/09	2.31	0.60	18.31	23.38	170.0	26	2.6	128	3.3	10.1			3,426.8	89	8,957.1	2.61	BBB+	Baa1	41	13.2	9.3	10.37	-
2	American Electric Power Co. (NYSE-AEP)	12/09	2.99	1.64	27.49	34.39	478.1	55	4.8	125	6.0	11.5			13,489.0	94	34,344.0	2.55	BBB	Baa2	43	11.5	7.9	10.66	-
3	Central Vermont Public Serv. Corp. (NYSE-CV)	12/09	1.74	0.92	19.77	20.13	11.7	53	4.6	102	4.7	11.6			342.1	100	356.1	1.04	NR	Baa1	52	9.0	7.7	10.71	01/08
4	Cleco Corporation (NYSE-CNL)	12/09	1.76	0.90	18.43	26.64	60.5	51	3.4	145	4.9	15.1			853.8	95	2,247.0	2.63	BBB	Baa2	46	9.8	9.0	10.70	10/09
5	DPL Inc.(NYSE-DPL)	12/09	2.01	1.21	9.63	27.51	114.2	60	4.4	286	12.6	13.7			1,588.9	100	2,892.2	1.82	A	Aa3	45	22.1	12.5	11.00	12/05
6	Edison International (NYSE-EIX)	12/09	2.61	1.26	30.19	34.08	326.0	48	3.7	113	4.2	13.1			12,361.0	81	21,966.0	1.78	A	A1	45	8.8	7.2	10.66	-
7	El Paso Electric Company (ASE-EE)	12/09	1.50	0.00	16.21	20.57	44.6	0	0.0	127	NM	13.7			828.0	97	1,756.0	2.12	BBB	Baa2	48	9.4	8.1	11.25	-
8	FirstEnergy Corporation (NYSE-FE)	12/09	3.29	2.20	28.15	39.69	304.0	67	5.5	141	7.8	12.1			12,967.0	86	19,164.0	1.48	BBB+	Baa1	36	11.9	8.5	10.67	-
9	FPL Group, Inc. (NYSE-FPL)	12/09	3.97	2.00	31.84	47.31	407.2	50	4.2	149	6.3	11.9			15,643.0	73	36,078.0	2.31	A	Aa2	41	13.1	8.1	10.50	03/10
10	Great Plains Energy Incorporated (NYSE-GXP)	12/09	1.14	0.83	21.51	18.57	129.8	73	4.5	86	3.9	16.3			1,965.0	100	6,651.1	3.38	BBB+	A3	44	5.6	5.4	10.45	-
11	Hawaiian Electric Industries, Inc. (NYSE-HE)	9/09	0.93	1.24	15.54	21.92	91.5	134	5.7	141	8.0	23.6			2,189.0	99	2,736.8	1.25	BBB	Baa2	45	11.6	6.5	10.82	-
12	IDACORP, Inc. (NYSE-IDA)	12/09	2.64	1.20	29.62	35.11	47.2	45	3.4	119	4.1	13.3			1,049.8	100	2,917.0	2.78	A-	NR	50	9.2	7.1	10.18	05/09
13	Maine & Maritimes Corporation (ASE-MAM)	9/09	1.01	0.20	27.14	43.20	1.7	20	0.5	159	0.7	42.8			36.3	87	69.2	1.91	NR	NR	64	3.8	4.3	10.20	07/06
14	OGE Energy Corp. (NYSE-OGE)	12/09	2.66	1.45	21.00	37.94	97.2	55	3.8	181	6.9	14.3			2,869.7	61	5,911.6	2.06	BBB +	Baa1	46	13.1	9.0	10.13	-
15	Otter Tail Corporation (NDQ-OTTR)	12/09	0.71	1.19	18.80	22.10	35.7	168	5.4	118	6.3	31.1			1,039.5	30	1,098.6	1.06	BBB-	Baa2	57	3.8	4.9	10.59	-
16	Pinnacle West Capital Corp. (NYSE-PNW)	12/09	0.81	2.10	32.75	37.37	101.3	NM	5.6	114	6.4	46.1			3,297.1	96	9,257.8	2.81	BBB-	Baa2	46	2.0	2.3	11.00	12/09
17	PNM Resources, Inc. (NYSE-PNM)	12/09	1.36	0.50	19.03	13.20	86.7	37	3.8	69	2.6	9.7			1,647.7	100	3,332.4	2.02	BB+	Baa2	50	7.5	6.7	10.38	-
18	Portland General Electric (NYSE-POR)	12/09	1.31	1.02	21.17	19.18	72.9	78	5.3	91	4.8	14.6			1,804.0	98	3,858.0	2.14	A-	A3	47	6.6	6.5	10.80	01/07
19	PPL Corporation (NYSE-PPL)	12/09	1.08	1.40	14.60	28.63	376.4	130	4.9	196	9.6	26.5			7,556.0	52	13,174.0	1.74	A-	A3	40	7.7	5.9	9.57	-
20	Progress Energy Inc. (NYSE-PGN)	12/09	2.71	2.48	33.87	39.01	279.0	92	6.4	115	7.3	14.4			9,885.0	97	19,733.0	2.00	A-	A1	43	8.3	7.0	12.00	-
21	Southern Company (NYSE-SO)	12/09	2.06	1.75	19.58	32.86	796.0	85	5.3	168	8.9	16.0			15,743.0	99	39,230.0	2.49	A	A2	44	11.4	7.7	11.93	-
22	UIL Holdings Corporation (NYSE-UIL)	12/09	1.93	1.73	20.31	28.09	28.3	90	6.2	138	8.5	14.6			896.6	100	1,153.0	1.29	NR	Baa2	44	10.4	7.3	8.75	02/09
23	Westar Energy, Inc. (NYSE-WR)	12/09	1.58	1.24	20.67	22.16	109.6	78	5.6	107	6.0	14.0			1,858.2	74	5,771.7	3.11	BBB	Baa1	47	7.8	6.9	10.20	12/05
24	AVERAGE							68	4.3	135	6.1	17.8									46	9.5	7.2	10.59	

COMBINATION ELECTRIC & GAS COMPANIES

	COMPANY	LATEST 12 MONTHS EARNINGS AVAILABLE	PER SHARE DATA ($) EARNINGS	CURRENT ANNUAL DIVIDEND	BOOK VALUE (1)	STOCK PRICE 3/15/10	COMMON SHARES O/S MILL	PERCENT (2) DIV PAYOUT	DIV YIELD	MKT/ BOOK	DIV/ BOOK (2)	PRICE EARN MULT	TOTAL REV $ MILL (1)	% ELEC REV	NET PLANT $ MILL	NET PLANT PER $ REV (1)	S&P BOND RATING	MOODY'S BOND RATING	COMMON EQUITY RATIO (3)	% RETURN ON BOOK VALUE COMMON EQUITY (4)	TOTAL CAPITAL	REGULATION ALLOWED ROE	ORDER DATE
1	AES Corporation (NYSE-AES)	12/09	0.98	0.00	7.00	11.57	667.7	0	0.0	165	NM	11.8	14,119.0	55	24,297.0	1.72	BBB	A3	17	15.8	8.2	-	06/96
2	ALLETE, Inc. (NYSE-ALE)	12/09	1.89	1.76	26.41	33.42	35.2	93	5.3	127	6.7	17.7	759.1	91	1,622.7	2.14	A-	A2	57	6.9	6.2	10.74	04/09
3	Alliant Energy Corporation (NYSE-LNT)	12/09	1.01	1.58	25.13	33.61	110.4	156	4.7	134	6.3	33.3	3,432.8	72	6,203.0	1.81	A-	A2	50	4.0	5.8	10.41	-
4	Ameren Corporation (NYSE-AEE)	12/09	2.78	1.54	35.63	25.49	220.4	55	6.0	72	4.3	9.2	7,090.0	83	17,610.0	2.48	BBB	Baa1	51	8.3	7.3	10.64	-
5	Avista Corporation (NYSE-AVA)	12/09	1.58	1.00	19.21	21.35	54.7	63	4.7	111	5.2	13.5	1,512.6	56	2,607.0	1.72	BBB+	Baa1	47	8.5	7.0	10.33	-
6	Black Hills Corporation (NYSE-BKH)	12/09	2.11	1.44	28.04	28.87	38.7	68	5.0	103	5.1	13.7	1,269.6	41	2,160.7	1.70	BBB	A3	51	7.6	7.6	10.71	-
7	CenterPoint Energy (NYSE-CNP)	12/09	1.23	0.78	6.31	14.23	320.5	63	5.5	226	12.4	11.6	9,623.0	21	10,296.0	1.07	BBB+	Baa1	16	19.5	8.2	10.12	-
8	CH Energy Group, Inc. (NYSE-CHG)	12/09	2.12	2.16	33.68	41.24	15.9	102	5.2	122	6.4	19.5	931.6	58	1,012.4	1.09	A	A3	51	8.2	6.8	10.00	06/09
9	CMS Energy Corporation (NYSE-CMS)	12/09	0.83	0.60	11.42	15.65	227.9	72	3.8	137	5.3	18.9	6,205.0	55	9,682.0	1.56	BBB	A3	27	8.6	7.0	10.93	-
10	Consolidated Edison, Inc. (NYSE-ED)	12/09	3.14	2.38	37.09	44.15	276.3	76	5.4	119	6.4	14.1	13,032.0	64	22,439.0	1.72	A-	A3	49	8.7	7.3	10.03	-
11	Constellation Energy Group, Inc. (NYSE-CEG)	12/09	22.19	0.96	43.42	35.84	200.3	4	2.7	83	2.2	1.6	15,598.8	18	8,453.8	0.54	BBB+	Baa2	57	7.5	NM	11.00	-
12	Dominion Resources, Inc. (NYSE-D)	12/09	2.17	1.83	18.67	39.71	599.0	84	4.6	213	9.8	18.3	15,131.0	43	25,592.0	1.69	A	Baa1	38	12.1	7.7	9.98	-
13	DTE Energy Company (NYSE-DTE)	12/09	3.24	2.12	38.28	45.06	164.0	65	4.7	118	5.5	13.9	8,014.0	59	12,431.0	1.55	A-	A2	44	8.7	7.5	11.00	-
14	Duke Energy Corporation (NYSE-DUK)	12/09	0.83	0.96	16.81	16.46	1294.0	116	5.8	98	5.7	19.8	12,731.0	79	37,950.0	2.98	BBB+	A2	56	5.0	4.9	10.63	-
15	Empire District Electric Co. (NYSE-EDE)	12/09	1.18	1.28	17.17	18.25	35.0	108	7.0	106	7.5	15.5	497.2	87	1,459.0	2.93	BBB+	Baa1	45	7.3	6.0	10.80	-
16	Entergy Corporation (NYSE-ETR)	12/09	6.30	3.00	43.98	78.81	195.8	48	3.8	179	6.8	12.5	10,745.7	73	23,389.4	2.18	A-	Baa1	42	14.9	9.2	10.76	-
17	Exelon Corporation (NYSE-EXC)	12/09	4.09	2.10	19.09	44.40	662.0	51	4.7	233	11.0	10.9	17,318.0	55	27,341.0	1.58	A-	A3	50	22.6	13.8	10.30	-
18	Integrys Energy Group (NYSE-TEG)	12/09	-0.92	2.72	37.22	46.66	76.8	NM	5.8	125	7.3	NM	7,499.8	17	4,945.1	0.66	A-	A2	53	NM	1.7	10.52	-
19	MDU Resources Group, inc. (NYSE-MDU)	12/09	-0.67	0.63	13.81	21.60	185.2	NM	2.9	156	4.6	NM	4,176.5	5	3,894.1	0.93	NR	A3	63	NM	NM	11.31	-
20	MGE Energy, Inc. (NDQ-MGEE)	12/09	2.21	1.47	21.75	35.19	23.1	67	4.2	162	6.8	15.9	533.8	62	939.8	1.76	AA-	Aa2	56	10.4	7.3	10.40	12/07
21	NiSource Inc. (NYSE-NI)	12/09	0.79	0.92	17.60	15.51	275.8	116	5.9	88	5.2	19.6	6,649.4	18	10,683.9	1.61	BBB-	Baa2	42	4.5	5.2	11.32	-
22	Northeast Utilities (NYSE-NU)	12/09	1.91	1.03	20.72	27.00	172.7	54	3.8	130	5.0	14.1	5,439.6	80	8,840.0	1.63	BBB+	A3	43	10.0	7.5	9.72	-
23	Northwestern Corporation (NYSE-NWE)	12/09	2.03	1.36	21.81	26.23	36.1	67	5.2	120	6.2	12.9	1,141.9	68	1,964.1	1.72	A-	A3	44	9.5	8.2	11.11	-
24	NSTAR (NYSE-NST)	12/09	2.28	1.60	17.50	35.20	107.0	70	4.5	201	9.1	15.4	3,050.0	84	4,575.2	1.50	AA-	A1	44	13.8	4.1	12.50	-
25	NV Energy (NYSE-NVE)	12/09	0.78	0.44	13.71	11.76	235.2	56	3.7	86	3.2	15.1	3,585.8	94	8,665.6	2.42	BB	Ba3	37	5.8	6.4	10.67	-
26	Pepco Holdings, Inc. (NYSE-POM)	12/09	1.06	1.08	19.26	17.16	221.0	102	6.3	89	5.6	16.2	9,259.0	51	8,863.0	0.96	A-	A3	43	5.6	6.1	10.15	-
27	PG&E Corporation (NYSE-PCG)	12/09	3.24	1.82	36.13	42.97	286.0	56	4.2	119	5.0	13.3	13,399.0	77	28,892.0	2.16	BBB+	A3	48	12.4	9.4	11.35	03/07
28	Public Service Enterprise Group (NYSE-PEG)	12/09	3.14	1.37	17.33	30.85	507.1	44	4.4	178	7.9	9.8	12,406.0	66	15,440.0	1.24	A-	A2	50	19.2	12.3	9.88	-
29	SCANA Corporation (NYSE-SCG)	12/09	2.85	1.90	27.91	37.10	122.1	67	5.1	133	6.8	13.0	4,237.0	51	9,009.0	2.13	A-	A3	41	10.8	7.4	10.67	-
30	SEMPRA Energy (NYSE-SRE)	12/09	4.52	1.56	37.01	50.25	243.3	35	3.1	136	4.2	11.1	8,106.0	60	18,281.0	2.26	A+	Aa3	50	13.2	8.8	11.46	-
31	TECO Energy, Inc. (NYSE-TE)	12/09	1.00	0.80	9.79	15.87	213.1	80	5.0	162	8.2	15.9	3,310.5	66	5,544.1	1.67	BBB	Baa1	32	10.5	7.5	11.00	-
32	UniSource Energy Corporation (NYSE-UNS)	12/09	2.69	1.56	20.94	31.52	35.9	58	4.9	151	7.4	11.7	1,394.4	84	2,785.7	2.00	BBB+	NR	29	14.6	8.3	10.13	-
33	Unitil Corporation (ASE-UTL)	12/09	1.03	1.38	20.02	22.94	9.6	134	6.0	115	6.9	22.3	367.0	57	449.7	1.23	NR	NR	43	6.0	6.0	9.93	-
34	Vectren Corporation (NYSE-VVC)	12/09	1.64	1.36	17.25	23.92	81.0	83	5.7	139	7.9	14.6	2,088.9	25	2,878.8	1.38	A	A2	44	9.7	7.4	10.43	-
35	Wisconsin Energy Corporation (NYSE-WEC)	12/09	3.24	1.60	30.25	50.21	117.9	49	3.2	166	5.3	15.5	4,127.9	66	9,070.5	2.20	A-	A1	42	11.1	6.5	10.43	-
36	Xcel Energy Inc. (NYSE-XEL)	12/09	1.48	0.98	15.93	21.15	457.1	66	4.6	133	6.2	14.3	9,644.3	80	18,508.3	1.92	A-	A2	45	9.5	7.9	10.72	-
37	AVERAGE							71	4.7	137	6.4	14.9							44	10.3	7.3	10.63	

NATURAL GAS DISTRIBUTION, TRANSMISSION AND INTEGRATED NATURAL GAS COMPANIES

	COMPANY	LATEST 12 MONTHS EARNINGS AVAILABLE	PER SHARE DATA ($) EARNINGS	CURRENT ANNUAL DIVIDEND	BOOK VALUE (1)	STOCK PRICE 3/15/10	COMMON SHARES O/S MILL	PERCENT (2) DIV PAYOUT	DIV YIELD	MKT/ BOOK	DIV/ BOOK (2)	PRICE EARN MULT	TOTAL REV $ MILL (1)	% GAS REV	NET PLANT $ MILL	NET PLANT PER $ REV (1)	S&P BOND RATING	MOODY'S BOND RATING	COMMON EQUITY RATIO (3)	% RETURN ON BOOK VALUE COMMON EQUITY (4)	% RETURN ON BOOK VALUE TOTAL CAPITAL	REGULATION ALLOWED ROE	REGULATION ORDER DATE
1	AGL Resources Inc. (NYSE-AGL)	12/09	1.19	1.76	23.09	37.50	77.1	61	4.7	162	7.6	31.5	2,317.0	64	4,146.0	1.79	A-	A3	41	12.9	7.5	10.52	-
2	Atmos Energy Corporation (NYSE-ATO)	12/09	2.25	1.34	24.41	28.80	92.5	60	4.7	118	5.5	12.8	4,545.6	60	4,523.2	1.00	BBB+	Baa2	51	9.6	8.0	11.71	-
3	Chesapeake Utilities Corporation (NYSE-CPK)	12/09	2.23	1.26	28.20	31.05	7.4	56	4.1	110	4.5	13.9	268.8	64	436.4	1.62	NR	NR	61	9.6	8.2	10.50	-
4	Delta Natural Gas Company (NDQ-DGAS)	12/09	1.53	1.30	17.58	29.90	3.3	85	4.3	170	7.4	19.5	82.8	57	129.2	1.56	NR	NR	45	8.8	6.8	-	12/99
5	El Paso Corporation (NYSE-EP)	12/09	-0.83	0.04	4.48	11.08	716.0	NM	0.4	247	0.9	NM	4,631.0	60	17,895.0	3.86	BB	Baa3	17	NM	2.5	-	11/02
6	Energen Corporation (NYSE-EGN)	12/09	3.57	0.52	27.66	47.20	71.9	15	1.1	171	1.9	13.2	1,440.4	43	721.7	0.50	BBB	A1	78	13.1	11.6	13.40	06/02
7	Energy, Incorporated (NDQ-EGAS)	9/09	0.76	0.54	7.26	9.91	4.3	71	5.4	137	7.4	13.0	76.7	81	39.8	0.52	NR	NR	65	10.5	8.8	12.63	-
8	EQT Corporation (NYSE-EQT)	12/09	1.19	0.88	13.65	43.50	157.6	74	2.0	319	6.4	36.6	1,269.8	74	4,914.7	3.87	BBB	Baa1	52	7.7	7.1	11.00	-
9	Laclede Group, Inc. (NYSE-LG)	12/09	2.54	1.58	24.16	33.62	22.0	62	4.7	139	6.5	13.2	1,712.1	57	859.0	0.50	A	A2	50	10.7	7.5	-	10/05
10	National Fuel Gas Company (NYSE-NFG)	12/09	2.56	1.34	20.28	51.53	80.6	52	2.6	254	6.6	20.1	1,907.7	46	3,166.4	1.66	BBB	Baa1	57	12.9	10.7	9.50	-
11	New Jersey Resources Corp. (NYSE-NJR)	12/09	1.60	1.36	17.21	36.82	42.0	85	3.7	214	7.9	23.0	2,400.7	42	1,071.0	0.45	NR	Aa3	61	9.2	6.5	10.30	10/08
12	NICOR Inc. (NYSE-GAS)	12/09	2.98	1.86	22.81	42.84	45.5	62	4.3	188	8.2	14.4	2,652.1	81	2,939.1	1.11	AA	A1	51	13.5	8.2	10.17	03/09
13	Northwest Natural Gas Co. (NYSE-NWN)	12/09	2.83	1.66	24.84	46.19	26.6	59	3.6	186	6.7	16.3	1,012.7	98	1,670.1	1.65	AA-	A1	47	11.7	8.3	10.20	-
14	ONEOK, Inc. (NYSE-OKE)	12/09	3.18	1.76	20.76	46.57	106.3	55	3.8	224	8.5	14.7	11,111.7	17	7,793.7	0.70	BBB	Baa2	25	15.7	6.9	10.50	-
15	Piedmont Natural Gas Co., Inc. (NYSE-PNY)	1/10	2.49	1.12	13.50	27.36	73.5	45	4.1	203	8.3	11.0	1,532.2	86	2,317.5	1.51	A	A3	48	18.9	10.7	10.60	-
16	Questar Corporation (NYSE-STR)	12/09	2.27	0.52	19.87	43.05	176.3	23	1.2	217	2.6	19.0	3,038.0	30	7,804.9	2.57	BBB+	A3	61	11.6	9.4	10.00	08/08
17	RGC Resources, Inc. (NDQ-RGCO)	12/09	2.11	1.32	20.65	31.07	2.2	63	4.2	150	6.4	14.7	76.9	98	79.4	1.03	NR	NR	62	10.6	8.4	9.85	-
18	South Jersey Industries, Inc. (NYSE-SJI)	12/09	0.97	1.32	18.22	41.02	29.9	137	3.2	225	7.2	42.5	845.4	57	1,073.1	1.27	A	A2	50	11.0	7.1	10.00	07/04
19	Southern Union Company (NYSE-SUG)	12/09	1.37	0.60	18.93	25.32	124.4	44	2.4	134	3.2	18.5	2,179.0	32	5,629.2	2.58	BBB-	Baa3	39	9.9	7.3	10.03	-
20	Southwest Gas Corporation (NYSE-SWX)	12/09	1.94	1.00	24.63	29.60	44.8	52	3.4	120	4.1	15.3	1,893.8	85	3,034.5	1.60	BBB	Baa3	46	8.2	7.2	10.20	-
21	Southwestern Energy Company (NYSE-SWN)	12/09	-0.12	0.00	6.79	43.42	343.4	0	0.0	NM	NM	NM	2,145.8	74	4,127.3	1.92	BB+	Ba2	70	NM	NM	10.54	07/07
22	UGI Corporation (NYSE-UGI)	12/09	2.20	0.80	15.31	25.17	109.9	36	3.2	164	5.2	11.4	5,578.1	34	2,915.0	0.52	NR	A3	39	15.7	9.0	-	-
23	WGL Holdings, Inc. (NYSE-WGL)	12/09	2.24	1.51	22.35	33.78	50.4	67	4.5	151	6.8	15.1	2,608.2	52	2,277.0	0.87	AA-	A2	56	10.2	7.4	10.20	-
24	Williams Companies, Inc. (NYSE-WMB)	12/09	0.46	0.44	14.33	22.70	589.4	96	1.9	158	3.1	49.3	8,461.0	19	18,644.0	2.20	BBB-	Baa2	49	4.7	5.8	-	-
25	AVERAGE							59	3.2	181	5.8	20.0							51	11.2	7.9	10.62	

TELEPHONE COMPANIES

	COMPANY	LATEST 12 MONTHS EARNINGS AVAILABLE	PER SHARE DATA ($) EARNINGS	CURRENT ANNUAL DIVIDEND	BOOK VALUE (1)	STOCK PRICE 3/15/10	COMMON SHARES O/S MILL	PERCENT (2) DIV PAYOUT	DIV YIELD	MKT/ BOOK	DIV/ BOOK (2)	PRICE EARN MULT	TOTAL REV $ MILL (1)	% REG TEL REV LOCAL ILEC OR CLEC	NET PLANT $ MILL	NET PLANT PER $ REV (1)	S&P BOND RATING	MOODY'S BOND RATING	COMMON EQUITY RATIO (3)	% RETURN ON BOOK VALUE COMMON EQUITY (4)	% RETURN ON BOOK VALUE TOTAL CAPITAL	REGULATION ALLOWED ROE	REGULATION ORDER DATE
1	Alaska Comm. Systems Group (NDQ-ALSK)	12/09	0.75	0.86	0.76	8.53	44.2	115	10.1	NM	NM	11.4	366.5	71	450.9	1.23	NR	NR	6	NM	12.6	-	-
2	AT&T Inc. (NYSE-T)	12/09	2.12	1.68	15.75	25.78	6,495.0	79	6.5	164	10.7	12.2	123,018.0	26	100,093.0	0.81	A	A2	59	12.6	9.2	13.02	-
3	BCE, Inc. (NYSE-BCE)	9/09	1.51	1.69	17.05	30.42	767.2	112	5.6	178	9.9	20.1	14,765.2	48	17,862.0	1.21	NR	Baa1	48	7.8	6.4	-	-
4	CenturyTel, Inc. (NYSE-CTL)	12/09	3.01	2.90	47.53	34.79	199.1	96	8.3	73	6.1	11.6	4,974.2	62	9,097.1	1.83	BBB-	Baa3	55	8.1	7.4	10.00	-
5	Cincinnati Bell Inc. (NYSE- CBB)	12/09	0.37	0.00	(3.64)	3.22	215.2	0	0.0	NM	NM	8.7	1,336.0	58	1,123.3	0.84	NR	Ba1	NM	NM	16.3	-	-
6	Frontier Communications Corp (NYSE FTR)	12/09	0.38	1.00	0.00	7.49	312.3	NM	13.4	NM	NM	19.7	2,117.9	84	3,133.5	1.48	NR	Ba2	7	NM	9.6	-	-
7	General Communication, Inc. (NDQ-GNCMA)	12/09	0.06	0.00	4.86	5.72	54.8	0	0.0	118	NM	NM	595.8	9	849.2	1.43	NR	B2	23	1.3	5.6	-	-
8	Qwest Communications International (NYSE-Q)	12/09	0.38	0.32	(0.69)	4.87	1,713.5	84	6.6	NM	NM	12.8	12,311.0	57	12,299.0	1.00	NR	Ba1	NM	NM	12.5	11.11	-
9	Telephone & Data Systems, Inc. (ASE-TDS)	12/09	1.77	0.45	34.47	34.40	109.6	25	1.3	100	1.3	19.4	5,020.7	16	3,507.8	0.70	NR	Baa2	64	5.1	5.9	-	-
10	PAETEC Holdings Corp. (NDQ-PAET)	12/09	-0.20	0.00	1.39	4.28	143.4	0	0.0	308	NM	NM	1,580.2	80	619.0	0.39	NR	B1	18	NM	4.0	-	-
11	Verizon Communications (NYSE-VZ)	9/09	1.94	1.90	15.20	29.86	2,841.0	98	6.4	196	12.5	15.4	105,362.0	44	90,834.0	0.86	AA-	Baa1	29	12.4	6.3	12.53	-
12	Windstream Corporation (NYSE-WIN)	12/09	0.76	1.00	0.60	11.12	436.8	132	9.0	NM	NM	14.6	2,996.6	96	3,992.6	1.33	BB-	Ba3	4	NM	12.2	-	-
13	AVERAGE							67	5.6	162	8.1	14.6							31	7.9	9.0	11.66	

SMALL TELEPHONE COMPANIES

	COMPANY	LATEST 12 MONTHS EARNINGS AVAILABLE	PER SHARE DATA ($) EARNINGS	CURRENT ANNUAL DIVIDEND	BOOK VALUE (1)	STOCK PRICE 3/15/10	COMMON SHARES O/S MILL	PERCENT (2) DIV PAYOUT	DIV YIELD	MKT/ BOOK	DIV/ BOOK (2)	PRICE EARN MULT	TOTAL REV $ MILL (1)	% REG TEL REV LOCAL OR CLEC	NET PLANT $ MILL	NET PLANT PER $ REV (1)	S&P BOND RATING	MOODY'S BOND RATING	COMMON EQUITY RATIO (3)	% RETURN ON BOOK VALUE COMMON EQUITY (4)	% RETURN ON BOOK VALUE TOTAL CAPITAL	REGULATION ALLOWED ROE	REGULATION ORDER DATE
1	Atlantic Tele-Network, Inc. (NDQ-ATNI)	9/09	2.42	0.80	16.56	40.35	15.3	33	2.0	244	4.8	16.7	237.6	23	207.6	0.87	NR	NR	71	15.3	12.0	-	-
2	Hickory Tech Corportion (NDQ-HTCO)	12/09	0.86	0.52	2.64	8.71	13.1	60	6.0	329	19.7	10.1	139.1	49	153.5	1.10	NR	NR	22	NM	9.7	-	-
3	Consolidated Comm. Holdings, Inc. (NDQ-CNSL)	12/09	0.84	1.55	2.73	18.44	29.6	185	8.4	NM	NM	22.0	406.2	46	377.2	0.93	NR	NR	8	NM	8.6	-	-
4	SureWest Communications (NDQ-SURW)	12/09	0.05	0.00	19.23	9.35	14.0	0	0.0	49	NM	NM	241.7	33	517.2	2.14	NR	NR	56	0.3	2.5	-	-
5	Warwick Valley Telephone Co. (NDQ-WWVY)	9/09	1.17	0.88	6.58	13.70	5.4	75	6.4	208	13.4	11.7	23.6	95	33.5	1.42	NR	NR	88	17.9	17.2	-	-
6	AVERAGE							71	4.6	207	12.6	15.1							49	11.2	10.0		

WATER COMPANIES

	COMPANY	LATEST 12 MONTHS EARNINGS AVAILABLE	PER SHARE DATA ($) EARNINGS	CURRENT ANNUAL DIVIDEND	BOOK VALUE (1)	STOCK PRICE 3/15/10	COMMON SHARES O/S MILL	PERCENT (2) DIV PAYOUT	DIV YIELD	MKT/ BOOK	DIV/ BOOK (2)	PRICE EARN MULT	TOTAL REV $ MILL (1)	% REG WATER REV	NET PLANT $ MILL	NET PLANT PER $ REV (1)	S&P BOND RATING	MOODY'S BOND RATING	COMMON EQUITY RATIO (3)	% RETURN ON BOOK VALUE COMMON EQUITY (4)	% RETURN ON BOOK VALUE TOTAL CAPITAL	REGULATION ALLOWED ROE	REGULATION ORDER DATE
1	American States Water Co. (NYSE-AWR)	12/09	1.62	1.04	19.76	32.54	18.2	64	3.2	165	5.3	20.1	361.0	76	762.1	2.11	A	A2	54	8.8	8.3	10.50	10/09
2	American Water Works Co., Inc. (NYSE-AWK)	12/09	-1.39	0.84	23.79	21.10	168.2	NM	4.0	89	3.5	NM	2,440.7	90	-	0.00	A+	NR	2	NM	0.8	9.51	-
3	Aqua America, Inc. (NYSE-WTR)	12/09	0.77	0.58	8.15	16.92	136.1	75	3.4	208	7.1	21.9	670.5	98	2,790.5	4.16	AA-	NR	43	9.6	6.9	10.20	-
4	Artesian Resources Corp. (NDQ-ARTNA)	12/09	0.97	0.75	12.14	18.25	7.5	77	4.1	150	6.2	18.8	60.9	88	255.7	4.20	NR	NR	46	8.1	7.3	10.25	05/06
5	California Water Service Group (NYSE-CWT)	12/09	1.95	1.19	20.26	36.76	20.8	61	3.2	181	5.9	18.9	449.4	99	1,079.9	2.40	AA-	NR	52	7.4	6.7	10.20	05/09
6	Connecticut Water Service, Inc. (NDQ-CTWS)	9/09	1.29	0.91	12.72	23.94	8.5	71	3.8	188	7.2	18.6	68.1	90	368.4	5.41	A	NR	54	13.9	9.1	10.13	01/07
7	Middlesex Water Company (NDQ-MSEX)	12/09	0.71	0.72	10.18	17.59	13.7	101	4.1	173	7.1	24.7	91.2	89	329.7	3.61	A	NR	44	7.0	5.6	10.00	-
8	Pennichuck Corporation (NDQ-PNNW)	12/09	0.55	0.72	12.86	21.24	4.3	131	3.4	165	5.6	38.6	32.8	92	123.2	3.76	NR	NR	48	4.6	5.3	9.75	-
9	SJW Corporation (NYSE-SJW)	12/09	0.81	0.68	13.53	23.80	18.7	84	2.9	176	5.0	29.4	216.1	96	523.7	2.42	NR	NR	50	6.0	6.2	10.13	01/08
10	Southwest Water Company (NDQ-SWWC)	9/09	-0.97	0.20	4.82	10.45	24.6	NM	1.9	217	4.2	NM	216.5	48	270.7	1.25	NR	NR	43	NM	NM	10.00	06/07
11	York Water Company (NDQ-YORW)	12/09	0.64	0.51	6.92	14.02	12.6	80	3.6	203	7.4	21.9	37.0	92	196.5	5.31	A-	NR	53	9.6	7.8	10.00	09/06
12	AVERAGE							83	3.4	174	5.8	23.6							44	8.3	6.4	10.06	

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COMPOSITE INDEX

ELECTRIC COMPANIES

		DIVIDEND YIELD	PRICE EARNINGS MULTIPLE
YEAR	2000	5.4	13.6
YEAR	2001	4.5	14.0
YEAR	2002	5.0	14.8
YEAR	2003	5.0	15.4
YEAR	2004	4.4	18.4
YEAR	2005	4.1	20.9
YEAR	2006	3.8	20.8
YEAR	2007	3.4	18.5
YEAR	2008	3.9	16.1
YEAR	2009	4.8	14.1
YEAR TO DATE	2010	4.3	18.2
MAY	2009	5.2	11.3
JUNE	2009	5.2	13.6
JULY	2009	4.8	14.9
AUGUST	2009	4.7	15.1
SEPTEMBER	2009	4.5	14.1
OCTOBER	2009	4.4	14.8
NOVEMBER	2009	4.4	14.7
DECEMBER	2009	4.4	17.6
JANUARY	2010	4.2	18.4
FEBRUARY	2010	4.2	18.4
MARCH	2010	4.5	17.4
APRIL	2010	4.3	17.8

COMBINATION GAS & ELECTRIC COMPANIES

		DIVIDEND YIELD	PRICE EARNINGS MULTIPLE
YEAR	2000	5.0	16.1
YEAR	2001	4.1	15.3
YEAR	2002	4.9	14.9
YEAR	2003	3.8	15.3
YEAR	2004	3.4	17.1
YEAR	2005	3.3	18.9
YEAR	2006	3.2	18.7
YEAR	2007	3.3	18.3
YEAR	2008	4.0	15.7
YEAR	2009	5.2	12.8
YEAR TO DATE	2010	4.6	15.0
MAY	2009	5.7	11.4
JUNE	2009	5.7	11.6
JULY	2009	5.2	13.0
AUGUST	2009	5.1	13.3
SEPTEMBER	2009	4.9	14.0
OCTOBER	2009	4.8	14.4
NOVEMBER	2009	4.8	14.0
DECEMBER	2009	4.8	14.2
JANUARY	2010	4.5	15.0
FEBRUARY	2010	4.4	15.3
MARCH	2010	4.7	14.7
APRIL	2010	4.7	14.9

NATURAL GAS DISTRIBUTION COMPANIES

		DIVIDEND YIELD	PRICE EARNINGS MULTIPLE
YEAR	2000	4.3	19.0
YEAR	2001	4.1	16.6
YEAR	2002	4.3	17.3
YEAR	2003	4.0	16.2
YEAR	2004	3.3	17.0
YEAR	2005	3.1	19.8
YEAR	2006	3.1	17.2
YEAR	2007	2.9	19.5
YEAR	2008	13.1	17.4
YEAR	2009	3.8	14.4
YEAR TO DATE	2010	3.3	21.0
MAY	2009	4.1	12.4
JUNE	2009	4.1	13.3
JULY	2009	3.8	14.5
AUGUST	2009	3.8	14.4
SEPTEMBER	2009	3.6	15.5
OCTOBER	2009	3.5	16.1
NOVEMBER	2009	3.4	16.7
DECEMBER	2009	3.4	19.3
JANUARY	2010	3.3	21.9
FEBRUARY	2010	3.2	22.5
MARCH	2010	3.3	19.4
APRIL	2010	3.2	20.0

TELEPHONE COMPANIES

		DIVIDEND YIELD	PRICE EARNINGS MULTIPLE
YEAR	2000	0.9	27.9
YEAR	2001	0.9	26.3
YEAR	2002	1.4	21.1
YEAR	2003	1.7	21.6
YEAR	2004	2.3	21.5
YEAR	2005	2.6	22.5
YEAR	2006	2.6	21.1
YEAR	2007	2.7	20.1
YEAR	2008	4.4	14.3
YEAR	2009	6.0	14.6
YEAR TO DATE	2010	5.2	17.9
MAY	2009	7.0	11.4
JUNE	2009	5.4	13.8
JULY	2009	6.3	13.5
AUGUST	2009	6.6	13.5
SEPTEMBER	2009	6.2	14.8
OCTOBER	2009	6.0	16.1
NOVEMBER	2009	5.9	16.5
DECEMBER	2009	6.1	19.0
JANUARY	2010	5.7	19.0
FEBRUARY	2010	4.6	19.1
MARCH	2010	5.0	18.4
APRIL	2010	5.6	14.6

SMALL TELEPHONE COMPANIES

		DIVIDEND YIELD	PRICE EARNINGS MULTIPLE
YEAR	2000	2.4	24.4
YEAR	2001	2.8	20.0
YEAR	2002	2.6	20.1
YEAR	2003	2.8	21.7
YEAR	2004	2.6	19.3
YEAR	2005	3.5	17.2
YEAR	2006	3.8	21.6
YEAR	2007	4.5	20.4
YEAR	2008	8.3	16.1
YEAR	2009	7.5	18.4
YEAR TO DATE	2010	4.5	16.2
MAY	2009	9.4	13.8
JUNE	2009	8.1	18.8
JULY	2009	5.8	20.9
AUGUST	2009	5.6	24.4
SEPTEMBER	2009	5.6	25.0
OCTOBER	2009	5.2	28.2
NOVEMBER	2009	5.0	28.4
DECEMBER	2009	5.1	15.6
JANUARY	2010	4.9	16.1
FEBRUARY	2010	4.6	17.1
MARCH	2010	2.9	15.8
APRIL	2010	4.6	15.1

WATER COMPANIES

		DIVIDEND YIELD	PRICE EARNINGS MULTIPLE
YEAR	2000	3.5	21.4
YEAR	2001	3.4	21.4
YEAR	2002	3.1	22.2
YEAR	2003	3.2	23.2
YEAR	2004	3.1	27.9
YEAR	2005	2.8	28.7
YEAR	2006	2.8	30.9
YEAR	2007	2.8	28.1
YEAR	2008	3.1	23.1
YEAR	2009	3.5	21.3
YEAR TO DATE	2010	3.5	21.5
MAY	2009	3.6	19.1
JUNE	2009	3.7	20.4
JULY	2009	3.6	21.2
AUGUST	2009	3.4	22.5
SEPTEMBER	2009	3.5	21.7
OCTOBER	2009	3.3	22.8
NOVEMBER	2009	3.4	22.6
DECEMBER	2009	3.6	20.8
JANUARY	2010	3.5	20.8
FEBRUARY	2010	3.6	20.2
MARCH	2010	3.6	20.2
APRIL	2010	3.4	23.6

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AUS INDUSTRY RANKINGS

ELECTRIC COMPANIES

DIVIDEND YIELD

HIGH		LOW	
Progress Energy Inc. (NYSE-PGN)	6.4	El Paso Electric Company (ASE-EE)	0.0
UIL Holdings Corporation (NYSE-UIL)	6.2	Maine & Maritimes Corporation (ASE-MAM)	0.5
Hawaiian Electric Industries, Inc. (NYSE-HE)	5.7	Allegheny Energy, Inc. (NYSE-AYE)	2.6
Pinnacle West Capital Corp. (NYSE-PNW)	5.6	Cleco Corporation (NYSE-CNL)	3.4
Westar Energy, Inc. (NYSE-WR)	5.6	IDACORP, Inc. (NYSE-IDA)	3.4
FirstEnergy Corporation (NYSE-FE)	5.5	Edison International (NYSE-EIX)	3.7
Otter Tail Corporation (NDQ-OTTR)	5.4	OGE Energy Corp. (NYSE-OGE)	3.8
Portland General Electric (NYSE-POR)	5.3	PNM Resources, Inc. (NYSE-PNM)	3.8
Southern Company (NYSE-SO)	5.3	FPL Group, Inc. (NYSE-FPL)	4.2
PPL Corporation (NYSE-PPL)	4.9	DPL Inc.(NYSE-DPL)	4.4

MARKET/BOOK RATIO

HIGH		LOW	
DPL Inc.(NYSE-DPL)	286	PNM Resources, Inc. (NYSE-PNM)	69
PPL Corporation (NYSE-PPL)	196	Great Plains Energy Incorporated (NYSE-GXP)	86
OGE Energy Corp. (NYSE-OGE)	181	Portland General Electric (NYSE-POR)	91
Southern Company (NYSE-SO)	168	Central Vermont Public Serv. Corp. (NYSE-CV)	102
Maine & Maritimes Corporation (ASE-MAM)	159	Westar Energy, Inc. (NYSE-WR)	107
FPL Group, Inc. (NYSE-FPL)	149	Edison International (NYSE-EIX)	113
Cleco Corporation (NYSE-CNL)	145	Pinnacle West Capital Corp. (NYSE-PNW)	114
FirstEnergy Corporation (NYSE-FE)	141	Progress Energy Inc. (NYSE-PGN)	115
Hawaiian Electric Industries, Inc. (NYSE-HE)	141	Otter Tail Corporation (NDQ-OTTR)	118
UIL Holdings Corporation (NYSE-UIL)	138	IDACORP, Inc. (NYSE-IDA)	119

PRICE/EARNINGS MULTIPLE

HIGH		LOW	
Pinnacle West Capital Corp. (NYSE-PNW)	46.1	PNM Resources, Inc. (NYSE-PNM)	9.7
Maine & Maritimes Corporation (ASE-MAM)	42.8	Allegheny Energy, Inc. (NYSE-AYE)	10.1
Otter Tail Corporation (NDQ-OTTR)	31.1	American Electric Power Co. (NYSE-AEP)	11.5
PPL Corporation (NYSE-PPL)	26.5	Central Vermont Public Serv. Corp. (NYSE-CV)	11.6
Hawaiian Electric Industries, Inc. (NYSE-HE)	23.6	FPL Group, Inc. (NYSE-FPL)	11.9
Great Plains Energy Incorporated (NYSE-GXP)	16.3	FirstEnergy Corporation (NYSE-FE)	12.1
Southern Company (NYSE-SO)	16.0	Edison International (NYSE-EIX)	13.1
Cleco Corporation (NYSE-CNL)	15.1	IDACORP, Inc. (NYSE-IDA)	13.3
Portland General Electric (NYSE-POR)	14.6	DPL Inc.(NYSE-DPL)	13.7
UIL Holdings Corporation (NYSE-UIL)	14.6	El Paso Electric Company (ASE-EE)	13.7

RETURN ON BOOK VALUE OF COMMON EQUITY

HIGH		LOW	
DPL Inc.(NYSE-DPL)	22.1	Pinnacle West Capital Corp. (NYSE-PNW)	2.0
Allegheny Energy, Inc. (NYSE-AYE)	13.2	Maine & Maritimes Corporation (ASE-MAM)	3.8
FPL Group, Inc. (NYSE-FPL)	13.1	Otter Tail Corporation (NDQ-OTTR)	3.8
OGE Energy Corp. (NYSE-OGE)	13.1	Great Plains Energy Incorporated (NYSE-GXP)	5.6
FirstEnergy Corporation (NYSE-FE)	11.9	Portland General Electric (NYSE-POR)	6.6
Hawaiian Electric Industries, Inc. (NYSE-HE)	11.6	PNM Resources, Inc. (NYSE-PNM)	7.5
American Electric Power Co. (NYSE-AEP)	11.5	PPL Corporation (NYSE-PPL)	7.7
Southern Company (NYSE-SO)	11.4	Westar Energy, Inc. (NYSE-WR)	7.8
UIL Holdings Corporation (NYSE-UIL)	10.4	Progress Energy Inc. (NYSE-PGN)	8.3
Cleco Corporation (NYSE-CNL)	9.8	Edison International (NYSE-EIX)	8.8

COMBINATION ELECTRIC & GAS COMPANIES

DIVIDEND YIELD

HIGH		LOW	
Empire District Electric Co. (NYSE-EDE)	7.0	AES Corporation (NYSE-AES)	0.0
Pepco Holdings, Inc. (NYSE-POM)	6.3	Constellation Energy Group, Inc. (NYSE-CEG)	2.7
Ameren Corporation (NYSE-AEE)	6.0	MDU Resources Group, Inc. (NYSE-MDU)	2.9
Unitil Corporation (ASE-UTL)	6.0	SEMPRA Energy (NYSE-SRE)	3.1
NiSource Inc. (NYSE-NI)	5.9	Wisconsin Energy Corporation (NYSE-WEC)	3.2
Duke Energy Corporation (NYSE-DUK)	5.8	NV Energy (NYSE-NVE)	3.7
Integrys Energy Group (NYSE-TEG)	5.8	CMS Energy Corporation (NYSE-CMS)	3.8
Vectren Corporation (NYSE-VVC)	5.7	Entergy Corporation (NYSE-ETR)	3.8
CenterPoint Energy (NYSE-CNP)	5.5	Northeast Utilities (NYSE-NU)	3.8
Consolidated Edison, Inc. (NYSE-ED)	5.4	MGE Energy, Inc. (NDQ-MGEE)	4.2

MARKET/BOOK RATIO

HIGH		LOW	
Exelon Corporation (NYSE-EXC)	233	Constellation Energy Group, Inc. (NYSE-CEG)	83
CenterPoint Energy (NYSE-CNP)	226	NV Energy (NYSE-NVE)	86
Dominion Resources, Inc. (NYSE-D)	213	NiSource Inc. (NYSE-NI)	88
NSTAR (NYSE-NST)	201	Pepco Holdings, Inc. (NYSE-POM)	89
Entergy Corporation (NYSE-ETR)	179	Duke Energy Corporation (NYSE-DUK)	98
Public Service Enterprise Group (NYSE-PEG)	178	Black Hills Corporation (NYSE-BKH)	103
Wisconsin Energy Corporation (NYSE-WEC)	166	Empire District Electric Co. (NYSE-EDE)	106
AES Corporation (NYSE-AES)	165	Avista Corporation (NYSE-AVA)	111
MGE Energy, Inc. (NDQ-MGEE)	162	Unitil Corporation (ASE-UTL)	115
TECO Energy, Inc. (NYSE-TE)	162	DTE Energy Company (NYSE-DTE)	118

PRICE/EARNINGS MULTIPLE

HIGH		LOW	
Alliant Energy Corporation (NYSE-LNT)	33.3	Public Service Enterprise Group (NYSE-PEG)	9.8
Unitil Corporation (ASE-UTL)	22.3	Exelon Corporation (NYSE-EXC)	10.9
Duke Energy Corporation (NYSE-DUK)	19.8	SEMPRA Energy (NYSE-SRE)	11.1
NiSource Inc. (NYSE-NI)	19.6	CenterPoint Energy (NYSE-CNP)	11.6
CH Energy Group, Inc. (NYSE-CHG)	19.5	UniSource Energy Corporation (NYSE-UNS)	11.7
CMS Energy Corporation (NYSE-CMS)	18.9	AES Corporation (NYSE-AES)	11.8
Dominion Resources, Inc. (NYSE-D)	18.3	Entergy Corporation (NYSE-ETR)	12.5
ALLETE, Inc. (NYSE-ALE)	17.7	Northwestern Corporation (NYSE-NWE)	12.9
Pepco Holdings, Inc. (NYSE-POM)	16.2	SCANA Corporation (NYSE-SCG)	13.0
MGE Energy, Inc. (NDQ-MGEE)	15.9	PG&E Corporation (NYSE-PCG)	13.3

RETURN ON BOOK VALUE OF COMMON EQUITY

HIGH		LOW	
Exelon Corporation (NYSE-EXC)	22.6	Pepco Holdings, Inc. (NYSE-POM)	5.6
CenterPoint Energy (NYSE-CNP)	19.5	NV Energy (NYSE-NVE)	5.8
Public Service Enterprise Group (NYSE-PEG)	19.2	Unitil Corporation (ASE-UTL)	6.0
AES Corporation (NYSE-AES)	15.8	ALLETE, Inc. (NYSE-ALE)	6.9
Entergy Corporation (NYSE-ETR)	14.9	Empire District Electric Co. (NYSE-EDE)	7.3
UniSource Energy Corporation (NYSE-UNS)	14.6	Constellation Energy Group, Inc. (NYSE-CEG)	7.5
NSTAR (NYSE-NST)	13.8	Black Hills Corporation (NYSE-BKH)	7.6
SEMPRA Energy (NYSE-SRE)	13.2	CH Energy Group, Inc. (NYSE-CHG)	8.2
PG&E Corporation (NYSE-PCG)	12.4	Ameren Corporation (NYSE-AEE)	8.3
Dominion Resources, Inc. (NYSE-D)	12.1	Avista Corporation (NYSE-AVA)	8.5

NATURAL GAS DIST. & INT. GAS COMPANIES

DIVIDEND YIELD

HIGH		LOW	
Energy, Incorporated (NDQ-EGAS)	5.4	Southwestern Energy Company (NYSE-SWN)	0.0
AGL Resources Inc. (NYSE-AGL)	4.7	El Paso Corporation (NYSE-EP)	0.4
Atmos Energy Corporation (NYSE-ATO)	4.7	Energen Corporation (NYSE-EGN)	1.1
Laclede Group, Inc. (NYSE-LG)	4.7	Questar Corporation (NYSE-STR)	1.2
WGL Holdings, Inc. (NYSE-WGL)	4.5	Williams Companies, Inc. (NYSE-WMB)	1.9
Delta Natural Gas Company (NDQ-DGAS)	4.3	EQT Corporation (NYSE-EQT)	2.0
NICOR Inc. (NYSE-GAS)	4.3	Southern Union Company (NYSE-SUG)	2.4
RGC Resources, Inc. (NDQ-RGCO)	4.2	National Fuel Gas Company (NYSE-NFG)	2.6
Chesapeake Utilities Corporation (NYSE-CPK)	4.1	South Jersey Industries, Inc. (NYSE-SJI)	3.2
Piedmont Natural Gas Co., Inc. (NYSE-PNY)	4.1	UGI Corporation (NYSE-UGI)	3.2

MARKET/BOOK RATIO

HIGH		LOW	
EQT Corporation (NYSE-EQT)	319	Chesapeake Utilities Corporation (NYSE-CPK)	110
National Fuel Gas Company (NYSE-NFG)	254	Atmos Energy Corporation (NYSE-ATO)	118
El Paso Corporation (NYSE-EP)	247	Southwest Gas Corporation (NYSE-SWX)	120
South Jersey Industries, Inc. (NYSE-SJI)	225	Southern Union Company (NYSE-SUG)	134
ONEOK, Inc. (NYSE-OKE)	224	Energy, Incorporated (NDQ-EGAS)	137
Questar Corporation (NYSE-STR)	217	Laclede Group, Inc. (NYSE-LG)	139
New Jersey Resources Corp. (NYSE-NJR)	214	RGC Resources, Inc. (NDQ-RGCO)	150
Piedmont Natural Gas Co., Inc. (NYSE-PNY)	203	WGL Holdings, Inc. (NYSE-WGL)	151
NICOR Inc. (NYSE-GAS)	188	Williams Companies, Inc. (NYSE-WMB)	158
Northwest Natural Gas Co. (NYSE-NWN)	186	AGL Resources Inc. (NYSE-AGL)	162

PRICE/EARNINGS MULTIPLE

HIGH		LOW	
Williams Companies, Inc. (NYSE-WMB)	49.3	Piedmont Natural Gas Co., Inc. (NYSE-PNY)	11.0
South Jersey Industries, Inc. (NYSE-SJI)	42.5	UGI Corporation (NYSE-UGI)	11.4
EQT Corporation (NYSE-EQT)	36.6	Atmos Energy Corporation (NYSE-ATO)	12.8
AGL Resources Inc. (NYSE-AGL)	31.5	Energy, Incorporated (NDQ-EGAS)	13.0
New Jersey Resources Corp. (NYSE-NJR)	23.0	Energen Corporation (NYSE-EGN)	13.2
National Fuel Gas Company (NYSE-NFG)	20.1	Laclede Group, Inc. (NYSE-LG)	13.2
Delta Natural Gas Company (NDQ-DGAS)	19.5	Chesapeake Utilities Corporation (NYSE-CPK)	13.9
Questar Corporation (NYSE-STR)	19.0	NICOR Inc. (NYSE-GAS)	14.4
Southern Union Company (NYSE-SUG)	18.5	ONEOK, Inc. (NYSE-OKE)	14.7
Northwest Natural Gas Co. (NYSE-NWN)	16.3	RGC Resources, Inc. (NDQ-RGCO)	14.7

RETURN ON BOOK VALUE OF COMMON EQUITY

HIGH		LOW	
Piedmont Natural Gas Co., Inc. (NYSE-PNY)	18.9	Williams Companies, Inc. (NYSE-WMB)	4.7
ONEOK, Inc. (NYSE-OKE)	15.7	EQT Corporation (NYSE-EQT)	7.7
UGI Corporation (NYSE-UGI)	15.7	Southwest Gas Corporation (NYSE-SWX)	8.2
NICOR Inc. (NYSE-GAS)	13.5	Delta Natural Gas Company (NDQ-DGAS)	8.8
Energen Corporation (NYSE-EGN)	13.1	New Jersey Resources Corp. (NYSE-NJR)	9.2
AGL Resources Inc. (NYSE-AGL)	12.9	Chesapeake Utilities Corporation (NYSE-CPK)	9.6
National Fuel Gas Company (NYSE-NFG)	12.9	Atmos Energy Corporation (NYSE-ATO)	9.6
Northwest Natural Gas Co. (NYSE-NWN)	11.7	Southern Union Company (NYSE-SUG)	9.9
Questar Corporation (NYSE-STR)	11.6	WGL Holdings, Inc. (NYSE-WGL)	10.2
South Jersey Industries, Inc. (NYSE-SJI)	11.0	Energy, Incorporated (NDQ-EGAS)	10.5

TELEPHONE COMPANIES

DIVIDEND YIELD

HIGH		LOW	
Frontier Communications Corp (NYSE FTR)	13.4	General Communication, Inc. (NDQ-GNCMA)	0.0
Alaska Comm. Systems Group (NDQ-ALSK)	10.1	PAETEC Holdings Corp. (NDQ-PAET)	0.0
Windstream Corporation (NYSE-WIN)	9.0	Telephone & Data Systems, Inc. (ASE-TDS)	1.3
CenturyTel, Inc. (NYSE-CTL)	8.3	BCE, Inc. (NYSE-BCE)	5.6
Qwest Communications International (NYSE-Q)	6.6	Verizon Communications (NYSE-VZ)	6.4

MARKET/BOOK RATIO

HIGH		LOW
PAETEC Holdings Corp. (NDQ-PAET)	308	Telephone companies with NMs (Not Meaningful Figures)
Verizon Communications (NYSE-VZ)	196	have been excluded from the Market/Book Ratios rankings.
BCE, Inc. (NYSE-BCE)	178	
AT&T Inc. (NYSE-T)	164	
General Communication, Inc. (NDQ-GNCMA)	118	

PRICE/EARNINGS MULTIPLE

HIGH		LOW	
BCE, Inc. (NYSE-BCE)	20.1	Cincinnati Bell Inc. (NYSE- CBB)	8.7
Frontier Communications Corp (NYSE FTR)	19.7	Alaska Comm. Systems Group (NDQ-ALSK)	11.4
Telephone & Data Systems, Inc. (ASE-TDS)	19.4	CenturyTel, Inc. (NYSE-CTL)	11.6
Verizon Communications (NYSE-VZ)	15.4	AT&T Inc. (NYSE-T)	12.2
Windstream Corporation (NYSE-WIN)	14.6	Qwest Communications International (NYSE-Q)	12.8

RETURN ON BOOK VALUE OF COMMON EQUITY

HIGH		LOW	
AT&T Inc. (NYSE-T)	12.6	General Communication, Inc. (NDQ-GNCMA)	1.3
Verizon Communications (NYSE-VZ)	12.4	Telephone & Data Systems, Inc. (ASE-TDS)	5.1
CenturyTel, Inc. (NYSE-CTL)	8.1	BCE, Inc. (NYSE-BCE)	7.8

WATER COMPANIES

DIVIDEND YIELD

HIGH		LOW	
Artesian Resources Corp. (NDQ-ARTNA)	4.1	Southwest Water Company (NDQ-SWWC)	1.9
Middlesex Water Company (NDQ-MSEX)	4.1	SJW Corporation (NYSE-SJW)	2.9
American Water Works Co., Inc. (NYSE-AWK)	4.0	American States Water Co. (NYSE-AWR)	3.2
Connecticut Water Service, Inc. (NDQ-CTWS)	3.8	California Water Service Group (NYSE-CWT)	3.2

MARKET/BOOK RATIO

HIGH		LOW	
Southwest Water Company (NDQ-SWWC)	216.9	American Water Works Co., Inc. (NYSE-AWK)	88.7
Aqua America, Inc. (NYSE-WTR)	207.7	Artesian Resources Corp. (NDQ-ARTNA)	150.4
York Water Company (NDQ-YORW)	202.6	American States Water Co. (NYSE-AWR)	164.7
Connecticut Water Service, Inc. (NDQ-CTWS)	188.2	Pennichuck Corporation (NDQ-PNNW)	165.2

PRICE/EARNINGS MULTIPLE

HIGH		LOW	
Pennichuck Corporation (NDQ-PNNW)	38.6	Connecticut Water Service, Inc. (NDQ-CTWS)	18.6
SJW Corporation (NYSE-SJW)	29.4	Artesian Resources Corp. (NDQ-ARTNA)	18.8
Middlesex Water Company (NDQ-MSEX)	24.7	California Water Service Group (NYSE-CWT)	18.9
Aqua America, Inc. (NYSE-WTR)	21.9	American States Water Co. (NYSE-AWR)	20.1

RETURN ON BOOK VALUE OF COMMON EQUITY

HIGH		LOW	
Connecticut Water Service, Inc. (NDQ-CTWS)	13.9	Pennichuck Corporation (NDQ-PNNW)	4.6
Aqua America, Inc. (NYSE-WTR)	9.6	SJW Corporation (NYSE-SJW)	6.0
York Water Company (NDQ-YORW)	9.6	Middlesex Water Company (NDQ-MSEX)	7.0
American States Water Co. (NYSE-AWR)	8.8	California Water Service Group (NYSE-CWT)	7.4

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF KENTUCKY POWER	)	
COMPANY FOR A GENERAL ADJUSTMENT	)	Case No. 2009-00459
OF ELECTRIC RATES	)	

RESPONSES OF KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC TO KENTUCKY POWER COMPANY DATA REQUESTS

12. Please provide a copy of all electronic spreadsheets (with formulas intact) relied on in the preparation of Mr. Baudino's testimony and exhibits with formulas intact.

Response:

Please refer to the attached spreadsheets.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF KENTUCKY POWER	)	
COMPANY FOR A GENERAL ADJUSTMENT	)	Case No. 2009-00459
OF ELECTRIC RATES	)	

RESPONSES OF KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC TO KENTUCKY POWER COMPANY DATA REQUESTS

13. Please provide a copy of Mr. Baudino's testimony filed with the Public Service Commission of Wisconsin in Case No. 6690-UR-119.

Response:

Please refer to the attached testimony.

BEFORE THE

PUBLIC SERVICE COMMISSION OF WISCONSIN

IN RE:	APPLICATION OF WISCONSIN PUBLIC SERVICE CORPORATION FOR AUTHORITY TO ADJUST ELECTRIC AND NATURAL GAS RATES	) DOCKET NO. 6690-UR-119

SURREBUTTAL TESTIMONY

OF

RICHARD A. BAUDINO

ON BEHALF OF THE

WISCONSIN INDUSTRIAL ENERGY GROUP, INC.

J. KENNEDY AND ASSOCIATES, INC.
ROSWELL, GEORGIA

September 2008

BEFORE THE

PUBLIC SERVICE COMMISSION OF WISCONSIN

IN RE:	**APPLICATION OF WISCONSIN PUBLIC SERVICE CORPORATION FOR AUTHORITY TO ADJUST ELECTRIC AND NATURAL GAS RATES**	**) DOCKET NO. 6690-UR-119**

SURREBUTTAL TESTIMONY OF RICHARD A. BAUDINO

Q. Please state your name and business address.

A. My name is Richard A. Baudino. My business address is J. Kennedy and Associates, Inc. ("Kennedy and Associates"), 570 Colonial Park Drive, Suite 305, Roswell, Georgia 30075.

Q. Did you submit Direct Testimony in this proceeding?

A. Yes. I submitted Direct Testimony on behalf of the Wisconsin Industrial Energy Group, Inc. ("WIEG").

Q. What is the purpose of your Surrebuttal Testimony?

A. The purpose of my surrebuttal testimony is to address the Rebuttal Testimony filed by Mr. Paul Moul, witness for Wisconsin Public Service Company ("WPSC" or "Company").

Q. On page 19, lines 15 through 16, Mr. Moul opined that your discussion regarding the beneficial effect of the 2003 tax act "has already been incorporated into the market evidence in this case." Please respond to Mr. Moul's position.

A. The effect has indeed been incorporated into the market evidence in this case, which supports the statements I made regarding a lower risk premium and lower required returns for utility stocks, other things being equal. This is just simple economics. With

regard to Mr. Moul's observation that the equity risk premium has been higher for utilities from 2003 through 2007, there have been other events that have likely pushed this premium higher, such as the factors I cited on pages 26 and 27 of my Direct Testimony.

Q. On page 20 of his Rebuttal Testimony, Mr. Moul took issue with several of the companies you included in your comparison group. Please respond to his criticisms of your group.

A. In my Direct Testimony I presented the criteria I used for including companies in my comparison group, one of which was that companies would need to have regulated electric revenues of over 50% of total revenues. In my opinion, this selection criterion is reasonable because it resulted in a large enough comparison group of electric utilities with risk characteristics that are similar to WPSC. This group derives most of its revenues from regulated electric operations and has bond ratings quite similar to WPSC. Overall, my comparison group provides a reliable foundation for estimating the return on equity for WPSC in this proceeding.

Q. On page 21 of his Rebuttal Testimony, Mr. Moul suggested that an adjustment is necessary to convert end-of-year returns from Value Line to average year returns for purposes of estimating retention growth. Do you agree with Mr. Moul's position?

A. No. The forecasted numbers I obtained from Value Line were for the 3-year period from 2011 to 2013. In my view, these forecasts do not represent end-of-year values in the way that Value Line's historical numbers do, but rather an average value over the three-year forecasted time period. These forecasted numbers do not require an adjustment of the kind that Mr. Moul recommended on page 21 of his Rebuttal Testimony. Mr. Moul's criticism here is not well taken.

Q. On page 22, lines 1 through 9 of his Rebuttal Testimony, Mr. Moul recommended that all the growth rates that were contained in your DCF analysis be included in your return on equity recommendation. Please respond to Mr. Moul's testimony.

A. I disagree with Mr. Moul. In my Direct Testimony, I provided detailed explanations as to why I do not believe double-digit growth rates should be included in my DCF analysis. In fact, Mr. Moul failed to rebut any of the specific comments I made as to why double-digit earnings growth is unlikely to continue in the long run for certain companies in my comparison group. Thus, my testimony on this matter still stands.

Further, since I excluded both high and low growth rate in Method 3, the results are not biased as Mr. Moul claimed on page 22 of his Rebuttal Testimony.

Q. On page 23 of his Rebuttal Testimony, Mr. Moul takes issue with your use of the 5-year Treasury note as a proxy for the risk-free rate in the Capital Asset Pricing Model ("CAPM"). Please respond to this criticism.

A. Mr. Moul's criticism shows the difficulty of estimating the CAPM in the real world. In fact, the long-term Treasury Bond carries interest rate risk due to its long maturity and, thus, is not truly risk-free. Using a shorter maturity, such as five years, lessens this risk; although I agree with Mr. Moul that shorter-term Treasuries are more susceptible to the operations of Federal Open Market Committee ("FOMC"). There is no perfect proxy for the risk-free rate and, therefore, it is prudent to use both a medium-term and long-term Treasury bond as proxies for the risk-free rate in the CAPM.

Q. On page 25, Mr. Moul testified that he was not in a position to comment directly on the Ibbotson/Chen study you cited in your Direct Testimony. Please respond to this statement.

A. A discussion of the Ibbotson/Chen study is included in the Morningstar *Stock, Bonds, Bills and Inflation Yearbook* that I cited in my Direct Testimony and is available for

purchase from Morningstar. I assume Mr. Moul could have access to this information if he had purchased this publication.

Q. Does this complete your testimony?

A. Yes.

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BEFORE THE

PUBLIC SERVICE COMMISSION OF WISCONSIN

IN RE:	**APPLICATION OF WISCONSIN PUBLIC SERVICE CORPORATION FOR AUTHORITY TO ADJUST ELECTRIC AND NATURAL GAS RATES**	)) DOCKET NO. 6690-UR-119))

DIRECT TESTIMONY

OF

RICHARD A. BAUDINO

ON BEHALF OF THE

WISCONSIN INDUSTRIAL ENERGY GROUP, INC.

J. KENNEDY AND ASSOCIATES, INC.
ROSWELL, GEORGIA

August 2008

BEFORE THE

PUBLIC SERVICE COMMISSION OF WISCONSIN

IN RE:	**APPLICATION OF WISCONSIN PUBLIC SERVICE CORPORATION FOR AUTHORITY TO ADJUST ELECTRIC AND NATURAL GAS RATES**	)) **DOCKET NO. 6690-UR-119**))

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BEFORE THE

PUBLIC SERVICE COMMISSION OF WISCONSIN

IN RE:	**APPLICATION OF WISCONSIN PUBLIC SERVICE CORPORATION FOR AUTHORITY TO ADJUST ELECTRIC AND NATURAL GAS RATES**	)) **DOCKET NO. 6690-UR-119**))

DIRECT TESTIMONY OF RICHARD A. BAUDINO

I. QUALIFICATIONS AND SUMMARY

Q. Please state your name and business address.

A. My name is Richard A. Baudino. My business address is J. Kennedy and Associates, Inc. ("Kennedy and Associates"), 570 Colonial Park Drive, Suite 305, Roswell, Georgia 30075.

Q. What is your occupation and by whom are you employed?

A. I am a consultant with Kennedy and Associates.

Q. Please describe your education and professional experience.

A. I received my Master of Arts degree with a major in Economics and a minor in Statistics from New Mexico State University in 1982. I also received my Bachelor of Arts Degree with majors in Economics and English from New Mexico State in 1979.

I began my professional career with the New Mexico Public Service Commission Staff in October 1982 and was employed there as a Utility Economist. During my employment with the Staff, my responsibilities included the analysis of a broad range of issues in the ratemaking field. Areas in which I testified included cost of service, rate of

return, rate design, revenue requirements, analysis of sale/leasebacks of generating plants, utility finance issues, and generating plant phase-ins.

In October 1989, I joined the utility consulting firm of Kennedy and Associates as a Senior Consultant where my duties and responsibilities covered substantially the same areas as those during my tenure with the New Mexico Public Service Commission Staff. I became Manager in July 1992 and was named Director of Consulting in January 1995. Currently, I am a consultant with Kennedy and Associates.

Exhibit ____(RAB-1), Schedule 1 summarizes my expert testimony experience.

Q. On whose behalf are you testifying?

A. I am testifying on behalf of the Wisconsin Industrial Energy Group, Inc. ("WIEG").

Q. What is the purpose of your Direct Testimony?

A. The purpose of my direct testimony is to address the allowed return on equity for Wisconsin Public Service Corporation ("WPSC" or "Company").

Q. Please summarize your Direct Testimony.

A. I recommend that the Public Service Commission of Wisconsin (the "Commission") approve a rate of return on equity ("ROE") for WPSC of 10.30%. This recommendation is based on the results of my Discounted Cash Flow ("DCF") analyses for a comparison group of electric companies.

WPSC witness Paul Moul recommended a return on equity for the Company of 11.50%. This ROE is excessive, will result in unreasonable rates for WPSC's customers, and should be rejected by the Commission. In Section IV of my testimony I will

demonstrate how the analyses presented by Mr. Moul systematically overstated the investors' required return for WPSC.

II. REVIEW OF ECONOMIC AND FINANCIAL CONDITIONS

Q. Mr. Baudino, what has the trend been in long-term capital costs over the last few years?

A. Exhibit ____(RAB-1), Schedule 2 presents a graphic depiction of the trend in interest rates from January 1998 through July 2008. The interest rates shown are for the 20-year U.S. Treasury Bond and the average public utility bond from the Mergent Bond Record. As one can see, the yields on long-term Treasury and utility bonds have declined since early 1998, although the rates have been quite volatile. The bond market volatility is not a recent phenomenon, though, as it actually began in the early 1970s, when inflation became more of a sustained long-term concern.

Yields trended downward from 2002 through 2006, with the 20-year Treasury bond yield declining from 5.69% to 4.78% at the end of December 2006. The yield on the average public utility bond also decreased significantly over that time, falling from 7.83% in March 2002 to 5.83% in December 2006, a decline of 200 basis points. Public utility bond yields fell far more than long-term Treasury yields over the last four years.

2007 saw a rise in bond yields, fueled in part by investors' concerns over turmoil and defaults associated with the sub-prime lending market. 20-year Treasury yields rose to 5.29% in June 2007 and utility bond yields reached 6.34% during that month. However, Treasury yields began to fall again in July 2007 and trended downward early in 2008, although rates have risen slightly since April. The July 2008 20-year Treasury

yield stood at 4.62%, while the average public utility bond yield actually increased to 6.50%.

In short, current bond yields are either at or near their lowest levels in recent history. Public utility bond yields are now near their lowest level over the past ten-year historical period. Indeed, the average of public utility bond yields has not been as low as it is now since 1967-68—nearly 40 years ago.

Q. What effect does the current interest rate environment have on utility stocks?

A. The decline in bond yields over the last ten years suggests a related decline in the required return on equity on the part of the investing public. In general, utility stocks are interest rate sensitive, meaning that as bond yields decline, utility company dividend yields also fall, leading to a decline in the return on equity. The results of my return on equity analysis in the subsequent section of my Direct Testimony are consistent with these historically-low bond yields.

Q. In 2003, Congress enacted a change in tax policy that lowered the tax rate on dividends and capital gains. Please explain the effect of this tax change on utility common stocks and on investor required returns for utilities.

A. All other things being equal, the dividend tax rate reduction means that investors should require lower pre-tax rates of return for utilities than was true before the tax change became law. This is because after-tax dividend streams are now more valuable due to the reduction in federal taxation. Thus, for a given stock price, investors will discount the future dividend payments at a lower return on equity.

The stock prices that I use in my cost of equity analyses fully incorporate the effects of this change in tax rates and on the expected returns for utilities.

Moreover, because there was no change in the tax treatment given to bonds, investors will require lower risk premiums for stocks as compared to utility bonds. Since expected stock returns are now lower relative to bond yields, the expected risk premium of utility stocks over bonds should also be lower.

Q. How does the investment community regard the electric utility industry as a whole?

A. The following quotes from Value Line suggest that electric utilities are still viewed as more conservative and stable investments than the market as a whole.

The May 30, 2008 Value Line report on the Electric Utility (East) companies stated the following:

> Generally stable, if unexciting, returns attract investors to utility stocks, especially during times of economic and equity-market turmoil. The fact that the group continues to under perform benchmarks perhaps speaks to a perception that the current economic slowdown will be both shallow and short lived. Nevertheless, we don't discount a "flight to safety"-induced sector rotation, particularly given the recent spate of bad economic news. Indeed, the Federal Reserve's increasingly dour outlook for GDP growth and employment has some investors abandoning more economically sensitive issues.

And Value Line's June 27, 2008 report on the Electric Utility (Central) companies stated the following:

> The Electric Utility Industry may be of interest because its average dividend yield is almost twice that of all dividend-paying stocks under Value Line review. Those of a conservative bent might consider investing in companies with at least an average yield, reasonable growth prospects, and a Safety rank of 2 or higher. But a note of caution: Many of these companies are already trading within their 3- to 5-year Target Price Range.

Q. Mr. Baudino, what is your view regarding the state of the electric industry today?

A. Despite the recent tumult in the financial markets, regulated utilities are still considered safe-harbor investments. Further, the electric industry is entering a more stable, less risky environment than it experienced during the last few years. Many electric companies exited more risky unregulated operations and strengthened their financial position over the last decade. This means that companies that focus on core electric operations will be lower risk than those with unregulated and/or deregulated operations and investments. And although utility share prices pulled back over the last few months, regulated electric operations are still considered relatively low-risk investments.

Q. Briefly describe Wisconsin Public Service Corporation.

A. WPSC is a wholly-owned subsidiary of Integrys Energy Group, a diversified holding company with both regulated utility and unregulated energy operations. According to Integrys Energy's 2007 Form 10-K, unregulated energy operations contributed $98.0 million of the company's $251.3 million income available for common shareholders. By comparison, total regulated electric operations generated $87.4 million in income available for common shareholders.

According to Integrys' 2007 Annual Report to Shareholders, WPSC operates in northeast and central Wisconsin and a portion of upper Michigan. The Company serves approximately 433,000 electric customers and 314,000 natural gas customers. Electric generating capacity was rated at 1,757.4 megawatts ("mWs"), with a peak summer 2007 demand of 2,305 mWs.

Q. How is WPSC viewed by the major bond rating agencies?

A. WPSC's senior secured bond rating is A+ from Standard and Poor's and Aa3 from Moody's. Both of these senior secured ratings are solidly in the upper end of investment grade rankings for S&P and Moody's.

In its November 27, 2007 report on the Company, S&P noted:

> The corporate credit rating on WPSC is one notch higher than that of its parent due to regulatory insulation provided to Wisconsin utilities based on the Public Service Commission of Wisconsin's authority to determine the utility's capital structure and restrict dividends to the parent. These regulatory requirements help insulate WPSC from Integrys' higher risk non-regulated business pursuits.
>
> * * *
>
> WPSC's stand-alone business risk profile score is a "4" (business profiles are categorized from "1" (excellent) to "10" (vulnerable)). The business profile is characterized by a largely stable customer base, supportive regulatory environment, and low production costs. However, the profile is partially offset by the large capital spending that WPSC must maintain through 2009.
>
> * * *
>
> Even with its large capital budget, Standard & Poor's still expects WPSC to manage its financial measures adequately during this building phase.

All in all, the bond rating agency reports on WPSC are very favorable and indicate that the Company is well positioned financially to support its strong A/Aa bond ratings. WPSC's electric utility operations lend strong support to Integrys Energy's financial profile and corporate credit rating.

III. DETERMINATION OF FAIR RATE OF RETURN

Q. Please describe the methods you employed in estimating a fair rate of return for WPSC.

A. I employed a Discounted Cash Flow ("DCF") analysis for a group of comparison electric companies to estimate the cost of equity for the Company's regulated electric operations. I also employed several Capital Asset Pricing Model ("CAPM") analyses, although I did not directly incorporate the results into my recommendation.

Q. What are the main guidelines to which you adhere in estimating the cost of equity for a firm?

A. Generally speaking, the estimated cost of equity should be comparable to the returns of other firms with similar risk structures and should be sufficient for the firm to attract capital. These are the basic standards set out by the United States Supreme Court in *Federal Power Comm'n v. Hope Natural Gas Co.,* 320 U.S. 591 (1944), and *Bluefield W.W. & Improv. Co. v. Public Service Comm'n,* 262 U.S. 679 (1922).

From an economist's perspective, the notion of "opportunity cost" plays a vital role in estimating the return on equity. One measures the opportunity cost of an investment equal to what one would have obtained in the next best alternative. For example, let us suppose that an investor decides to purchase the stock of a publicly traded electric utility. That investor made the decision based on the expectation of dividend payments and perhaps some appreciation in the stock's value over time; however, that investor's opportunity cost is measured by what she or he could have invested in as the next best alternative. That alternative could have been another utility stock, a utility bond, a mutual fund, a money market fund, or any other number of investment vehicles.

The key determinant in deciding whether to invest, however, is based on comparative levels of risk. Our hypothetical investor would not invest in a particular

electric company stock if it offered a return lower than other investments of similar risk. The opportunity cost simply would not justify such an investment. Thus, the task for the rate of return analyst is to estimate a return that is equal to the return being offered by other risk-comparable firms. Failing this, the subject firm will be impaired in its ability to attract capital.

Q. What are the major types of risk faced by utility companies?

A. In general, risk associated with the holding of common stock can be separated into three major categories: business risk, financial risk, and liquidity risk. Business risk refers to risks inherent in the operation of the business. Volatility of the firm's sales, long-term demand for its product(s), the amount of operating leverage, and quality of management are all factors that affect business risk. The quality of regulation at the state and federal levels also plays an important role in business risk for regulated utility companies.

Financial risk refers to the impact on a firm's future cash flows from the use of debt in the capital structure. Interest payments to bondholders represent a prior call on the firm's cash flows and must be met before income is available to the common shareholders. Additional debt means additional variability in the firm's earnings, leading to additional risk.

Liquidity risk refers to the ability of an investor to quickly sell an investment without a substantial price concession. The easier it is for an investor to sell an investment for cash, the lower the liquidity risk will be. Stock markets, such as the New York and American Stock Exchanges, help ease liquidity risk substantially. Investors who own stocks that are traded in these markets know on a daily basis what the market

prices of their investments are and that they can sell these investments fairly quickly. Many electric utility stocks are traded on the New York Stock Exchange and are considered liquid investments.

Q. Are there any indices available to investors that quantify the total risk of a company?

A. Yes. Bond ratings are a good tool that investors use to determine the risk comparability of firms. Bond rating agencies such as Moody's and Standard and Poor's perform detailed analyses of factors that contribute to the business and financial risk of a particular investment. The end result of their analyses is a bond rating that reflects these risks. For instance, as noted earlier, Standard and Poor's bond rating for WPSC is A+. This very high rating reflects the low risk of investment in WPSC relative to all other rated businesses.

Discounted Cash Flow ("DCF") Method

Q. Please describe the basic DCF approach.

A. The basic DCF approach is rooted in valuation theory. It is based on the premise that the value of a financial asset is determined by its ability to generate future net cash flows. In the case of a common stock, those future cash flows take the form of dividends and appreciation in stock price. The value of the stock to investors is the discounted present value of future cash flows. The general equation then is:

$$V = \frac{R}{(1+r)} + \frac{R}{(1+r)^2} + \frac{R}{(1+r)^3} + \ldots \frac{R}{(1+r)^n}$$

Where: V = *asset value*
R = *yearly cash flows*
r = *discount rate*

This is no different from determining the value of any asset from an economic point of view; however, the commonly-employed DCF model makes certain simplifying assumptions. One is that the stream of income from the equity share is assumed to be perpetual; that is, there is no salvage or residual value at the end of some maturity date (as is the case with a bond). Another important assumption is that financial markets are reasonably efficient; that is, they correctly evaluate the cash flows relative to the appropriate discount rate, thus rendering the stock price efficient relative to other alternatives. Finally, the model I employ also assumes a constant growth rate in dividends. The fundamental relationship employed in the DCF method is described by the formula:

$$k = \frac{D_1}{P_0} + g$$

Where: D_1 = *the next period dividend*
P_0 = *current stock price*
g = *expected growth rate*
k = *investor-required return*

Under the formula, it is apparent that "k" must reflect the investors' expected return. Use of the DCF method to determine an investor-required return is complicated by the need to express investors' expectations relative to dividends, earnings, and book value over an infinite time horizon. Financial theory suggests that stockholders purchase common stock on the assumption that there will be some change in the rate of dividend payments

over time. We assume that the rate of growth in dividends is constant over the assumed time horizon, but the model could easily handle varying growth rates if we knew what they were. Finally, the relevant time frame is prospective rather than retrospective.

Q. What was your first step in conducting your DCF analysis for WPSC?

A. My first step was to construct a comparison group of companies with a risk profile that is reasonably similar to WPSC.

Q. Please describe your approach for selecting a comparison group of electric companies.

A. I used several criteria to select a comparison group. First, using the August 2008 issue of the AUS Utility Reports, I selected electric companies that were rated A by either Moody's or Standard and Poor's. WPSC currently carries senior secured bond ratings of A+ from S&P and Aa3 from Moody's, so using the either/or criterion for an A rating assures that the companies in the comparison group carry bond ratings that are similar to WPSC.

From that group, I selected companies that had at least 50% of their revenues from electric operations and that had long-term earnings growth forecasts from Value Line and either Zacks Investment Research ("Zacks") or First Call/Thomson Financial. I will describe Zacks and First Call/Thomson Financial later in my testimony. From this group, I then eliminated companies that had recently cut or eliminated dividends, were recently or currently involved in merger activities, or had recent experience with significant earnings fluctuations.

I also eliminated Duke Energy due to a major corporate restructuring that will significantly affect future earnings. I also eliminated PPL Corp. because its future earnings growth is tied to significantly higher expected wholesale prices and not to retail sales of electricity. I also eliminated Exelon Corp. because most earnings and growth is expected to come from an unregulated generation subsidiary.

The resulting group of the comparison electric companies that I used in my analysis is shown in the table below.

WISCONSIN PUBLIC SERVICE CORP.
COMPARISON GROUP

	S&P Rating	Moody's Rating
1 ALLETE, inc.	A-	NR
2 Alliant Energy	A-	A2
3 Consolidated Edison	A-	A1
4 DPL, Inc.	A-	A2
5 DTE Energy	A-	A3
6 Edison International	A	A2
7 Entergy Corp.	A-	Baa2
8 FPL Group, Inc.	A	Aa3
9 NSTAR	AA-	A1
10 Progress Energy	A-	A2
11 Public Service Enterprise Gp	A-	A3
12 Southern Company	A	A2
13 Wisconsin Energy	A-	Aa3
14 Xcel Energy	A-	A3

Q. What was your first step in determining the DCF return on equity for the comparison group?

A. I first determined the current dividend yield, D_1/P_0, from the basic equation. My general practice is to use six months as the most reasonable period over which to estimate the

dividend yield. The six-month period I used covered the months from February through July 2008. I obtained historical prices and dividends from Yahoo! Finance. The annualized dividend divided by the average monthly price represents the average dividend yield for each month in the period.

The resulting average dividend yield for the group is 3.96%. These calculations are shown in Exhibit ____(RAB-1) Schedule 3.

Q. Having established the average dividend yield, how did you determine the investors' expected growth rate for the electric comparison group?

A. The investors' expected growth rate, in theory, correctly forecasts the constant rate of growth in dividends. The dividend growth rate is a function of earnings growth and the payout ratio, neither of which is known precisely for the future. We refer to a perpetual growth rate since the DCF model has no arbitrary cut-off point. We must estimate the investors' expected growth rate because there is no way to know with absolute certainty what investors expect the growth rate to be in the short term, much less in perpetuity.

In this analysis, I relied on three major sources of analysts' forecasts for growth. These sources are Value Line, Zacks, and First Call/Thomson Financial.

Q. Please briefly describe Value Line, Zacks, and First Call/Thomson Financial.

A. Value Line is an investment survey that is published for approximately 1,700 companies, both regulated and unregulated. It is updated quarterly and probably represents the most comprehensive and widely used of all investment information services. It provides both historical and forecasted information on a number of important data elements. Value

Line neither participates in financial markets as a broker nor works for the utility industry in any capacity of which I am aware.

Zacks, according to its website, "was formed in 1978 to compile, analyze, and distribute investment research to both institutional and individual investors." Zacks gathers from a variety of analysts their opinions on earnings growth forecasts for many firms including regulated electric utilities. The analysts' estimates are combined to produce consensus average and median estimates of earnings growth.

Like Zacks, First Call/Thomson Financial provides detailed investment research on numerous companies. First Call/Thomson also compiles and reports consensus analysts' forecasts of earnings growth. I obtained these forecasts from Yahoo! Finance.

Q. Why did you rely on analysts' forecasts in your analysis?

A. Return on equity analysis is a forward-looking process. Five-year or ten-year historical growth rates may not accurately represent investor expectations for dividend growth. Analysts' forecasts for earnings and dividend growth provide better proxies for the expected growth component in the DCF model than historical growth rates. Analysts' forecasts are also widely available to investors and one can reasonably assume that they influence investor expectations.

Q. How did you use your data sources to estimate growth rates for the comparison group?

A. Exhibit____(RAB-1) Schedule 4, page 1, presents the details of the calculations for the Value Line, Zacks, and First Call/Thomson Financial forecasted growth estimates. These

earnings and dividend growth estimates for the comparison group are summarized on Columns (1) through (5) of page 1 of Exhibit ____(RAB-1) Schedule 4.

I also ised the sustainable growth formula in estimating the expected growth rate. The sustainable growth method, also known as the retention ratio method, recognizes that the firm retains a portion of its earnings to fuel growth in dividends. These retained earnings, which are plowed back into the firm's asset base, are expected to earn a rate of return. This, in turn, generates growth in the firm's book value, market value, and dividends.

The sustainable growth method is calculated using the following formula:

$$G = B \times R$$

Where: G = *expected retention growth rate*
B = *the firm's expected retention ratio*
R = *the expected return*

In its proper form, this calculation is forward-looking. That is, the investors' expected retention ratio and return must be used in order to measure what investors anticipate will happen in the future. Data on expected retention ratios and returns may be obtained from Value Line.

The expected sustainable growth estimates for the comparison group are presented in Column (3) on page 1 of Exhibit ____(RAB-1) Schedule 4. The data came from the Value Line forecasts for the comparison group.

Q. Mr. Baudino, do you have any concerns with respect to the analysts' forecasts shown in Exhibit ____(RAB-1) Schedule 4?

A. Yes. Several utilities in my comparison group have excessive double-digit dividend and earnings growth forecasts. These companies include DPL, Inc., Entergy, FPL Group, and Public Service Enterprise Group. In my experience, growth rates exceeding 10% do not represent reasonable long-term growth forecasts for a mature, more steady, state electric utility industry.

With respect to DPL, Value Line reported that it expects 2008 earnings to increase 16% due to the sale of emission allowances, wider margins on energy sales, and fewer plant outages. Value Line also noted that smaller gains are likely in the next 3 to 5 years.

For Entergy, Value Line expects an increase in earnings of 18% in 2008 driven by wider margins on nuclear operations, retail rate increases and a lower number of common shares.

Value Line also shows much higher earnings over the next few years for FPL Group, which may be driving the consensus forecast of 10.14% from Zacks.

In the case of Public Service Enterprise Group, earnings per share rose a spectacular 73% from 2006 to 2007. Value Line cited expected higher margins from coal and nuclear plant output and lower interest expenses that could increase earnings by 12% in 2008.

In conclusion, I believe that the double-digit growth forecasts for these companies in my comparison group are due to special circumstances and do not represent long-term earnings or dividend growth expectations beyond the next five year period. As such, they are considered outliers in my DCF analysis.

Q. How did you approach the calculation of earnings growth forecasts in this case?

A. For purposes of this case, I looked at three different methods for calculating the expected growth rates for my comparison group.

For Method 1, I calculated the average of all the growth rates for the companies in my comparison group using Value Line, Zacks, and First Call/Thomson.

For Method 2, I calculated the median growth rates for my comparison group. The median value represents the middle value in a data range and is not influenced by excessively high or low numbers in the data set. The median growth rate for each forecast provides additional valuable information regarding expected growth rates for the group.

For Method 3, I omitted double-digit growth rates and growth rates that were near zero (less than 1%) from the calculation of the averages. This is similar to omitting the high and low values from the calculation. These calculations are shown on page 1 of Exhibit ____(RAB-1) Schedule 4.

The expected growth rates produced by all three methods fall in a range from 5.77% to 7.75%.

Q. How did you proceed to determine the DCF return of equity for the electric comparison group?

A. To estimate the expected dividend yield (D_1) for the group, the current dividend yield must be moved forward in time to account for dividend increases over the next twelve months. I estimated the expected dividend yield by multiplying the current dividend yield by one plus one-half the expected growth rate. I should note that for Method 3, I

excluded the dividend yields for companies whose growth rates were excluded from each respective source.

I then added the expected growth rates to the expected dividend yield. The calculations of the resulting DCF returns on equity are presented on page 2 of Exhibit ____(RAB-1) Schedule 4.

Q. Please explain how you calculated your DCF cost of equity estimates.

A. Page 2 of Exhibit ____(RAB-1) Schedule 4 presents the DCF results using the three different methods I described above. Method 1 uses the average growth rates for the comparison group. I used the Value Line earnings and dividend growth forecasts and the consensus analysts' forecasts. The average DCF cost of equity result is 11.08%. The midpoint of the four growth rates is 10.92%.

Method 2 employs the median growth rates from Value Line, Zacks, and First Call/Thomson. The average DCF return on equity is 10.48% and the midpoint of the results is 10.46%.

Method 3 employs the growth rates for the group excluding double digit growth forecasts and forecasts less than or equal to 1.0%. The average of these growth rates results in a DCF estimate of 10.31%. The midpoint of the growth rates results in a DCF estimate of 10.35%.

Of the three methods of calculating the expected growth rate, Method 3 is the most reasonable at this time. Method 1 contains a number of excessive growth forecasts that are not expected to hold for the long term. Regarding Method 2, the median growth rate represents the middle of each range of growth rates and thus contains only one (or

the average of two) growth rates. It does not account for all the expected growth rates in each range. Thus, in this proceeding it is not as representative of investor expectations as an average growth rate would be. Method 3 excludes these growth rates, yet contains a reasonably broad range of growth forecasts from widely used and reliable sources. Thus, I recommend that the Commission adopt a return on equity for WPSC of 10.30%.

Capital Asset Pricing Model

Q. Briefly summarize the Capital Asset Pricing Model ("CAPM") approach.

A. The theory underlying the CAPM approach is that investors, through diversified portfolios, may combine assets to minimize the total risk of the portfolio. Diversification allows investors to diversify away all risks specific to a particular company and be left only with market risk that affects all companies. Thus, the CAPM theory identifies two types of risks for a security: company-specific risk and market risk. Company-specific risk includes such events as strikes, management errors, marketing failures, lawsuits, and other events that are unique to a particular firm. Market risk includes inflation, business cycles, war, variations in interest rates, and changes in consumer confidence. Market risk tends to affect all stocks and cannot be diversified away. The idea behind the CAPM is that diversified investors are rewarded with returns based on market risk.

Within the CAPM framework, the expected return on a security is equal to the risk-free rate of return plus a risk premium that is proportional to the security's market, or non-diversifiable risk. Beta is the factor that reflects the inherent market risk of a security and measures the volatility of a particular security relative to the overall market for securities. For example, a stock with a beta of 1.0 indicates that if the market rises by

15%, that stock will also rise by 15%. This stock moves in tandem with movements in the overall market. Stocks with a beta of 0.5 will only rise or fall 50% as much as the overall market. So with an increase in the market of 15%, this stock will only rise 7.5%. Stocks with betas greater than 1.0 will rise and fall more than the overall market. Thus, beta is the measure of the relative risk of individual securities vis-à-vis the market.

Based on the foregoing discussion, the equation for determining the return for a security in the CAPM framework is:

$$K = Rf + \beta(MRP)$$

Where:
K = *Required Return on equity*
Rf = *Risk-free rate*
MRP = *Market risk premium*
β = *Beta*

This equation tells us about the risk/return relationship posited by the CAPM. Investors are risk averse and will only accept higher risk if they receive higher returns. These returns can be determined in relation to a stock's beta and the market risk premium. The general level of risk aversion in the economy determines the market risk premium. If the risk-free rate of return is 3.0% and the required return on the total market is 15%, then the risk premium is 12%. Any stock's required return can be determined by multiplying its beta by the market risk premium. Stocks with betas greater than 1.0 are considered riskier than the overall market and will have higher required returns. Conversely, stocks with betas less than 1.0 will have required returns lower than the market as a whole.

Q. In general, are there concerns regarding the use of the CAPM in estimating the return on equity?

A. Yes. As briefly discussed earlier, there is some controversy surrounding the use of the CAPM.[1] There is evidence that beta is not the primary factor in determining the risk of a security. For example, Value Line's "Safety Rank" is a measure of total risk, not its calculated beta coefficient. Beta coefficients usually describe only a small amount of total investment risk. Moreover, a considerable amount of judgment must be employed in determining the risk-free rate and market return portions of the CAPM equation. The analyst's application of judgment can significantly influence the results obtained from the CAPM. My past experience with the CAPM indicates that it is prudent to use a wide variety of data in estimating returns. Of course, the range of results may also be wide, indicating the difficulty in obtaining a reliable estimate from the CAPM.

Q. How did you estimate the market return portion of the CAPM?

A. The first source I used was the Value Line Investment Survey for Windows for August 1, 2008. Value Line provides a summary statistical report detailing, among other things, forecasted growth in dividends, earnings, and book value for the companies Value Line follows. I have presented these three growth rates and the average on page 2 of Exhibit ____(RAB-1) Schedule 5. The average growth rate is 11.61%. Combining this growth rate with the average expected dividend yield of the Value Line companies of 1.57% results in an expected market return of 13.18%. The detailed calculations are shown on page 1, Exhibit ____(RAB-1) Schedule 5.

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1 For a more complete discussion of some of the controversy surrounding the use of the CAPM, refer to *A Random Walk Down Wall Street* by Burton Malkiel, pp. 229 – 239, 1999 edition.

I also considered a supplemental check to this market estimate. Morningstar publishes a study of historical returns on the stock market in its *Ibbotson SBBI 2008 Valuation Yearbook*. Some analysts employ this historical data to estimate the market risk premium of stocks over the risk-free rate. The assumption is that a risk premium calculated over a long period of time is reflective of investor expectations going forward. Exhibit ____(RAB-1) Schedule 6 presents the calculation of the market return using the historical data.

Q. Please address the use of historical earned returns to estimate the market risk premium.

A. The use of historic earned returns on the S&P 500 to estimate the current market risk premium is rather suspect because it naively assumes that investors currently expect historic risk premiums to continue unchanged into the future regardless of present or forecasted economic conditions. Brigham, Shome, and Vinson noted the following with respect to the use of historic risk premiums calculated using the returns as reported by Ibbotson and Sinquefield (referred to in the quote as "I&S"):

> There are both conceptual and measurement problems with using I&S data for purposes of estimating the cost of capital. Conceptually, there is no compelling reason to think that investors expect the same relative returns that were earned in the past. Indeed, evidence presented in the following sections indicates that relative expected returns should, and do, vary significantly over time. Empirically, the measured historic premium is sensitive both to the choice of estimation horizon and to the end points. These

choices are essentially arbitrary, yet can result in significant differences in the final outcome.[2]

In summary, the use of historic earned returns should be viewed with a great deal of caution. There is no real support for the proposition that an unchanging, mechanically-applied historical risk premium is representative of current investor expectations and return requirements.

Q. How did you determine the risk free rate?

A. I used the average yields on the 20-year Treasury bond and five-year Treasury note over the six-month period from February through July 2008. The 20-year Treasury bond is often used by rate of return analysts as the risk-free rate, but it contains a significant amount of interest rate risk. The five-year Treasury note carries less interest rate risk than the 20-year bond and is more stable than three-month Treasury bills. Therefore, I have employed both of these securities as proxies for the risk-free rate of return. This approach provides a reasonable range over which the CAPM may be estimated.

Q. What is your estimate of the market risk premium?

A. Exhibit ____(RAB-1) Schedule 5, line 9 of page 1, presents my estimates of the market risk premium based on a DCF analysis applied to current market data. The market risk premium is 8.64% using the 20-year Treasury bond and 10.17% using the five-year Treasury bond.

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2 Brigham, E.F., Shome, D.K. and Vinson, S.R., "The Risk Premium Approach to Measuring a Utility's Cost of Equity," *Financial Management*, Spring 1985, pp. 33-45.

Utilizing the historical Ibbotson data on market returns, the market risk premium ranges from 5.20% to 7.10%. This is shown on Exhibit ____(RAB-1) Schedule 6.

Q. How did you determine the value for beta?

A. I obtained the betas for the companies in the electric company comparison group from most recent Value Line reports. The average of the Value Line betas for the electric group is .81.

Q. Please summarize the CAPM results.

A. The CAPM results using the 20-year and five-year Treasury bond yields and Value Line market return data range from 11.22% to 11.51%.

The CAPM results using the historical Ibbotson data range from 8.74% to 10.27%. These results are shown on Exhibit ____(RAB-1) Schedule 6.

Conclusions and Recommendations

Q. Please summarize the cost of equity you recommend the Commission adopt for WPSC.

A. I recommend that the Commission adopt the DCF model I developed and the cost of equity estimates for the comparison group of electric utility companies that I compiled. The average results for the electric company comparison group using the constant-growth DCF model and the expected growth rate forecasts ranged from 10.31% to 11.08%. Based on this range of results, I recommend that the Commission adopt a 10.30% return on equity for WPSC in this proceeding.

My recommendation in this case is based on a DCF growth rate analysis that is somewhat different from the approach I have taken in past cases. As I mentioned earlier in my testimony, there are a number of double-digit growth forecasts for certain companies in my comparison group that are not expected to hold for the long term. Including all of these growth rates in the analysis will overstate the investors' expected long-term growth rate and, in turn, inflate the DCF results. It was necessary, therefore, to mitigate the effect of these overstated growth rates in order to more accurately estimate investors' expected growth in dividends for the comparison group. Method 3 accomplishes this goal. Thus, I recommend that the Commission adopt a 10.30% return on equity for the Company, which is based on the average results of Method 3.

Q. Some of your CAPM results are higher than your DCF results. Why did you not take this into account in your recommended return on equity?

A. Although I would note that my proposed rate of return on equity of 10.30% falls well within the CAPM range, it is my opinion that the CAPM results for the comparison group are likely overstated at this time for a number of reasons.

First, this overstatement is due, in part, to the application of Value Line's beta for the group of .81. Value Line determines its betas based on five years of historical price data. Over the last five years, utility share prices in general have been quite volatile due to restructuring, deregulation, the California energy crisis, and the increase of unregulated investments that were more risky than core electric operations. These factors may have increased Value Line's historical betas for electric utilities, all other things being equal.

It now appears that the industry will be more stable going forward and, in my opinion, historical betas are likely to fall from their current level.

Second, a recent study by Ibbotson and Chen[3] suggests that the historical risk premiums I presented in Exhibit ____(RAB-1) Schedule 6 may be too high. The Ibbotson/Chen study estimated a revised risk premium that factors out rising price/earnings ratios over time, which inflated achieved historical returns. The assumption in this analysis is that price/earnings ratios would not be expected to rise continuously into the future. The results of the study indicate a revised historical risk premium of 4.33% to 6.35%, well below the historical risk premiums of 5.2% to 7.1% shown in Exhibit ____ (RAB-1) Schedule 6. Incorporating the lower revised risk premiums from the Ibbotson/Chen study would result in CAPM estimates of 8.01% to 9.67%, which would place my proposed rate of return on equity of 10.30% significantly above the top of that range. These results are also shown on Exhibit ____ (RAB-1) Schedule 6.

Q. In Section II of your Direct Testimony, you mention the passage of the 2003 tax bill that reduced taxes on qualifying dividends to 15%. Do you believe that this reduced tax rate on dividends has affected the investor required returns for electric utility companies?

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3 *Stocks, Bonds, Bills, and Inflation 2007 Yearbook,* Morningstar, pp. 172 - 176.

A. Yes. As I stated earlier, I believe that the new favorable tax rate on dividends has reduced the investors' required pre-tax cost of equity for electric utilities. Basic economic theory supports this proposition.

Prior to the passage of the 2003 tax bill, dividends were taxed at the normal tax rates, which could be as high as 35%. These same dividends are now being taxed at a much lower 15% rate. What this means is that for a given after-tax rate of return, such as 7% for example, an investor would now require a lower pre-tax return in order to earn that 7% after-tax return. In the realm of regulation, experts must estimate, and commissions must set, a pre-tax rate of return on equity that will be applied to a company's rate base. With lower tax rates on dividends, these pretax returns will inevitably decline.

In conclusion, all other things being equal, the reduction in dividend taxation should lead to lower required returns for investors. When viewed from this perspective, a 10.30% return on equity for WPSC is quite reasonable.

IV. RESPONSE TO WPSC WITNESS PAUL MOUL

Q. Have you reviewed WPSC's prefiled Direct Testimony on return on equity?

A. Yes. I reviewed the testimony of Mr. Paul Moul. Based on his analyses, Mr. Moul concluded that a fair ROE for WPSC was 11.50%.

Q. Do you agree with Mr. Moul's recommendation?

A. No. Mr. Moul's recommended ROE is greatly overstated and would result in excessive rates for WPSC's customers. I recommend that the Commission reject his recommended

11.50% ROE. The following section of my testimony responds to the analyses presented by Mr. Moul and explains how they overstate the investor-required return on equity for WPSC.

Q. Turning to Mr. Moul's analyses, please summarize your conclusions regarding his results.

A. Based on my review of Mr. Moul's return on equity analyses, my conclusions are as follows:

1. Mr. Moul included a leverage adjustment to his DCF analysis that is inappropriate and that led to a significant overstatement of his recommended DCF result.

2. Mr. Moul's risk premium analyses are overstated due to the use of a median historical return.

3. Mr. Moul's recommended CAPM result of 14.27% is excessive due to an inappropriate beta adjustment, inflated market premiums, and a size adjustment that should be rejected.

4. Mr. Moul's Comparable Earnings analysis is not applicable for ratemaking purposes and should be rejected.

Discounted Cash Flow Model

Q. Please summarize Mr. Moul's DCF analysis.

A. Mr. Moul applied a constant growth DCF analysis to a combination group of nine electric and gas utilities. Schedule 6 of Exhibit ____(PRM-1) presents the five-year projected growth rates relied upon by Mr. Moul in formulating his growth rate recommendation of

6.25%. These forecasted growth rates range from 3.94% to 6.68%. Thus, Mr. Moul's recommended growth rate of 6.25% is near the top of this range.

Mr. Moul included a "leverage modification" in his DCF calculation, which increased his result by 0.89%, or 89 basis points. This calculation is shown on page 30 of his Direct Testimony. Mr. Moul testified on page 26 of his Direct Testimony that "the need for the leverage adjustment arises when the results of the DCF model (k) are to be applied to a capital structure that is different than indicated by the market price." In Mr. Moul's opinion, the DCF result must be adjusted upward when market-to-book ratios are greater than 1.0.

Q. Is Mr. Moul's leverage adjustment to his DCF result appropriate?

A. No. Mr. Moul's leverage adjustment is inappropriate, inflates his recommended DCF result, and should be rejected by the Commission.

First, setting the allowed cost of capital for ratemaking purposes properly utilizes book values of common equity, preferred stock, and long-term debt. The actual book values of capitalization support the utility's investment in plant in service. With respect to the allowed return on common equity, commissions utilize market returns on book value in order to fairly compensate the equity investor for the use of his or her capital. Market-based returns are used for common equity because, unlike debt, there is no contractual cost for common equity. Thus, the return on equity must be determined using current market data, and then applied to the percentage of equity in capital structure based on book value.

It is inappropriate to inflate market-based ROE calculations from the DCF with an adjustment for M/B ratios that are greater than 1.0. Market prices can deviate from book value for any number of reasons. For example, investors may expect utilities to earn more than their required rate of return on equity, which would cause an increase in market stock prices above book value per share. In uncertain times, investors may view regulated utilities as safe investments, causing a flight to quality and thereby bidding up stock prices.

Market based cost of equity estimates applied to the book value of equity is the appropriate means in setting a fair rate of return on invested capital for a regulated utility. Results from the DCF should not be adjusted upward to account for or to prop up high M/B ratios, as Mr. Moul has done in this case. Mr. Moul's leverage adjustment is biased in favor of shareholders and results in financial harm to ratepayers.

Further, it is highly doubtful that investors would take the complicated and circuitous route to required return on equity that Mr. Moul proposed in his Direct Testimony. Instead, it is much more likely that investors would take a more direct approach and use market data on stock prices and expected growth to estimate a DCF return on equity.

Finally, I would note that bond rating agencies and securities analysts do not assess a utility company's risk based on the market value of its capital structure, but on the book value of its common equity. It is reasonable to assume that investors assess capital structure risk in the same manner.

Q. What is the DCF result from Mr. Moul's analysis if the leverage adjustment is excluded?

A. Excluding the 0.89% leverage adjustment results in a DCF cost of equity of 10.28%, which is nearly identical to my recommended ROE in this case.

Risk Premium Analyses

Q. Briefly summarize Mr. Moul's risk premium analyses.

A. Mr. Moul developed a range of risk premiums using historical returns on the S&P Public Utility Index and public utility bonds. Total returns and risk premiums were measured by Mr. Moul over four different historical time periods, which are all shown on Schedule 8 of Exhibit ____(PRM-1). Mr. Moul presented risk premiums that ranged from 5.37% to 6.40%.

On page 34 of his Direct Testimony, Mr. Moul discussed these results and chose a risk premium of 5.72% based on the two historical periods covering 1974 - 2006 and 1979 - 2006. Mr. Moul then adjusted this risk premium down to 5.25% to account for risk differences between his Combination Group and the S&P Public Utilities. Adding the 5.25% risk premium to his expected utility bond yield of 6.0% resulted in a risk premium cost of equity of 11.25%.

Q. Please comment on Mr. Moul's risk premium analysis and recommended result.

A. First, I described the problem with using historical risk premiums earlier in my testimony. This approach naively assumes that earned returns and the resulting risk premiums in an historical period are reflective of current investor expectations. Such

assumptions should be viewed with a good deal of skepticism. Given changing investor expectations over time, it is risky to assume that investors base their current required returns on an unchanging and mechanically-derived historical risk premium. Finance literature has shown that historical risk premiums change over time. Although historical risk premiums may provide rough guides to estimating current required returns, I believe that it is preferable to place greater weight on DCF calculations that employ current, rather than historic, data.

It should also be noted that the recent change in dividend taxation should reduce the expected risk premium of utility stock returns over bonds going forward, other things being equal. As I stated earlier in my testimony, reduced taxation on dividends should lower the investor's required pre-tax return on equity. Since there was no change in the tax treatment of bond income, the required equity premium over bonds should decline going forward. Thus, historical risk premiums likely overstate the current required risk premiums of utility stocks over bonds.

With respect to Mr. Moul's analyses on Schedule 8, it is inappropriate to use the median return in the formulation of a risk premium analysis. This is because using earned returns over a long period of time tends to average out unduly high and low returns and produce a more stable and reliable result. The median return is essentially only one observation in a long time series and may not be representative of investor returns during that time. Indeed, the risk premiums based on the median return on the S&P Utility Index are substantially higher than the geometric and arithmetic mean returns of the entire historical periods. The median return is a very poor measure of central tendency in these data sets and should be rejected.

When the risk premiums based on median returns are eliminated from Mr. Moul's analysis and the average risk premiums from the geometric and arithmetic means are used, the following risk premiums are:

1928 - 2006	4.38%
1952 - 2006	5.44%
1974 - 2006	5.06%
1979 - 2006	5.22%
Average	5.03%
Midpoint	4.91%

This analysis shows how much using the median return inflated Mr. Moul's results. If we use the average of all his risk premium results, make his 0.50% downward risk adjustment, and add it to his 6.00% utility bond yield, the resulting risk premium return on equity is:

6.00% + (5.03% - 0.50%) = 10.53%

Capital Asset Pricing Model

Q. Briefly summarize Mr. Moul's CAPM analyses.

A. In formulating his CAPM ROE, Mr. Moul employed an unlevered beta, the formula for which may be found on page 37 of his Direct Testimony. Mr. Moul claimed that Value Line betas cannot be used to directly estimate the CAPM when the market value of common stock is greater than its book value. Mr. Moul's leverage adjustment increased his Combination Group beta from 0.90 to 1.06.

For the market premium, Mr. Moul used the arithmetic mean of historical market performance and a forecasted return from Value Line, resulting in a market premium of 8.30%.

Finally, Mr. Moul added a size adjustment of 0.97% to compensate for the smaller size of his combination group. Mr. Moul's recommended CAPM ROE was 14.27%.

Q. Please respond to Mr. Moul's CAPM analyses.

A. Mr. Moul's CAPM result is grossly overstated and should be rejected by the Commission.

First, Mr. Moul's recommended market risk premium ("RP") of 8.30% is excessive and inflates the CAPM ROE estimate. This is because of the two sources he used to estimate the market RP. The Value Line market return forecast of 15.44% and the S&P forecasted return of 13.76% provide a market RP estimate that is unreliable on its face. The market RP that falls out from the average of these returns, 10.1%, results in the following CAPM ROE:

Value Line MRP	10.00%
Proxy Group Beta	.90
Beta * MRP	9.09%
Risk-free Rate	4.50%
CAPM ROE	13.59%

I submit for the Commission's consideration that a 13.59% return on equity is unreasonably high, particularly in light of the relatively low interest rate environment that currently exists in our economy.

Mr. Moul also failed to include the geometric mean return in estimating his historical market RP. The geometric mean provides important information to the investor

about the actual yearly return of the market over a long period of time. In my opinion, this published and widely available information is valuable to investors and should be used in conjunction with the arithmetic mean in estimating a range for the investor expected risk premium going forward. Of course, the concerns I stated in my Direct Testimony regarding the use of historical risk premiums are still valid. And my Schedule 6 of Exhibit ____(RAB-1) shows that inclusion of the geometric mean return results in a more conservative CAPM ROE result.

Second, Mr. Moul's reformulated beta estimate should be rejected by the Commission. The appropriate beta to use in the CAPM is one that investors expect based on a stock's relative price movements with the overall market. Mr. Moul introduced a highly questionable adjustment to published Value Line betas based on differences between market and book value capital structures. His claim that a leveraged beta should be used in the CAPM for ratemaking purposes is erroneous. He provided absolutely no evidence that investors in utility company stocks use the calculation of beta he presented in his testimony. It is more reasonable to assume that, to the extent investors rely on the CAPM model, they also are more likely to rely on widely published beta estimates from Value Line and other sources. Of course, my previously stated concerns relating to Value Line betas still stand.

Finally, Mr. Moul's size premium of 0.97% should be rejected as well. I acknowledge that the SBBI 2007 Yearbook discusses the phenomenon of firm size and return extensively in Chapter 7. However, the extent to which there is a firm size effect with respect to regulated electric companies is not evaluated or discussed. The Decile 4 and 5 companies that constitute mid-cap market capitalization have aggregate historical betas of 1.12 to 1.16 and obviously include many unregulated companies that carry far

greater risk than WPSC. These betas are greatly in excess of Mr. Moul's group beta of 0.90 and my comparison group's beta of 0.81. Therefore, a size premium of 0.97% is completely unwarranted and merely serves to inflate Mr. Moul's already overstated CAPM results.

Comparable Earnings

Q. Briefly comment on Mr. Moul's comparable earnings analysis.

A. Mr. Moul performed a comparable earnings analysis on a group of unregulated companies from Value Line that was selected based on several criteria included in his Appendix I. Forecasted and historical rates of return were obtained from Value Line and then averaged. The cost of equity for the two groups ranged from 14.00% to 14.20%.

I recommend that the Commission reject Mr. Moul's comparable earnings analysis. Forecasted earned returns on book equity are not reasonable proxies for investor expectations in the marketplace. Near-term book accounting returns do not necessarily reflect investor requirements and/or expected market returns. Accounting returns are not necessarily tied to current market forces such as interest rates and stock prices. Thus, they are poor indicators of investors' current required returns. A properly specified and estimated DCF model, which uses current stock prices, is a far more reasonable and accurate gauge of investor requirements.

Further, expected returns on book equity for unregulated companies have nothing to do with investor expected returns for lower-risk regulated electric utilities such as WPSC. And Mr. Moul's 14.20% comparable earnings ROE result is far greater than any Commission-allowed return in recent memory and fails the test of reasonableness on its

face. I recommend that the Commission reject Mr. Moul's comparable earnings analyses.

Q. Does this complete your testimony?

A. Yes.

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RESUME OF RICHARD A. BAUDINO

EDUCATION

New Mexico State University, M.A.
Major in Economics
Minor in Statistics

New Mexico State University, B.A.
Economics
English

Twenty five years of experience in utility ratemaking. Broad based experience in revenue requirement analysis, cost of capital, utility financing, phase-ins, auditing and rate design. Has designed revenue requirement and rate design analysis programs.

REGULATORY TESTIMONY

Preparation and presentation of expert testimony in the areas of:

Electric and Gas Utility Rate Design
Cost of Capital for Electric, Gas and Water Companies
Ratemaking Treatment of Generating Plant Sale/Leasebacks
Electric and Gas Utility Cost of Service
Revenue Requirements
Gas industry restructuring and competition
Fuel cost auditing

RESUME OF RICHARD A. BAUDINO

EXPERIENCE

1989 to Present: **Kennedy and Associates: Consultant** - Responsible for consulting assignments in the area of revenue requirements, rate design, cost of capital, economic analysis of generation alternatives, gas industry restructuring and competition.

1982 to 1989: **New Mexico Public Service Commission Staff: Utility Economist** - Responsible for preparation of analysis and expert testimony in the areas of rate of return, cost allocation, rate design, finance, phase-in of electric generating plants, and sale/leaseback transactions.

CLIENTS SERVED

Regulatory Commissions

Louisiana Public Service Commission
Georgia Public Service Commission
New Mexico Public Service Commission

Industrial Groups

Ad Hoc Committee for a Competitive Electric Supply System
Air Products and Chemicals, Inc.
Arkansas Electric Energy Consumers
Arkansas Gas Consumers
Armco Steel Company, L.P.
Association of Business Advocating Tariff Equity
CF&I Steel, L.P.
Climax Molybdenum Company
General Electric Company
Industrial Energy Consumers
Kentucky Industrial Utility Consumers
Large Electric Consumers Organization
Newport Steel
Northwest Arkansas Gas Consumers
Maryland Industrial Group
Occidental Chemical
PSI Industrial Group
Taconite Intervenors (Minnesota)
Tyson Foods
West Virginia Energy Users Group

Expert Testimony Appearances
of
Richard A. Baudino
As of June 2008

Date	Case	Jurisdict.	Party	Utility	Subject
3/83	1780	NM	New Mexico Public Service Commission	Boles Water Co.	Rate design, rate of return.
10/83	1803, 1817	NM	New Mexico Public Service Commission	Southwestern Electric Coop	Rate design.
11/84	1833	NM	New Mexico Public Service Commission	El Paso Electric Co.	Service contract approval, rate design, performance standards for Palo Verde nuclear generating system
1983	1835	NM	New Mexico Public Service Commission	Public Service Co. of NM	Rate design.
1984	1848	NM	New Mexico Public Service Commission	Sangre de Cristo Water Co.	Rate design.
02/85	1906	NM	New Mexico Public Service Commission	Southwestern Public Service Co.	Rate of return.
09/84	1907	NM	New Mexico Public Service Commission	Jornada Water Co.	Rate of return.
11/85	1957	NM	New Mexico Public Service Commission	Southwestern Public Service Co.	Rate of return.
04/86	2009	NM	New Mexico Public Service Commission	El Paso Electric Co.	Phase-in plan, treatment of sale/leaseback expense.
06/86	2032	NM	New Mexico Public Service Commission	El Paso Electric Co.	Sale/leaseback approval.
09/86	2033	NM	New Mexico Public Service Commission	El Paso Electric Co.	Order to show cause, PVNGS audit.
02/87	2074	NM	New Mexico Public Service Commission	El Paso Electric Co.	Diversification.
05/87	2089	NM	New Mexico Public Service Commission	El Paso Electric Co.	Fuel factor adjustment.
08/87	2092	NM	New Mexico Public Service Commission	El Paso Electric Co.	Rate design.
10/88	2146	NM	New Mexico Public	Public Service Co.	Financial effects of

Expert Testimony Appearances
of
Richard A. Baudino
As of June 2008

Date	Case	Jurisdict.	Party	Utility	Subject
			Service Commission	of New Mexico	restructuring, reorganization.
07/88	2162	NM	New Mexico Public Service Commission	El Paso Electric Co.	Revenue requirements, rate design, rate of return.
01/89	2194	NM	New Mexico Public Service Commission	Plains Electric G&T Cooperative	Economic development.
1/89	2253	NM	New Mexico Public Service Commission	Plains Electric G&T Cooperative	Financing.
08/89	2259	NM	New Mexico Public Service Commission	Homestead Water Co.	Rate of return, rate design.
10/89	2262	NM	New Mexico Public Service Commission	Public Service Co. of New Mexico	Rate of return.
09/89	2269	NM	New Mexico Public Service Commission	Ruidoso Natural Gas Co.	Rate of return, expense from affiliated interest.
12/89	89-208-TF	AR	Arkansas Electric Energy Consumers	Arkansas Power & Light Co.	Rider M-33.
01/90	U-17282	LA	Louisiana Public Service Commission	Gulf States Utilities	Cost of equity.
09/90	90-158	KY	Kentucky Industrial Utility Consumers	Louisville Gas & Electric Co.	Cost of equity.
09/90	90-004-U	AR	Northwest Arkansas Gas Consumers	Arkansas Western Gas Co.	Cost of equity, transportation rate.
12/90	U-17282 Phase IV	LA	Louisiana Public Service Commission	Gulf States Utilities	Cost of equity.
04/91	91-037-U	AR	Northwest Arkansas Gas Consumers	Arkansas Western Gas Co.	Transportation rates.
12/91	91-410-EL-AIR	OH	Air Products & Chemicals, Inc., Armco Steel Co., General Electric Co., Industrial Energy Consumers	Cincinnati Gas & Electric Co.	Cost of equity.
05/92	910890-EI	FL	Occidental Chemical Corp.	Florida Power Corp.	Cost of equity, rate of return.

Expert Testimony Appearances
of
Richard A. Baudino
As of June 2008

Date	Case	Jurisdict.	Party	Utility	Subject
09/92	92-032-U	AR	Arkansas Gas Consumers	Arkansas Louisiana Gas Co.	Cost of equity, rate of return, cost-of-service
09/92	39314	ID	Industrial Consumers for Fair Utility Rates	Indiana Michigan Power Co.	Cost of equity, rate of return.
09/92	92-009-U	AR	Tyson Foods	General Waterworks	Cost allocation, rate design.
01/93	92-346	KY	Newport Steel Co.	Union Light, Heat & Power Co.	Cost allocation.
01/93	39498	IN	PSI Industrial Group	PSI Energy	Refund allocation.
01/93	U-10105	MI	Association of Businesses Advocating Tariff Equality (ABATE)	Michigan Consolidated Gas Co.	Return on equity.
04/93	92-1464-EL-AIR	OH	Air Products and Chemicals, Inc., Armco Steel Co., Industrial Energy Consumers	Cincinnati Gas & Electric Co.	Return on equity.
09/93	93-189-U	AR	Arkansas Gas Consumers	Arkansas Louisiana Gas Co.	Transportation service terms and conditions.
09/93	93-081-U	AR	Arkansas Gas Consumers	Arkansas Louisiana Gas Co.	Cost-of-service, transportation rates, rate supplements; return on equity; revenue requirements.
12/93	U-17735	LA	Louisiana Public Service Commission Staff	Cajun Electric Power Cooperative	Historical reviews; evaluation of economic studies.
03/94	10320	KY	Kentucky Industrial Utility Customers	Louisville Gas & Electric Co.	Trimble County CWIP revenue refund.
4/94	E-015/ GR-94-001	MN	Large Power Intervenors	Minnesota Power Co.	Evaluation of the cost of equity, capital structure, and rate of return.

Expert Testimony Appearances
of
Richard A. Baudino
As of June 2008

Date	Case	Jurisdict.	Party	Utility	Subject
5/94	R-00942993	PA	PG&W Industrial Intervenors	Pennsylvania Gas & Water Co.	Analysis of recovery of transition costs.
5/94	R-00943001	PA	Columbia Industrial Intervenors	Columbia Gas of Pennsylvania	Evaluation of cost allocation, rate design, rate plan, and carrying charge proposals.
7/94	R-00942986	PA	Armco, Inc., West Penn Power Industrial Intervenors	West Penn Power Co.	Return on equity and rate of return.
7/94	94-0035-E-42T	WV	West Virginia Energy Users' Group	Monongahela Power Co.	Return on equity and rate of return.
8/94	8652	MD	Westvaco Corp.	Potomac Edison Co.	Return on equity and rate of return.
9/94	930357-C	AR	West Central Arkansas Gas Consumers	Arkansas Oklahoma Gas Corp.	Evaluation of transportation service.
9/94	U-19904	LA	Louisiana Public Service Commission	Gulf States Utilities	Return on equity.
9/94	8629	MD	Maryland Industrial Group	Baltimore Gas & Electric Co.	Transition costs.
11/94	94-175-U	AR	Arkansas Gas Consumers	Arkla, Inc.	Cost-of-service, rate design, rate of return.
3/95	RP94-343-000	FERC	Arkansas Gas Consumers	NorAm Gas Transmission	Rate of return.
4/95	R-00943271	PA	PP&L Industrial Customer Alliance	Pennsylvania Power & Light Co.	Return on equity.
6/95	U-10755	MI	Association of Businesses Advocating Tariff Equity	Consumers Power Co.	Revenue requirements.
7/95	8697	MD	Maryland Industrial Group	Baltimore Gas & Electric Co.	Cost allocation and rate design.
8/95	95-254-TF U-2811	AR	Tyson Foods, Inc.	Southwest Arkansas Electric Cooperative	Refund allocation.
10/95	ER95-1042	FERC	Louisiana Public	Systems Energy	Return on Equity.

Expert Testimony Appearances
of
Richard A. Baudino
As of June 2008

Date	Case	Jurisdict.	Party	Utility	Subject
	-000		Service Commission	Resources, Inc.	
11/95	I-940032	PA	Industrial Energy Consumers of Pennsylvania	State-wide - all utilities	Investigation into Electric Power Competition.
5/96	96-030-U	AR	Northwest Arkansas Gas Consumers	Arkansas Western Gas Co.	Revenue requirements, rate of return and cost of service.
7/96	8725	MD	Maryland Industrial Group	Baltimore Gas & Electric Co., Potomac Electric Power Co. and Constellation Energy Corp.	Return on Equity.
7/96	U-21496	LA	Louisiana Public Service Commission	Central Louisiana Electric Co.	Return on equity, rate of return.
9/96	U-22092	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Return on equity.
1/97	RP96-199-000	FERC	The Industrial Gas Users Conference	Mississippi River Transmission Corp.	Revenue requirements, rate of return and cost of service.
3/97	96-420-U	AR	West Central Arkansas Gas Corp.	Arkansas Oklahoma Gas Corp.	Revenue requirements, rate of return, cost of service and rate design.
7/97	U-11220	MI	Association of Business Advocating Tariff Equity	Michigan Gas Co. and Southeastern Michigan Gas Co.	Transportation Balancing Provisions
7/97	R-00973944	PA	Pennsylvania American Water Large Users Group	Pennsylvania-American Water Co.	Rate of return, cost of service, revenue requirements.
3/98	8390-U	GA	Georgia Natural Gas Group and the Georgia Textile Manufacturers Assoc.	Atlanta Gas Light	Rate of return, restructuring issues, unbundling, rate design issues.
7/98	R-00984280	PA	PG Energy, Inc.	PGE Industrial Intervenors	Cost allocation.
8/98	U-17735	LA	Louisiana Public Service Commission	Cajun Electric Power Cooperative	Revenue requirements.

Expert Testimony Appearances
of
Richard A. Baudino
As of June 2008

Date	Case	Jurisdict.	Party	Utility	Subject
10/98	97-596	ME	Maine Office of the Public Advocate	Bangor Hydro-Electric Co.	Return on equity, rate of return.
10/98	U-23327	LA	Louisiana Public Service Commission	SWEPCO, CSW and AEP	Analysis of proposed merger.
12/98	98-577	ME	Maine Office of the Public Advocate	Maine Public Service Co.	Return on equity, rate of return.
12/98	U-23358	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Return on equity, rate of return.
3/99	98-426	KY	Kentucky Industrial Utility Customers, Inc.	Louisville Gas and Electric Co.	Return on equity.
3/99	99-082	KY	Kentucky Industrial Utility Customers, Inc.	Kentucky Utilities Co.	Return on equity.
4/99	R-984554	PA	T. W. Phillips Users Group	T. W. Phillips Gas and Oil Co.	Allocation of purchased gas costs.
6/99	R-0099462	PA	Columbia Industrial Intervenors	Columbia Gas of Pennsylvania	Balancing charges.
10/99	U-24182	LA	Louisiana Public Service Commission	Entergy Gulf States,Inc.	Cost of debt.
10/99	R-00994782	PA	Peoples Industrial Intervenors	Peoples Natural Gas Co.	Restructuring issues.
10/99	R-00994781	PA	Columbia Industrial Intervenors	Columbia Gas of Pennsylvania	Restructuring, balancing charges, rate flexing, alternate fuel.
01/00	R-00994786	PA	UGI Industrial Intervenors	UGI Utilities, Inc.	Universal service costs, balancing, penalty charges, capacity assignment.

Expert Testimony Appearances
of
Richard A. Baudino
As of June 2008

Date	Case	Jurisdict.	Party	Utility	Subject
01/00	8829	MD	Maryland Industrial Gr. & United States	Baltimore Gas & Electric Co.	Revenue requirements, cost allocation, rate design.
02/00	R-00994788	PA	Penn Fuel Transportation	PFG Gas, Inc., and	Tariff charges, balancing provisions.
05/00	U-17735	LA	Louisiana Public Service Comm.	Louisiana Electric Cooperative	Rate restructuring.
07/00	2000-080	KY	Kentucky Industrial Utility Consumers	Louisville Gas and Electric Co.	Cost allocation.
07/00	U-21453 U-20925 (SC), U-22092 (SC) (Subdocket E)	LA	Louisiana Public Service Comm.	Southwestern Electric Power Co.	Stranded cost analysis.
09/00	R-00005654	PA	Philadelphia Industrial And Commercial Gas Users Group.	Philadelphia Gas Works	Interim relief analysis.
10/00	U-21453 U-20925 (SC), U-22092 (SC) (Subdocket B)	LA	Louisiana Public Service Comm.	Entergy Gulf States, Inc.	Restructuring, Business Separation Plan.
11/00	R-00005277 (Rebuttal)	PA	Penn Fuel Transportation Customers	PFG Gas, Inc. and North Penn Gas Co.	Cost allocation issues.
12/00	U-24993	LA	Louisiana Public Service Comm.	Entergy Gulf States, Inc.	Return on equity.
03/01	U-22092	LA	Louisiana Public Service Comm.	Entergy Gulf States, Inc	Stranded cost analysis.
04/01	U-21453 U-20925 (SC), U-22092 (SC) (Subdocket B) (Addressing Contested Issues)	LA	Louisiana Public Service Comm.	Entergy Gulf States, Inc.	Restructuring issues.
04/01	R-00006042	PA	Philadelphia Industrial and Commercial Gas Users Group	Philadelphia Gas Works	Revenue requirements, cost allocation and tariff issues.
11/01	U-25687	LA	Louisiana Public Service Comm.	Entergy Gulf States, Inc.	Return on equity.
03/02	14311-U	GA	Georgia Public	Atlanta Gas Light	Capital structure.

Expert Testimony Appearances
of
Richard A. Baudino
As of June 2008

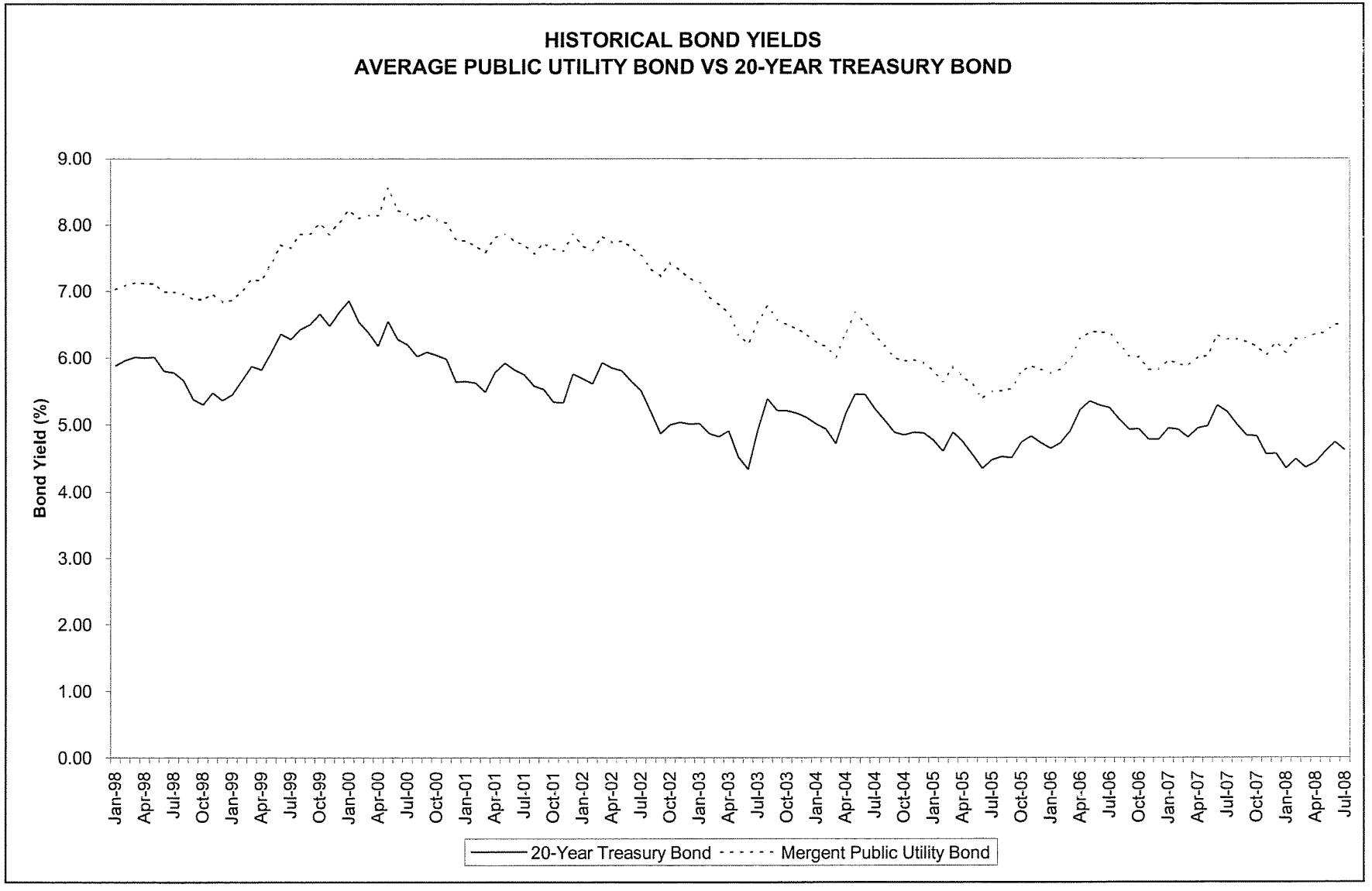
Date	Case	Jurisdict.	Party	Utility	Subject
			Service Commission		
08/02	2002-00145	KY	Kentucky Industrial Utility Customers	Columbia Gas of Kentucky	Revenue requirements.
09/02	M-00021612	PA	Philadelphia Industrial And Commercial Gas Users Group	Philadelphia Gas Works	Transportation rates, terms, and conditions.
01/03	2002-00169	KY	Kentucky Industrial Utility Customers	Kentucky Power	Return on equity.
02/03	02S-594E	CO	Cripple Creek & Victor Gold Mining Company	Aquila Networks – WPC	Return on equity.
04/03	U-26527	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Return on equity
10/03	CV020495AB	GA	The Landings Assn., Inc.	Utilities Inc. of GA	Revenue requirement & overcharge refund
03/04	2003-00433	KY	Kentucky Industrial Utility Customers	Louisville Gas & Electric	Return on equity, Cost allocation & rate design
03/04	2003-00434	KY	Kentucky Industrial Utility Customers	Kentucky Utilities	Return on equity
4/04	04S-035E	CO	Cripple Creek & Victor Gold Mining Company, Goodrich Corp., Holcim (U.S.) Inc., and The Trane Co.	Aquila Networks – WPC	Return on equity.
9/04	U-23327, Subdocket B	LA	Louisiana Public Service Commission	Southwestern Electric Power Company	Fuel cost review
10/04	U-23327 Subdocket A	LA	Louisiana Public Service Commission	Southwestern Electric Power Company	Return on Equity

Expert Testimony Appearances
of
Richard A. Baudino
As of June 2008

Date	Case	Jurisdict.	Party	Utility	Subject
06/05	050045-EI	FL	South Florida Hospital and HeallthCare Assoc.	Florida Power & Light Co.	Return on equity
08/05	9036	MD	Maryland Industrial Group	Baltimore Gas & Electric Co.	Revenue requirement, cost allocation, rate design, Tariff issues.
01/06	2005-0034	KY	Kentucky Industrial Utility Customers, Inc.	Kentucky Power Co.	Return on equity.
03/06	05-1278-E-PC-PW-42T	WV	West Virginia Energy Users Group	Appalachian Power Company	Return on equity.
04/06	U-25116	LA	Louisiana Public Service Commission	Entergy Louisiana, LLC	Transmission Issues
07/06	U-23327	LA	Louisiana Public Service Commission	Southwestern Electric Power Company	Return on equity, Service quality
08/06	ER-2006-0314	MO	Missouri Office of the Public Counsel	Kansas City Power & Light Co.	Return on equity, Weighted cost of capital
08/06	06S-234EG	CO	CF&I Steel, L.P. & Climax Molybdenum	Public Service Company of Colorado	Return on equity, Weighted cost of capital
01/07	06-0960-E-42T	WV	West Virginia Energy Users Group	Monongahela Power & Potomac Edison	Return on Equity
01/07	43112		AK Steel, Inc.	Vectren South, Inc.	Cost allocation, rate design
05/07	2006-661		Maine Office of the Public Advocate	Bangor Hydro-Electric	Return on equity, weighted cost of capital.
09/07	07-07-01		Connecticut Industrial Energy Consumers	Connecticut Light & Power	Return on equity, weighted cost of capital
10/07	05-UR-103		Wisconsin Industrial Energy Group, Inc.	Wisconsin Electric Power Co.	Return on equity
11/07	29797		Louisiana Public Service Commission	Cleco Power :LLC & Southwestern Elec. Power	Lignite Pricing, support of settlement
01/08	07-551-EL-AIR		Ohio Energy Group	Ohio Edison, Cleveland Electric, Toledo Edison	Return on equity
03/08	07-0585,	IL	The Commercial Group	Ameren	Cost allocation, rate design

Expert Testimony Appearances
of
Richard A. Baudino
As of June 2008

Date	Case	Jurisdict.	Party	Utility	Subject
	07-0585, 07-0587, 07-0588, 07-0589, 07-0590, (consol.)				
04/08	07-0566	IL	The Commeercial Group	Commonwealth Edison	Cost allocation, rate design
06/08	R-2008-2011621	PA	Columbia Industrial Intervenors	Columbia Gas of PA	Cost and revenue allocation, Tariff issues
07/08	R-2008-2028394	PA	Philadelphia Area Industrial Energy users Group	PECO Energy	Cost and revenue allocation, Tariff issues
07/08	R-2008-2039634	PA	PPL Gas Large Users Gp.	PPL Gas	Retainage, LUFG Pct.
08/08	6680-UR-116	WI	Wisconsin Industrial Energy Group	Wisconsin P&L	Cost of Equity


HISTORICAL BOND YIELDS
AVERAGE PUBLIC UTILITY BOND VS 20-YEAR TREASURY BOND
Bond Yield (%)
9.00
8.00
7.00
6.00
5.00
4.00
3.00
2.00
1.00
0.00
Jan-98
Apr-98
Jul-98
Oct-98
Jan-99
Apr-99
Jul-99
Oct-99
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Apr-07
Jul-07
Oct-07
Jan-08
Apr-08
Jul-08
20-Year Treasury Bond
Mergent Public Utility Bond

WISCONSIN PUBLIC SERVICE CORP.
COMPARISON GROUP
AVERAGE PRICE, DIVIDEND AND DIVIDEND YIELD

		Jul-08	Jun-08	May-08	Apr-08	Mar-08	Feb-08
ALLETE	High Price ($)	43.340	46.110	45.490	43.000	38.770	39.860
	Low Price ($)	40.180	41.430	40.120	38.820	34.830	35.920
	Avg. Price ($)	41.760	43.770	42.805	40.910	36.800	37.890
	Dividend ($)	0.430	0.430	0.430	0.430	0.430	0.430
	Mo. Avg. Div.	4.12%	3.93%	4.02%	4.20%	4.67%	4.54%
	6 mos. Avg.	4.25%					
Alliant Energy	High Price ($)	34.540	37.830	38.880	38.460	35.790	38.280
	Low Price ($)	31.630	33.500	36.370	35.200	34.000	34.680
	Avg. Price ($)	33.085	35.665	37.625	36.830	34.895	36.480
	Dividend ($)	0.350	0.350	0.350	0.350	0.350	0.350
	Mo. Avg. Div.	4.23%	3.93%	3.72%	3.80%	4.01%	3.84%
	6 mos. Avg.	3.92%					
Consolidated Edison	High Price ($)	39.780	41.370	42.730	42.010	42.150	45.100
	Low Price ($)	37.380	38.360	41.050	39.800	39.300	40.570
	Avg. Price ($)	38.580	39.865	41.890	40.905	40.725	42.835
	Dividend ($)	0.585	0.585	0.585	0.585	0.585	0.585
	Mo. Avg. Div.	6.07%	5.87%	5.59%	5.72%	5.75%	5.46%
	6 mos. Avg.	5.74%					
DPL, Inc.	High Price ($)	27.540	28.400	28.890	28.090	25.830	28.380
	Low Price ($)	25.080	26.150	27.590	25.830	24.380	25.460
	Avg. Price ($)	26.310	27.275	28.240	26.960	25.105	26.920
	Dividend ($)	0.275	0.275	0.275	0.275	0.275	0.275
	Mo. Avg. Div.	4.18%	4.03%	3.90%	4.08%	4.38%	4.09%
	6 mos. Avg.	4.11%					
DTE Energy	High Price ($)	44.970	44.810	44.820	42.930	41.060	44.240
	Low Price ($)	40.330	41.450	40.830	38.950	37.870	39.620
	Avg. Price ($)	42.650	43.130	42.825	40.940	39.465	41.930
	Dividend ($)	0.530	0.530	0.530	0.530	0.530	0.530
	Mo. Avg. Div.	4.97%	4.92%	4.95%	5.18%	5.37%	5.06%
	6 mos. Avg.	5.07%					
Edison International	High Price ($)	52.350	53.110	54.170	53.950	51.270	54.600
	Low Price ($)	47.380	49.680	50.490	49.140	47.650	49.000
	Avg. Price ($)	49.865	51.395	52.330	51.545	49.460	51.800
	Dividend ($)	0.305	0.305	0.305	0.305	0.305	0.305
	Mo. Avg. Div.	2.45%	2.37%	2.33%	2.37%	2.47%	2.36%
	6 mos. Avg.	2.39%					
Entergy Corp.	High Price ($)	122.880	123.140	123.270	117.750	110.330	112.660
	Low Price ($)	104.270	116.470	110.970	107.940	102.840	101.960
	Avg. Price ($)	113.575	119.805	117.120	112.845	106.585	107.310
	Dividend ($)	0.750	0.750	0.750	0.750	0.750	0.750
	Mo. Avg. Div.	2.64%	2.50%	2.56%	2.66%	2.81%	2.80%
	6 mos. Avg.	2.66%					

WISCONSIN PUBLIC SERVICE CORP.
COMPARISON GROUP
AVERAGE PRICE, DIVIDEND AND DIVIDEND YIELD

		Jul-08	Jun-08	May-08	Apr-08	Mar-08	Feb-08
FPL Group	High Price ($)	68.760	68.160	68.980	68.140	63.950	67.340
	Low Price ($)	62.710	63.000	63.750	62.750	59.020	59.710
	Avg. Price ($)	65.735	65.580	66.365	65.445	61.485	63.525
	Dividend ($)	0.445	0.445	0.445	0.445	0.445	0.445
	Mo. Avg. Div.	2.71%	2.71%	2.68%	2.72%	2.90%	2.80%
	6 mos. Avg.	2.75%					
NSTAR	High Price ($)	34.180	35.360	33.970	32.600	31.230	33.650
	Low Price ($)	31.170	33.090	31.270	30.410	29.360	30.760
	Avg. Price ($)	32.675	34.225	32.620	31.505	30.295	32.205
	Dividend ($)	0.350	0.350	0.350	0.350	0.350	0.350
	Mo. Avg. Div.	4.28%	4.09%	4.29%	4.44%	4.62%	4.35%
	6 mos. Avg.	4.35%					
Progress Energy	High Price ($)	42.390	43.490	43.130	43.580	43.060	46.450
	Low Price ($)	40.110	41.500	41.400	41.000	40.540	41.750
	Avg. Price ($)	41.250	42.495	42.265	42.290	41.800	44.100
	Dividend ($)	0.615	0.615	0.615	0.615	0.615	0.615
	Mo. Avg. Div.	5.96%	5.79%	5.82%	5.82%	5.89%	5.58%
	6 mos. Avg.	5.81%					
Public Service Enterprise	High Price ($)	47.330	47.280	45.180	44.840	47.500	48.685
	Low Price ($)	40.520	42.850	41.480	40.180	39.080	43.850
	Avg. Price ($)	43.925	45.065	43.330	42.510	43.290	46.268
	Dividend ($)	0.323	0.323	0.323	0.323	0.323	0.293
	Mo. Avg. Div.	2.94%	2.87%	2.98%	3.04%	2.98%	2.53%
	6 mos. Avg.	2.89%					
Southern Company	High Price ($)	36.930	36.200	37.230	37.810	36.340	38.030
	Low Price ($)	34.460	34.280	35.950	35.620	33.710	34.400
	Avg. Price ($)	35.695	35.240	36.590	36.715	35.025	36.215
	Dividend ($)	0.420	0.420	0.420	0.403	0.403	0.403
	Mo. Avg. Div.	4.71%	4.77%	4.59%	4.39%	4.60%	4.45%
	6 mos. Avg.	4.58%					
Wisconsin Energy	High Price ($)	46.610	48.320	48.750	47.860	44.660	47.500
	Low Price ($)	42.010	44.750	46.650	44.220	42.000	43.100
	Avg. Price ($)	44.310	46.535	47.700	46.040	43.330	45.300
	Dividend ($)	0.270	0.270	0.270	0.270	0.270	0.270
	Mo. Avg. Div.	2.44%	2.32%	2.26%	2.35%	2.49%	2.38%
	6 mos. Avg.	2.37%					
Xcel Energy	High Price ($)	20.620	21.340	21.730	21.250	20.680	21.550
	Low Price ($)	19.400	19.670	20.810	20.020	19.390	19.700
	Avg. Price ($)	20.010	20.505	21.270	20.635	20.035	20.625
	Dividend ($)	0.238	0.238	0.230	0.230	0.230	0.230
	Mo. Avg. Div.	4.76%	4.64%	4.33%	4.46%	4.59%	4.46%
	6 mos. Avg.	4.54%					
Average Dividend Yield		3.96%					

Source: Yahoo! Finance

WISCONSIN PUBLIC SERVICE CORP.
COMPARISON GROUP
DCF Growth Rate Analysis

Company	(1) Value Line DPS	(2) Value Line EPS	(3) Value Line B x R	(4) Zacks	(5) First Call/ Thomson
ALLETE	5.50%	2.50%	3.50%	5.00%	5.00%
Alliant Energy	9.00%	6.00%	4.50%	7.00%	5.40%
Consolidated Edison	1.00%	2.00%	3.00%	3.20%	3.00%
DPL, Inc.	5.00%	11.00%	8.00%	10.67%	11.23%
DTE Energy	1.50%	5.00%	3.50%	6.33%	6.00%
Edison International	7.00%	5.00%	7.00%	8.25%	8.45%
Entergy Corp.	13.00%	10.00%	7.00%	12.80%	12.18%
FPL Group	7.50%	9.50%	7.00%	10.14%	9.73%
NSTAR	7.00%	7.50%	5.50%	6.40%	6.00%
Progress Energy	1.00%	5.00%	2.50%	4.71%	6.12%
Public Service Enterprise Group	6.50%	10.00%	7.50%	14.33%	11.50%
Southern Company	4.50%	5.50%	4.50%	4.67%	5.26%
Wisconsin Energy	9.50%	8.00%	7.50%	9.60%	9.39%
Xcel Energy	4.50%	7.50%	4.50%	5.40%	6.12%
Averages	5.89%	6.75%	5.39%	7.75%	7.53%
Median Values	6.00%	6.75%	5.00%	6.70%	6.12%
Averages excl. > or =10% & < or = 1%	6.14%	5.77%	5.39%	6.06%	6.41%

Sources: **Zack's and First Call/Thomson Earnings Reports, July 2008**
Value Line Investment Survey, May 9, May 30, and June 27, 2008

RETURN ON EQUITY CALCULATION
WISCONSIN PUBLIC SERVICE CORP.

	(1) Value Line Dividend Gr.	(2) Value Line Earnings Gr.	(3) Zack's Earning Gr.	(4) First Call Earning Gr.	(5) Average of All Gr. Rates
Method 1:					
Dividend Yield	3.96%	3.96%	3.96%	3.96%	3.96%
Growth Rate	5.89%	6.75%	7.75%	7.53%	6.98%
Expected Div. Yield	4.08%	4.09%	4.11%	4.11%	4.10%
DCF Return on Equity	***9.97%***	***10.84%***	***11.86%***	***11.64%***	***11.08%***
Midpoint of Results					***10.92%***
Method 2:					
Dividend Yield	3.96%	3.96%	3.96%	3.96%	3.96%
Median Growth Rate	6.00%	6.75%	6.70%	6.12%	6.39%
Expected Div. Yield	4.08%	4.09%	4.09%	4.08%	4.09%
DCF Return on Equity	***10.08%***	***10.84%***	***10.79%***	***10.20%***	***10.48%***
Midpoint of Results					***10.46%***
Method 3:					
Dividend Yield	3.75%	4.16%	4.30%	4.16%	4.09%
Growth Rate Excluding Rates > 10% & <1%	6.14%	5.77%	6.06%	6.41%	6.09%
Expected Div. Yield	3.86%	4.28%	4.43%	4.30%	4.22%
DCF Return on Equity	***10.00%***	***10.05%***	***10.49%***	***10.71%***	***10.31%***
Midpoint of Results					***10.35%***

WISCONSIN PUBLIC SERVICE CORP.
Capital Asset Pricing Model Analysis
Comparison Group

20-Year Treasury Bond, Value Line Beta

Line No.		Value Line
1	Market Required Return Estimate	
2	Expected Dividend Yield	1.57%
3	Expected Growth	11.61%
4	Required Return	13.18%
5	Risk-free Rate of Return, 20-Year Treasury Bond	
6	Average of Last Six Months	4.54%
8	Risk Premium	
9	@ 6 Month Average RFR (Line 4 minus Line 6)	8.64%
10	Comparison Group Beta	0.81
11	Comparison Group Beta * Risk Premium	
12	@ 6 Month Average RFR (Line 10 * Line 9)	6.97%
13	CAPM Return on Equity	
14	@ 6 Month Average RFR (Line 12 plus Line 6)	11.51%

5-Year Treasury Bond, Value Line Beta

1	Market Required Return Estimate	
2	Expected Dividend Yield	1.57%
3	Expected Growth	11.61%
4	Required Return	13.18%
5	Risk-free Rate of Return, 5-Year Treasury Bond	
6	Average of Last Six Months	3.01%
8	Risk Premium	
9	@ 6 Month Average RFR (Line 4 minus Line 6)	10.17%
10	Comparison Group Beta	0.81
11	Comparison Group Beta * Risk Premium	
12	@ 6 Month Average RFR (Line 9 * Line 10)	8.21%
13	CAPM Return on Equity	
14	@ 6 Month Average RFR (Line 12 plus Line 6)	11.22%

WISCONSIN PUBLIC SERVICE CORP.
Capital Asset Pricing Model Analysis
Comparison Group

Supporting Data for CAPM Analyses

20 Year Treasury Bond Data

	Avg. Yield
February-08	4.49%
March-08	4.36%
April-08	4.44%
May-08	4.60%
June-08	4.74%
July-08	4.62%
6 month average	4.54%

5 Year Treasury Bond Data

	Avg. Yield
February-08	2.78%
March-08	2.48%
April-08	2.84%
May-08	3.15%
June-08	3.49%
July-08	3.30%
6 month average	3.01%

Value Line Market Growth Rate Data:

Forecasted Data:	
Earnings	13.41%
Book Value	11.02%
Dividends	10.41%
Average	11.61%

Source: Value Line Investment Survey for Windows, August 1, 2008

Comparison Group Betas:	Value Line
ALLETE, inc.	0.90
Alliant Energy	0.80
Consolidated Edison	0.75
DPL, Inc.	0.80
DTE Energy	0.80
Edison International	0.85
Entergy Corp.	0.85
FPL Group, Inc.	0.80
NSTAR	0.80
Progress Energy	0.80
Public Service Enterprise Gp	0.90
Southern Company	0.70
Wisconsin Energy	0.80
Xcel Energy	0.75
	0.81

Sources: Value Line reports

WISCONSIN PUBLIC SERVICE CORP.
Capital Asset Pricing Model Analysis
Historic Market Premium

	Geometric Mean	Arithmetic Mean
Long-Term Annual Return on Stocks	10.40%	12.30%
Long-Term Annual Income Return on Long-Term Government Bonds	5.20%	5.20%
Historical Market Risk Premium	5.20%	7.10%
Comparison Group Beta, Value Line	0.81	0.81
Beta * Market Premium	4.20%	5.73%
Current 20-Year Treasury Bond Yield	4.54%	4.54%
CAPM Cost of Equity, Value Line Beta	**8.74%**	**10.27%**
Historical Market Risk Premium, Ibbotson/Chen Study	4.30%	6.35%
Comparison Group Beta, Value Line	0.81	0.81
Beta * Market Premium	3.47%	5.13%
Current 20-Year Treasury Bond Yield	4.54%	4.54%
CAPM Cost of Equity, Value Line Beta	**8.01%**	**9.67%**

Source: *Ibbotson SBBI 2008 Valuation Yearbook,* Morningstar